

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. 15199

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

CASE NO. 15200

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 18, 2014

Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER

RECEIVED OGD
2014 OCT 10 P 4:30

This matter came on for hearing before the
New Mexico Oil Conservation Division, Richard Ezeanyim,
Chief Examiner, on Thursday, September 18, 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
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

1 APPEARANCES

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

3 MICHAEL H. FELDEWERT, ESQ.
 4 HOLLAND & HART
 5 110 North Guadalupe, Suite 1
 6 Santa Fe, New Mexico 87501
 7 (505) 988-4421
 8 mfeldewert@hollandhart.com

9 FOR INTERESTED PARTY ROBERT E. LANDRETH
 10 (Case Number 15200 only):

11 JAMES G. BRUCE, ESQ.
 12 Post Office Box 1056
 13 Santa Fe, New Mexico 87504
 14 (505) 982-2043
 15 jamesbruc@aol.com

11 INDEX

PAGE

12 Case Numbers 15199 and 15200 Called 3

13 Chevron U.S.A., Inc.'s Case-in-Chief:

14 Witnesses:

15 Cody Cole:

16	Direct Examination by Mr. Feldewert	4
	Cross-Examination by Mr. Bruce	12
17	Cross-Examination by Examiner Ezeanyim	17

18 Fred Verner:

19	Direct Examination by Mr. Feldewert	20
	Cross-Examination by Examiner Ezeanyim	26

20

21 Closing Remarks

22

23 Proceedings Conclude/Certificate of Court Reporter 30/31

24

25 EXHIBITS OFFERED AND ADMITTED

26	Chevron U.S.A., Inc. Exhibit Numbers 1 through 9	12
	Chevron U.S.A., Inc. Exhibit Number 10 identified	22
27	Chevron U.S.A., Inc. Exhibit Numbers 11 through 13	26

1 (10:59 a.m.)

2 EXAMINER EZEANYIM: At this point -- I know
3 you guys have reached an agreement. I wanted to go in
4 the order of the docket, but during the break, I was
5 approached and asked that -- Case 14613 has agreed to be
6 done last, so we can get -- because of some extenuating
7 circumstances. So we can get to the other cases and
8 then go back to 14613.

9 So based on that, we are going to call two
10 cases and consolidate them for the purpose of testimony.
11 The first one is Case Number 15199 and Case Number
12 15200.

13 Case Number 15199 is the application of
14 Chevron U.S.A., Inc. for a nonstandard spacing and
15 proration unit and compulsory pooling, Lea County,
16 New Mexico consolidated with Case Number 15200,
17 application of Chevron U.S.A., Inc. for a nonstandard
18 spacing and proration unit and compulsory pooling, Lea
19 County, New Mexico.

20 Call for appearances.

21 MR. FELDEWERT: May it please the Examiner,
22 Michael Feldewert, with the Santa Fe office of
23 Holland & Hart, appearing on behalf of the Applicant in
24 both cases, Chevron U.S.A., Inc., and I have two
25 witnesses.

1 EXAMINER EZEANYIM: Any other appearances?

2 MR. BRUCE: Mr. Examiner, Jim Bruce of
3 Santa Fe representing Robert E. Landreth. I am
4 appearing only in Case 15200.

5 EXAMINER EZEANYIM: Any other appearances?

6 That's good.

7 Okay. Will the witnesses stand up, state
8 your name and be sworn in, please?

9 MR. COLE: Cody Cole.

10 MR. VERNER: Fred Verner.

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

12 MR. FELDEWERT: Call our first witness.

13 EXAMINER EZEANYIM: Okay. Go ahead.

14 CODY COLE,

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

17 DIRECT EXAMINATION

18 BY MR. FELDEWERT:

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

21 A. My name is Cody Cole. I'm employed by Chevron
22 as a land representative.

23 Q. How long have you been a land representative
24 with Chevron?

25 A. Just over three-and-a-half years now.

1 Q. Have your responsibilities included the Permian
2 Basin?

3 A. Yes, it has.

4 Q. Now, you have previously testified before this
5 Division, correct?

6 A. That's correct.

7 Q. And at that time, your credentials as an expert
8 in petroleum land matters were accepted and made a
9 matter of public record?

