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IN THE MATTER OF THE HEARING CALLED BY THE OIL CONSERVATION DIVISION FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF REGENERATION ENERGY CORPORATION FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 15043

APPLICATION OF CHEVRON U.S.A., INC. FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 15058

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 31, 2013

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 31, 2013, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

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EXHIBITS OFFERED AND ADMITTED

(8:29 a.m.)

EXAMINER GOETZE: Next on the docket is Case 15058, application of Chevron U.S.A. for a nonstandard spacing and proration unit and compulsory pooling, Lea County, New Mexico.

Call for appearances.

MR. FELDEWERT: May it please the Examiners, Michael Feldewert of the Santa Fe office of Holland & Hart appearing on behalf of the Applicant, Chevron U.S.A., Inc.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe representing Regeneration Energy Corp., and I have one witness. And I think Mr. Feldewert and I both ask that it be consolidated with the next hearing, Case 15043.

EXAMINER GOETZE: And the basis of this?

MR. BRUCE: They both involve the same land.

EXAMINER GOETZE: Very well. Then we will make, also, part of this Case 15043, application of Regeneration Energy Corporation for a nonstandard spacing and proration unit and compulsory pooling, Lea County, New Mexico.

Your witnesses?

EXAMINER BROOKS: Well, first of all, in

the second case, you should get appearances.

EXAMINER GOETZE: Okay.

Call for appearances for 15043.

MR. BRUCE: Mr. Examiner, Jim Bruce representing the Applicant, and I do have one witness.

EXAMINER GOETZE: And that witness is?

MR. BRUCE: Raye Miller.

MR. FELDEWERT: I'm also appearing in Case 15043. Michael Feldewert on behalf of Chevron U.S.A., Inc. And in connection with the consolidated cases, now we have -- I have three witnesses to present.

EXAMINER GOETZE: Very good.

EXAMINER BROOKS: I'll quit interrupting.

EXAMINER GOETZE: No, no. I need the experience, the practice.

And the witnesses, would you please stand? State your name for the court reporter, and she will swear you in.

MR. MILLER: Raye Miller.

MR. LEVINE: Jason Levine.

MR. SCHWARTZ: Ken Schwartz.

MR. CHEBEN: Sean Cheben.

(Witnesses sworn.)

MR. BRUCE: Mr. Examiner, since Regeneration filed first, we'd like to go first.

EXAMINER GOETZE: Very good.

Mr. Feldewert, no problems with that?

MR. FELDEWERT: I have no objection.

EXAMINER GOETZE: Proceed, Mr. Bruce.

RAYE MILLER,

after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Miller, will you please state your full name and city of residence?

A. My name is Raye Miller, and I reside in Artesia, New Mexico.

Q. Who do you work for and in what capacity?

A. I'm a part owner and an officer of Regeneration Energy Corp.

Q. Have you previously testified before the Division?

A. Yes. I previously testified and have been qualified as a practical oilman.

Q. And does your area of responsibility at Regeneration include this portion of southeast New Mexico?

A. Yes, it does.

Q. And are you familiar with the land and

technical matters involved in these cases?

A. Yes, I am.

MR. BRUCE: Mr. Examiner, I tender Mr. Miller as a practical oilman.

EXAMINER GOETZE: So qualified.

Q. (BY MR. BRUCE) Mr. Miller, could you identify Exhibit 1 and briefly describe what Regeneration seeks in this case, in your application?

A. Exhibit 1 is just a portion of an approved application to drill for the Madera Federal 17. It's a horizontal well in the east half-east half of Section 17 to 23 -- or 24-34, and we seek an order approving a 160-acre nonstandard oil spacing unit in the Bone Spring Formation, pooling the Bone Spring Formation underlying the nonstandard unit. The footages are shown on the C-102, and the well location is orthodox.

Q. Now, the OCD placed the well in the North Red Hills in the Bone Spring pool. Is that pool based on statewide rules?

A. Yes.

Q. And I know you'll get into this a little bit more when discussing the geology, but could you summarize Regeneration's plan to ensure the Bone Spring is properly developed?

A. What we would propose is to drill a pilot hole,

to mud log and log the pilot hole, and provide all the interest owners with that information, to make a decision as to which horizon might be the best potential for an economic well in the Bone Spring Formation.

Q. And who do you seek to pool in this case?

A. Seek to pool Chevron who owns 75 percent of the working interest in this federal lease.

Q. Is there another working interest owner in the well unit?

A. Yes. The Allar Company owns 12-and-a-half percent, Regeneration Energy owns 12-and-a-half percent, and Allar is in agreement to join us in the proposal.

Q. What is Exhibit 2?

A. Exhibit 2 is a small packet of correspondence between Regeneration Energy and Chevron regarding the development of the proposed well. It winds up being a thing where, if you'll notice, the first page, the top of it, says "July of 2012." That's not a typo. We've actually been working on this for an extended period of time. Our first proposal back to Chevron was last year.

Visited with Chevron. In fact, I actually made a trip last year down to Houston to meet with the Chevron team to try to determine, you know, if there was some way that we could make some type of deal, either have them join us or trade them or buy them out of the

acreage. We worked on a trade with them for several months. Unfortunately, could never get a trade finalized. It died. It's also a federal location, and at the time of our first notice to them, we were working on federal APD, but we did not have an approved federal APD. Unlike the OCD, the Feds are a little more trying to actually get an approval. It actually took six months to get the approved Federal APD.

And so once we got the approved Federal APD, we started back in again, re-proposed, revised the AFE, amended the JOA and sent it to them in July. We've had numerous discussions with Chevron, which ended on the 29th of July, which is towards the end of the large packet, where Chevron made a proposal to trade to us. We asked them if it was fair to all the parties. They indicated it was. I basically flipped the trade to them. If it was fair to everybody, let's just flip it, and they indicated -- they declined and didn't think we were going to be able to reach an agreement. So at that point, we felt we'd have to come and try to force pool and see if we could get a decision that way.

Q. In your opinion, is it fair to say that Regeneration has been the party to push forward with getting a well drilled in this section?

A. It's been working on it for a long time and

pushing hard.

Q. In your opinion, has Regeneration made a good-faith effort to obtain the voluntary joinder of Chevron in your proposed well?

A. Yeah. It's a thing where we certainly have.

Q. In your opinion, has Chevron failed to make a good-faith effort to obtain the voluntary joinder of Regeneration and the Allar Company in its proposal in this section?

A. I'll address it more later, but I certainly don't think that what they've done meets the standards.

Q. Could you identify Exhibit 3 for the Examiner?

A. Exhibit 3 is the AFE that we have utilized and submitted to Chevron. It's a little different. This is actually the revised AFE that was submitted this year. It shows an approximate dry-hole cost of 2.9 million and a completed well cost of $9.2 million.

Q. Are these costs reasonable and in line with the cost of other wells drilled to this depth in this area of Lea County?

A. The costs are reasonable. The AFE -- we take a philosophy that partners are always happy with you if you're under AFE. They don't like you when you exceed the AFE costs, and as a result, we try to identify what we anticipate as the maximum cost of a project. This

AFE is based on the most difficult formation out there to complete and drill, and the costs are thus reflected. We believe, if the well is actually completed in either the 2nd or 3rd Bone Spring Sand, the frack job will not be as expensive as shown on this AFE, because it's not required. It's not as difficult to frack and not as large a job would actually be done as a result. Even though the completion would be at a deeper horizon, the ultimate cost of the well should be closer to around $8 million.

Q. Let's take a step back. Are there multiple potential Bone Spring zones in this section?

A. Yes. The Bone Spring Formation in this area probably has definite potential both in the Avalon Shale and a 3rd Bone Spring Sand. It certainly has potential to be 2nd Sand productive, but that 2nd Sand is a little more sketchy in southern Lea County as to its development. So that's the reason for considering actually drilling a pilot hole and mud-logging and logging the entire interval to determine which zone might actually be the most productive for the horizontal.

Q. What are Exhibits 4 and 5?

A. Exhibit 4 is actually the well proposal that we received from Chevron, their AFE. It was sent to us

after our notice of forced pooling and after a continuance. It identifies that their cost is, basically, $11.9 million, and it includes a million two for frack costs, but $5.3 million for facilities.

You know, as I described earlier, our AFE was for 9.2 million, and it included 3.6 million for frack.

It winds up being a thing where we believe that expenditures downhole are far more important than expenditures for facilities equipment, and we would believe, you know, the cost of actually spending it for facilities that high are just, you know, unreasonable.

The facilities shown on our AFE -- their facilities are 5.3 million. Our facilities shown on the AFE are 628,000. That includes a sump pump. The actual facility cost which we had on our Shearn well, which is located in 32 -- Section 32 of 23-35 was $517,080. Now, that did not include a sump pump for that well, but did include 3,300 foot of burned gas line, a mile of electrical line and the associated right-of-ways.

Included in Chevron's AFE is a million dollars for a Targa gas line. I believe this is done in conjunction with other wells drilled by Chevron or planned to be drilled by Chevron in this area. As the Targa Plant, I think, is owned 37-and-a-half percent by

Chevron, it's further away from this location than three other gas processors, Regency, Agave and DCP. And currently Targa's closest connection, I think, is about eight-and-a-half miles away.

I struggle that we cannot afford Chevron's operations. Not only do we have the AFE here -- but previously I worked for Marbob Energy Corporation, and we were partners with Chevron on a well called the Lansdale [phonetic] Federal. It's in Section 4 of 19-32. It was a 100-MCF-a-day gas well. The well was tied directly into DCP's low-pressure gathering system. There was no battery on location. It was electronic meter. There were no facilities. The wellhead was tied directly to the gas line. It could have been read electronically by someone in the office. The well made 100 mcf a day. The operating costs from Chevron were $1,800 per month. They were all legal under the COPAS accounting.

But it's not right at the end of the life of the well to have the highest cost. You really need the lowest cost when you're ending the life of the well. We tried for many months to get Chevron to consider reducing their operating costs. We were their only partner. We had 12-and-a-half percent, and they have 87 and a half. And they wouldn't do it.

Chevron and I don't -- you know, I mean, I don't have a problem with what they want to spend on facilities that they own. They may need these higher-cost facilities for internal policies, but I just don't think the nonoperators should have to bear the costs of those type of facilities.

Q. So there are two issues here, Mr. Miller. One is, if I can summarize, if you're spending millions on a well, it's better to spend money underground than aboveground?

A. Right.

And I didn't explain a lot. Exhibit 5 is basically what we have analyzed as some of the frack work that has been done on one-mile laterals in the 3rd Bone Spring Sand by various operators, and you can see that probably the largest number of the wells have been drilled by Concho. They've used somewhere between 63- and 70,000 barrels of fluid and about three million pounds of sand in their completions. Those frack jobs are running, we believe, about 2.1 to $2.3 million. And if we were the operator and were completing in either the 2nd or 3rd Bone Spring Sand, we would probably be looking at a job comparable to those.

Q. Looking at this area, COG has had good results with its frack program?

A. COG has had phenomenal results, and their initials are some of the best initials in the Bone Spring horizontals. And I think -- and there is some debate between operators, but I believe that their ultimate recoveries will justify why those higher-in-volume-and-dollar frack jobs were warranted.

Q. And to take a step back, you said you'd estimate a similar frack job in the 3rd Bone Spring or even in the 2nd Bone Spring to be about two and quarter million dollars. If it was completed in the Avalon, it would be a higher frack cost?

A. Yes. The Avalon -- we had experience in the Avalon to the northeast of this location, up in 23-34, and the wells that we completed there were much more difficult to frack, took much higher pressure, and as a result, the frack cost was between 3.6 -- and the one well that we did was actually $4 million; we spent on the frack job.

Q. But in your AFE, the frack cost reflects the higher Avalon Shale cost; does it not?

A. That's correct. We try to make sure we've anticipated the higher cost of a project, not the lower cost.

Q. Could you move on to Exhibit 6 and discuss that, and as you're going through it --

MR. BRUCE: Mr. Examiner, Mr. Miller is going to point out a number of things. I did have the wits about me yesterday to number the pages, so that we --

EXAMINER BROOKS: Thank you.

MR. BRUCE: We don't have to search too poorly through them.

A. Well, it winds up being a thing where -- and in the interest of time, I'll try to be fairly brief. What I did was, I tried to -- after I received Chevron's AFE, I tried to actually look at some of the wells that Chevron had completed here recently in the Bone Spring Sand in this year and to actually then go out on location and look at their operations and try to compare them to try to see, you know, what was driving the much higher facility cost and their stuff [sic].

The first set of pictures there is basically a Chevron location. It's the West Shugart 2 #2H located in Section 2 of 19-30 there, Eddy County, New Mexico. You can see in the first picture their generator. They have a trailer on location. They had flowback personnel on this location. The pictures right behind it are some of the frack tanks that they had. This well has been on production for a couple of months. You can see their flare stack and all.

