

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF CHEVRON U.S.A. INC.
TO REOPEN CASE NO. 24185 (ORDER NO.
R-23684 (E.G.L. RESOURCES, INC.) AND
CASE NO. 24886 (ORDER NO. R-23685
PBEX, LLC) TO REQUIRE SUBMISSION
OF PROPER STATEMENTS OF WELL
COSTS BY OPERATOR AND RECOGNIZE
THE CONSENTING STATUS OF CHEVRON**

CASE NO. 25878

CHEVRON U.S.A. INC.'s PRE-HEARING STATEMENT

Chevron U.S.A. Inc. ("Chevron") submits this Pre-Hearing Statement for the above-referenced case pursuant to the rules of the Oil Conservation Division.

APPEARANCES

APPLICANT

Chevron U.S.A. Inc.

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OPPONENT

PBEX, LLC and E.G.L. Resources, Inc.

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STATEMENT OF CASE

APPLICANT:

Chevron U.S.A. Inc. ("Chevron") seeks through its amended application in this case an order reopening compulsory pooling Case No. 24185 filed by E.G.L. Resources, Inc. (Order R-23684 and compulsory pooling Case No. 24886 filed by PBEX, LLC (Order R-23685) to require the operator designated and approved in both cases, E.G.L. Resources, Inc. ("EGL") to submit a proper statement of estimated well costs to Chevron in accordance with paragraph 24 of the Orders and to confirm Chevron's right of voluntary joinder to participate in the costs of drilling, completing and equipping the wells authorized by the Division in those cases.

On February 19, 2025, the Division entered Order No. R-23684 granting EGL's application seeking the compulsory pooling of uncommitted interests in the Bone Spring formation underlying a 640-acre horizontal spacing unit ("HSU") comprised of the S/2 of Sections 33 and 34, Township 18 South, Range 32 East, Lea County, New Mexico. EGL was designated the Operator of the HSU and wells. The EGL Order dedicated 3 First Bone Spring and 3 Second Bone Spring wells to the HSU proposed by EGL: the Bond 33-34 Fed Com 104H; Bond 33-34 Fed Com 105H; Bond 33-34 Fed Com 106H; Bond 33-34 Fed Com 207H; Bond 33-34 Fed Com 209H; and the Bond 33-34 Fed Com 211H. The EGL Order required the Operator to commence drilling the wells within one year of the date of the order, i.e., February 19, 2026 or it terminated automatically unless the Operator requested and obtained an extension.

On the same day, the Division entered Order No. R-23685 in Case No. 24886 granting the application of PBEX, LLC seeking the compulsory pooling of uncommitted interests in the Bone Spring formation underlying an 800-acre horizontal spacing unit comprised NE/4 of Section 32 and the N/2 of Sections 33 and 34, Township 18 South, Range 32 East, Lea County, New Mexico. The PBEX Order dedicated 3 First Bone Spring and 3 Second Bone Spring wells to the HSU proposed by PBEX: the Bond 32-34 Fed Com 101H; Bond 32-34 Fed Com 102H; Bond 32-34 Fed Com 103H; Bond 32-34 Fed Com 201H; Bond 32-34 Fed Com 203H; and the Bond 32-34 Fed Com 205H but designated EGL as operator of the HSU and wells. The PBEX Order required the Operator to commence drilling the wells within one year of the date of the order, i.e., February 19, 2026 or it terminated automatically unless the Operator requested and obtained an extension.

The Orders included identical language requiring the **Operator** to submit a statement to each pooled working interest owner its share of the estimated costs to drill, complete and equip each well and a time for the pooled working interest owner to pay its share of estimated well costs:

24. **Operator** shall submit each owner of an uncommitted working interest in the pool ("Pooled Working Interest") an itemized schedule of estimated costs to drill, complete, and equip the well ("Estimated Well Costs").

25. No later than thirty (30) days after **Operator** submits the Estimated Well Costs, the owner of a Pooled Working Interest shall elect whether to pay its share of the Estimated Well Costs or its share of the actual costs to drill, complete and equip the well ("Actual Well Costs") out of production from the well. An owner of a Pooled Working Interest who elects to pay its share of the Estimated Well Costs shall render payment to Operator no later than thirty (30) days after the expiration of the election period, and shall be liable for operating costs, but not risk charges, for the well. An owner of a Pooled Working Interest who fails to pay its share of the Estimated Well Costs or who elects to pay its share of the Actual Well Costs out of production from the well shall be considered to be a "Non-Consenting Pooled Working Interest."

Although EGL was designated Operator under both Orders it never submitted a schedule of estimated well costs. Instead on August 7, 2025, a stranger to the Orders, "PBEX Operations, LLC, on behalf of PBEX, LLC" sent a single letter to Chevron with attached Authority for Expenditures for a 2 phase drilling plan for a new set of 11 wells. The well plan was vastly different than the one authorized by the Orders. It dropped the four defining proximity tract wells listed in the Orders that supported the doubling the size of each spacing unit. It changed the depths and locations of wells whose names did not change. Most significantly, the letter added three Third Bone Spring wells, even though: (1) the applications did not include notice of the depth of any Third Bone Spring wells: EGL and PBEX, LLC represented in affidavit testimony that they were only targeting the First and Second Bone Springs sands and no evidence was presented supporting development of the Third Bone Spring. The failure to include Third Bone Spring wells in the applications violated the Division's Rules.