10 A. That is correct.

11 Q. Are you familiar with the applications that
12 have resulted in these consolidated cases?

13 A. Yes, I am.

14 Q. Are you familiar with the status of the lands
15 in the subject area?

16 A. Yes, I am.

17 MR. FELDEWERT: I would tender Mr. Cole
18 once again as an expert in petroleum land matters.

19 EXAMINER EZEANYIM: So accepted.

20 Q. (BY MR. FELDEWERT) Would you please turn to
21 what's been marked as Chevron Exhibits 1 and 2 and
22 identify what these exhibits are for the Examiner?

23 A. These are the APDs we submitted for the Gramma
24 Ridge 5H well and the Gramma Ridge 8H well, located in
25 Section 14, Township 24 South, Range 34 East, in Lea

1 County.

2 Q. And in light of these filed APDs reflected in
3 Exhibits 1 and 2, what do you request from the Division
4 in these consolidated cases?

5 A. We are requesting to create two 160-acre
6 nonstandard units and to pool all the uncommitted
7 interest owners.

8 Q. And what are those nonstandard spacing units?

9 A. The nonstandard spacing units are comprised of
10 the east half-west half of Section 14, along with the
11 east half-east half of Section 14.

12 Q. And if I look at Exhibits 1 and 2, if I look at
13 the last page of each of those exhibits, it looks like
14 the east half of the west half will be dedicated to the
15 5H well?

16 A. That is correct.

17 Q. And then the east half of the east half will be
18 dedicated to the 8H well?

19 A. That is correct.

20 Q. Has the Division recently issued a similar
21 pooling order for the well in the west half-west half of
22 Section 14?

23 A. Yes, that is true.

24 Q. And was that entered under Division Order
25 R-13865?

1 A. Yes.

2 Q. And that was for your Gramma Ridge 2H well?

3 A. That's correct.

4 Q. Do Exhibits 1 and 2, particularly the last page
5 of each exhibit, does it provide the Examiner with the
6 footage locations for the well?

7 A. Yes, it does.

8 Q. And API number?

9 A. Yes.

10 Q. Pool code?

11 A. Yes.

12 Q. And does it also reflect that each of these
13 wells -- or that the completed interval for each of
14 these wells will comply with the Division's 330-foot
15 setback requirements?

16 A. Yes, it does.

17 Q. Is Section 14 all fee lands?

18 A. Yes, they are.

19 Q. If I turn to what's been marked as Chevron
20 Exhibit 3, which is for the 5H well, and then Exhibit 4,
21 which is for the 8H well, do each one of these exhibits
22 identify the working interest owners in the proposed
23 nonstandard spacing units?

24 A. Yes, they do.

25 Q. And do each of these exhibits identify them

1 first by tract and then on the last page provide a
2 summation of total interest in the proposed nonstandard
3 spacing units?

4 A. Yes, they do.

5 Q. Has the company been able to locate all of
6 these interest owners?

7 A. Not all of them.

8 Q. And if I turn to what's been -- I'm sorry. Let
9 me step back.

10 What efforts did the company take to locate
11 the interest owners?

12 A. Over the last year and a half, we've had field
13 workers in the courthouse running records to find the
14 last known address for these individuals. We've
15 provided Internet searches, along with, in some cases,
16 private-eye investigations to find the whereabouts of
17 these people.

18 Q. If I turn to what's been marked as Chevron
19 Exhibit Number 5, is that an Affidavit of Publication?

20 A. Yes, it is.

21 Q. And is that for Case 15199 that provides notice
22 in the local newspaper by name to the interest owners
23 that you were unable to locate for the 5H?