And I would direct you to directly behind the pictures. I also tried to determine what size frack jobs that Chevron was actually putting on each of these wells. Now, this is off of the OCD records, which is the frack disclosure. It shows a frack job of about 24,000 barrels. Now, the interval it shows, which it's kind of hard to read since I shrunk it down is --

MR. BRUCE: We're referring now to pages 5, 6 and 7, Mr. Examiner.

A. -- is 12935 to 12986. I wrote that because it was kind of hard to read, unless you had younger eyes than I do.

When you look at the next page, I blew it up a little bit just so you can see that. That's the same report.

And then when you look at their completion report that's of record, the perforation intervals there in box 26 don't match up with the frack disclosure. And then when you look over at the intervals shown in box 27, which is typically where you would see their asset and frack report, it has a different interval. And it also doesn't make a lot of sense to me. That looks like a cementing report that's being given there instead of actually a frack treatment on their completion.

I've included some additional pages of

information out of the file because I tried to actually research the file to see if I was just missing something. The authorization to transport has the same perforation interval as shown in box 26.

But, anyway, I'm not exactly sure what they did in the way [sic], but at least they probably put on a 24,000-barrel frack into some interval.

Q. (BY MR. BRUCE) And that's less than what COG has been doing in this area?

A. Right.

It winds up being -- the next set of pictures --

MR. BRUCE: Starting with page 12, Mr. Examiner.

A. -- is the West Shugart #2 -- 2 #4H, which is a well in the same section. Chevron drilled these wells fairly well back-to-back earlier this year, and then completed them pretty well together. It's very similar. As you can see, they have flowback personnel. They have a series of frack tanks still on location. They have a series of test equipment on that location, and they have a flare there at that location that's going.

If you look at the Frack Disclosure Statement, which is directly behind those pictures, you'll see I've highlighted -- the interval that's shown

as being the completion interval on the Frack Disclosure Statement is 13,104 to 13,120. When you look on the next page, in box 36, it shows the perforation interval at 9,129 to 1310, not 1320, and then when I look at the items reported in box 27, it shows the interval being 2,965 to 8,040. And it sure looks like that's a cement type of job there instead of actually reporting their frack and stimulation on the well.

So, again, you know, this one looks like they did at least a 29,000-barrel frack, but then the noncontinuity items shown on the completion report and what's in the frack disclosure, I'm not sure if that's the only frack they did or what.

But anyway, the only thing I make a note of, when we're looking at these two wells, Chevron operates other wells in this section. In fact, they have a pumping well that's fairly close to the battery in one of these locations, and, of course, the pumping well is hooked up to electricity. These wells were drilled, I believe, in the time frame of April to June. I think they were completed in August. And I was obviously there in October, and yet Chevron has a generator at each location, has not hooked them up to electricity.

Now, the generator that I rented recently

on one of our locations, the generator cost me $600 a day, and the fuel cost, $750 a day. So it was costing $1,350 a day to run a generator, which is about $40,500 a month.

When Xcel finally allowed us to hook a meter up on that location --

Q. Xcel Energy?

A. Xcel Energy is the electric provider at that location. I believe their location is on CVE in this area.

But when Xcel finally provided us with a meter, our electric cost was actually $3,000 a month running the same equipment instead of $1,350 a day.

So as a result, it winds up -- it surprises me in the fact that Chevron had power at their offsetting wells this close, but they actually did not hook up power prior to the time frame that I was actually out there at each one of the locations.

Q. Let's move on to page 22 of this exhibit. What do those pictures reflect, Mr. Miller?

A. This is just the battery at the West Shugart. I took the pictures just to kind of look at the facilities. They've got -- at this location, they have steel-burm equipment around the tanks, but then they have quite a few vessels -- or some of their equipment

is actually outside of the berm area there, which I've shown. And, of course, they also had a generator at this location that they were running. You can see their separators, freewater knockouts and all. And obviously this is a multiple-well facility, and so they've got it set up for test vessels, as well as primary production vessels.

It winds up being a thing where, when I was there, they had two flowback hands on each one of the locations and two flowback hands on the battery. So they had eight personnel -- contract personnel 24 hours a day, which that's fairly expensive.

The next set of pictures is actually the Paducah Breaks 32 --

MR. BRUCE: Page 31, Mr. Examiner.

A. -- which actually just shows the battery facility. This is a well in Lea County, which I believe is Avalon Shale. Again, here they've used the steel berming type of facility. It looks fairly similar to what we do, except we use an earthen berm instead of the steel. Here, though, they actually used a 43,587-barrel frack, and the information on their completion report and the frack focus line up to where I believe that's what they actually did here, is the 23,500 barrels.

The next set of pictures is the Heritage

215 1H.

MR. BRUCE: Page 42.

A. It's located in Section 15, 23-28. And this area is certainly -- I understand why they put up the chain-link fence with the barbed wire, because this area is south of Loving, in an area, you know, where there are farmlands and a lot of human activity in this area. And so they don't want folks in their location.

It winds up being a thing where I was not actually inside their chain-links. Some of the pictures actually look like I was inside the facility, but actually I just got better taking the pictures with the cell phone through the chains.

It winds up being a thing where -- on this location, I was amazed at the fact that they wound up having pots and electricity, which are shown there in the later pictures, and they had two different setups. They had electricity for the battery itself and then electricity for the well, which just blew me away, because it looked like either one of the facilities was actually sufficient to have run both the battery and the well power off of the same one.

I've included their frack work here, and it looks like they did about 55,000 barrels on this location. And it is actually, I believe, a sand well.

Q. Mr. Miller, when you're talking about electricity and these other costs, does this play into your -- well, your questions about ongoing operating costs?

A. It plays into ongoing operating costs. It plays into front-end development costs. They just do things a little higher cost than what we would try to do.

The next set of pictures is actually just pictures of our Shearn State location.

MR. BRUCE: Page 54.

A. It basically is just one of the recently completed wells or a well that's been completed about a year. It identifies that, you know, our tanks, vessels and all look fairly similar to theirs.

Now, I will tell you that the water that you see in the picture is not from a spill or a leak. I thought you might enjoy that, but it was actually from a thunderstorm that happened the night before on location. And it winds up being a thing where I really wanted to keep these pictures for later use because my rancher tells me it never rains on this ranch. And I wanted to be able to actually remind him that there was rain at some point.

But anyway, the last set of pictures are

actually not of our facilities. This is of a Concho facility. It's called the Stratojet 31 Com 3H. That well came on producing at an initial rate of 1,392 barrels of oil a day, with 1.1 mcf and 900 barrels of water. The well's cum'd 365,000 barrels of oil in less than two years, and you can see that Concho's facilities there, with actually the addition of one additional tank, are fairly similar to the facilities that we have on our Shearn location. As a result, if they can produce that large of a well in those facilities, it would look like our facilities might be sufficient to actually take care of it.

Q. And roughly, to your knowledge, are Concho's facilities costs comparable to Regeneration's costs?

A. Yes, I think they are. It winds up being a thing where -- one of the other things that disappoints me a little bit about our hearing today is the fact that the well that we just drilled called the Bill Federal, we actually have just recently completed. We're in flowback of our frack at this point.

Today we have a gas line buried, with a gas line connection to Regency already in place. Xcel Power is on location. We're not renting a generator, and we have a battery built so that if the well is successful, everything is in place where immediately we'll be able

to sell gas.

We also have a water line laid from the tanks to our saltwater disposal. The Bill is in 19 of 23-35, and our disposal is in 23-34. And as a result, we're not paying trucking for $3.50 a barrel to a commercial disposal. It's not only a thing where we're actually disposing of our own frack flowback water, but it's also a thing where we're not causing as much damage to the roads. And the rancher appreciates the fact that there is not quite as many trucks in there as there have been on other locations in the area.

We spent about $2.8 million on our disposal well and the facilities. And it is actually a Delaware disposal well, but it was approved by the OCD. It's on State surface and minerals, and we have three-and-a-half plastic-coated tubing in nine-and-five-eighths casing. We were able to re-enter a well, tie back in nine-and-five-eighths, do remedial cement work to get cement to surface in the nine-and-five-eights to actually make a good disposal well operation there.

It's a thing where I do think that our costs would be lower considerably than what Chevron's would be.

Q. Let's move on to Exhibit 7. What is that?

A. Exhibit 7 is the JOA that we proposed using to

Chevron. It winds up being a thing where this JOA was -- three pages of it were revised with our proposal in 2013. The original JOA, which is every page except those three pages, was submitted in 2012, and this was what we proposed at the time of our well proposals for other consideration.

Q. And it was signed by you, correct?

A. Yes.

Q. And --

A. Allar has signed it, but we have not received anything from Chevron.

Q. Okay. You sent this in July of 2012. Did you re-send the JOA to them this year?

A. We sent a revised AFE well proposal and the three pages. And Chevron couldn't find the original JOA, so we actually scanned the original JOA and submitted it to them so that they would have the full JOA.

Q. And what is Exhibit 8?

A. Exhibit 8 is Chevron's JOA. Chevron submitted us the AFE, which was, I believe, Exhibit 4, on the 1st of October. I think we received it on the 2nd of October.

They indicated in their proposal that if we wanted a JOA, that they would send it. I immediately

responded back to the land person and asked that they send a JOA, that we always wanted a JOA in considering a well proposal. I received the JOA that's attached here on October 28th. That's why I put the cover e-mail letter. So it came in on Monday. I printed off exactly what I received from them. As you can see, it looks like it is basically in the development stages. It's not signed by Chevron. I was a little surprised. It doesn't have an insurance exhibit. I'm just not sure why, but I've never had a JOA from a company that didn't have an insurance exhibit.

I haven't reviewed the JOA completely, but I'm always interested to kind of look at the front of a JOA, the miscellaneous provisions, and then the last page of the JOA just to see what kind of things are there. And when I read the last line of the last page, it says: "This exhibit remains in force and effect and binding on the parties after the termination and completion of this agreement." And I thought, well, that's interesting. It would appear that their arbitration -- if you ever sign a single JOA with Chevron, you may have just agreed to that for eternity. But anyway, I'm disappointed in what they've provided and the timeliness of it, but anyway, that's the JOA that we received.

Q. In your opinion, is Regeneration's drilling plan and AFE more in line with how the Bone Spring should be initially developed in this section?

A. I'm not sure that it is more in line with how it should be developed. I think their development of the well would be virtually identical to our development. I think we both want to identify the best horizon and actually target that for development.

I do think their AFE has more costs in it for things related to control of spills or, you know, super sensitive to surface issues more so than, I think, is actually warranted and less money spent on the frack, which I really think, drilling the well, we'd be better off spending money downhole than we are on facilities. I want good facilities, and I don't want spills or leaks or any of those issues, but it's a thing where we believe we have the proper containment with the facilities that we built.

Q. And during your testimony, we've talked about this section. The proposed wells are on a federal lease, correct?

A. Yes.

Q. And does the lease cover all of Section 17?

A. Yes.

Q. Just a few follow-up questions.

You do request that Regeneration be appointed operator of the well, correct?

A. Yes.

Q. Do you have a recommendation for the amounts which Regeneration should be paid for supervision and administrative expenses?

A. Our JOA and their JOA, I believe, both reflect the same amount of $6,500 a month for drilling and 650 for a producing rate. And those were the same, I believe, in both JOAs.

Q. And are these amounts equivalent to those charged by Regeneration and other operators in this area for wells of this depth?

A. Yeah. The rates vary, but I think these are certainly reasonable rates for this well and this area, at these depths.

Q. Do you request that the order allow for rates to be adjusted periodically as provided by the COPAS accounting procedure?

A. Yes.

I will tell you that in our current company, we don't adjust our overhead rates as provided by COPAS, and when I worked for Marbob Energy, we did not adjust our rates as provided by COPAS. And, again, it's that fundamental issue, that at the end of the life

of the well, you need the lowest costs, not the highest costs. But it's a thing where the accountants all believe that that's the best way to do it, and so we would ask for the standard.

Q. Does Regeneration request a cost plus 200-percent risk charge if Chevron went nonconsent in the well?

A. Yes.

Q. And was Chevron notified of your application?

A. Yes.

Q. Is that reflected in Exhibit 9?

A. Yes, it is.

Q. What is Exhibit 10?

A. Exhibit 10 is a list of the offset operators to this well.

Q. And were they given notice of this application?

A. Yes. I believe Exhibit 11 is the notice that they were given.

Q. Mr. Miller, let's move on to the geology. You've marked Exhibit 12. It contains a number of plats. I will just ask you to identify them and discuss the prospective zones in this area.

A. It's a thing where it'll be interesting. I don't think there will be a lot of disagreement between us and Chevron, but we can see what they believe.

