

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

ORIGINAL

5 APPLICATION OF REGENERATION ENERGY
6 CORPORATION FOR A NONSTANDARD
7 SPACING AND PRORATION UNIT AND
8 COMPULSORY POOLING, LEA COUNTY,
9 NEW MEXICO.

CASE NO. 15043

8 APPLICATION OF CHEVRON U.S.A.,
9 INC. FOR A NONSTANDARD SPACING
10 AND PRORATION UNIT AND COMPULSORY
11 POOLING, LEA COUNTY, NEW MEXICO.

CASE NO. 15058

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 October 31, 2013

14 Santa Fe, New Mexico

15
16 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
17 DAVID K. BROOKS, LEGAL EXAMINER

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

23 REPORTED BY: Mary C. Hankins, CCR, RPR
24 New Mexico CCR #20
25 Paul Baca Professional Court Reporters
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Albuquerque, New Mexico 87102

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1 (8:29 a.m.)

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

6 Call for appearances.

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

11 MR. BRUCE: Mr. Examiner, Jim Bruce of
12 Santa Fe representing Regeneration Energy Corp., and I
13 have one witness. And I think Mr. Feldewert and I both
14 ask that it be consolidated with the next hearing, Case
15 15043.

16 EXAMINER GOETZE: And the basis of this?

17 MR. BRUCE: They both involve the same
18 land.

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

24 Your witnesses?

25 EXAMINER BROOKS: Well, first of all, in

1 the second case, you should get appearances.

2 EXAMINER GOETZE: Okay.

3 Call for appearances for 15043.

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

6 EXAMINER GOETZE: And that witness is?

7 MR. BRUCE: Raye Miller.

8 MR. FELDEWERT: I'm also appearing in Case
9 15043. Michael Feldewert on behalf of Chevron U.S.A.,
10 Inc. And in connection with the consolidated cases, now
11 we have -- I have three witnesses to present.

12 EXAMINER GOETZE: Very good.

13 EXAMINER BROOKS: I'll quit interrupting.

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

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

19 MR. MILLER: Raye Miller.

20 MR. LEVINE: Jason Levine.

21 MR. SCHWARTZ: Ken Schwartz.

22 MR. CHEBEN: Sean Cheben.

23 (Witnesses sworn.)

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

1 EXAMINER GOETZE: Very good.

2 Mr. Feldewert, no problems with that?

3 MR. FELDEWERT: I have no objection.

4 EXAMINER GOETZE: Proceed, Mr. Bruce.

5 RAYE MILLER,

6 after having been previously sworn under oath, was

7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

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

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

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

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

17 Q. Have you previously testified before the
18 Division?

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

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

24 A. Yes, it does.

25 Q. And are you familiar with the land and

1 technical matters involved in these cases?

2 A. Yes, I am.

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

5 EXAMINER GOETZE: So qualified.

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

9 A. Exhibit 1 is just a portion of an approved
10 application to drill for the Madera Federal 17. It's a
11 horizontal well in the east half-east half of Section 17
12 to 23 -- or 24-34, and we seek an order approving a
13 160-acre nonstandard oil spacing unit in the Bone Spring
14 Formation, pooling the Bone Spring Formation underlying
15 the nonstandard unit. The footages are shown on the
16 C-102, and the well location is orthodox.

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

20 A. Yes.

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

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

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

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

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

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

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

13 Q. What is Exhibit 2?

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

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

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

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

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

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

1 pushing hard.

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

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

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

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

12 Q. Could you identify Exhibit 3 for the Examiner?

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

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

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

1 AFE is based on the most difficult formation out there
2 to complete and drill, and the costs are thus reflected.
3 We believe, if the well is actually completed in either
4 the 2nd or 3rd Bone Spring Sand, the frack job will not
5 be as expensive as shown on this AFE, because it's not
6 required. It's not as difficult to frack and not as
7 large a job would actually be done as a result. Even
8 though the completion would be at a deeper horizon, the
9 ultimate cost of the well should be closer to around
10 \$8 million.