24 A. Yes, it does.

25 Q. With respect to the 8H well, you were able to

1 locate addresses for all of the interest owners?

2 A. That's correct.

3 Q. Now, in turning to the interest owners you were
4 able to locate, have you marked on Chevron Exhibit 3 and
5 also on Chevron Exhibit 4, on the last page, by a
6 checkmark the parties that you currently seek to pool?

7 A. Yes, that's correct.

8 Q. And with respect to the sum of these parties,
9 these are parties to which you do not yet have a working
10 agreement, correct?

11 A. That's correct.

12 Q. But some of those parties may agree to
13 participate in the well?

14 A. Yes, that is correct.

15 Q. And you're still waiting on a signed JOA?

16 A. An agreeable and signed JOA, yes.

17 Q. And if those parties do sign a JOA that's
18 acceptable even after the pooling order, they will be
19 released from the pooling proceedings, correct?

20 A. That and/or an oil and gas lease.

21 Q. Okay. Now, with respect to these particular
22 parties, if I turn to what's been marked as Chevron
23 Exhibit Number 6 and I look, also, at Chevron Exhibit
24 Number 7, are these the copies of the well-proposal
25 letters for each well that was sent to all the mineral

1 owners that you were able to locate?

2 A. Yes, that is correct.

3 Q. And did each of these letters for each well
4 include an AFE?

5 A. Yes, it did.

6 Q. And how many pages does that AFE comprise?

7 A. Three, I believe. Three.

8 Q. And how are those -- why is it three pages?
9 How is it broken out?

10 A. On the first page of the three pages is the
11 drilling costs. The second page represents our
12 completion costs, and then the third represents our
13 facilities costs.

14 Q. And are the costs that you submitted at the
15 time of providing these well proposals consistent with
16 what the company has incurred for drilling similar
17 horizontal wells in this area?

18 A. Yes, they have [sic].

19 Q. Now, in addition to sending out these letters,
20 what other efforts has the company undertaken to reach
21 agreement with these uncommitted interest owners?

22 A. After these letter -- before and after these
23 letters have been sent out, we have called each of these
24 owners and engaged their interests in obtaining an oil
25 and gas lease and/or participating with their working

1 interest percentage.

2 Q. In preparation for this hearing, has the
3 company made an estimate on the overhead and
4 administrative costs while drilling and also while
5 producing if you are successful?

6 A. Yes, we have.

7 Q. And what are those figures?

8 A. 7,000 a month for drilling and 700 a month
9 after completions.

10 Q. And are those costs consistent with what the
11 Division approved under Division Order R-13865 for the
12 2H well in the west half of the west half of this
13 section?

14 A. Yes, they are.

15 Q. Did the company also identify the operators and
16 lessees in the 40-acre tract surrounding each of the
17 proposed nonstandard spacing units?

18 A. Yes, we have.

19 Q. And did the company ensure that notice of this
20 hearing was also provided to these known offset
21 operators and lessees?

22 A. Yes.

23 Q. If I take a look at what is marked as Chevron
24 Exhibit Number 8 and Chevron Exhibit 9, are those
25 affidavits prepared by my office for each case with

1 attached letters providing notice of this hearing to
2 these affected parties?

3 A. Yes, that is correct.

4 Q. Were Chevron Exhibits 1 through 9 prepared by
5 you or compiled under your direction or supervision?

6 A. Yes, they were.

7 MR. FELDEWERT: Mr. Examiner, I'd move
8 admission into evidence of Exhibits 1 through 9.

9 EXAMINER EZEANYIM: Any objection?

10 MR. BRUCE: No, no objection.

11 EXAMINER EZEANYIM: Exhibits 1 through 9
12 will be admitted.

13 (Chevron U.S.A., Inc. Exhibit Numbers 1
14 through 9 were offered and admitted into
15 Evidence.)