The first plat is actually just kind of a regional map identifying the various wells that have been drilled. The little circles that have kind of a yellow-green color in them are wells that we actually have access to logs on. We've identified, with the lines, a lot of the horizontal wells that have either been permitted or drilled in this area. If it's an open white circle, it's a permitted well. If it has a diamond on the horizontal, then it actually means that the well has been drilled, but it has not been -- a completion hasn't been shown on it yet. So as a result, you can see to the west and to the south there is quite a bit of activity and consideration.

Concho just drilled its Salvador well in Section 10 there, but at this point, they haven't filed a completion report on it. I believe 2nd Bone Spring Sand well.

The next map is actually, again, largely a locator map. It identifies various wells as to the different formations that they are developed in. The orange are Delaware wells. The brown are Bone Spring, and the kind of purplish are, in behalf, the Avalon Shale upper section of the Bone Spring. Whereas, the other browns are 2nd and 3rd Bone Spring Sand.

The circles actually are based on how good

a well they actually are. Those are cum circles that are there. The horizontals, though, for the horizontal wells, or the ellipses, are strictly identifying that they're completed as a horizontal. There is no relation to cum on that.

The next map below that is actually a regional structure contour on the Bone Spring Lime. The contour lines are in 50-foot intervals, and the lime is fairly consistent throughout the Bone Spring. And it gives us kind of a good indicator of what the Avalon Shale structure would look at -- or look like in this.

As you can see, the Madera location there in Section 17 is kind of at the toe of a south-plunging Antelope Ridge structure. The Antelope Ridge structure is fairly predominant to the north up. There is a lot of good deep gas wells that were drilled in that structure. But anyway, we're kind of on the lower side -- or the end of the toe of that structure in this area.

If you look at the next map, it winds up being a thing where, again, this is also a structure contour map. It's of the 3rd Bone Spring Carbonate. It has 50-foot contour lines. And the 3rd Bone Spring carbonate structure would closely resemble that of the 2nd and 3rd Bone Spring Sand. I believe the sands are

about 600 feet apart. And as a result, you can see that the structure is very similar to what it was there in the previous contour map.

The next map, with the fancier colors -- I really like all this new graphic stuff that they do. This is a gross isopach of the Upper Avalon Shale, and it winds up having 25-foot contour intervals. And the darker purples to the south are actually the thicker Avalon sections. The green and the lighter colors are actually thinner horizons.

Our development -- if you look in the upper right of Section 25, there is a horizontal well there. That was an area that we actually developed an Avalon Shale well, and the one that's just off the map to the north of that was actually developed. And you can see that this location would have a considerably thicker Avalon Shale section than what we encountered. And, obviously, if you remember, on the second map, there were quite a few Avalon Shale wells that were developed down in this purple thick area to the south.

The next map is, again, a gross isopach of the 2nd Bone Spring. Now, the way this one was done, it's actually a gross interval thickness, and it should not necessarily be considered a pay map. You know, it winds up being --

MR. FELDEWERT: Mr. Examiner, I'd like to lodge an objection. Mr. Miller is not a geologist. He's been qualified as a practical landman.

MR. BRUCE: Practical oilman.

MR. FELDEWERT: Practical oilman.

I don't know if Mr. Miller generated these exhibits or the origination of these exhibits, but certainly he's qualified -- it requires the expertise of a geologic. And I've let him go along and describe the substance of the maps, and I don't think the witness is qualified to do that.

MR. BRUCE: Mr. Examiner, I think Mr. Miller has been up here testifying for years on maps like this, and that was part of his original qualification, I might add, by Mr. Feldewert's firm, of Mr. Miller as a practical oilman, and I think we should let him proceed.

MR. FELDEWERT: I think certainly he's qualified as a practical oilman, but I'm not aware that a practical oilman can offer geologic testimony and opinions.

EXAMINER BROOKS: I'm not technically sure what a practical oilman is.

MR. BRUCE: We could certainly ask -- if the Examiners would like it, Mr. Miller could describe

his background at Marbob and at Regeneration with respect to not only land but technical matters at the company.

EXAMINER BROOKS: Well, I think that I will recommend that the Examiner overrule the objection on the ground that any deficiencies in qualifications go to the weight of the testimony, not to the admissibility.

EXAMINER GOETZE: I will yield to the Examiner and go with his recommendation.

Continue, Mr. Bruce.

MR. BRUCE: Go ahead, Mr. Miller.

A. It winds up being a thing where I was describing that it was a gross interval thickness and not necessarily a pay map of the 2nd Bone Spring Sand. It winds up being a thing where if you look at the next map, it actually is a gross sand isopach 3rd Bone Spring Sand, and this is probably indicative of actually a pay section 3rd Sand. Whereas, the one before was not. It thickens to the south-southwest and locally to the north.

The last map -- or the last item is actually the cross section west to east. It's the structural cross section across the Madera location. The location is the line in between, and we've identified the various horizons there that actually

relate to the prior maps that were shown. And the three lines that are shown on the -- let's say TVD line [sic] in the black there at the Madera location are where we would actually think that if you were developing either an Avalon at the upper TVD, the 2nd Bone Spring Sand would be the middle TVD wavy line, and the 3rd Bone Spring Sand would possibly be the third or the bottom line for the interval of potential pay.

Q. (BY MR. BRUCE) Since there are multiple prospective zones, is that the only reason or maybe the primary reason that Regeneration wants to drill a pilot hole for its well?

A. Yes.

Q. Based on these maps, is the Bone Spring or whatever prospective zone continuous [sic] across the horizontal?

MR. FELDEWERT: Mr. Examiner, I object to this witness offering a geologic opinion.

EXAMINER BROOKS: I will reiterate my former ruling.

EXAMINER GOETZE: So concurred by the Examiner.

A. It winds up being a thing where the work I've done in the area, which Mr. Feldewert doesn't like, would indicate that the 2nd Bone Spring Sand is usually

not as contiguous across this area. The 3rd does appear to be fairly contiguous across most of this portion of Lea County, and certainly at the Avalon Shale, we believe we would be productive across the entire area.

Q. (BY MR. BRUCE) And in your opinion, would each quarter-quarter section in the well contribute to production?

A. Absolutely.

Q. Finally, Mr. Miller, what is Exhibit 13?

A. Exhibit 13 is just the drilling plans for -- if we did not drill an Avalon Shale, these are the plans for directional drilling that would be done. The first one is for the 3rd Bone Spring Sand, with an approximate TVD as was shown on the cross structure at 11780, and the one that's about halfway through is the plan for deviation of the, roughly, 10960 TVD.

It winds up -- and before we finish, I probably should have stated earlier on that, while our initial application to the BLM was actually for an Avalon Shale well, we did discuss with the Chevron Land Department prior to getting to the hearing the fact that we would actually like to consider drilling the well with a pilot hole to the lower depths and to actually involve them in consideration of the decision-making, since they had 75 percent of the well as to which

horizon we actually elected to.

At the time of our first well proposal in 2012, the Avalon Shale was really the play that most folks were looking at in this area, but obviously with subsequent wells that have been drilled in the area, it appears that the production and the success and the economics for both the 2nd and 3rd Bone Spring Sand look to be potentially better. They're more oily, and the Avalon tends to be a little more gassy, and obviously oil prices are what drives the ability to repay the cost at this point.

Q. Mr. Miller, were Exhibits 1 through 13 prepared by you or under your supervision or compiled from company business records?

A. Yes.

Q. And in your opinion, is the granting of Regeneration's application and the denial of Chevron's application in the interest of conservation and the prevention of waste?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 1 through 13.

EXAMINER GOETZE: Exhibits 1 through 13 are accepted.

(Regeneration Energy Exhibit Numbers 1

through 13 were offered and admitted into evidence.)

MR. BRUCE: I pass the witness.

EXAMINER GOETZE: Mr. Feldewert?

CROSS-EXAMINATION

BY MR. FELDEWERT:

Q. Mr. Miller, I think you testified that, in your opinion, expenditures downhole are more important than surface facilities. Is that what you said?

A. The relation of expenditures between Chevron's AFE and ours, theirs has a lot higher percentage shown to be devoted to facilities costs, and ours has a higher percentage devoted to downhole expenditures, yes.

Q. In the course of that observation, you made a statement that you thought expenditures downhole were more important than surface facilities. And my question to you is: Would you agree that other operators may feel differently?

A. Other operators have policies as to their needs of the company, and certainly they may feel differently, yes. I believe I stated that earlier.

Q. So other operators may, for example, spend more costs associated with facilities designed to improve safety and address environmental concerns?

A. They certainly may.

Q. In that case, do you believe a nonoperator should share those safety and environmental expenses?

A. If the costs are reasonable, then I can see it. The costs that are shown on Chevron's AFE appear to be just out of line with what would seem reasonable for production facilities in this area.

Q. For example, you show a site where Chevron used a steel berm instead of an earthen berm, correct?

A. Correct.

Q. Okay. So obviously there is a policy that they thought a steel berm was more -- provided more safety and more environmental protection than an earthen berm?

A. I don't know that that's the case because one of the other photos shows that they had an earthen berm. There may be a change in policy in their company. I know that some of the folks are going to the steel berms. I've been on an OXY location, which we're a partner in, and they used the steel-berm facility, also. It winds up being a thing where I was not present when Chevron did this installation. I did go through the OXY installation since we were a nonop.

Q. Okay. I'm not talking about an OXY site. I'm talking about --

MR. BRUCE: Mr. Examiner, Mr. Feldewert asked the question, and my witness is answering it; and

I'd ask that he be allowed to answer the question.

MR. FELDEWERT: Well, he's going beyond my question.

EXAMINER GOETZE: I would just let it continue.

EXAMINER BROOKS: I agree.

A. It wound up, at the OXY site with the steel berm, they unloaded the tanks on the site of the location. It wound up being a thing where once they set the steel berm in place, then they had to have another crane, a series of supervisors, as well as safety folks witness the transfer of those tanks into the steel berm container and then set up.

It winds up being a thing where we actually prepare our pad area and have the three sites of the berm constructed, the plastic liner all in place when the tanks are delivered, and the tanks are actually stairways. And tanks are set and all the vessels are set at the time of delivery. It saves having a crane and additional personnel come back later to actually do it. Now, I don't know if that can be done with the steel facilities. I'm just not familiar with.

Q. (BY MR. FELDEWERT) And some operators, for example, like Chevron, may choose to utilize vapor-recovery systems on their tank batteries to

minimize flaring and venting, correct?

A. I know Chevron does have one additional vessel at each one of their sites, which my understanding is that it captures vapors from the tank and actually ignites those vapors and then flares them, yes.

Q. And some operators like Chevron may choose to install what they call downcomers on their tanks to prevent splashes and to eliminate static buildup?

A. Yes.

Q. Do you guys do that?

A. It winds up being a thing where we have external gauges on tanks where we are concerned with gas, and we actually have all of the facilities -- our tank batteries have been designed to actually basically mimic Concho's, and at this point, we have not seen leaks, spills or issues with the transportation of fluids out of those vessels.

Q. You would agree with me that if you thought a certain expenditure associated with safety or an environmental concern was unreasonable, you would have an opportunity, as a nonoperator in the context of a pooling order, to object to the reasonableness of those costs, correct?

A. I have never been able to work with a large company such as Chevron and OXY to get them to alter

anything they do. If they are the operator, they dictate how everything is done.

Q. I think maybe you misunderstood my question. The provisions of a pooling order afford a nonoperator the opportunity to object to the reasonableness of costs, correct, to bring that issue before the Division?

A. I believe we've objected to the reasonableness of the cost.

Q. So if you had an objection to any of the safety or environmental costs that Chevron is utilizing in its proposal, you would have an opportunity to bring that objection before the Division and suggest it's not reasonable?

A. I believe that that's what I've done earlier in my testimony.

MR. FELDEWERT: Now, if I may approach, I want to hand the witness what I'm going to mark as Chevron Exhibit 13.

Q. (BY MR. FELDEWERT) I think, Mr. Miller, you had a package of material that you submitted with respect to your offer in July, and I didn't see this within it. But this is actually the Joint Operating Agreement that you submitted with your proposal in July of 2012, correct?

A. You say this is what I submitted in July 2012?

Q. This is what you provided to the interest owners in connection with your proposal that you sent in July of 2012?

A. I don't believe so, because I believe that there was a signed signature on mine. And it would have had all of the exhibits, because there would have been -- not only an Exhibit A, there would have been a COPAS. There would have been an insurance exhibit. There would have been several exhibits attached. So this is not a full set.

Q. Well, let me ask you this: Are you saying that what we've marked as Exhibit 13 is not the Joint Operating Agreement that you submitted to Chevron in July of 2012?