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

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

23 Q. What are Exhibits 4 and 5?

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

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

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

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

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

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

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

5 I struggle that we cannot afford Chevron's
6 operations. Not only do we have the AFE here -- but
7 previously I worked for Marbob Energy Corporation, and
8 we were partners with Chevron on a well called the
9 Lansdale [phonetic] Federal. It's in Section 4 of
10 19-32. It was a 100-MCF-a-day gas well. The well was
11 tied directly into DCP's low-pressure gathering system.
12 There was no battery on location. It was electronic
13 meter. There were no facilities. The wellhead was tied
14 directly to the gas line. It could have been read
15 electronically by someone in the office. The well made
16 100 mcf a day. The operating costs from Chevron were
17 \$1,800 per month. They were all legal under the COPAS
18 accounting.

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

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

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

11 A. Right.

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

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

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

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

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

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

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

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

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

5 EXAMINER BROOKS: Thank you.

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

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

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

1 And I would direct you to directly behind
2 the pictures. I also tried to determine what size frack
3 jobs that Chevron was actually putting on each of these
4 wells. Now, this is off of the OCD records, which is
5 the frack disclosure. It shows a frack job of about
6 24,000 barrels. Now, the interval it shows, which it's
7 kind of hard to read since I shrunk it down is --

8 MR. BRUCE: We're referring now to pages 5,
9 6 and 7, Mr. Examiner.

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

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

16 And then when you look at their completion
17 report that's of record, the perforation intervals there
18 in box 26 don't match up with the frack disclosure. And
19 then when you look over at the intervals shown in box
20 27, which is typically where you would see their asset
21 and frack report, it has a different interval. And it
22 also doesn't make a lot of sense to me. That looks like
23 a cementing report that's being given there instead of
24 actually a frack treatment on their completion.

25 I've included some additional pages of

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

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

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

10 A. Right.

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

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

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

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

1 as being the completion interval on the Frack Disclosure
2 Statement is 13,104 to 13,120. When you look on the
3 next page, in box 36, it shows the perforation interval
4 at 9,129 to 1310, not 1320, and then when I look at the
5 items reported in box 27, it shows the interval being
6 2,965 to 8,040. And it sure looks like that's a cement
7 type of job there instead of actually reporting their
8 frack and stimulation on the well.

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

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

25 Now, the generator that I rented recently

1 on one of our locations, the generator cost me \$600 a
2 day, and the fuel cost, \$750 a day. So it was costing
3 \$1,350 a day to run a generator, which is about \$40,500
4 a month.

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

7 Q. Xcel Energy?

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

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

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

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

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

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

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

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

15 MR. BRUCE: Page 31, Mr. Examiner.

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

25 The next set of pictures is the Heritage

1 215 1H.

2 MR. BRUCE: Page 42.

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

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

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

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

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

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

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

11 MR. BRUCE: Page 54.

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

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

25 But anyway, the last set of pictures are

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

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

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

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

1 to sell gas.

2 We also have a water line laid from the
3 tanks to our saltwater disposal. The Bill is in 19 of
4 23-35, and our disposal is in 23-34. And as a result,
5 we're not paying trucking for \$3.50 a barrel to a
6 commercial disposal. It's not only a thing where we're
7 actually disposing of our own frack flowback water, but
8 it's also a thing where we're not causing as much damage
9 to the roads. And the rancher appreciates the fact that
10 there is not quite as many trucks in there as there have
11 been on other locations in the area.

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

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

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

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

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

7 Q. And it was signed by you, correct?

8 A. Yes.

9 Q. And --

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

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

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

19 Q. And what is Exhibit 8?

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

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

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

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

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

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

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

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

22 A. Yes.

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

24 A. Yes.

25 Q. Just a few follow-up questions.

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

3 A. Yes.

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

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

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

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

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

20 A. Yes.

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

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

5 Q. Does Regeneration request a cost plus
6 200-percent risk charge if Chevron went nonconsent in
7 the well?

8 A. Yes.

9 Q. And was Chevron notified of your application?

10 A. Yes.

11 Q. Is that reflected in Exhibit 9?

12 A. Yes, it is.

13 Q. What is Exhibit 10?

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

16 Q. And were they given notice of this application?

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

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

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

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

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

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

25 The circles actually are based on how good

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

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

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

20 If you look at the next map, it winds up
21 being a thing where, again, this is also a structure
22 contour map. It's of the 3rd Bone Spring Carbonate. It
23 has 50-foot contour lines. And the 3rd Bone Spring
24 carbonate structure would closely resemble that of the
25 2nd and 3rd Bone Spring Sand. I believe the sands are

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

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

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

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

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

4 MR. BRUCE: Practical oilman.

5 MR. FELDEWERT: Practical oilman.

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

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

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

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

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

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

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

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

10 Continue, Mr. Bruce.

11 MR. BRUCE: Go ahead, Mr. Miller.

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

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

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

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

13 A. Yes.

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

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

19 EXAMINER BROOKS: I will reiterate my
20 former ruling.

21 EXAMINER GOETZE: So concurred by the
22 Examiner.

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

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

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

8 A. Absolutely.

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

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

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

1 horizon we actually elected to.