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

18 EXAMINER EZEANYIM: Mr. Bruce?

19 MR. BRUCE: Just a couple.

20 CROSS-EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Cole, let me ask you first, regarding the
23 AFE, does Chevron have another witness to discuss the
24 AFEs? -

25 A. No, not offhand. That will be -- a lot

1 those AFEs are comprised -- excuse me -- created by our
2 engineers.

3 Q. That's fine.

4 But looking, I guess, at Exhibit 6 -- let
5 me clarify. Mr. Landreth owns an interest in the 8H
6 well unit, but not in the other well unit?

7 A. That's correct.

8 Q. Looking at the facilities costs, are the
9 surface facilities for this well going to be used for
10 other wells also?

11 A. Yes. That is our plan.

12 Q. And in those other wells, does Mr. Landreth own
13 an interest?

14 A. He owns an interest in the 1H, yes.

15 Q. Okay. But are there going to be other wells
16 involved?

17 A. Yes, eventually.

18 Q. Okay. So there will be several wells using the
19 same surface facilities?

20 A. Yes.

21 Q. And is the total cost of these surface
22 facilities being charged only to the 8H well?

23 A. No, they are not.

24 Q. How are they going to be apportioned?

25 A. From my understanding -- and by all means I did

1 not create these facilities costs --

2 Q. I understand.

3 A. -- but this is from my understanding, that any
4 cost that represents above the costs after sharing, we
5 were going to perform the capital expenditure method
6 under the COPAS of the JOA.

7 Q. But it is Chevron's intent to allocate costs
8 among the various wells with this \$1,040,000?

9 A. I'm sorry. I don't understand. Can you repeat
10 that?

11 Q. It is Chevron's intent to allocate costs
12 among -- this \$1,040,000 among several other wells, as
13 well as this one; is that correct?

14 A. I'm not 100 percent aware of that -- or 100
15 percent sure how to answer that. So I'm not sure.

16 Q. Are these all fee land?

17 A. Yes, they are.

18 Q. And so the people you are seeking to pool
19 mainly are unleased mineral interest owners?

20 A. Yes.

21 Q. Has Chevron obtained leases from other mineral
22 interest owners who are not being pooled?

23 A. Yes.

24 Q. And what are typical royalty rates in those
25 leases?

1 A. That's confidential information that I would
2 not like to disclose to the public.

3 Q. Well, I think that's important information.

4 MR. BRUCE: I mean, having prepared about
5 1,000 title opinions in my life, Mr. Examiner, you have
6 to know the royalty rate, and it's done from an
7 examination of the county records. I think that's
8 reasonable information.

9 MR. FELDEWERT: Let me object because
10 that's -- royalty rates are agreed to in a lease between
11 parties who have signed the lease. That's what is
12 recorded. As to what is proposed during the
13 negotiations, that is confidential among the parties.

14 MR. BRUCE: That's not what I'm asking,
15 Mr. Feldewert. I'm simply asking: If there are
16 recorded leases, what are the royalty rates?

17 MR. FELDEWERT: Well, that can be answered
18 just as easily by your client as they can by anybody
19 else by looking at the county records.

20 MR. BRUCE: Well, he has the information.
21 It would take two seconds to answer.

22 THE WITNESS: Sir, there are over 90-plus
23 leases in this section. I could not give you an
24 accurate number.

25 Q. (BY MR. BRUCE) What's the range? Are they

1 one-eighth leases?

2 MR. FELDEWERT: Objection. It calls for
3 speculation, and the witness has not indicated that he's
4 in any kind of a position to provide it.

5 MR. BRUCE: So what's speculation? They're
6 in the lease.

7 THE WITNESS: A lot of times we file memos
8 of records to keep information such as that private.

9 MR. BRUCE: Well, again, Mr. Examiner, I
10 see nothing confidential about a royalty rate in the
11 lease.

12 EXAMINER EZEANYIM: Unfortunately, the
13 Legal Examiner is not here, and I can't answer any legal
14 questions. But what I would like to do is -- I'm going
15 to sustain the objection, and let's move ahead here.