A. I'm saying it's not complete, yes, sir.

Q. Okay. Maybe I didn't include all the exhibits, but is this the cover page at least and Exhibit --

A. The cover page looks correct.

Q. -- A -- and Exhibit A that you submitted to them in July of 2012?

A. No, sir. Exhibit A is what we submitted in 2013. Because if you look -- the cover page that you're looking at on Exhibit -- or on the front page has lands that are not shown in Exhibit A.

Q. So maybe we have a debate here based on your

recollection?

A. No, we don't have a debate on the recollection. That cover page went out in 2012.

Q. With this Exhibit A; did it not?

A. No, it did not. It went with a different Exhibit A. Would you like a copy of that Exhibit A, because it's different than this Exhibit A?

Q. Do you have the July 10th, 2012 JOA that went out?

A. I think I do.

Q. Okay.

A. It's in the car. I can get it later.

Q. Let me ask you this: The JOA that you sent out on July 10th of 2012, if we just look at the first page --

A. Okay.

Q. -- it covers a much larger contract area than just Section 17, correct?

A. It covers, I believe, three federal leases of which Chevron owns 75 percent; and at the time, we owned 12-and-a-half percent, and Allar owned 12-and-a-half percent.

Q. So we have three different federal leases that you propose to cover under your JOA in July of 2012?

A. Yes.

Q. In different sections?
A. Yes.
Q. Different townships?
A. Yes.
Q. And Regen [sic] owns 12-and-a-half percent in all of these federal leases?
A. Yes.
Q. And under this JOA, you propose to operate all three of those federal leases?
A. I felt and I continue to feel that it would be in Chevron's best interest if they allowed us to operate those leases. We would probably be able to develop the reserves in a more economic and ultimate recovery similar to theirs, but it would be far more cost effective for them.
Q. Would you turn to what's been marked as Cheveron Exhibit Number 4 in the packet I just gave you, please, Mr. Miller?
A. To my letter of June 5th?
Q. Exhibit 4, yeah.

Is this the well proposal that you submitted to Chevron which is at issue before the Division today?

A. This was the revised proposal that I sent them, yes.

Q. And you were provided, were you not, with lettered replacement pages for your previously submitted JOA?

A. Yes.

Q. And if I look at the Exhibit A that you provided with your well proposal that's at issue before the Division today, under this JOA, you still seek to operate acreage in different sections, different townships?

A. We would certainly like to have Chevron under a JOA for that other federal lease. This exhibit contains two federal leases, the federal lease in Section 17 and then a federal lease down at 25-34. Except that federal lease covers an additional 40-acre tract which is not included in this exhibit, as Yates Petroleum drilled a horizontal well in that 40 acres, and we no longer own an interest in that tract.

Q. But you did not submit a JOA just for the Section 17 that's at issue here?

A. No, we did not.

We did not also receive any request from Chevron for a single-section JOA either.

Q. And in your letter here that you sent in June of 2013, you indicated on the second page that it's not imperative for Regen to operate?

A. That was correct. I gave them an offer that if they would trade part of their interest in Concho, that we would actually be happy to let Concho take over and operate, because I see Concho's operations as being highly efficient, highly cost effective, and I believe that they'll develop the leases in a very methodical manner, but very efficient.

Q. And you perceive no problem transferring the BLM APD drilling rights to another operator there?

A. To an efficient operator. We do not have a problem with that.

Q. You just don't want Chevron to operate?

A. You know, you may remember that I talked about the fact that I had operations on the Lansdale [phonetic] with Chevron before. And I didn't give you the entire story there, but I'd be happy to.

Q. You don't need to. I think you made your point. You just don't want Chevron to operate 75 percent of the federal lease.

A. They are not cost effective in the way of their operations.

Q. When you sent out this -- you prepared this well proposal, Mr. Miller?

A. Yes.

Q. Did you examine it before it went out?

A. Yes.

Q. Had you done this before?

A. Yes.

Q. Do you realize that there are certain requirements that must be met for a well proposal to be -- to submit a proper well proposal?

A. No, but you can educate me on those.

Q. Okay. Does this well proposal that you sent out in June of 2013 identify -- let me ask you this: Is this for a horizontal well?

A. Yes.

Q. Does it identify the footage for the bottom-hole location?

A. It does not, but the APD was already of record on file.

Q. But your well proposal that you sent out didn't provide any bottom-hole footage?

A. It may not have.

Q. I couldn't find any. Do you recall putting one in?

A. I don't.

Q. In fact, all it did was provide a surface location?

A. Okay.

Q. Does this well proposal in any fashion identify

the proposed orientation for your well?

A. No, but the approved APD was on file both with the State and the Feds.

Q. Does it identify the proposed spacing unit?

A. No, it does not. The lease covered the entire section, and the interest was common.

Q. But I can't tell from your proposal whether you propose, for example, a stand-up or a lay-down?

A. No, you can't.

Q. Are you aware of the --

A. May I ask --

Q. -- requirement that you also identify a vertical depth to your proposed well?

A. It winds up being a thing where you can roughly determine by the amount of casing roughly as to what if -- you know, I mean, I was not asked by Chevron, you know, for any of those items that you're now requesting. You know --

Q. But your well proposal does not identify the vertical depth of your proposed well?

A. No, it does not. It identifies that it be drilled as a horizontal well in the Bone Spring Avalon Formation.

Q. So what you've proposed here -- then I realize you didn't have a bottom-hole location or a well line

[sic] location, spacing -- even your depth, but your AFE that you sent out is for an Avalon Shale well, correct?

A. Yes, it is.

Q. There is nothing in your proposal about a pilot hole to the Bone Spring?

A. There is not.

Q. In fact, you have not proposed to the operators in any form or fashion by way of a well proposal --

A. No.

Q. -- to drill a pilot hole into the Bone Spring Sand?

A. No. We made a phone call to the Land Department, though, and expressed that it was our desire to actually drill a pilot hole to look at both the 2nd and 3rd Bone Spring, because we actually felt that those were more economic targets based upon the information we had now than what we had earlier. Our APD was done a year ago to the BLM, and at that time, the horizon that was the most logical target was the Avalon.

Q. And your AFE was -- did not include an Avalon Shale?

A. It was designed for an Avalon Shale well, yes.

Q. It does not reflect the cost that would be associated with drilling a pilot hole in the Sand?

A. No. I've identified in this testimony that I

believe our costs for a pilot hole and completed well in the 2nd and 3rd Bone Spring Sand would be lower than this AFE.

Q. But you have not -- I guess my point is, you have not submitted and you do not have before the Division here today any proposal to drill a well other than down to the Avalon Shale that's set out in your July 5th, 2013 offer, well-proposal letter?

A. But Chevron was aware that we were willing to do that.

Q. So you'd agree that a pilot hole down in the 3rd Bone Spring Sand makes a lot of sense in this area?

A. It does today, yes.

Q. And the only party that has actually proposed a pilot hole down in the Bone Spring Sand, with actual completion in the Bone Spring Sand, is Chevron?

A. I don't know if Chevron's filed any APDs on this well or any wells in the area.

Q. But that's their well proposal to the parties.

A. Oh, the well proposal to the parties?

Q. That's what's before the Division here today.

A. Yes, I did receive a well proposal from them.

Q. That's all the questions I have.

EXAMINER GOETZE: Mr. Bruce, any additional?

MR. BRUCE: Just a couple, Mr. Examiner.

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Miller, when we go through your Exhibit 2, a copy of correspondence and e-mails you've had with Chevron, is it fair to say that Chevron spent 15 months simply responding to your proposals?

A. It winds up being a thing where I recognized -- or I believed, over a year ago, that Chevron would probably never consider letting a person as small as us actually operate a well, and that was part of the reason that I made the initial trip to Houston, was to try to actually, face to face, visit with them about the specific proposal and whether or not they would actually ever consider joining with us.

At the time, we had indication that if -- that there was some type of approved operator list, and if you weren't on that with Chevron, that you couldn't -- that they wouldn't participate with you under any terms. They did not indicate that that was the case. I have information today that indicates that they do participate with some relatively small operators on projects. But it was a thing where I've made what I felt was an abundance of effort to try to move forward with a project to actually get a well drilled.

Fortunately, we have time. This federal well doesn't expire until 2015, but it takes time, or it's my experience that it takes time dealing with some of the larger companies to actually get proposals done.

We started off talking to them about a trade. We worked on a trade, and it was not with the folks who will be testifying today. And we felt like we had a trade done. We could never get Chevron to actually finalize the trade with us. We were contacted by other parties regarding that acreage. And finally I talked with Allar, who is the other partner in this acreage, and I said, I still haven't gotten a trade done with Chevron. We're getting, you know, requests to do deals on the acreage. Do you want to actually do something with whoever we can get a deal with? And Allar indicated that, yeah, they didn't have any ties with Chevron, so as a result, they were agreeable.

But before I even talked to the other party, I called Chevron's landman. I left a message, the fact that we were looking at doing a different deal. I sent him an e-mail. He didn't respond in two days; I did not hear anything from him. And as a result, I contacted another party, and they actually had management approval two days later to do a trade with us, and as a result, I then contacted Chevron and told

them that our trade, since they had never finalized it with us, was dead. The landman was extremely upset because, you know, he wanted to get the deal done, and I says, You have had months to get the deal done.

At that point, I stopped doing anything because we didn't have an approved APD, and to actually go out and drill a well, I would need an approved APD.

So as a result, I waited for the BLM to finish their work. Once the BLM finished their work, then we felt like it was time to go back to Chevron.

And I apologize to Mr. Feldewert that I didn't get every detail the way he would like me to have had me proposed the well, but we certainly felt like Chevron knew what we were proposing in the proposal and have made a diligent effort to try to actually get a well drilled on this acreage prior to it expiring, or we have offered them numerous trades to where they could take over the operations from us.

Q. Simply put, you just want a well drilled, right?

A. We think that this acreage is good acreage. It should be developed. It sits right next to the highway on C-128. It's accessible. It's in an area where there is reasonable infrastructure. Geologically, it looks like a good prospect.

Q. Thank you, Mr. Miller.

MR. BRUCE: I have no further questions.

EXAMINER GOETZE: Mr. Feldewert, as a matter of procedures, these exhibits are going to have testimony?

MR. FELDEWERT: Yes, sir.

THE WITNESS: Do you need these back?

MR. FELDEWERT: No. Just leave that up there. Thank you.

EXAMINER GOETZE: Any questions?

EXAMINER BROOKS: No questions.

EXAMINER GOETZE: I have no questions either.

At this point, let's take a break and come back here in ten minutes.

EXAMINER BROOKS: I'd ask, Mr. Examiner, that we come back in 15.

EXAMINER GOETZE: Okay. 15.

(Break taken, 9:45 a.m. to 10:08 a.m.)

EXAMINER GOETZE: Docket Number 37-13.

Mr. Feldewert?

MR. FELDEWERT: Call my first witness.

EXAMINER GOETZE: Very good.

JASON LEVINE,

after having been previously sworn under oath, was

questioned and testified as follows:

DIRECT EXAMINATION

BY MR. FELDEWERT:

Q. Would you please state your name, by whom you're employed and in what capacity?

A. My name is Jason Levine. I'm employed with Chevron as a land representative in Lea County, New Mexico.

Q. And have you previously testified before this Division?

A. No.

Q. Why don't you outline your educational background?

A. Yes. I earned a law degree from the University of Pittsburgh School of Law in 2008.

Q. And what did you do after receiving your law degree?

A. I briefly practiced law in western Pennsylvania, and then I began employment with Atlas Energy in January of 2010. At the end of 2010, Chevron bought Atlas Energy, and Chevron adopted me, as I like to say. So I worked with Chevron in the Marcellus in western Pennsylvania through May of 2013, and then I began employment with Chevron in Houston, Texas, covering Lea County, New Mexico in June of 2013.

Q. So when you were working at Atlas, were you working as a landman?

A. Yes.

Q. Are you a member of any professional organizations?

A. Yes. I'm a member of the American Association of Professional Landmen, the Houston Association of Professional Landmen. I'm also an active member of the Pennsylvania Bar.

Q. Are you familiar with the application filed by Chevron in this case?

A. Yes, I am.

Q. And are you familiar with the status of the lands in the subject area?

A. Yes.

MR. FELDEWERT: I would tender Mr. Levine as an expert witness in petroleum land matters.

EXAMINER GOETZE: So qualified.

Q. (BY MR. FELDEWERT) Would you turn to what's been marked as Chevron Exhibit Number 1, Mr. Levine? And identify it for the Examiners and tell us what it shows.

A. So Exhibit 1 is a plat. Section 17 is the lease in question. It's a lease in which the lessor is the United States of America. Chevron owns a 75-percent

working interest in this lease. Regeneration owns a 12-and-a-half percent working interest, and Allar owns a 12-and-a-half percent working interest. The lease covers all depths.

This depicts Chevron's development plans for Section 17. At this point, Chevron has staked four wells. As one can see, the first well would be in the east half of the east half of Section 17, going from a north direction to a southern direction.

