

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, EDDY COUNTY, NEW MEXICO.

CASE NO. 15269

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

Consolidated with

CASE NO. 15270

REPORTER'S TRANSCRIPT OF PROCEEDING

EXAMINER HEARING

March 19, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, March 19, 2015, 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
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APPEARANCES

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

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1 (10:17 a.m.)

2 EXAMINER GOETZE: Which brings us to the
3 two last cases. Before we proceed with a reading,
4 Mr. Feldewert, I assume we're going to take the two
5 cases and combine them into one presentation?

6 MR. FELDEWERT: Yes, sir. We'd ask that
7 the cases be consolidated for hearing.

8 EXAMINER GOETZE: Very good.

9 So Case 15269, application of Chevron
10 U.S.A. for a nonstandard spacing and proration unit and
11 compulsory pooling, Eddy County, New Mexico, and with it
12 is combined Case 15270, application of Chevron U.S.A.,
13 Inc. for a nonstandard and proration unit and compulsory
14 pooling, Eddy County, New Mexico.

15 Call for appearances.

16 MR. FELDEWERT: May it please the Examiner,
17 Michael Feldewert with the Santa Fe office of
18 Holland & Hart appearing on behalf of the Applicant. We
19 have two witnesses here today.

20 EXAMINER GOETZE: Thank you for standing.
21 Identify yourself to the court reporter, and she will
22 swear you in.

23 MS. ISBELL: India Isbell.

24 MR. SCHWARTZ: Ken Schwartz, Chevron.

25 (Ms. Isbell and Mr. Schwartz sworn.)

1 EXAMINER GOETZE: Proceed.

2 MR. FELDEWERT: Call our first witness.

3 INDIA ISBELL,

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

6 DIRECT EXAMINATION

7 BY MR. FELDEWERT:

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

10 A. India Isbell, Chevron. I'm a land team lead.

11 Q. And how long have you been a land team lead?

12 A. I've been a team lead since January. I've been
13 a land representative for the last six years.

14 Q. All with Chevron?

15 A. Yes.

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

18 A. No.

19 Q. Would you please provide the Examiners with
20 your educational background?

21 A. I have a bachelor's in psychology from Purdue
22 University and a JD from the University of Houston.

23 Q. And when did you receive your law degree from
24 the University of Houston?

25 A. 2009.

1 Q. So have you been employed with Chevron as a
2 land representative since 2009?

3 A. Yes, I have.

4 Q. Have your responsibilities included the Permian
5 Basin?

6 A. Yes.

7 Q. Are you member of any professional affiliations
8 or associations?

9 A. I've been a member of the AAPL for
10 approximately six years and the Houston Petroleum
11 Landmen's Association for approximately six years.

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

14 A. Yes, I am.

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

17 A. Yes, I am.

18 MR. FELDEWERT: Mr. Examiner, I would
19 tender Ms. Isbell as an expert in petroleum land
20 matters.

21 EXAMINER GOETZE: She is so qualified.

22 Q. (BY MR. FELDEWERT) Would you be so kind as to
23 turn to what's been marked as Chevron Exhibit Number 1?
24 Does Chevron Exhibit Number 1 contain a filed C-102 for
25 each of the two proposed wells?

1 A. Yes, it does.

2 Q. And have these permits been approved for
3 drilling?

4 A. Yes, they have. Yes.

5 Q. What does the company seek under this
6 particular application -- under these consolidated
7 applications?

8 A. We're seeking a 160-acre nonstandard spacing
9 unit for each well, the 5H in the west half of the west
10 half, the 6H in the east half of the west half, and also
11 pooling uncommitted interest owners in the Bone Spring
12 Formation.

13 Q. And does Chevron Exhibit Number 1 provide the
14 Examiners with the API number of the proposed wells?

15 A. It does.

16 Q. And as well the pool code?

17 A. Yes, it does.

18 Q. And it also provides the poolage [sic]
19 locations for each of the two proposed wells?

20 A. Yes, it does.

21 Q. And do these exhibits reflect that both of
22 these wells comply with the Division setback
23 requirements?

24 A. Yes, it does.

25 Q. With respect to the west half of Section 21, is

1 that a mixture of state, federal and fee lands?

2 A. Yes, it is.

3 Q. Turn to what has been marked as Chevron Exhibit
4 Number 2. Does this provide a breakdown of the west
5 half of Section 21 for the Examiners?