Although the April 7 development plan bore little resemblance to the plan presented for hearing and approved in the Orders, the letter referenced the Orders and stated:

Pursuant to said Orders, if you wish to participate in the operations described above, please indicate so in the space provided, and sign and return the enclosed AFEs within 30 days of receipt of this correspondence.

However, there was no deadline stated in the letter regarding the payment of costs. The letter lacked any statement of Chevron's percentage working interest in the wells or the spacing units established by the Orders. The letter included AFEs for the wells showing the total cost for drilling, completing, and equipping each well but did not state Chevron's proportionate share of the total costs reflected in the AFEs.

After receiving the August 7, 2025 letter Chevron requested 5 items of information to in order to evaluate the new 11-well development plan:

- Estimated spud, completions, and production timing
- Current estimate of Chevron's WI and NRI
- SHL and BTL for each proposed well in the AFE package
- Gunbarrel of the proposed AFE package
- Type log used for targets and correlations
- PDF of proposed JOA.

The landman for PBEX Operations provided the first four items piecemeal over the course of several weeks. In doing so, she acknowledged that the ownership evidence presented at the hearing for Chevron was incorrect and later provided preliminary ownership from a title worksheet showing that Chevron's ownership represented at the hearing had changed dramatically. She provided general spud dates for the wells indicating that the spud date for those wells authorized by the PBEX Order was beyond the date required in the order to commence drilling the wells. The failure to include Chevron's percentage interest in the unit in the Applications and the August 2025 letter violated the Division's rules and industry customs and practices.

Unbeknownst to Chevron, PBEX Operations sent proposal letters to all of the other pooled working interest owners on August 19, 2025, affording them the ability to elect to participate with knowledge of Chevron's election decision. In doing so, PBEX and EGL breached duties of good faith and fair dealing inherent in the compulsory pooling process.

An even more egregious breach of the duty of good faith, amounting to constructive fraud, occurred when PBEX and EGL failed to inform Chevron of critical information before the time that Chevron would be obligated to pay its proportionate share of wells costs, if a proper schedule of estimated well costs had been furnished. Internal documents show that PBEX and EGL had decided to rescind the proposal for the 6 Phase 2 wells and seek extension of the time under the Orders to commence drilling the wells. They confirmed to another operator, Matador Resources, that Matador only had to elect into the Phase I wells. Significantly, only three of the Phase I wells are in the approximate location described in the approved Orders, namely the Bond 32-34 Fed Com 201H, Bond 32-34 Fed Com 205H, and Bond 33-34 Fed Com 211H. PBEX confirmed to Matador (but not other pooled working interest owners) that the proposal for the Phase 2 wells was rescinded, that an election was not due on the Phase 2 wells, and the wells would be re-proposed and were in fact re-proposed in February, 2026 but only to Matador.

PBEX and EGL did in fact file applications to extend the time to commence drilling under the Orders but dismissed its extension cases after Chevron entered its appearance and could raise the issues concerning the deficient August 7, 2025 purported schedule of estimated well costs, necessitating the filing of this case by Chevron.

PROPOSED EVIDENCE**APPLICANT:**

WITNESS	ESTIMATED TIME	EXHIBITS
Landman: Scott Sabrsula	Approx. 20 minutes	Approx. 23
Geologist: Cody Comiskey	Approx. 20 minutes	Approx. 10
Expert: Will Jones	Approx. 20 minutes	Approx. 2
Additional Exhibits From Documents Produced by PBEX		Approx. 3

Chevron is submitting the direct testimony and exhibits for these witnesses contemporaneously with the filing of this Prehearing Statement. Chevron also intends to use transcripts from the February 26, 2026 and March 10, 2026 hearings in this case and requests the Division take administrative notice of those transcripts.

PROCEDURAL ISSUES

Some of the documents produced by Chevron in response to a subpoena from PBEX and EGL were designated as confidential because they contain confidential and propriety information. In the event that PBEX and EGL proposed to introduce those documents into evidence or use them in cross-examination, Chevron request that hearing be closed in accordance with applicable law.

Respectfully submitted,

MODRALL, SPERLING, ROEHL, HARRIS
& SISK, P.A.

By: /s/ Earl E. DeBrine, Jr. and Deana M. Bennett

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CERTIFICATE OF SERVICE

We hereby certify that a true and correct copy of the forgoing pleading was served by electronic transmission to the following counsel this 7th day of May, 2026:

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By: /s/ Deana M. Bennett
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State of New Mexico
Energy, Minerals and Natural Resources
Oil Conservation Division
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QUESTIONS

Action 582762

QUESTIONS

Operator: CHEVRON U S A INC 6301 Deauville Blvd Midland, TX 79706	OGRID: 4323
	Action Number: 582762
	Action Type: [HEAR] Prehearing Statement (PREHEARING)

QUESTIONS

Testimony	
<i>Please assist us by provide the following information about your testimony.</i>	
Number of witnesses	3
Testimony time (in minutes)	60