Q. And what's your -- at least your initial proposed target area?

A. Yes. Our initial proposed target area is the Bone Spring Formation.

Q. Would it be a particular interval within that?

A. The 2nd Bone Spring Formation.

Q. And you have four wells staked, and the well that's the subject of the hearing today would be the one located in the east half-east half of Section 17?

A. Correct.

Q. If you turn to what's been marked as Chevron Exhibit Number 2, is that a C-102 form that the company has put together for its initial well on this federal lease in the east half-east half of Section 17?

A. Yes, it is.

Q. And what do you seek under this particular

application?

A. I see --

Q. What do you seek?

A. Oh, what do I seek. I seek for Chevron to have created a 160-acre nonstandard spacing unit in the east half of the east half, pooling the Bone Spring Formation.

Q. And do you know what pool is involved in this particular area, Mr. Levine?

A. Yes, the North Red Hills-Bone Spring pool.

Q. Now, are you actually in that pool, or are you within a mile of it?

A. Within a mile.

MR. FELDEWERT: And that pool code is 96434.

Q. (BY MR. FELDEWERT) Now, Regen's testified that they have an approved APD for the east half-east half well?

A. That's correct, yes.

Q. And is that contained within Chevron's Exhibit Number 3?

A. Yes.

Q. And it identifies, does it not, not only the pool, but the pool code was written in, looks like, by the Oil Conservation Division?

A. Yes.

Q. When was this -- looks like the APD was filed in September 2012; does it not?

A. That's correct.

Q. And what does it indicate as Regeneration Energy's intent with respect to their proposed east half-east half well?

A. To create a nonstandard spacing unit of 160 acres in the Avalon Shale.

Q. So does it show intent to drill down only into the Avalon Shale?

A. Yes.

Q. I'm looking at the middle of that permit, and it says: "Total vertical depth of 9,200 feet." That would be the Avalon Shale in this area?

A. That's correct, yes.

Q. And it looks like with the measured depth, they intend to go another 4,000 or so feet with the horizontal portion of the well?

A. Yes.

Q. Does this at all reflect any intent to drill a pilot hole into the Bone Spring Sand?

A. No, sir.

Q. Now, how does Chevron believe that this acreage should be developed, as the 75-percent interest owners?

A. Yes. Chevron believes that a pilot hole should be drilled into the 3rd Bone Spring Sand, and then the well should be completed in the 2nd Bone Spring Sand.

Q. Does the company intend to call a geologist and a facilities engineer to discuss its plans in this area and why it believes that the 2nd Bone Spring Sand, at least initially, should be the target?

A. Yes.

Q. Now, there's been some testimony about Mr. Miller essentially restarting the discussions with Chevron after they got their approved APD here in May of 2013. Did you receive a well proposal from Regen shortly after this APD was proposed?

A. I received a proposal in June of 2013.

Q. And I apologize. I keep saying Regen. I should probably say Regeneration Energy. I was just trying to shorten it.

But if I turn to what's been marked as Chevron Exhibit Number 4, is that the well proposal received from Regeneration Energy after approval of the previously filed APD?

A. Yes.

Q. With respect to the Joint Operating Agreement, Mr. Levine, that they submitted to you at the time --

A. Yes.

Q. -- is there anything unusual about the Joint Operating Agreement with respect to the contract area that you noticed when you received this?

A. Yes. I found the contract area to be unusual because it covered Section 17 and then also Sections 11, 12 and 13 in the adjacent township, which is uncommon because the acreage is not contiguous.

Q. Now, up in front of you, there should be a document that has a handwritten notation --

A. Yes.

Q. -- at the bottom, "EX. 13," for Exhibit 13. When you received Regeneration Energy's well proposal in June of 2013, were you able to locate the original operating agreement that the company had sent -- or that Regeneration had sent to Chevron back a year earlier?

A. No, not at that time.

Q. Did you eventually locate one?

A. Yes.

Q. And is this an accurate copy of what was submitted by Regeneration Energy to the company in July of 2012 based on your records?

A. Yes.

Q. And if you look at the first page of this -- or let's go to Exhibit A on the last page of this exhibit. This Exhibit A has the July 10th, 2012 date on it; does

it not?

A. Yes, it does.

Q. And it indicates what you just -- it indicates what you've just shown, that it seeks to cover not only Section 17, but additional acreage in a different township and range, correct?

A. Correct. In fact, there is a --

Q. I'm sorry. Different township.

A. In fact, there is a distinction between the contract area listed on the front of the operating agreement and Exhibit A.

Q. So it purportedly was to cover even more acreage than what was on Exhibit A?

A. That's correct.

Q. Was that eventually corrected by Regeneration Energy when they sent their well proposal back in July of this year?

A. Yes, it was.

Q. And did they match their contract area on the front of their proposed JOA to Exhibit A in their proposed JOA?

A. Yes.

Q. But the only JOA you had received still proposed not only Section 17, but this additional acreage in the other township?

A. That's correct, yes.

Q. After receiving their well proposal, did you have discussions with Mr. Miller about that?

A. Yes.

Q. And did you participate in those discussions?

A. Yes.

Q. What was the general nature of those discussions? Can you give us kind of -- you know, what occurred over a timeline since receiving their renewed effort in June of 2013?

A. Yes. So I received the proposal from Regeneration in June of 2013. And at the end of June, Raye Miller and I spoke about the proposal, and I indicated that Chevron had plans to drill in Section 17 as well. Mr. Miller and I discussed that a way to perhaps remedy the situation is to swap acreage. Mr. Miller and I made some progress in discussing a trade proposal, but at one point, we reached an impasse. And that impasse involved the fact that Mr. Miller had indicated that he would want -- if Chevron were to be transferred the permit, he would want Chevron to pay $500,000 to Regeneration and, I think, another $500,000 to Allar if Chevron was not able to drill the well by January 1st, 2015, which was three months before the lease was to expire.

Now, I thought that was interesting, and I called Mr. Miller and I asked, Well, Mr. Miller, why are you so passionate about having this section drilled? And he indicated that a geologist owned an override in the production and that also Regeneration would like to have an override in Chevron's production as well. This in a situation where Regeneration would have no interest whatsoever in the acreage because Chevron would, at that point, own it with a 100-percent working interest.

Q. Let me ask you something. When you were having these -- first off, let's put a timeline together. What period of time was involved in you discussing the swapping of the acreage?

A. That was July and August of 2013.

Q. And at the time, was Mr. Miller speaking on behalf of Regeneration and Allar, the other interest owner out there?

A. Yes. He made -- Mr. Miller made trade proposals on behalf of Regeneration and Allar.

Q. And then there was discussion about an overriding royalty, a desire to have that. When did that begin, commence?

A. That was in July of 2013 and then spilled over into August of 2013.

Q. At what point, then, did Regeneration Energy

indicate that they would pursue a pooling application?

A. At the end of August 2013.

Q. And then was that pooling application filed?

A. Yes, it was.

Q. Were there then discussions about the parties in September about postponing the hearing, so the Division could hear Chevron's competing well proposal?

A. Yes, sir.

Q. And the parties agreed, then, to allow time for Chevron to send out their proposal and have it for a hearing here today?

A. That's correct.

Q. Now, did Chevron, then -- once discussions terminated by Regeneration Energy at the end of August, did you submit a formal well proposal to the parties?

A. Yes, I did.

Q. If I turn to what's been marked as Chevron Exhibit Number 5, is that the well proposal that you submitted to the interest owners in this -- in the east half-east half of Section 17?

A. Yes.

Q. And it shows your proposed well in the east half-east half. It shows a bottom-hole location and surface location?

A. Yes, it does.

Q. Provides the total depth?
A. Yes.
Q. And it shows a pilot hole, does it not, on the first page of that exhibit, about halfway down, of 12,173 feet?
A. Yes.
Q. Is that a sufficient depth to go into the 3rd Bone Spring Sand?
A. Yes, it is.
Q. Then it shows a total depth of the lateral -- of landing of the lateral to be 11,010 feet. What interval is at that depth?
A. The 2nd Bone Spring.
Q. And then it shows your proposed costs for drilling this pilot hole down to 12,173 feet and then completing the well in the 2nd Bone Spring Sand, correct?
A. Yes, sir.
Q. At the bottom of that page?
A. Yes.
Q. And I didn't cover this when we submitted -- when we looked at your C-102. Will the penetration formed from the bottom-hole location for this well comply with the Division setback requirements?
A. Yes, it will.

Q. Now, this proposal that was sent by Chevron in September contains the AFE for this proposed well, correct?

A. Yes.

Q. Now, if I look back at Regeneration Energy's proposal for a well in the Avalon Shale, it also provides an AFE for that particular completion?

A. Yes.

Q. What are Regeneration Energy's well costs that they submitted in June of this year for a well in the Avalon Shale?

A. Yes, approximately $9.2 million. And if you understand Chevron's share, Chevron would incur about $7 million of that cost.

Q. Because of your vast majority ownership?

A. Because, yes, we own 75-percent working interest in the section.

Q. Now, just for the record, the well that they've proposed into the Avalon Shale would be shallower than the well into the 3rd Bone Spring Sand?

A. That's correct.

Q. And if I look at your proposed costs for your well pilot hole into the 3rd Bone Spring Sand and then the completion in the 2nd Bone Spring Sand, what is the estimated cost to go down that deep?

A. $11.9 million.

Q. And if you apply the parties' prospective percentages, what would be Regeneration Energy's share of that proposed cost?

A. 1.4 -- approximately $1.4 million.

Q. And is that reflected on the third page of Exhibit 5?

A. Yes, sir.

Q. The costs that are reflected in Chevron's well proposal and in their AFE, are they based on what the company has incurred in drilling similar wells in the area?

A. Yes.

Q. Why is Chevron's AFE higher?

A. Chevron's AFE is higher because Chevron is drilling to a deeper zone than Regeneration. And, also, with respect to the facilities costs, as my coworker will testify later, the facilities costs are spread across the section so that the second, third and fourth wells in Section 17 will share the facilities in the east half of the east half. So, namely, those subsequent wells will enjoy the facilities in the -- with respect to the first well.

Q. So you're designing for the full-section development?

A. That's correct.

Q. And your subsequent lease wells, accordingly, will be less expensive because the facilities costs will already be in place?

A. Yes.

Q. Did Chevron propose a -- send a JOA, then, to Regeneration Energy at their request?

A. Yes.

Q. And if I look at what's been marked as Chevron Exhibit Number 6, it doesn't contain the entire document, but does it contain the cover page and then the Exhibit A for the JOA that you sent to Regeneration Energy?

A. Yes, it does.

Q. And what acreage does your JOA purport to cover?

A. Only Section 17, Township 24 South, Range 34 East.

Q. Now, Regeneration Energy utilized the 1982 form; is that correct?

A. Yes.

Q. And you-all use a 1985 -- the most-recent 1989 form?

A. That's correct.

Q. Does the company also attempt to customize the

Joint Operating Agreement for the area that's in question?

A. Yes. In this particular case, Chevron tailored the JOA to the area in question. And we apologize, but the person who works on these JOAs and has the license to edit them was on extended vacation at the time. And although we did get the JOA -- we did send the JOA to Regeneration and Allar this past Monday, we do apologize for the delay.

Q. But it took awhile because you had people on vacation?

A. That's correct, sir.

Q. What overhead rates did you propose in the COPAS, Exhibit C, that was sent with your Joint Operating Agreement to Regeneration Energy?

A. $6,500 for drilling and $650 for producing, which are aligned with Regeneration's rates.

Q. So does the company request that these figures be incorporated into any order from this hearing and provide for adjustment in accordance with the COPAS accounting procedures?

A. Yes.

Q. Is Exhibit Number 7 an affidavit prepared by my office providing notice of this hearing to the affected parties?

A. Yes, sir.

Q. And did the company then also indicate an effort to identify the leased mineral owners in the 40-acre tract surrounding the proposed nonstandard spacing unit?

A. Yes.

Q. Again, did it take some time to identify those lease federal interest owners?

A. Yes, it did.

Q. Have they been identified?

A. Yes.

Q. And did they receive a letter from Chevron providing notice of this hearing?

A. Yes, they have.

Q. And many of these, then, also looks like, received a letter from Regeneration Energy, likewise, providing notice of this hearing for a nonstandard spacing unit in the east half-east half of Section 17?

A. That's correct.

Q. Now, with respect to Chevron's letter, if I look at Chevron Exhibit Number 8, basically the time frame involved, it did not go out 20 days in advance of this hearing, correct?

A. That's correct.

Q. It went out roughly two weeks before this

hearing?

A. Yes.

Q. So this is technically outside the 20-day notice period?

A. It is, yes.

Q. We know they received notice either under Regeneration Energy's proposal or under Chevron's proposal of a spacing unit in the east half-east half of Section 17, but Chevron's was not technically timely under the Division's rules, correct?