6 A. Yes, it does.

7 Q. Would you please walk us through the colors in
8 which you show here?

9 A. Yes. The blue is a federal lease. It's all
10 one lease. The green shows a state lease, again all the
11 same state lease. And the pink or red color shows the
12 tract that is fee. And the undivided interest owners
13 are shown listed both in Tract 3, and they have an
14 interest in each of the wells.

15 Q. So are the interests uniform across the west
16 half?

17 A. Yes, it is.

18 Q. Does this reflect that Chevron owns 100 percent
19 of the federal lease?

20 A. Yes.

21 Q. And 100 percent of the state lease?

22 A. Yes.

23 Q. And if I look at the very bottom this exhibit,
24 there is a blue line, "CUSA." Is that Chevron?

25 A. Yes, it is.

1 Q. It shows that Chevron has a 45 percent interest
2 in the fee lease?

3 A. That's correct.

4 Q. This also reflects, if I'm reading it
5 correctly, that MRC Permian has 52 percent interest in
6 this particular fee lease?

7 A. Yes, it does.

8 Q. There is also some asterisks here with respect
9 to MRC's interest and another marking by Gulf Coast.
10 What does that?

11 A. We are currently finalizing a JOA with those
12 two parties. They're participating in the well.

13 Q. You don't have anything signed yet?

14 A. We do not have anything signed yet, but all
15 terms have been agreed to, and that's been communicated
16 to the parties. And I anticipate having it signed next
17 week.

18 Q. In the event that you come to an executed
19 agreement, will they be dismissed from the pooling
20 application?

21 A. Yes.

22 Q. The remaining parties listed on Exhibit Number
23 2, are these the parties that you seek to pool?

24 A. Yes.

25 Q. As well, I should say.

1 A. Yes.

2 Q. And are these currently unleased parties?

3 A. They are.

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

6 A. No.

7 Q. What efforts did the company undertake to
8 locate all of the interest owners in this fee tract?

9 A. We have, through our land brokers, searched the
10 public records, done Internet searches, made phone calls
11 to predecessors in interest and/or family members if
12 locatable.

13 Q. If I turn to what's been marked as Chevron
14 Exhibit Number 3, is this an Affidavit of Publication
15 for each of these two cases directed by name to the
16 interest owners that the company's been unable to
17 locate?

18 A. Yes.

19 Q. If I then turn to what's been marked as Chevron
20 Exhibit Number 4 and, again, Chevron Exhibit 5, are
21 these copies of the well-proposal letters that were sent
22 out to the interest owners for these two wells that you
23 were able to locate?

24 A. Yes, they are.

25 Q. And when these letters were submitted, did they

1 include an AFE?

2 A. They did.

3 Q. In addition to sending out these letters that
4 are reflected in Chevron Exhibits 4 and 5, what other
5 efforts did the company undertake to reach an agreement
6 with the interest owners you were able to locate?

7 A. We contacted, again through our land brokers,
8 all of the identifiable parties. We contacted them,
9 sent them both written letters and phone calls
10 requesting a lease and did not receive a response or not
11 a favorable response.

12 Q. Nonfavorable? Meaning they did not want to
13 lease?

14 A. Exactly.

15 Q. If I turn to what's been marked as Chevron
16 Exhibit Number 6, at some point did the company realize
17 that there was an error in the AFEs that had been
18 submitted with the original well-proposal letters?

19 A. Yes.

20 Q. And under this letter dated January 12th, 2015,
21 did Chevron provide updated AFEs to the interest owners
22 that you were able to locate?

23 A. Yes.

24 Q. Are the costs essentially the same for both the
25 5H and 6H well?

1 A. Yes, they are.

2 Q. And this indicates -- the front page provides a
3 total cost of the AFE that was submitted?

4 A. Yes.

5 Q. Are the costs reflected on the AFE marked as
6 Exhibit Number 6, or AFEs, are they consistent with what
7 the company has incurred for drilling similar horizontal
8 wells in this area?

9 A. Yes, they are.

10 Q. And has the company also made an estimate of
11 the overhead and the administrative costs while drilling
12 and also while producing if you are successful?

13 A. Yes.

14 Q. And what are those figures?

15 A. 7,000 while drilling and 700 while producing.

16 Q. And are those the same overhead rates that are
17 in the JOA that you hope to have executed with the
18 parties that have committed to these wells?

