

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

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

ORIGINAL

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

CASE NO. 15167

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 10, 2014

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, on Thursday, July 10, 2014, at the
New Mexico Energy, Minerals and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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1 APPEARANCES

2 FOR APPLICANT CHEVRON U.S.A., INC.:

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1 (8:25 a.m.)

2 EXAMINER McMILLAN: Okay. The next case
3 we're going to hear is Case Number 15167, application of
4 Chevron U.S.A. for a nonstandard spacing and proration
5 unit and compulsory pooling, Lea County, New Mexico.

6 I'd like to call for appearances.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert, with the Santa Fe office of Holland &
9 Hart, appearing on behalf of the Applicant, and I have
10 two witnesses.

11 EXAMINER McMILLAN: Would the witnesses
12 please stand and be sworn in?

13 (Mr. Cole and Mr. Verner sworn.)

14 EXAMINER McMILLAN: And I would also like
15 to call for any other appearances.

16 MR. FELDEWERT: That said, we'd call our
17 first witness.

18 EXAMINER McMILLAN: Yes.

19 CODY COLE,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. FELDEWERT:

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

1 A. My name is Cody Cole. I'm employed by Chevron
2 as a landman.

3 Q. How long have you been a landman with Chevron?

4 A. Approximately just over three years now.

5 Q. Do your responsibilities include the Permian
6 Basin of New Mexico?

7 A. That's correct.

8 Q. Mr. Cole, you actually testified before this
9 Division at the -- at a previous hearing in June,
10 correct?

11 A. That's correct.

12 Q. At that time were your credentials as an expert
13 in petroleum land matters accepted and made a matter of
14 public record?

15 A. That's correct.

16 Q. Are you familiar with the application filed in
17 this case?

18 A. Yes, I am.

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

21 A. Yes, I am.

22 MR. FELDEWERT: Mr. Examiner, I would
23 re-tender Mr. Cole as an expert witness in petroleum and
24 land matters.

25 EXAMINER McMILLAN: So accepted.

1 Q. (BY MR. FELDEWERT) Would you please turn to
2 what's been marked as Chevron Exhibit Number 1. First
3 identify this exhibit and then explain to the Examiner
4 what the company requests under this application.

5 A. This is a C-102 that was filed to drill the
6 Gramma Ridge 14-24-34, and we seek the Division to grant
7 us an order to create a 160-acre nonstandard spacing
8 unit and also to pool all the uncommitted interest
9 owners within that limit.

10 Q. And if I look at the second page of Exhibit
11 Number 1, it reflects your proposed well?

12 A. That's correct.

13 Q. And the spacing unit, then, that you seek to
14 create would be the west half of the east half of
15 Section 14?

16 A. That's correct.

17 Q. As reflected on this exhibit?

18 A. Uh-huh. Yes.

19 Q. And does this particular page of Exhibit Number
20 1 identify or provide for the Examiner the footage
21 locations for the well?

22 A. Yes, it does.

23 Q. And then the API number for this particular
24 well?

25 A. Yes, it does.

1 Q. And does it set forth the pool code and the
2 pool code number?

3 A. Yes.

4 Q. Will the completed interval for this well
5 comply with the Division's setback requirement?

6 A. Yes, that is correct.

7 Q. And is Section 14 involved here, is this all
8 fee land?

9 A. Yes. It is all fee lands.

10 Q. If I then turn to what's been marked as Chevron
11 Exhibit Number 2, is this a lease tract map that
12 identifies the interests in the west half of east half
13 first by tract?

14 A. Yes.

15 Q. And then if I turn to the second page of this
16 exhibit, does it identify the interest owners in the
17 proposed west half-east half spacing unit?

18 A. Yes, it does.

19 Q. Has the company been able to locate all of
20 these interest owners?

21 A. All but a few of these.

22 Q. And were you able -- does your exhibit on the
23 second page have dots next to certain interest owners?

24 A. Yes, that's correct.

25 Q. Are those the interest owners that the company

1 has been unable to locate?

2 A. Yes, that is correct.

3 Q. What efforts did the company undertake to
4 locate these particular interests?

5 A. Over the past year, we tried to lease all the
6 other owners, and while examining the records, we
7 located the last known address of the these folks, sent
8 them letters, certified letters, received the green
9 cards back, as they were not able to be received. We've
10 also followed up by Internet searches, and in some
11 cases, even hired private investigators to try and
12 locate these folks.