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

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

15 A. Yes.

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

20 A. Yes.

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

23 EXAMINER GOETZE: Exhibits 1 through 13 are
24 accepted.

25 (Regeneration Energy Exhibit Numbers 1

1 through 13 were offered and admitted into
2 evidence.)

3 MR. BRUCE: I pass the witness.

4 EXAMINER GOETZE: Mr. Feldewert?

5 CROSS-EXAMINATION

6 BY MR. FELDEWERT:

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

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

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

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

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

25 A. They certainly may.

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

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

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

9 A. Correct.

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

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

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

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

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

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

4 EXAMINER GOETZE: I would just let it
5 continue.

6 EXAMINER BROOKS: I agree.

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

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

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

1 minimize flaring and venting, correct?

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

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

9 A. Yes.

10 Q. Do you guys do that?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

18 A. The cover page looks correct.

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

21 A. No, sir. Exhibit A is what we submitted in
22 2013. Because if you look -- the cover page that you're
23 looking at on Exhibit -- or on the front page has lands
24 that are not shown in Exhibit A.

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

1 recollection?

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

4 Q. With this Exhibit A; did it not?

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

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

10 A. I think I do.

11 Q. Okay.

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

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

16 A. Okay.

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

19 A. It covers, I believe, three federal leases of
20 which Chevron owns 75 percent; and at the time, we owned
21 12-and-a-half percent, and Allar owned 12-and-a-half
22 percent.

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

25 A. Yes.

1 Q. In different sections?

2 A. Yes.

3 Q. Different townships?

4 A. Yes.

5 Q. And Regen [sic] owns 12-and-a-half percent in
6 all of these federal leases?

7 A. Yes.

8 Q. And under this JOA, you propose to operate all
9 three of those federal leases?

10 A. I felt and I continue to feel that it would be
11 in Chevron's best interest if they allowed us to operate
12 those leases. We would probably be able to develop the
13 reserves in a more economic and ultimate recovery
14 similar to theirs, but it would be far more cost
15 effective for them.

16 Q. Would you turn to what's been marked as
17 Chevron Exhibit Number 4 in the packet I just gave you,
18 please, Mr. Miller?

19 A. To my letter of June 5th?

20 Q. Exhibit 4, yeah.

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

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

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

4 A. Yes.

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

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

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

20 A. No, we did not.

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

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

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

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

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

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

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

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

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

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

24 A. Yes.

25 Q. Did you examine it before it went out?

1 A. Yes.

2 Q. Had you done this before?

3 A. Yes.

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

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

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

11 A. Yes.

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

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

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

18 A. It may not have.

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

21 A. I don't.

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

24 A. Okay.

25 Q. Does this well proposal in any fashion identify

1 the proposed orientation for your well?

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

4 Q. Does it identify the proposed spacing unit?

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

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

9 A. No, you can't.

10 Q. Are you aware of the --

11 A. May I ask --

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

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

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

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

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

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

3 A. Yes, it is.

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

6 A. There is not.

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

9 A. No.

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

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

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

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

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

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

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

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

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

11 Q. So you'd agree that a pilot hole down in the
12 3rd Bone Spring Sand makes a lot of sense in this area?

13 A. It does today, yes.

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

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

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

20 A. Oh, the well proposal to the parties?

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

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

23 Q. That's all the questions I have.

24 EXAMINER GOETZE: Mr. Bruce, any
25 additional?

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

2 REDIRECT EXAMINATION

3 BY MR. BRUCE:

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

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

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

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

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

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

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

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

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

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

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

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

1 Q. Thank you, Mr. Miller.

2 MR. BRUCE: I have no further questions.

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

6 MR. FELDEWERT: Yes, sir.

7 THE WITNESS: Do you need these back?

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

10 EXAMINER GOETZE: Any questions?

11 EXAMINER BROOKS: No questions.

12 EXAMINER GOETZE: I have no questions
13 either.

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

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

18 EXAMINER GOETZE: Okay. 15.

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

20 EXAMINER GOETZE: Docket Number 37-13.
21 Mr. Feldewert?

22 MR. FELDEWERT: Call my first witness.

23 EXAMINER GOETZE: Very good.

24 JASON LEVINE,

25 after having been previously sworn under oath, was

1 questioned and testified as follows:

2 DIRECT EXAMINATION

3 BY MR. FELDEWERT:

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

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

9 Q. And have you previously testified before this
10 Division?

11 A. No.

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

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

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

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

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

3 A. Yes.

4 Q. Are you a member of any professional
5 organizations?

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

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

12 A. Yes, I am.

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

15 A. Yes.

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

18 EXAMINER GOETZE: So qualified.

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

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

1 working interest in this lease. Regeneration owns a
2 12-and-a-half percent working interest, and Allar owns a
3 12-and-a-half percent working interest. The lease
4 covers all depths.

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

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

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

14 Q. Would it be a particular interval within that?

15 A. The 2nd Bone Spring Formation.

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

19 A. Correct.

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

24 A. Yes, it is.

25 Q. And what do you seek under this particular

1 application?

2 A. I see --

3 Q. What do you seek?

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

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

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

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

13 A. Within a mile.

14 MR. FELDEWERT: And that pool code is
15 96434.

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

19 A. That's correct, yes.

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

22 A. Yes.

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

1 A. Yes.

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

4 A. That's correct.

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

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

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

12 A. Yes.

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

16 A. That's correct, yes.

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

20 A. Yes.

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

23 A. No, sir.

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

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

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

8 A. Yes.

9 Q. Now, there's been some testimony about
10 Mr. Miller essentially restarting the discussions with
11 Chevron after they got their approved APD here in May of
12 2013. Did you receive a well proposal from Regen
13 shortly after this APD was proposed?

14 A. I received a proposal in June of 2013.

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

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

22 A. Yes.

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

25 A. Yes.

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

4 A. Yes. I found the contract area to be unusual
5 because it covered Section 17 and then also Sections 11,
6 12 and 13 in the adjacent township, which is uncommon
7 because the acreage is not contiguous.

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

10 A. Yes.

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

16 A. No, not at that time.

17 Q. Did you eventually locate one?

18 A. Yes.

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

22 A. Yes.

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

1 it not?

2 A. Yes, it does.

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

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

8 Q. I'm sorry. Different township.

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

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

14 A. That's correct.

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

18 A. Yes, it was.

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

22 A. Yes.

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

1 A. That's correct, yes.

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

4 A. Yes.

5 Q. And did you participate in those discussions?

6 A. Yes.

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

11 A. Yes. So I received the proposal from
12 Regeneration in June of 2013. And at the end of June,
13 Raye Miller and I spoke about the proposal, and I
14 indicated that Chevron had plans to drill in Section 17
15 as well. Mr. Miller and I discussed that a way to
16 perhaps remedy the situation is to swap acreage.
17 Mr. Miller and I made some progress in discussing a
18 trade proposal, but at one point, we reached an impasse.
19 And that impasse involved the fact that Mr. Miller had
20 indicated that he would want -- if Chevron were to be
21 transferred the permit, he would want Chevron to pay
22 \$500,000 to Regeneration and, I think, another \$500,000
23 to Allar if Chevron was not able to drill the well by
24 January 1st, 2015, which was three months before the
25 lease was to expire.

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

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

14 A. That was July and August of 2013.

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

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

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

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

25 Q. At what point, then, did Regeneration Energy

1 indicate that they would pursue a pooling application?

2 A. At the end of August 2013.

3 Q. And then was that pooling application filed?

4 A. Yes, it was.

5 Q. Were there then discussions about the parties

6 in September about postponing the hearing, so the

7 Division could hear Chevron's competing well proposal?

8 A. Yes, sir.

9 Q. And the parties agreed, then, to allow time for

10 Chevron to send out their proposal and have it for a

11 hearing here today?

12 A. That's correct.

13 Q. Now, did Chevron, then -- once discussions

14 terminated by Regeneration Energy at the end of August,

15 did you submit a formal well proposal to the parties?