19 A. Yes, they are.

20 Q. And in the course of preparing for this
21 hearing, did the company identify the operators and
22 lessees in the 40-acre tracts surrounding each of the
23 proposed nonstandard spacing units?

24 A. Yes, we did.

25 Q. And as a result, did the company provide notice

1 of this hearing to these known offset operators and
2 lessees?

3 A. Yes.

4 Q. If I turn to what's been marked as Chevron
5 Exhibit Number 7, is this an affidavit prepared by my
6 office with attached letters for each of these wells
7 providing notice of this hearing to the affected
8 parties?

9 A. Yes, it did.

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

12 A. Yes, they were.

13 MR. FELDEWERT: At this time, Mr. Examiner,
14 I'd move the admission into evidence Chevron Exhibits 1
15 through 7, which contains my notice affidavit.

16 EXAMINER GOETZE: Exhibits 1 through 7 are
17 so entered.

18 (Chevron U.S.A., Inc. Exhibit Numbers 1
19 through 7 were offered and admitted into
20 evidence.)

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

23 EXAMINER GOETZE: Counsel?

24 EXAMINER WADE: No questions.

25

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. With this follow-up AFE letter, did you
4 duplicate the effort with notification to all the same
5 parties as far as flipping [sic] it?

6 A. Yes.

7 Q. And were there any different results as far as
8 returns and notifications?

9 A. No.

10 Q. Same?

11 EXAMINER GOETZE: I have no further
12 questions for this witness.

13 Thank you.

14 MR. FELDEWERT: Call our next witness.

15 EXAMINER GOETZE: Very good, sir.

16 KENNETH SCHWARTZ,
17 after having been previously sworn under oath, was
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. FELDEWERT:

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

23 A. My name is Ken Schwartz. I work for Chevron as
24 a subsurface team lead.

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

1 A. Ten years.

2 Q. And are you a geologist?

3 A. Yes.

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

6 A. Yes.

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

10 A. Yes.

11 Q. Mr. Schwartz, are you familiar with the
12 applications that have been filed in these consolidated
13 cases?

14 A. Yes.

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

18 A. Yes.

19 MR. FELDEWERT: I'd once again tender
20 Mr. Schwartz as an expert witness in petroleum geology.

21 EXAMINER GOETZE: He is so qualified.

22 Q. (BY MR. FELDEWERT) Mr. Schwartz, what is the
23 target interval for each of these two proposed wells?

24 A. 2nd Bone Spring sand.

25 Q. Have you prepared a structure map and a cross

1 section of this interval for the Examiners?

2 A. Yes, I have.

3 Q. If I turn to what's been marked as Chevron
4 Exhibit 8, is that your structure map?

5 A. Yes. This is the 2nd Bone Spring sand
6 structure map.

7 Q. And what does this show us?

8 A. So the contour interval -- excuse me -- is
9 roughly 25 feet. The Bone Spring sand is dipped
10 between -- it's a monoclonal dip, general dip, to
11 roughly east. As you see in the structure, there is no
12 faulting or pinch-outs or unconformities through the
13 Bone Spring section.

14 Q. Now, has the company drilled any horizontal
15 wells yet in Section 21?

16 A. No. These will be the first wells.

17 Q. If I look to the north in Section 16, has the
18 company drilled any horizontal wells in the 2nd Bone
19 Spring sand --

20 A. Yes. There are three -- Chevron has drilled
21 and produced three 2nd Bone Spring sand wells in Section
22 16.

23 Q. This exhibit also contains A to A prime
24 marking?

25 A. Yes.

1 Q. And they are representative of the wells that
2 you utilized to create your cross section?

3 A. Yes.

4 Q. In your opinion, are those wells representative
5 of the area in question?

6 A. Yes.

7 Q. If I turn to what's been marked as Chevron
8 Exhibit Number 9, is this the stratigraphic cross
9 section corresponding to the wells shown on the prior
10 exhibit?

11 A. Yes.

12 Q. And what does this stratigraphic cross section
13 reference show us. Explain the colors, please?

14 A. The yellow is basically outlining the whole 2nd
15 Bone Spring sand. The A well is the Cottonwood Draw,
16 and the A prime well is the Beggs 21 State. So you can
17 see there is fairly uniform consistency of the 2nd Bone
18 Spring sand throughout Sections 20 and 21. The top line
19 shows the top of the 2nd Bone Spring sand, and the
20 bottom line is the 3rd Bone Spring sand, top of the 3rd
21 Bone Spring carbonate.