13 Q. Did you exhaust your public records to try to
14 locate these individuals?

15 A. That is correct.

16 Q. If I turn to what's been marked as Chevron
17 Exhibit Number 3, is this an Affidavit of Publication in
18 the local newspaper directed by name to each of these
19 interest owners that the company's been unable to
20 locate?

21 A. Yes, that is correct.

22 Q. And it provides notice of the hearing here
23 today?

24 A. Yes.

25 Q. Now, with respect to the remaining interest

1 owners that are shown on page 2 of Exhibit Number 2, did
2 you send out a well-proposal letter to all these owners?

3 A. Yes, we did.

4 Q. If you'll turn to what is marked as Chevron
5 Exhibit Number 4, is that the well-proposal letter that
6 was provided?

7 A. Yes, it is.

8 Q. And did you submit with it an AFE?

9 A. Yes, I have.

10 Q. Now, in addition to sending -- before we get to
11 the AFE, in addition to sending this letter, what other
12 efforts has the company undertaken to reaching an
13 agreement with the interest owners that you were able to
14 locate?

15 A. Approximately a week after the letters were
16 sent out and we had been noticed that they had been
17 received, we followed up with phone calls to see if they
18 would rather lease with us and/or participate in a joint
19 operating agreement. If they had interest in the joint
20 operating agreement, we sent that to them. And since
21 then, we are still in negotiation with a few of them
22 with a joint operating agreement and/or a lease.

23 Q. Have you had follow-up discussions with all of
24 the interest owners you were unable to locate -- I'm
25 sorry -- all the interest owners that you were able to

1 locate?

2 A. Yes, I have.

3 Q. Let's then, while we're on this exhibit, turn
4 to the AFE, and it's comprised of, looks like, five
5 pages -- no -- four pages; is that correct? Five pages?

6 A. Yes, it is.

7 Q. And has the company split out their costs first
8 by drilling costs and then by facilities costs and then
9 completion costs?

10 A. Yes.

11 Q. And that's why you have multiple pages?

12 A. That's correct.

13 Q. Are the costs that are reflected on this AFE
14 consistent with what the company has incurred for
15 drilling similar horizontal wells in this area?

16 A. Absolutely.

17 Q. And has the company, in this process, made an
18 estimate of the overhead and administrative costs while
19 drilling this well and also while producing if you are
20 successful?

21 A. Yes, we have.

22 Q. And what are those costs?

23 A. It is \$7,000 a month for drilling and
24 approximately \$700 a month for -- while the well's
25 producing.

1 Q. And are these overhead rates consistent with
2 what Chevron and other operators have charged for
3 similar wells in this area?

4 A. Yes, it is.

5 Q. And in preparation for this hearing here today,
6 did the company identify the operators of the lessees in
7 the 40-acre tracts surrounding your proposed nonstandard
8 spacing unit?

9 A. Yes, we have.

10 Q. And did the company include notice -- include
11 these operators and lessees in the notice of this
12 hearing here today?

13 A. Yes, we have.

14 Q. And if I turn to what's been marked as Chevron
15 Exhibit Number 5, is that an affidavit prepared by my
16 office with attached letters of providing notice of this
17 hearing to the affected parties?

18 A. Yes.

19 Q. Finally, were Exhibits 1 through 5 -- 1 through
20 4 compiled by you or prepared under your direction and
21 supervision?

22 A. Yes, that's correct.

23 MR. FELDEWERT: At which point, then,
24 Mr. Examiner, I would move the admission of Chevron
25 Exhibits 1 through 5, which includes my notice

1 affidavit.

2 EXAMINER McMILLAN: So accepted.

3 (Chevron U.S.A., Inc. Exhibit Numbers 1
4 through 5 were offered and admitted into
5 evidence.)

6 MR. FELDEWERT: That concludes my questions
7 of this witness.

8 EXAMINER McMILLAN: I don't have any
9 questions. It appears you have done the due diligence.

10 MR. FELDEWERT: With that, then, we'll call
11 our second witness.

12 EXAMINER McMILLAN: Yes.

13 FREDERICK VERNER,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. FELDEWERT:

18 Q. Would you please state your name, identify by
19 whom are you employed and in what capacity?

20 A. My name is Fred Verner. I work for Chevron.
21 I'm in Houston, Texas. I am currently a project
22 manager.

23 Q. And what do you do as a project manager as it
24 relates to the Permian Basin?

25 A. I have a team of engineers and scientists, as

1 well as coordinate the activities with our drilling
2 group, land group, to prepare and guide a rig line in
3 the Delaware Basin.