16 Of course you know I'm not interested in
17 the royalty rate. That's not my job. I don't care what
18 the royalty rate is. Whatever it is, I'm not
19 interested. My job is to prevent waste and protect
20 correlative rights. It is not my job to determine how
21 much you pay in royalty or not. So since I don't have
22 any legal examiner to advise me, can we proceed? I
23 mean, I will find out how to deal with it when I write
24 the order.

25 Go ahead, Mr. Bruce.

1 MR. BRUCE: That's all I have,

2 Mr. Examiner.

3 EXAMINER EZEANYIM: Okay. Thank you very
4 much.

5 Go ahead.

6 MR. FELDEWERT: I have no further
7 questions.

8 CROSS-EXAMINATION

9 BY EXAMINER EZEANYIM:

10 Q. Now, let's go back to that AFE. I mean, the
11 AFE is very confusing to me. Is that 6?

12 A. 6 and 7, yes, sir.

13 Q. And the question was asked about the facilities
14 AFE, because you're going to use the same facility for
15 those two wells, right?

16 A. Correct.

17 Q. And then this one AFE provides you two wells?

18 A. No. It covers each particular well.

19 Q. Yeah. But they are the same AFE?

20 A. I'm sorry, sir?

21 Q. It's the same. One AFE, right?

22 A. I believe they are very similar, yes. There
23 are two different AFEs. There is a separate AFE sent
24 out to each well.

25 Q. Oh, really? Okay. What are the -- first of

1 all, let's start with -- I need to understand this.

2 Case Number 15199, where is the AFE? Is that 7 or 6?

3 MR. FELDEWERT: Mr. Examiner, that would be
4 for the 5H well, and that would be Exhibit Number 6.

5 THE WITNESS: 6.

6 MR. FELDEWERT: No. I'm sorry. Exhibit
7 Number 7.

8 THE WITNESS: Oh, yes, Number 7. I'm
9 sorry.

10 MR. FELDEWERT: Okay. Mr. Examiner,
11 probably the easiest place to look would be on the first
12 page of the well proposal.

13 EXAMINER EZEANYIM: Which is?

14 MR. FELDEWERT: Look at first page of
15 Exhibit 7, about -- towards the bottom, it's broken out.

16 EXAMINER EZEANYIM: Okay. Okay. I wanted
17 to see those totals again.

18 Q. (BY EXAMINER EZEANYIM) The 5H is 7.75 million,
19 right? Right?

20 A. Total cost, yes.

21 Q. And then let's go to 8H. Where is 8H? Is that
22 the same?

23 A. Number 6.

24 Q. Oh, 6. 6 is 8H. I'm sorry. I want to look at
25 the facilities. 6 is -- why is that? Are you going to

1 the same depth?

2 A. Are you asking in regards to the facilities
3 costs or the total costs?

4 Q. Yeah. The facilities cost on that 8H is 1.4 --
5 1,041,000. The facilities cost for the 5H is now
6 984,000. They have the same lands, you know. Why is
7 the facilities cost different?

8 A. If I was -- once again, I'm not a facilities
9 engineer and did not build this, but I would assume that
10 it's because the location of the tank battery in regards
11 to the 8H is at a farther distance than the 5H from the
12 facilities.