16 A. Yes, I did.

17 Q. If I turn to what's been marked as Chevron

18 Exhibit Number 5, is that the well proposal that you

19 submitted to the interest owners in this -- in the east

20 half-east half of Section 17?

21 A. Yes.

22 Q. And it shows your proposed well in the east

23 half-east half. It shows a bottom-hole location and

24 surface location?

25 A. Yes, it does.

1 Q. Provides the total depth?

2 A. Yes.

3 Q. And it shows a pilot hole, does it not, on the
4 first page of that exhibit, about halfway down, of
5 12,173 feet?

6 A. Yes.

7 Q. Is that a sufficient depth to go into the 3rd
8 Bone Spring Sand?

9 A. Yes, it is.

10 Q. Then it shows a total depth of the lateral --
11 of landing of the lateral to be 11,010 feet. What
12 interval is at that depth?

13 A. The 2nd Bone Spring.

14 Q. And then it shows your proposed costs for
15 drilling this pilot hole down to 12,173 feet and then
16 completing the well in the 2nd Bone Spring Sand,
17 correct?

18 A. Yes, sir.

19 Q. At the bottom of that page?

20 A. Yes.

21 Q. And I didn't cover this when we submitted --
22 when we looked at your C-102. Will the penetration
23 formed from the bottom-hole location for this well
24 comply with the Division setback requirements?

25 A. Yes, it will.

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

4 A. Yes.

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

8 A. Yes.

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

12 A. Yes, approximately \$9.2 million. And if you
13 understand Chevron's share, Chevron would incur about
14 \$7 million of that cost.

15 Q. Because of your vast majority ownership?

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

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

21 A. That's correct.

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

1 A. \$11.9 million.

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

5 A. 1.4 -- approximately \$1.4 million.

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

8 A. Yes, sir.

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

13 A. Yes.

14 Q. Why is Chevron's AFE higher?

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

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

1 A. That's correct.

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

5 A. Yes.

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

8 A. Yes.

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

14 A. Yes, it does.

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

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

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

21 A. Yes.

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

24 A. That's correct.

25 Q. Does the company also attempt to customize the

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

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

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

12 A. That's correct, sir.

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

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

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

22 A. Yes.

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

1 A. Yes, sir.

2 Q. And did the company then also indicate an
3 effort to identify the leased mineral owners in the
4 40-acre tract surrounding the proposed nonstandard
5 spacing unit?

6 A. Yes.

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

9 A. Yes, it did.

10 Q. Have they been identified?

11 A. Yes.

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

14 A. Yes, they have.

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

19 A. That's correct.

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

24 A. That's correct.

25 Q. It went out roughly two weeks before this

1 hearing?

2 A. Yes.

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

5 A. It is, yes.

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

11 A. Yes, that's correct.

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

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

18 Q. I didn't say that very well.

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

22 A. No, sir.

23 Q. -- in notice to the offsetting operators?

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

1 Division grants Chevron's application?

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

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

11 A. Yes.

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

16 A. Yes, if prospective does [sic].

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

21 A. Yes.

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

24 A. Yes, it has.

25 Q. Do you anticipate drilling -- does the company

1 anticipate drilling this well within a year?