4 Q. And as part of that group, do you oversee a
5 group -- as part of those responsibilities, do you
6 oversee a group of geologists that address the Permian
7 Basin?

8 A. Yes, I do.

9 Q. How long have you been with Chevron?

10 A. Nine years.

11 Q. And did you, likewise, Mr. Verner, testify
12 before this Division in June?

13 A. Yes, I did.

14 Q. And were your credentials as an expert witness
15 in petroleum exploration accepted and made a matter of
16 public record?

17 A. Yes, they were.

18 Q. And did you oversee and approve the geologic
19 study of the lands that are the subject of this
20 application?

21 A. Yes, I did.

22 MR. FELDEWERT: I'd once again tender
23 Mr. Verner as an expert witness in petroleum
24 exploration.

25 EXAMINER McMILLAN: So qualified.

1 Q. (BY MR. FELDEWERT) Mr. Verner, will you turn to
2 what's been marked as Chevron Exhibit Number 6? Would
3 you first identify it and explain the colors, and then
4 tell us what it shows?

5 A. All right. This diagram is a structure map on
6 the top of the 2nd Bone Spring sand. The contours are
7 delineating a southward dip generally very consistent
8 from north to south.

9 The colors indicate -- the yellow colors
10 indicate Chevron acreage. There is a cross section
11 identified as A to A prime running east to west across
12 our acreage, as well as the position of the Gramma Ridge
13 1H well being discussed today, with the nonstandard
14 proration unit identified in red.

15 Q. And in your opinion, is the structure
16 consistent across this subject area here?

17 A. Yes. It's very consistent, generally a
18 one-degree dip to the south.

19 Q. Do you see any geologic impediments in drilling
20 horizontal wells particularly in the west half of the
21 east half of Section 14?

22 A. Not at all. This is a very consistent area.

23 Q. And you mentioned on this map that you show
24 wells that were utilized for a cross section, A to A
25 prime?

1 A. Yes.

2 Q. Are those wells representative of the area, in
3 your opinion?

4 A. Yes, they are.

5 Q. If I then turn to what's been marked as Chevron
6 Exhibit Number 7, is that the actual cross section that
7 corresponds with the wells shown on Exhibit Number 7?

8 A. Yes, it is.

9 Q. I'm sorry. Shown on Exhibit Number 6?

10 A. 6. Correct.

11 Yes. So A, on the left-hand side, being
12 the westernmost well, and A prime being the easternmost
13 well.

14 Q. And which well is the closest to the acreage in
15 question?

16 A. The Buckeye well, the second one from the
17 right, is less than a mile away from our -- or it's
18 about a mile away from our proposed well, which sits
19 positioned just to the right of it. And actually there
20 is a yellow window marked the 1H target, which sits
21 between the Buckeye and Madera wells, and that is what
22 we would be targeting with our well.

23 Q. And what do you observe with respect to the
24 continuity of the target reservoir that crosses this
25 area?

1 A. It's fairly consistent across this area. While
2 sometimes the pay moves up and down the section a little
3 bit, it is -- the gross interval is fairly consistent
4 across the area. I failed to mention what we consider
5 pay is highlighted in the light pink zones on the
6 diagram.

7 Q. And what conclusions have you and your team
8 drawn from your studies?

9 A. That the geology across this area is very
10 consistent. There are no impediments to economic and
11 efficient horizontal development of this area and that
12 generally the acreage across the area should be
13 contributing fairly evenly or consistently to the
14 production of the well.

15 Q. Finally, if I turn to what's been marked as
16 Chevron Exhibit Number 8, is that a well diagram for
17 your proposed well?

18 A. Yes, it is.

19 Q. And if I look to the right-hand side of that
20 particular exhibit, does that show the nonstandard
21 spacing unit in the west half of the east half?

22 A. Yes. The larger blue box indicates the total
23 area proposed for the nonstandard unit. The red box
24 inside that indicates the setbacks off of those unit
25 boundaries, and the blue line in the middle is the well

1 path.

2 Q. Now, when I looked at the second page of
3 Exhibit Number 1, it reflected that -- your land witness
4 testified that the well -- the completed interval for
5 the well would comply with the 330-foot setbacks.

6 A. Yes, it will.

7 Q. When I take a look at this particular exhibit,
8 it looks like a little blue line that goes just beyond
9 the 330-foot offset.

10 A. Yes. That is rathole we provide per our
11 drilling department's recommendation. It is not
12 completed interval. The completed interval is actually
13 shown on the approved sundry to the permit to drill. I
14 presume you have that. If not, we could produce it.