13 Q. That's interesting.

14 And the interest ownership is different.

15 A. Yes, sir.

16 EXAMINER EZEANYIM: Who is the next
17 witness? The geologist?

18 MR. FELDEWERT: Yes, sir.

19 THE WITNESS: If you can notice in
20 comparison on the two AFEs, the flow line costs are
21 different.

22 Q. (BY EXAMINER EZEANYIM) Yeah. I noticed that,
23 too.

24 A. Which would probably come from the distance of
25 facilities.

1 EXAMINER EZEANYIM: Do we have another
2 witness coming up?

3 THE WITNESS: I'm sorry?

4 EXAMINER EZEANYIM: Is there another
5 witness coming up?

6 MR. FELDEWERT: I have a geologist to
7 present.

8 EXAMINER EZEANYIM: This is a land person?

9 MR. FELDEWERT: Yes, sir.

10 EXAMINER EZEANYIM: I'm confused.

11 Okay. Very good. You may step down.

12 THE WITNESS: Thank you.

13 EXAMINER EZEANYIM: Call your next witness.

14 FRED VERNER,

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

17 DIRECT EXAMINATION

18 BY MR. FELDEWERT:

19 Q. Would you please state your name, identify by
20 whom you are employed?

21 A. My name is Fred Verner. I'm employed by
22 Chevron. I am an earth scientist and a project manager.

23 Q. And, Mr. Verner, do you oversee a team of
24 geologists for the company that are involved in the
25 Permian Basin of New Mexico?

1 A. Yes, I do.

2 Q. And how long have you been with Chevron?

3 A. I've been with Chevron ten years, working the
4 Permian Basin for those ten years.

5 Q. And you have also previously testified before
6 this Division?

7 A. Yes, I have.

8 Q. And were your credentials as an expert witness
9 in petroleum exploration accepted and made a matter of
10 public record?

11 A. Yes, they have.

12 Q. Are you familiar with the applications filed in
13 these consolidated cases?

14 A. Yes, I am.

15 Q. And did you oversee and approve the geologic
16 study of the lands that are the subject of this
17 application?

18 A. Yes, I did.

19 MR. FELDEWERT: I would once again tender
20 Mr. Verner as an expert witness in petroleum
21 exploration.

22 EXAMINER EZEANYIM: Any objection?

23 MR. BRUCE: No objection.

24 EXAMINER EZEANYIM: Mr. Verner, did you say
25 you were a scientist?

1 THE WITNESS: Yes.

2 EXAMINER EZEANYIM: Your qualifications are
3 accepted.

4 Q. (BY MR. FELDEWERT) What is the target interval
5 to both of these wells?

6 A. They are both targeting the 3rd Bone Spring
7 sand.

8 Q. And has your geologic team prepared structural
9 and cross-section maps for the Examiner?

10 A. Yes, they have.

11 Q. If I turn to what's been marked as Chevron
12 Exhibit Number 10, would you please identify it for the
13 record and tell us what it shows?

14 (Exhibit Number 10 identified.)

15 A. Sure. This is a structure map on the top of
16 the 3rd Bone Spring sand. It is reference to sea level.
17 The contour interval is 200 feet, and it's generally
18 showing a gentle and consistent dip down to the
19 south-southeast.

20 Q. Do you observe any faults, pinchouts or other
21 geologic impediments to the horizontal well in this
22 area?

23 A. No. We have not identified any in this area,
24 nor do we anticipate finding any upon drilling.

25 Q. You actually drilled a horizontal well in the

1 west half of the west half of this section?

2 A. Yes, that's right. We have.

3 Q. This map also shows, does it not, some wells
4 that you utilized for your cross section?

5 A. Yes. I could go into a couple of things
6 identified here. First, the Gramma Ridge acreage,
7 Section 14, is outlined in red. There is an approximate
8 location. The 5H and 8H are identified. And there is a
9 cross section also provided, running from A to A prime,
10 west to east. That's a three-well cross section running
11 through our Gramma Ridge acreage.

12 Q. In your opinion, are the wells that you've
13 identified for your cross-section analysis
14 representative of the area?

15 A. Yes, they are.

16 Q. If I then keep my finger on this particular
17 exhibit and I flip over to Exhibit Number 11, are these
18 the well logs that correspond with the wells identified
19 in Exhibit 10 for your cross section?

20 A. Yes, they are, A being the westernmost and
21 A prime being the easternmost, the Buckeye well in the
22 middle being the well closest to the Gramma Ridge
23 acreage.