22 Q. Now, if I keep this cross section in mind and I
23 turn to what's been marked as Chevron Exhibit Number 10,
24 is this a closeup view of that stratigraphic cross
25 section that notifies in more detail the target interval

1 within the 2nd Bone Spring sand on the proposed well?

2 A. Yes. It's the -- the green interval outlines
3 the sands that we will be targeting with our laterals.
4 It's the same sand we targeted in Section 16 and have
5 produced from, so it just outlines the same consistency
6 in the target interval.

7 Q. And will the orientation of the wells be the
8 same in Section 21 as they are in Section 16?

9 A. Yes. They will be stand-up wells drilled
10 north-south.

11 Q. Have you observed any geologic impediments to
12 the development of this area using full-section
13 horizontal wells?

14 A. No.

15 Q. In your opinion, Mr. Schwartz, is this an area
16 that can be efficiently and economically developed by
17 horizontal wells?

18 A. Yes.

19 Q. And based on your studies, is it your opinion
20 that the acreage within the nonstandard spacing units,
21 that they will contribute more or less equally to the
22 production from the wellbore?

23 A. Yes.

24 Q. And finally, in your opinion, will the granting
25 of this application be in the best interest of

1 conservation, the prevention of waste and the protection
2 of correlative rights?

3 A. Yes.

4 Q. Were Chevron Exhibits 8 through 10 prepared by
5 you or compiled under your direction and supervision?

6 A. Yes.

7 MR. FELDEWERT: At this time, Mr. Examiner,
8 I would move the admission into evidence of Chevron
9 Exhibits 8 through 10.

10 EXAMINER GOETZE: Exhibits 8 through 10 are
11 so entered.

12 (Chevron U.S.A., Inc. Exhibit Numbers 8
13 through 10 were offered and admitted into
14 evidence.)

15 MR. FELDEWERT: That concludes my
16 examination.

17 EXAMINER GOETZE: Counsel?

18 EXAMINER WADE: No questions.

19 EXAMINER GOETZE: Very good.

20 CROSS-EXAMINATION

21 BY EXAMINER GOETZE:

22 Q. Since we have a structure map, just a few
23 questions about the existing production area. We
24 mentioned we have three wells in Section 16. Those are
25 all oriented north-south, correct?

1 A. Yes.

2 Q. And then how about adjoining Section 20?

3 What's happening in that? Do you have any idea?

4 A. Section 20 has not been drilled yet. We do
5 have some interest in that. It has not been drilled
6 with a Bone Spring horizontal well.

7 Q. Okay. So we're seeing in this area a trend to
8 go north-south as opposed to east-west --

9 A. Yes.

10 Q. -- or do we have a mixture in this area?

11 A. There is a mix in the regional -- in the
12 regional area, but we're finding -- we do have some data
13 such as FMI and core data that suggests the core and
14 dipole -- preferred orientation is north-south.

15 Q. And just one more clarification. The wells in
16 16, do they cover the west half?

17 A. So in 16, there are two wells in the west half.

18 Q. So that is covered with two laterals, so you'll
19 do horizontals?

20 A. Yes.

21 EXAMINER GOETZE: I have no further
22 questions for this witness.

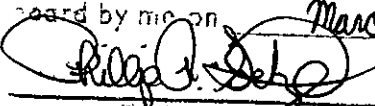
23 MR. FELDEWERT: Thank you, Mr. Examiner.
24 That concludes our presentation.

25 EXAMINER GOETZE: Okay. Then Case 15269

1 and Case 15270 are taken under advisement.

2 And so ends the docket for March 19th,
3 2015, Docket Number 08-15. Thank you.

4 (Case Numbers 15269 and 15270 conclude,
5 10:34 a.m.)
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15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 15269 & 15270
18 heard by me on March 19, 2015.
19  , Examiner
20 Oil Conservation Division
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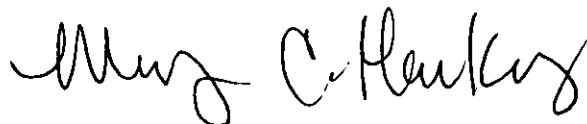
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

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.
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25