15 Q. That would be on Exhibit Number 1, second page?

16 A. Number 1, second page? Yes, that's it.

17 Q. Okay.

18 A. And so what that is showing is our last
19 take-away point down at the southern end of the
20 diagram -- or the bottom of the diagram. It indicates
21 that our last take-away point is 330 feet off the
22 southern proration unit boundary.

23 Q. In your opinion, will the granting of this
24 application be in the best interest of conservation, the
25 prevention of waste and the protection of correlative

1 rights?

2 A. Yes, I do.

3 Q. Were Chevron Exhibits 6 through 8 prepared by
4 you or compiled under your direction and supervision by
5 your geologic team?

6 A. Yes, they were.

7 MR. FELDEWERT: Mr. Examiner, I would move
8 the admission into evidence Chevron Exhibits 6 through
9 8.

10 EXAMINER McMILLAN: So accepted.
11 (Chevron U.S.A., Inc. Exhibit Numbers 6
12 through 8 were offered and admitted into
13 evidence.)

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

16 CROSS-EXAMINATION

17 BY EXAMINER McMILLAN:

18 Q. What is your reasoning for drilling north-south
19 instead of east-west?

20 A. In this particular area -- well, let me back
21 up. The regional stress field is believed to have the
22 prominent stress running roughly east to west. It's
23 actually a little northeast to southwest. In the
24 absence of any sort of geologic anomalies like faults,
25 anticlines, any sort of structural anomalies,

1 intrusions, it is reasonable to presume that the
2 regional stress fields will dominate in the area. In
3 this particular area, we have no such anomalies, so we
4 feel that that is the dominant stress field, and we want
5 to be perpendicular to that stress field.

6 Q. I'm just curious. Has there been any
7 production analyzed, north-south versus east-west, in
8 this area?

9 A. There -- there have -- we've studied that --
10 that situation in several areas across the Basin,
11 including this area, and our conclusion is that you can
12 largely conclude whatever you want to conclude from
13 those studies.

14 Q. (Laughter.)

15 MR. FELDEWERT: That would be inconclusive
16 (laughter).

17 THE WITNESS: You can support pretty much
18 any position.

19 What we've tried to do is look at what is
20 reasonable and logical. And I think logic would say
21 that in the absence of any anomalies, the east-west
22 structural pattern -- or stress field is the predominant
23 stress field, and so it makes sense to go north-south.
24 Where you're in the presence of an anomaly like an
25 anticline or a fault, it is reasonable to presume that

1 the local stress field is being dominated by that
2 feature.

3 Q. (BY EXAMINER McMILLAN) And why didn't you show
4 an isopach map over your project area?

5 A. So our company policy is not to distribute our
6 pay maps, which would be like net pay over this area,
7 which I think could be instructive. However -- so we
8 could show gross isopachs, but gross isopachs really
9 don't tell you much about the pay.

10 I felt that the cross section is actually
11 the most instructive piece of information that we could
12 prepare. In looking at the cross section, you can see
13 that the gross interval is very consistent across the
14 area. While the net pay is generally consistent, the
15 pay does tend to move up and down the section.

16 Q. And I'm just curious. Are you going to drill a
17 pilot hole or not?

18 A. Not on this well.

19 Q. I was just kind of curious about that.

20 So I just want to double check and make
21 sure. This is fee acreage, correct?

22 A. Yes.

23 Q. Okay. We have the cost.

24 This was -- I should have asked the
25 landman. Do you have any records of any conversations

1 you've had with the interests who have not signed the
2 JOA?

3 MR. COLE: Records? Could you be more
4 specific?

5 EXAMINER McMILLAN: Are there records of
6 phone calls, things of that nature or e-mails?

7 MR. COLE: Yes. There are definitely
8 e-mails.

9 EXAMINER McMILLAN: Okay. Is it in the
10 record?

11 MR. COLE: No, sir.

12 MR. FELDEWERT: I think he testified that
13 he had follow-up conversations and e-mails with all of
14 the parties they were able to locate.

15 EXAMINER McMILLAN: Okay. I have no
16 further questions. And we will take this case under
17 advisement, and thank you very much.

18 (Case Number 15167, concludes, 8:46 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

_____, Examiner
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.

19

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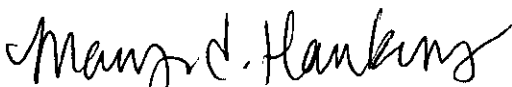
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