24 Q. And what do you observe from this analysis here
25 on Exhibit 11?

1 A. Well, it can -- of course, it's flattened upon
2 the 3rd Bone Spring sand, but our target interval is
3 actually the pay in the lowest section of the 3rd Bone
4 Spring sand for two reasons. One, it's the largest, but
5 it's also the most contiguous, consistent of all the
6 sands in the area. Our well -- our location along this
7 cross section is identified with the blues [sic] thick
8 in between the Buckeye and the Madera well, with the
9 target interval identified with the arrows at the bottom
10 of the wellbore.

11 Q. And with respect to that target interval
12 identified on this Exhibit Number 11, do you observe
13 that that pay zone is continuous across the proposed
14 nonstandard unit?

15 A. Yes. It is very consistent in this area.

16 Q. What other conclusions have you drawn from your
17 geologic study?

18 A. Well, this area can be efficiently developed
19 with horizontal drilling and based on the evidence we
20 have, that all the acreage involved will contribute
21 essentially equally to production of these wells.

22 Q. If I then turn to what's been marked as Chevron
23 Exhibits 12 and 13, does this provide the Examiner with
24 a well diagram for each of the proposed wells?

25 A. Yes, it does.

1 Q. And if I look particularly, let's say, on
2 Exhibit Number 12 and I take a look at the right-hand
3 side of the schematic, towards the bottom there it shows
4 that the wellbore itself is actually going to cross over
5 the 330 offset line?

6 A. Yes, that's correct.

7 Q. What's the purpose?

8 A. That is rathole that our drilling and
9 operations teams request. It gives them some
10 flexibility in future work-over activity should they
11 need to do that.

12 Q. Will the completed interval for the well extend
13 beyond the 330-foot offset?

14 A. No, it will not. It will stay within the
15 proration setbacks, and our actual first and last take
16 points are identified on the C-102s that were submitted
17 with the APD.

18 Q. And those are reflected on the last pages of 1
19 and 2?

20 A. Yes, on 2.

21 Q. And in Exhibit Number 1?

22 A. Oh, Exhibit 1 (reading). Okay. Yes.

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

1 rights?

2 A. Yes, it is.

3 Q. Were Chevron Exhibits 11 through 13 prepared by
4 you or compiled under your direction and supervision?

5 A. Yes, they were.

6 MR. FELDEWERT: Mr. Examiner, I'd move the
7 admission into evidence of Chevron Exhibits 11 through
8 13.

9 EXAMINER EZEANYIM: Any objection?

10 MR. BRUCE: No objection.

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

13 EXAMINER EZEANYIM: Exhibits 11 through 13
14 will be admitted.

15 (Chevron U.S.A., Inc. Exhibit Numbers 11
16 through 13 were offered and admitted into
17 evidence.)

18 EXAMINER EZEANYIM: Mr. Bruce?

19 MR. BRUCE: I don't have any questions.

20 EXAMINER EZEANYIM: That's good.

21 CROSS-EXAMINATION

22 BY EXAMINER EZEANYIM:

23 Q. These wells are going to be drilled from the
24 Red Hills, Bone Spring North?

25 A. I believe that's correct.

1 Q. Yeah. And that's 96434?

2 MR. FELDEWERT: Yes, Mr. Examiner. If you
3 look at Exhibits 1 or 2, you can find the pool code.

4 Q. (BY EXAMINER EZEANYIM) We have all the API
5 numbers, right?

6 A. Yes.

7 EXAMINER EZEANYIM: I have no further
8 questions for this witness.

9 You may step down.

10 Any other witnesses?

11 MR. FELDEWERT: No, sir.

12 MR. BRUCE: Mr. Examiner, I'd like to make
13 a brief statement.

14 EXAMINER EZEANYIM: Okay. Go ahead.

15 MR. BRUCE: Mr. Examiner, Mr. Landreth owns
16 a 25 percent interest in this well, and, therefore, just
17 looking at the completion costs, he's responsible for
18 about \$260,000, but the surface facilities are going to
19 be used for several other wells also, including wells in
20 which he does not own an interest. And so it makes it
21 awfully difficult for him to determine whether or not to
22 join in a well when he doesn't know what costs he is
23 actually going to be required to pay. That is one
24 issue.