2 A. Yes, sir.

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

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

6 Q. So there will be a well drilled?

7 A. Yes.

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

11 A. Yes, sir.

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

14 A. Yes.

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

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

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

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

1 EXAMINER GOETZE: Mr. Bruce?

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

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

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

10 A. Yes.

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

13 A. Yes, that's correct.

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

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

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

25 A. I personally don't, but --

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

4 MR. BRUCE: If I may approach the witness?

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

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

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

15 A. Yes.

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

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

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

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

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

3 A. No.

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

7 A. It is a complete copy.

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

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

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

14 A. Yes. Yes.

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

17 A. Exhibit A, one. So one exhibit.

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

20 A. Correct.

21 Q. So it's not a full copy?

22 A. That's correct.

23 Q. It's not an accurate copy?

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

1 I can stipulate --

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

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

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

11 MR. BRUCE: And I'm simply --

12 EXAMINER BROOKS: So that should the
13 clarified.

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

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

19 A. Yes.

20 Q. And so does Regeneration's application?

21 A. Yes.

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

24 A. No.

25 Q. And they both identify the same land involved?

1 A. No. In the --

2 Q. In the application --

3 A. In the application, yes.

4 Q. And looking at Chevron's proposed JOA, it
5 covers the entire Section 17?

6 A. Yes.

7 Q. And there is no legal restriction from having a
8 JOA cover more than one well unit, is there?

9 A. Not that I'm aware of.

10 Q. Now, let me ask you, looking at your Exhibit 5,
11 Mr. Levine --

12 A. Yes, sir.

13 Q. -- does your proposal letter give a surface
14 location?

15 A. Yes, sir.

16 Q. Is it the same as Regeneration's?

17 A. Yes, sir.

18 Q. Just one final question. And I forget the
19 exact costs of Chevron's surface facilities in its AFE,
20 but is it my understanding that the full cost of those
21 surface facilities would be assessed against the
22 interest owners in the initial well?

23 A. Yes.

24 Q. So in other words, if the Allar Company or
25 Regeneration -- if Chevron was awarded operatorship and

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

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

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

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

11 MR. BRUCE: Okay. Yeah.

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

14 A. Okay.

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

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

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

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

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

1 the initial well?

2 A. Yes.

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

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

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

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

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

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

25 Q. And they may not?

1 A. Correct.

2 Q. Has Chevron staked all four wells in Section
3 17?

4 A. Yes, sir.

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

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

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

11 A. I do not.

12 Q. Thank you, Mr. Levine.

13 EXAMINER GOETZE: Further questions?

14 MR. BRUCE: No further questions.

15 EXAMINER GOETZE: Mr. Brooks?

16 MR. BROOKS: No questions.

17 EXAMINER GOETZE: I have no questions for
18 this witness.

19 Bring your next witness up, Mr. Feldewert.

20 KEN SCHWARTZ,

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

23 DIRECT EXAMINATION

24 BY MR. FELDEWERT:

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

1 you're employed and in what capacity?

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

11 Q. Have you previously testified before this
12 Division?

13 A. No.

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

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

17 Q. When did you receive that degree?

18 A. In 2001.

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

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

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

1 A. For the last three years.

2 Q. Are you a member of any professional
3 organization?

4 A. I'm a 15-year member of the American
5 Association of Petroleum Geologists.

6 Q. Are you familiar with Chevron's application in
7 this case?

8 A. Yes.

9 Q. Have you completed a study in the subject
10 area, you and your team?

11 A. Yes.

12 MR. FELDEWERT: I'd tender Mr. Schwartz as
13 an expert witness in petroleum geology.

14 EXAMINER GOETZE: So qualified.

15 Q. (BY MR. FELDEWERT) Mr. Schwartz, Chevron's well
16 proposal indicates an initial pilot hole down into the
17 3rd Bone Spring Sand and then the initial landing at
18 11,010 feet. That's in the 2nd Bone Spring Sand,
19 correct?