A. Yes, that's correct.

Q. So does the company have any concerns about if the Division deems it appropriate continuing the matter for two weeks, so this technical defect in the notice can be cured in the event that there actually is one given as what Regeneration is saying?

A. I'm sorry, could you repeat the question?

Q. I didn't say that very well.

The company would have no problem having this matter called two weeks from now if they are concerned about any technical defect --

A. No, sir.

Q. -- in notice to the offsetting operators?

Did you have discussions with the BLM about addressing Regeneration Energy's approval for APD if the

Division grants Chevron's application?

A. Yes. I spoke with Wesley Ingram on Tuesday of this week, who is an employee with the BLM at the Carlsbad office, and Mr. Ingram advised that if Chevron were to win the hearing, then the order should indicate that Regeneration's APD be withdrawn or canceled.

Q. Okay. I guess there is also a possibility that it could be transferred, as Regeneration Energy has proposed, to a subsequent operator at some point; is that correct?

A. Yes.

Q. As the 75-percent interest owner in this federal lease governing Section 17, if Chevron is granted this application compliance, so it can operate this acreage for an initial development well?

A. Yes, if prospective does [sic].

Q. And Mr. Miller was concerned about having a well drilled out in this area and noted that there was a March 5th -- March 2015 lease expiration date; is that correct?

A. Yes.

Q. Has this well been placed on Chevron's rig schedule?

A. Yes, it has.

Q. Do you anticipate drilling -- does the company

anticipate drilling this well within a year?

A. Yes, sir.

Q. Which would be well in advance of the lease expiration date?

A. Correct. The lease expires March 1st of 2015.

Q. So there will be a well drilled?

A. Yes.

Q. Were Exhibits 1 through 6 and Exhibit 8 prepared by you or compiled under your direction and supervision?

A. Yes, sir.

Q. Did you, likewise, pull from the company records what's been marked as Chevron Exhibit 13?

A. Yes.

MR. FELDEWERT: Mr. Examiner, I would move admission into evidence Chevron's Exhibits 1 through 8, as well as Exhibit 13, which includes my affidavit which has been marked as Exhibit 7.

EXAMINER GOETZE: Exhibits 1 through 8 and Exhibit 13 are accepted.

(Chevron Exhibit Numbers 1 through 8 and Exhibit Number 13 were offered and admitted into evidence.)

MR. FELDEWERT: That concludes my examination of this witness.

EXAMINER GOETZE: Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Yeah, just a few questions, Mr. Levine.

When you mentioned Mr. Miller making a proposal regarding a $500,000 fee if the well wasn't drilled, wasn't Mr. Miller concerned about the lease expiring; therefore, they would lose monetary value if Chevron did not commence the well in time?

A. Yes.

Q. So this wasn't a flat-out just simply asking for half a million bucks from Chevron?

A. Yes, that's correct.

Q. Second, in your discussions with Mr. Miller or any discussions that Chevron people had with Mr. Miller, certainly it was clear that Regeneration was proposing a horizontal well?

A. Based on the well proposal, I wasn't sure whether it was going to be a horizontal or a vertical well. However, when I did speak with Mr. Miller at the end of June 2013, he did indicate that it would be a horizontal well.

Q. Do you know of anyone who is drilling vertical wells to the Bone Spring Formation in this area?

A. I personally don't, but --

Q. And although you didn't keep a copy of your full -- provide a copy to the Examiners of your proposed JOA, Regeneration did, as Exhibit 8?

MR. BRUCE: If I may approach the witness?

Q. (BY MR. BRUCE) Looking at this section of the JOA, it simply -- your JOA simply says "contest the Bone Spring Formation," correct?

A. No. It says: "With due diligence to the Bone Spring Formation."

Q. Okay. What I'm saying is to the Bone Spring Formation. And if you look at Exhibit 13, which you have in front of you, if you look at the similar section of Regeneration's JOA, they simply say: "To test the Bone Spring Formation," correct?

A. Yes.

Q. So the Bone Spring is the Bone Spring. It's not divided legally into different pools, the Avalon 2nd Bone Spring, 1st Bone Spring and 3rd Bone Spring; it's all one formation?

A. I don't know. I'm not a geologist.

Q. But none of the JOAs limit the initial test well to a certain Bone Spring zone?

A. I'm sorry, could you rephrase the question with respect to none of the JOAs? Are you referring to Chevron or Regeneration?

Q. Neither of the JOAs, neither party, restrict the initial well to a certain Bone Spring zone, do they?

A. No.

Q. And with respect to your Exhibit 13 there, you say it's an accurate copy. It is not a complete copy, is it fair to say that, of the JOA?

A. It is a complete copy.

Q. You mean Regeneration submitting the JOA to you with only the Exhibit A attached? Is that what you're telling me?

A. I'm sorry, could you rephrase the question?

Q. If you'd look at -- if you'd look at your Exhibit 13 right in front of you --

A. Yes. Yes.

Q. -- how many exhibits are attached at the end of that JOA?

A. Exhibit A, one. So one exhibit.

Q. You omitted any of the other exhibits from this copy; did you not?

A. Correct.

Q. So it's not a full copy?

A. That's correct.

Q. It's not an accurate copy?

MR. FELDEWERT: Object to the form of the question.

I can stipulate --

Q. (BY MR. BRUCE) Is it an accurate copy?

MR. FELDEWERT: I can stipulate that when we copied the exhibit, we did not copy Exhibits B, C and D.

EXAMINER BROOKS: Well, I think Mr. Bruce should rephrase the question, because if a copy of something's incomplete, of course, in a certain sense, it's not accurate, but it may be an accurate copy of that portion of it, which it is.

MR. BRUCE: And I'm simply --

EXAMINER BROOKS: So that should the clarified.

MR. BRUCE: And I think Mr. Miller testified it's not a full copy.

Q. (BY MR. BRUCE) And the pooling application filed by Chevron seeks to force pool the entire Bone Spring Formation; does it not?

A. Yes.

Q. And so does Regeneration's application?

A. Yes.

Q. So they're not limited to a specific Bone Spring zone?

A. No.

Q. And they both identify the same land involved?

A. No. In the --
Q. In the application --
A. In the application, yes.
Q. And looking at Chevron's proposed JOA, it covers the entire Section 17?
A. Yes.
Q. And there is no legal restriction from having a JOA cover more than one well unit, is there?
A. Not that I'm aware of.
Q. Now, let me ask you, looking at your Exhibit 5, Mr. Levine --
A. Yes, sir.
Q. -- does your proposal letter give a surface location?
A. Yes, sir.
Q. Is it the same as Regeneration's?
A. Yes, sir.
Q. Just one final question. And I forget the exact costs of Chevron's surface facilities in its AFE, but is it my understanding that the full cost of those surface facilities would be assessed against the interest owners in the initial well?
A. Yes.
Q. So in other words, if the Allar Company or Regeneration -- if Chevron was awarded operatorship and

when it drills its well, if either Allar Company or Regeneration joins in the well, they will be billed their proportion of share of that two million-plus with facilities?

A. I'm sorry, what is the two million? From where are you getting the two million?

Q. Well, I'm going on Mr. Miller's testimony that it was two million.

MR. FELDEWERT: We have -- Mr. Bruce, we have a facilities witness here that can talk about that.

MR. BRUCE: Okay. Yeah.

Q. (BY MR. BRUCE) I think it's on the last page of your Exhibit 5, Mr. Levine.

A. Okay.

Q. In excess of two million -- in excess of three million, I should say.

A. Are you looking at the very top line, the subtotal for all items?

Q. I'm looking below the shaded item, where it says "battery."

A. "Battery." Okay. Yes, I see that. It's 2.1 million.

Q. So if either Regeneration or Allar joins in Chevron's proposal, they would be assessed their proportion of 12.5 percent of that $3 million-plus in

the initial well?

A. Yes.

Q. And if they didn't consent in a subsequent well, if Chevron got operations in this section, they would -- or let's say they went nonconsent in the first well. They would be assessed their proportion of share even though in future wells they might not be subject to those costs, right?

A. I'm sorry, could you rephrase that question?

Q. I guess what I'm getting at, Mr. Levine, is, what if interest ownership changes? What if somebody sells out, buys out? Do you really think it's fair to assess the full $3 million-plus on the initial well rather than split those up into a per-well basis?

A. I'm not sure I want to speculate about what might happen about the interest owners given, at this point, 100-percent interest is owned in the lease by lessees. There are no outstanding interest owners.

Q. But this $3 million, you said, covers your four proposed wells in the section. So why should Allar and Regeneration finance the cost of the future wells just on this one AFE?

A. Because those parties may want to participate in the second, third and fourth wells.

Q. And they may not?

A. Correct.

Q. Has Chevron staked all four wells in Section 17?

A. Yes, sir.

Q. Did you have the surface owners' permission to do that?

A. I don't know because I don't handle that particular area of the business.

Q. You don't know if there is a surface owner or more than one surface owner?

A. I do not.

Q. Thank you, Mr. Levine.

EXAMINER GOETZE: Further questions?

MR. BRUCE: No further questions.

EXAMINER GOETZE: Mr. Brooks?

MR. BROOKS: No questions.

EXAMINER GOETZE: I have no questions for this witness.

Bring your next witness up, Mr. Feldewert.

KEN SCHWARTZ,

after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. FELDEWERT:

Q. Would you please state your full name, by whom

you're employed and in what capacity?

A. Sure. My name is Ken Schwartz. I'm employed with Chevron. I am -- currently, I'm a surface -- subsurface team lead for our Delaware Basin asset. I supervise eight geologists, so I'm involved in every well that gets drilled in the Delaware Basin. My team generates all prospects. Plus, I'm involved in all of the NOJV activities in the Delaware Basin. And I was present at the meeting with Raye Miller on his initial visit back in 2012.

Q. Have you previously testified before this Division?

A. No.

Q. What's your -- what degree do you hold?

A. I hold a master's degree -- master of science degree in geology from the University of Nevada, Reno.

Q. When did you receive that degree?

A. In 2001.

Q. And what did you -- what's been your work history since 2001?

A. Since 2001, I was employed three years with ExxonMobil. Then after, I was employed the last eight years with Chevron.

Q. And how long have your responsibilities included the Delaware Basin area?

A. For the last three years.
Q. Are you a member of any professional organization?
A. I'm a 15-year member of the American Association of Petroleum Geologists.
Q. Are you familiar with Chevron's application in this case?
A. Yes.
Q. Have you a completed a study in the subject area, you and your team?
A. Yes.
MR. FELDEWERT: I'd tender Mr. Schwartz as an expert witness in petroleum geology.
EXAMINER GOETZE: So qualified.
Q. (BY MR. FELDEWERT) Mr. Schwartz, Chevron's well proposal indicates an initial pilot hole down into the 3rd Bone Spring Sand and then the initial landing at 11,010 feet. That's in the 2nd Bone Spring Sand, correct?
A. Yes.
Q. Have you conducted an analysis of this particular producing interval?
A. Yes, I have.
Q. If you turn to what's been marked as Chevron -- it's a little out of order, but Chevron Exhibit Number

10. Could you identify this for the Examiner, and tell us what it shows? So it should be under tab ten.

A. Yeah, thanks.

So this exhibit demonstrates the structure of the base of the 2nd Bone Spring Carbonate, or you could say it's the top of the 2nd Bone Spring Sand. You see a gentle dip from north to south, and it also outlines Section 17. There is no faulting or any kind of discontinuity in the structure.

Q. So you see a consistent structure across Section 17?

A. Yes.

Q. If I then turn to what's marked as -- we have to go backwards; sorry about that -- Chevron Exhibit Number 9, is this a cross section of this particular area?

A. Yes, this is a cross section. It contains five wells in the immediate area of Section 17.

Q. And is it located up in the upper, right-hand corner of Exhibit 9?

A. Yes, sir. It's a map outlining their location.

Q. The wells you've chosen, are they representative of this area?

A. Yes.

Q. And what does this cross section show us?

A. So this cross section demonstrates the four prospective horizons in the Bone Spring. That includes the 3rd Bone Spring, 2nd -- 3rd Bone Spring Sand, 2nd Bone Spring Sand, 1st Bone Spring and the Avalon Shale.

Q. And what color is the 2nd Bone Spring identified in?

A. The 2nd Bone Spring is identified in purple.

Q. And is that the target area, at least initially?

A. From our analysis, Chevron would propose a 2nd Bone Spring Sand. You can see from the well all the way to the right, or to the east, you have -- you can see in the coloring, the yellow, and it shows very good sand development, and you carry that across the sections. You can also see it has very good density porosity, the neutron density cross-over, which would be supportive of a sand-bearing, hydrocarbon-bearing interval.