25 But the bigger issue is if these costs, as

1 the witness said, are going to be borne by the interest
2 owners solely in this well, then you've got bigger
3 problems because other interest owners in other wells
4 will benefit by Mr. Landreth paying for 25 percent of
5 these surface facilities, and that is a burden on him
6 and that impairs his correlative rights.

7 And so I think Chevron must be either
8 required to inform the Division how it is going to
9 allocate costs to make it fair among the interest
10 owners, or this application should be denied until they
11 do so.

12 EXAMINER EZEANYIM: Mr. Feldewert, any
13 comments?

14 MR. FELDEWERT: Mr. Examiner, I've got a
15 couple of responses. One is, first off, Mr. Landreth
16 apparently doesn't just own in the 8H well. He also
17 owns the 1H.

18 EXAMINER EZEANYIM: What did you say?

19 MR. FELDEWERT: He also owns in the 1H
20 well.

21 EXAMINER EZEANYIM: He owns both the 1H and
22 the 2H?

23 MR. FELDEWERT: He owns in the 8H well, and
24 he also has an interest in the 1H well in Section 14.

25 EXAMINER EZEANYIM: Which is not a part of

1 this?

2 MR. FELDEWERT: It's not a part of this.

3 But I think more importantly in terms of --
4 the pooling order itself, which the Division routinely
5 enters, provides an opportunity for parties under the
6 terms of that pooling order and with notice to contest
7 costs. We have not received any notice from Mr. Bruce
8 or his client that they had any issue with any
9 particular cost element prior to this hearing, and the
10 pooling order will give them an opportunity under the
11 terms of the pooling order to follow its procedures and
12 contest those costs.

13 So this is not -- and this is a cost
14 matter. This is not an issue that impairs their
15 correlative rights. It doesn't impair them an
16 opportunity to produce in a just and equitable share of
17 the reserves. That is going to occur. They can deal
18 with the cost issues under the terms of the pooling
19 order if indeed there is a debate, after we get notice
20 and they have a discussion.

21 EXAMINER EZEANYIM: Okay. You done?

22 MR. FELDEWERT: I am.

23 EXAMINER EZEANYIM: Do you have anything to
24 say to that?

25 MR. BRUCE: Well, I would note that the 2H

1 well and maybe other wells of which Mr. Landreth owns no
2 interest will also use the surface faculties. And I
3 think that when you come to a hearing, you propose the
4 costs for one well, not surface facilities for three or
5 four wells. And, therefore, I think this AFE is
6 improper.

7 EXAMINER EZEANYIM: So what you are saying
8 is that you have different facilities -- costs for
9 facilities for each well, right?

10 MR. BRUCE: I think that's entirely proper.

11 EXAMINER EZEANYIM: Okay. I took note of
12 all you've said.

13 Anyone have anything else?

14 MR. BRUCE: No, sir.

15 EXAMINER EZEANYIM: We have two cases here,
16 Case Number 15199 and Case Number 15200, which are
17 consolidated for hearing. At this point Case Numbers
18 15199, 15200 will be taken under advisement.

19 (Case Numbers 15199 and 15200 conclude,
20 11:32 a.m.)

21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 15199
24 heard by me on 1/18/11
25

[Handwritten signature and date 1/18/11]
Examiner

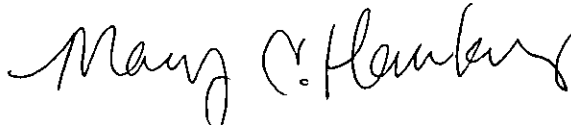
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

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 
20

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
23 New Mexico CCR No. 20
24 Date of CCR Expiration: 12/31/2014
25