20 A. Yes.

21 Q. Have you conducted an analysis of this
22 particular producing interval?

23 A. Yes, I have.

24 Q. If you turn to what's been marked as Chevron --
25 it's a little out of order, but Chevron Exhibit Number

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

3 A. Yeah, thanks.

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

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

12 A. Yes.

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

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

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

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

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

24 A. Yes.

25 Q. And what does this cross section show us?

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

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

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

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

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

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

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

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

25 A. Yes, I do.

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

5 A. Yes, I do.

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

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

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

19 A. Yes.

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

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

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

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

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

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

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

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

1 Exhibit Number 11?

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

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

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

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

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

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

1 Bone Spring?

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

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

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

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

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

25 Q. Now, with respect to the Avalon Shale well

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

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

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

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

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

20 A. Yes.

21 Q. Does that generally require compression and
22 dehydration facilities?

23 A. Yes.

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

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

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

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

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

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

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

15 Q. On all of them?

16 A. Yes.

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

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

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

25 A. Yes.

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

5 A. Yes.

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

9 A. Yes.

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

12 A. Yes.

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

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

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

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

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

24 EXAMINER GOETZE: We'll go off the record.

25 (Pause in proceedings; Examiner Brooks

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

2 CROSS-EXAMINATION

3 BY MR. BRUCE:

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

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

8 A. Yes.

9 Q. But perhaps not for future wells?

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

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

17 A. Sorry. Just one second.

18 Q. Yeah, that one (indicating).

19 A. Yes. These are -- yes.

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

23 A. No.

24 MR. BRUCE: I think that's it,

25 Mr. Examiner.

1 EXAMINER GOETZE: Very good.

2 I have no questions for this witness.

3 Next witness.

4 MR. FELDEWERT: Call our last witness.

5 EXAMINER GOETZE: Yes, sir.

6 SEAN CHEBEN,

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

9 DIRECT EXAMINATION

10 BY MR. FELDEWERT:

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

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

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

19 A. No, I have not.

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

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

23 Q. And when did you receive that degree?

24 A. In 2007.

25 Q. What has been your work history since receiving

1 your degree in chemical engineering in 2007?

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

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

10 Q. That would be production facilities?

11 A. That's correct, yes.

12 Q. Are you familiar with the company's development
13 plans for this -- the federal lease that covers Section
14 17?

15 A. Yes.

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

19 A. Yes, I did.

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

23 EXAMINER GOETZE: The witness is so
24 qualified.

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

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

2 A. Uh-huh.

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

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

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

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

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

24 A. Yes, that's correct.

25 Q. And if that is successful, will the company

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

3 A. Yes, that's correct.

4 Q. And that will give you, then, four wells in the
5 2nd Bone Spring Sand?

6 A. Correct.

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

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

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

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

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

19 A. That's correct.

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

23 A. Yes. Correct.

24 Q. That gives you your 12 wells?

25 A. Correct.

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

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

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

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

10 A. Yes.

11 Q. You have a common electrical system?

12 A. Uh-huh.

13 Q. You would have a common gas sale system?

14 A. Correct.

15 Q. And single access roads?

16 A. Yes.

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

19 A. That's correct.

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

22 A. That's correct.

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

25 A. Yes, that's correct.

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

3 A. Yes.

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

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

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

17 A. Yes, that's correct.

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

21 A. Uh-huh.

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

1 A. Yes.

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

5 A. Yes.

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

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

17 Q. Let me stop you right there.

18 A. Yes.

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

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

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

24 A. Correct.

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

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

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

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

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

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

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

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

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

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

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

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

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

1 facility for gas take-away.

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

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

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

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

1 17, specifically, at no charge to us. Targa would eat
2 the cost of that.

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

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

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

12 A. That's correct.

13 Q. That's to get the gas out?

14 A. Yes.

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

17 A. We have the million dollars.

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

20 A. I have.

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

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

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

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

5 A. That's correct.

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

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

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

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

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

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

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

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

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

12 A. We do. We do.

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

15 A. Yes, that's correct.

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

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

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

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

7 A. It does. It does.

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

13 A. It certainly does. I estimate that it adds
14 4- to \$500,000 to the cost of our facilities
15 construction.

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

21 A. It is, yes.

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

25 A. That's correct.

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

4 A. Correct.

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

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

11 A. So there are two that come to mind. The first
12 is that CO2 is highly corrosive, especially at the
13 concentrations that you would generally see in the
14 Avalon. To protect the steel vessels and piping that
15 would be exposed to this corrosive environment, we
16 typically plasticcoat the internal surfaces of all
17 vessels and piping, which would add approximately 40- to
18 \$50,000 to the cost of that facility.

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

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

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

13 A. Correct.

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

16 A. That's correct.

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

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

23 Q. Did that surprise you?

24 A. It did.

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

1 respect to the Bone Spring Sand development?

2 A. That's correct.

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

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

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

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

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

12 A. Yes, I do.

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

15 A. It was prepared by me.

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

18 EXAMINER GOETZE: Exhibit 12 is so entered.
19 (Chevron Exhibit Number 12 was offered and
20 admitted into evidence.)

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

23 EXAMINER GOETZE: Thank you.

24 Mr. Bruce?

25

CROSS-EXAMINATION

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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

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

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

5 EXAMINER GOETZE: Thank you.

6 A few questions on your design.

7 CROSS-EXAMINATION

8 BY EXAMINER GOETZE:

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

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

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

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

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

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

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

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

18 (Case Numbers 15043 and 15058 conclude,
19 11:21 a.m.)

20 I do hereby certify that the foregoing is
21 a complete and true report of the proceedings in
22 the Examination of Case No. _____,
23 heard by me on _____.

24 _____, Examiner
25 Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

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

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

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

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