Q. Do you see any geologic impediment to developing this area using -- or this 2nd Bone Spring Sand using a full-section horizontal well?

A. I do not see any impediments in Section 17.

Q. And do you believe that this is an area that can be efficiently and economically developed by a horizontal well?

A. Yes, I do.

Q. And in your opinion, as an expert in petroleum geology, will a nonstandard unit on average -- proposed nonstandard unit, on average, contribute more or less equally to the production of the well?

A. Yes, I do.

Q. Now, could you briefly explain -- or explain in a little more detail why Chevron is proposing the well initially in the Bone Spring Sand rather than the Avalon Shale as proposed by Regeneration Energy?

A. I'm also a fan of Avalon Shale. Chevron's drilled Avalon Shale wells in other areas. And from our mapping and analysis, we do see thinning of the Avalon Shale, and we see it thinner in the cross section as you move up north in this area.

Q. Let me stop you right there. I need an orientation point. Mr. Miller referenced in one of his exhibits the success that the company had had in the Avalon Shale in the Red Hills area?

A. Yes.

Q. I believe he submitted an isopach map that showed some thinning as you move north. Is that what you're referencing as you go north in the Red Hills area?

A. Yes. They're exhibited in -- in this booklet, it demonstrates thinning to the north. And we also --

we have some NOJV wells in the Red Hills area, and we plan on drilling some Avalon wells in the Red Hills area. We do see thinning of the shale to the north from there and a degrading of the reservoir. And the map demonstrates, with the production, that the wells are not as good as some areas in the Avalon.

Q. Since you're on that, let's turn to what's been marked as Chevron Exhibit Number 11. Is this the map that you're referencing?

A. Yes, I am. Again, that is a structure map of the top of the Avalon or the base of the Bone Spring Lime, as Mr. Miller testified. It's a similar structure map that he had.

Q. And you're seeing -- you've done analysis that just shows degradation in the quality of the Avalon Shale as you move to the north, so form the bottom of this exhibit to the top?

A. Yeah. We look at -- from the information we have, through logs, we see -- you know, we use a variety of different densities. As an example, we do see the shale is not as well developed as you move north. It does thin. Production cums and IPs demonstrate that on this map.

Q. Is there also differences in the gas-oil ratio as you move from the Red Hills area north, as shown on

Exhibit Number 11?

A. Yes. Generally, you do have an increase in gas as you move north. And as we're all aware, oil is king now, so we like to drill oil wells. And that's why we prefer a 2nd Bone Spring Sand well.

Q. Now, you talked about the Avalon Shale. What is the circumstance with respect to the 2nd Bone Spring Sand in this general area as compared to the Avalon Shale, for example?

A. We feel the 2nd Bone Spring Sand is much better developed, and that is demonstrated with the cross section, at least in Section 17. The Avalon Shale is present, but as I testified, we feel the 2nd Bone Spring Sand is a better target.

The 3rd Bone Spring has a similar depositional environment, the channel sand, as the 2nd Bone Spring. It flows from the north to south, blankets the entire area. But as Mr. Miller has testified, it's not continuous across the area.

We have a well a couple miles north of Section 17. That was drilled down through the 3rd Bone Spring. It was supposed to be a 3rd Bone Spring Sand. Well, the sand was not developed, so we went back in for the 2nd Bone Spring Sand.

Q. Were you able to complete the well in the 2nd

Bone Spring?

A. Yes. The well's been completed in the 2nd Bone Spring.

Q. Will drilling a pilot hole into the 3rd Bone Spring, as proposed by Chevron, allow the company to take a look at all the potential intervals in this area?

A. Yes. I think, you know, in the agreement with Mr. Miller -- I spoke with him back in July of this year on a conference call with Jason Levine, that our proposal would be to understand the whole field development in Section 17. By doing that, we would want to drill the whole Bone Spring section, so we can understand what the full-field development is, and build our facilities and our drilling queue around that.

Q. Does the company, as a general policy, tend to seek to develop the deepest-known interval first before you move up into the shallower intervals? Is that a customary practice?

A. Kind of like to drill your deeper horizons, for engineering, for drilling, you'd like to, for collision control and things like that. Right now, we're confident with the 2nd Bone Spring, and we see that sand development. That's why we're proposing the 2nd Bone Spring.

Q. Now, with respect to the Avalon Shale well

that's proposed by Regeneration Energy, does it present some additional issues that do not exist with respect to the 2nd Bone Spring Sand?

A. From our experience, the Avalon does have some volatiles that can be -- that, from a gas analysis, shows CO2 present in the gas, and in some areas, H2S can be present.

Q. Now, with respect to the CO2 volatiles, what does that present in terms of costs and facilities at that depth that would be required as opposed to a well completed in the Sand?

A. Well, you have to have more handling procedures. Your steel design would require more coating, and the facilities' testimony will get to that. But there is just more design and costs associated with handling those volatiles.

Q. And if you're going to drill an Avalon Shale well in this area, do you need to be prepared to deal with this particular impurity, CO2?

A. Yes.

Q. Does that generally require compression and dehydration facilities?

A. Yes.

Q. And I imagine -- you mentioned that sometimes H2S is present in the Avalon Shale. Do you know if the

H2S is going to be present in the Avalon Shale in Section 17?

A. I'm not aware if it will be.

Q. And will a pilot hole perhaps provide some information if H2S is present?

A. Yes. We'll have monitoring equipment, and it will show when we go through that one if the H2S is present.

Q. How about with respect to CO2? How confident are you that any well produced or landed in the Avalon Shale is going to have CO2 issues?

A. We're confident that CO2 will be present on all our Avalon wells. In our partner wells, CO2 has been present.

Q. On all of them?

A. Yes.

Q. And are these concerns about CO2 or H2S present as you are drilling and completing in the Bone Spring Sand?

A. I've not seen CO2 or H2S as a problem in the Bone Spring Sand.

Q. Is there another reason, therefore, that it's more prudent at this point to develop the Bone Spring Sand first before you attempt the Avalon Shale?

A. Yes.

Q. Based on your study, do you believe that Chevron's proposed development plan provides the best opportunity for the commercial drilling in the Bone Spring Formation?

A. Yes.

Q. And will the pilot hole that Chevron has proposed allow the interest owners in this section to take a look at all producing intervals?

A. Yes.

Q. Were Exhibits 9, 10 and 11 prepared by you or compiled under your direction and supervision?

A. Yes.

MR. FELDEWERT: Mr. Examiner, I would move the admission of evidence with Chevron's Exhibits 9, 10 and 11.

EXAMINER GOETZE: Exhibits 9, 10 and 11 are accepted.

(Chevron Exhibit Numbers 9, 10 and 11 were offered and admitted into evidence.)

MR. FELDEWERT: That concludes my examination of this witness.

EXAMINER BROOKS: I need to call time here. So do you wish to proceed?

EXAMINER GOETZE: We'll go off the record.

(Pause in proceedings; Examiner Brooks

exits the hearing, 10:56 a.m.)

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Just a couple of questions, Mr. Schwartz.

So you would agree with Mr. Miller's testimony that a pilot hole is proper for the first well in this section?

A. Yes.

Q. But perhaps not for future wells?

A. I would not recommend future wells have a pilot. That would -- enough well control.

Q. Secondly, in looking at your Exhibit 9, you have a little locator map up in the upper, right-hand corner. It appears that the vast bulk of the offsetting of the Bone Spring production is -- are stand-up well units?

A. Sorry. Just one second.

Q. Yeah, that one (indicating).

A. Yes. These are -- yes.

Q. So apparently none of the parties in this section have any objection to drilling wells in the stand-up manner, north-south wells?

A. No.

MR. BRUCE: I think that's it, Mr. Examiner.

EXAMINER GOETZE: Very good.

I have no questions for this witness.

Next witness.

MR. FELDEWERT: Call our last witness.

EXAMINER GOETZE: Yes, sir.

SEAN CHEBEN,

after having been previously sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. FELDEWERT:

Q. Can you please state your full name, and likewise identify by whom you're employed and in what capacity?

A. Sure. My name is Sean Cheben. I'm employed by Chevron as a facilities engineer covering our Delaware Basin assets.

Q. Have you had the opportunity to previously testify before this Division?

A. No, I have not.

Q. What degree do you hold, Mr. Cheben?

A. I have a bachelor's in chemical engineering from the Georgia Institute of Technology.

Q. And when did you receive that degree?

A. In 2007.

Q. What has been your work history since receiving

your degree in chemical engineering in 2007?

A. When I graduated, I came to work for Chevron. I worked for about 18 months on their refining and technology projects. I moved to the Permian, and I worked for about three years in our midstream assets out there, with particular focus on CO2 processing.

Following that assignment, for the last 18 months, I've been building and designing facilities out in the Delaware Basin for our Delaware Basin program.

Q. That would be production facilities?

A. That's correct, yes.

Q. Are you familiar with the company's development plans for this -- the federal lease that covers Section 17?

A. Yes.

Q. And have you participated in designing production facilities for the development of this federal lease?

A. Yes, I did.

MR. FELDEWERT: I would tender Mr. Cheben as an expert witness in petroleum facilities engineering.

EXAMINER GOETZE: The witness is so qualified.

Q. (BY MR. FELDEWERT) Would you turn to what's

been marked as Chevron Exhibit Number 12, Mr. Cheben?

A. Uh-huh.

Q. Would you please identify this exhibit for us and tell us what it shows?

A. This exhibit demonstrates our ideal development plan for the section, Section 17. You can see the facility pad, the central tank battery in orange in the center of the wells. You can also see a common access road, I think that comes in through Section 16, that serves the proposed well, the proposed facility and all future wells. You can see a common power system, power lines in yellow coming in also from the east side of Section 16. And you can see a common gas sales pipeline that leaves from the central tank battery, in orange, also going out to the east through Section 16.

Q. Now, the wells that you show here in the dashed lines, are they to scale?

A. No. No. We just draw them to fit 12 wells on a page.

Q. For example, in dealing with the Section 17 initially proposed, currently it's drilled the 2nd Bone Spring well in the east half-east half of Section 17; is that correct?

A. Yes, that's correct.

Q. And if that is successful, will the company

proceed to develop the 2nd Bone Spring Sand across Section 17, moving from east to west?

A. Yes, that's correct.

Q. And that will give you, then, four wells in the 2nd Bone Spring Sand?

A. Correct.

Q. And you have planned to drill, perhaps, additional wells into the 3rd Bone Spring Sand?

A. Yes. If the pilot hole suggests that the 3rd Bone Spring is commercially viable, then we will continue to develop the 3rd Bone Spring after we complete development on the 2nd Bone Spring.

Q. Again, moving from east to west or west to east?

A. I couldn't speak to that. It would depend on the circumstances.

Q. The plan right now would be for the 3rd Bone Spring Sand?

A. That's correct.

Q. And then if the Avalon Shale shows to be potentially productive, the company would eventually drill four Avalon Shale wells?

A. Yes. Correct.

Q. That gives you your 12 wells?

A. Correct.

Q. And based on your design here, would all 12 of those wells share in all of these common facilities?

A. Yes. All 12 wells would take advantage of the facilities both as part of the first well.

I would like to add that additional time and facilities, for example, tie-ins for the electrical system and expansion to the roads, would be required for each subsequent well.

Q. So you're planning a single tank battery?

A. Yes.

Q. You have a common electrical system?

A. Uh-huh.

Q. You would have a common gas sale system?

A. Correct.

Q. And single access roads?

A. Yes.

Q. And all subsequent wells would share in these facilities?

A. That's correct.

Q. Are there any costs to build these facilities built into Chevron's AFE?

A. That's correct.

Q. And so there's going to be a cost avoidance for future wells?

A. Yes, that's correct.

Q. Would these facilities be required for your initial well?

A. Yes.

Q. Now, if there were multiple operators on this federal lease -- in other words, if there were two operators on this federal lease in different producing intervals, would there necessarily be a duplication of facilities?

A. Yes, there would be a duplication of facilities. With two operators in the section, two tank batteries would be required. Two electrical systems would be required, and two gas sales pipelines would be required. I do think that there could be some synergies for the road.

Q. But the remaining synergies are lost if you have multiple operators on this federal lease?

A. Yes, that's correct.

Q. Do Chevron Exhibits 4 and 5 contain the well proposals -- the competing well proposals and the proposed AFEs?

A. Uh-huh.

Q. You've been here for testimony with respect to Regeneration Energy's proposal, under Exhibit 4, to drill an Avalon Shale well and the costs associated with that?

A. Yes.

Q. And you've been here for the testimony associated with Chevron's well proposal in Exhibit Number 5 and the costs associated with that?

A. Yes.

Q. Why is Chevron's AFE for this initial well higher than Regeneration Energy's AFE?

A. So I believe that there are three primary drivers. Well, first, I'm not an expert, but it's been presented to me by our drilling and completion group that there is additional cost somewhere between 800,000 and a million dollars to drill the pilot hole and drill to the lower depth in the 2nd Bone Spring Sand. So I appreciate that there is a difference of opinion, but that was represented to me by our drilling and completion folks.

Q. Let me stop you right there.

A. Yes.

Q. So you've examined Regeneration's AFE, and it does not have a cost for drilling into the 3rd Bone Spring Sand?

A. No. The AFE in Exhibit 4 does not.

Q. Whereas, Chevron's AFE does, correct?

A. Correct.

Q. Okay. Go ahead. What's the second prong?

A. So the second is that we have implemented within our designs some additional equipment that seeks to capture every molecule that is produced by the well, and we believe that it captures it economically for sales. Two examples there are that we install vapor-recovery units on all of our tank batteries, which enables us to recover somewhere between 10 and 20 percent additional natural gas liquids that would otherwise be vented or flared at the -- at the tanks.

In prior testimony, it was noted that we do have, at some of our locations, flares or combustion towers. Those are strictly for emergency purposes only. So every molecule being produced by that well augments the economics and does not detract from them.

Another example is that rather than rely on manual tank gauging, when we sell our oil by truck, we instead prefer to install a LACT unit, lease automated custody transfer unit, which we believe provides superior accuracy, and by our anecdotal evidence -- I have no exhibit to substantiate this, but by our anecdotal evidence, we would -- it gives us a one-percent realized revenue from the oil that we sell from the facility.

Q. Are there also some, with respect to your facility costs -- first of all, let's get some numbers.

What are your facility -- what's Chevron's facility costs?

A. So the facility costs represented in the AFE report for the central tank battery are a little over $2 million.

Q. And what is Regeneration Energy's AFE facility costs associated with the proposed Avalon Shale?

A. So while the AFE reads about 628,000, a true apples-to-apples comparison would be an artificial lift [sic] and then -- excuse me -- add in some labor that was accounted for elsewhere. It comes to about -- between 3- and $400,000 for that central tank battery.

Q. Now, there was a discussion about your vapor-recovery system at your tank batteries and your additional more accurate metering. Does that account for some cost differences?

A. It does. I would say it accounts for about 3- to $400,000 of difference.

Q. And what is associated with the other differences in facility costs here?

A. So the next significant driver is the gas sales pipeline. As has been mentioned in prior testimony, we have a million dollars in our AFE for that. Our belief is that our million dollars is the lowest cost and not only for the -- but for the long-term operation of the

facility for gas take-away.

In conversations with our commercial unit, our commercial folks -- I don't negotiate directly with those people. We have commercial folks who do that. They have represented to me that they have reached out to all the parties mentioned previously, to DCP, to Regency and also to Agave and a few others, Enterprise. I'm sure I'm forgetting some.

The low-pressure systems that are operated by those third parties do not have capacity for the well that is proposed, not to mention the development that we're envisioning. In addition, those low-pressure systems are not capable or the operators are not willing to accept CO2 that would come with an Avalon well into those systems. The corrosion risk is too high.

Based on the representations of those third parties, we would then have to go to the high-pressure systems. Regency and DCP have systems that are nearby that are high pressure which would both require compression and dehydration, as well as an infrastructure to get into them.

Our proposal -- we have been negotiating with Targa. We're hoping that the negotiations result in a pipeline that they own, operate and pay for that runs through this acreage, the general area, not Section

17, specifically, at no charge to us. Targa would eat the cost of that.

However, the million dollars included in this AFE accounts for almost a three-mile pipeline, as well as facilities at the ultimate tie-in to reach the new system that Targa is building into the area.

So that's where the million dollars comes from. We believe it's the lowest cost option in the area for this development.

Q. Okay. And that's for the take-away infrastructure?

A. That's correct.

Q. That's to get the gas out?

A. Yes.

Q. Now, do you have a line item in your AFE for this cost?

A. We have the million dollars.

Q. Have you gone through Regeneration Energy's AFE?

A. I have.

Q. Do they have any costs -- do they have any line items for take-away costs or gas sales costs?

A. When I reviewed their AFE, I could not find a line item for gas sales pipeline, though I may have missed something. They do have two line items, one for

compression and one for dehydration, and there was zero costs associated with them.

Q. So based on your review, they do not have any money allocated to gas sales or take-away issues?

A. That's correct.

Q. Now, is there -- you mentioned a proposed higher facility cost. Is there also a component in there that involves safety and environmental features that the company is required to comply with based on its internal policies?

A. Yes, there is. As prior testimony mentioned, we do have rigorous expectations for our safety and environmental performance, and that definitely percolates into our facilities designs. Before we deploy a facility, it has to undergo a rigorous process hazards analysis screening, which gauges the risk of an incident happening with the likelihood that it may actually occur. That drives us to incorporate a number of safety features into our facilities that may not otherwise be in the broader industry.

I'll give you a few examples of that. First is, as was mentioned prior or previously, in our tanks, we install downcomers to eliminate the splashing from loading liquids into those tanks. What that helps to mitigate is, it eliminates the static buildup from

that splashing, which, across the industry, has been shown to cause explosions, fires if oxygen is introduced to that environment and the static discharges. We believe it's a very prudent thing to do. The industry has examples, but, again, I don't have an exhibit to substantiate that, of personnel impact, asset damage and death associated with those kinds of safety incidents.

Another example is that our tanks include an emergency vent that -- it accommodates if a control valve upstream on the tank were to fail, open, and we were to get a large volume of gas flowing to those tanks, which in our eyes is a common occurrence. Control valves fail frequently in the field. If that emergency vent were not there to accommodate that increased flow of gas, then the tank may very well rupture and definitely cause an environmental incident, but could potentially cause a safety incident as well if somebody is nearby.

The third -- I can go on forever, but I'll keep it to three. A third feature that we add, again, on the tanks is that we use all steel coats, and coat them internally with plastic. In our view, the produced water, as well as any water carrier that may occur in the oil tanks, is highly corrosive, and if we did not internally plasticoat those tanks, within maybe five to

ten years, those tanks would corrode through, and we would see an increase in spills and other environmental incidents.

So all three of those are safety features and environmental features that we incorporate into our facilities design, again for the safety and environment, but also to mitigate the cost of having to address those in the future.

Q. Does the company also have -- and I think Mr. Miller mentioned this in his testimony -- international contracting standards that must be met --

A. We do. We do.

Q. -- with respect to the parties that companies deal with in installing these facilities?

A. Yes, that's correct.

As I mentioned before -- or I may not have. I apologize if I didn't. But our goal and our vision is that we have nobody hurt on a Chevron site -- that includes our third-party contract partners -- and that every molecule that comes out of the ground finds its ultimate destination and isn't released into the environment.

When we partner with construction companies, our gauge of their dedication to the same safety vision as us is their total corporate [sic]

incident rate, TIR, and we have -- our expectation is that we partner preferably with companies that have a TIR below 1.0, which in our eyes constitutes a dedication to excellence in safety while working.

Q. Does that prevent the company from using, for example, low-cost bidders on a lot of projects?

A. It does. It does.

Q. Now, I guess, you know, the reasonableness of some of these safety measures can be debated, but does that additional -- do these additional requirements -- does that come with -- the safety and environment requirements, does that come with a cost?

A. It certainly does. I estimate that it adds 4- to $500,000 to the cost of our facilities construction.

Q. Now, all of these points that you just made, the more robust design -- the safety provisions, the environmental standards, the department requirements -- is all that taken into account when you're putting together your AFE for the well?

A. It is, yes.

Q. But, again, that's a cost item -- because this facility will be in place and not be there for future wells?

A. That's correct.

Q. But this is a cost item that will be -- it would be necessary even if you're going to drill a single well out there?

A. Correct.

Q. Now, you mentioned this previously, and I just want to make sure we touch on it as kind of a separate topic.

If you were drilling into the Avalon Shale, what additional facility costs are associated with development due to the CO2 issues that will arise?

A. So there are two that come to mind. The first is that CO2 is highly corrosive, especially at the concentrations that you would generally see in the Avalon. To protect the steel vessels and piping that would be exposed to this corrosive environment, we typically plasticoat the internal surfaces of all vessels and piping, which would add approximately 40- to $50,000 to the cost of that facility.

The more substantial increase in facilities scope, however, would be the sales infrastructure, as I alluded to before. Most third-party processors will not take CO2 due to its highly corrosive nature into their low-pressure systems. I think the mechanism is, CO2 dissolves waters, creates an acid and eats through the steel.

The midstream companies that we have discussed this with have all asked us to sell our Avalon gas into their high-pressure systems, where we would -- or the operator would provide compression and dehydration. And dehydration is critical, because without the water that comes with the CO2, the corrosion mechanism is not there. In our experience, the pressure unit is quite a bit of money. Again, for Chevron facilities, we spend between 1.5 and $2 million to add that dehydration scope to the system.

Q. Now, that additional cost is not in Chevron's AFE correct?

A. Correct.

Q. Because you're not proposing at this point to drill into the Avalon Shale?

A. That's correct.

Q. Now, Regeneration, though, has proposed to drill into the Avalon Shale. Does their AFE reflect any costs to account for the CO2 production?

A. It does not. For Regeneration's AFE, there are two line items, one for compression and one for dehydration, with zero costs associated with them.

Q. Did that surprise you?

A. It did.

Q. Now, the CO2 issues are not a concern with

respect to the Bone Spring Sand development?

A. That's correct.

Q. Is that, again, why the company has proposed a target of those sands first?

A. That's one of the reasons, yes.

Q. What is your opinion about the preceding [sic] development proposals?

A. I believe that the proposal that Chevron has put forth is prudent for all the reasons I've described.

Q. And do you believe that it's more prudent to develop the Sands before the Avalon Shale?

A. Yes, I do.

Q. Was Exhibit 12 prepared by you or compiled under your direction and supervision?

A. It was prepared by me.

MR. FELDEWERT: Mr. Examiner, I'd move the admission of the evidence of Chevron Exhibit 12.

EXAMINER GOETZE: Exhibit 12 is so entered.

(Chevron Exhibit Number 12 was offered and admitted into evidence.)

MR. FELDEWERT: And that concludes my examination of this witness.

EXAMINER GOETZE: Thank you.

Mr. Bruce?

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Just a couple of questions. How do you spell your last name?

A. C-H-E, B as in bravo, E-N.

Q. I was close.

Both Mr. Miller and your geologist and you all agree that the Avalon Shale and the 2nd, 3rd Bone Spring are prospective in this section, correct?

A. Yes.

Q. And at this point, it appears they should all eventually be developed?

A. Eventually, yes.

Q. Where will the battery be located for the initial well?

A. So if you refer to Exhibit 12, it's located more or less dead center in the section, in line with the wells on probably the center of the pad, maybe 330 from the north edge of the section. Don't quote me on that.

Q. Okay. But it's not going to be at the east half-east half or the west half-west half?

A. No. Middle to lower, so the total cost across the area. I will note, though, that the flow-line costs are fairly minimal. So there will be a slight increase

in flow-line costs to accommodate that more convenient location for the future wells.

MR. BRUCE: I think that's it, Mr. Examiner.

EXAMINER GOETZE: Thank you.

A few questions on your design.

CROSS-EXAMINATION

BY EXAMINER GOETZE:

Q. If the well was just to be completed in the Bone Spring as you propose, would we have to later come in and expand your surface facilities for completion in the Avalon?

A. So my answer right now would be no, based on conversations that our commercial folks have had with Targa. And that's another reason why we are so interested in partnering with them out here. Their plants up in the Monument-Saunders area have a lot of excess CO2 handling and aiming capacity, so they don't seem as phased as the other midstream companies about taking that gas into their system.

Furthermore, the new systems and then the repairs on their existing system that Targa is going forward with now, as I mentioned, with their expansion that they would pay for, that general area of Lea County would all be constructed out of high-density

polyethylene pipe, which doesn't have the same corrosion challenges as steel pipe would, which most of the legacy systems in that area are constructed of.

Q. And have there been discussions with anybody other than Targa?

A. Yes. We have talked with every player that would answer our phone calls. Targa was the ultimate -- although we did talk with Regency, DCP. We talked with Agave. I didn't mention that before. They said their capacity was all taken up by Yates. So, yeah, we did our due diligence to try to find the best solution that created the most value for the asset.

Q. Very good. That's all I have as far as questions.

EXAMINER GOETZE: Based on the information and evidence provided to us, Cases 15058 and 15043, combined, will be taken under advisement. Thank you.

(Case Numbers 15043 and 15058 conclude, 11:21 a.m.)

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 15043 & 15058 heard by me on October 31 2013.

, Examiner
Oil Conservation Division

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STATE OF NEW MEXICO

COUNTY OF BERNALILLO

CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.

Mary C. Hankins

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