

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

CASE 15309

APPLICATION OF CHEVRON U.S.A. INC.
FOR APPROVAL OF A 474.85 ACRE NON-STANDARD
PROJECT AREA COMPRISED OF ACREAGE SUBJECT TO A PROPOSED
COMMUNITIZATION AGREEMENT, LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

MAY 28, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
SCOTT DAWSON, ADJUNCT EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, Scott Dawson, Adjunct Examiner, and
Gabriel Wade, Legal Examiner, on May 28, 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: ELLEN H. ALLANIC
NEW MEXICO CCR 100
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

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

3 Michael H. Feldewert, Esq.
 4 Holland & Hart
 110 North Guadalupe
 Suite 1
 5 Santa Fe, New Mexico 87501
 (505)988-4421
 6 mfeldewert@hollandhart.com

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9 I N D E X

10 CASE NUMBER 15309 CALLED

11 CHEVRON U.S.A. INC. CASE-IN-CHIEF:

12 WITNESS ROBERT (Rob) MORRISON

13		Direct	Redirect	Further
	By Mr. Feldewert	4		

14

EXAMINATION

15	Examiner Dawson	15
	Examiner Jones	17

16

17 WITNESS DR. ZAID PATRICK TAHA

18		Direct	Redirect	Further
	By Mr. Feldewert	22		

19

EXAMINATION

20	Examiner Dawson	31
	Examiner Jones	32

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24 Reporter's Certificate

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1 (Time noted 9:06 a.m.)

2 EXAMINER JONES: Let's call case 15309,
3 Application of Chevron U.S.A. Inc. for Approval of a
4 474.85 Acre Non-standard Project Area Comprised of
5 Acreage Subject to a Proposed Communitization Agreement,
6 Lea County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please, Mr. Examiner,
9 Michael Feldewert with the Santa Fe office of Holland
10 and Hart, appearing on behalf of the Applicant. And I
11 have three two witnesses here today.

12 EXAMINER JONES: Any other appearances?

13 (No response.)

14 EXAMINER JONES: Will the witnesses please
15 stand. And will the court reporter please swear the
16 witnesses.

17 (Whereupon, the presenting witnesses were
18 administered the oath.)

19 ROBERT MORRISON, JR.
20 having been first duly sworn, was examined and testified
21 as follows:

22 DIRECT EXAMINATION

23 BY MR. FELDEWERT:

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

1 A. My name is Robert Bruce Morrison, Jr. I am
2 employed by Chevron as a land representative in the area
3 of Lea County, New Mexico.

4 Q. And how long have you been a land representative
5 with Chevron?

6 A. For two years.

7 Q. And do your responsibilities include the Permian
8 Basin of New Mexico?

9 A. Yes, they do.

10 Q. And have you previously testified before this
11 Division and had your credentials as an expert in
12 petroleum land matters accepted and made a matter of
13 public record?

14 A. I have.

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

17 A. I am.

18 Q. And have you conducted a study or -- are you
19 familiar with the status of the lands in the subject
20 area?

21 A. I am, yes.

22 MR. FELDEWERT: I would tender Mr. Morrison
23 as an expert in petroleum land matters.

24 EXAMINER JONES: He is so qualified.

25 THE WITNESS: Thank you.

1 Q. Would you please turn to what has been marked as
2 Chevron Exhibit 1. First identify it and then explain
3 what it shows.

4 A. Yes. Here we have a Midland map depicting the
5 east half of sections 29 and 32, which border the Texas
6 border and township 26 south, 33 east. Chevron is the
7 owner of all the working interests throughout these two
8 sections.

9 Q. Now we have the east half of 29 and then what is
10 essentially the east half of 32; is that right?

11 A. Essentially, yes.

12 Q. Section 32 sits right along the Texas, New Mexico
13 border?

14 A. Correct.

15 Q. How many leases are involved in what I'll call
16 the east half acreage?

17 A. There are three leases made up of two federal
18 leases and one state lease, the state lease being
19 located in section 32.

20 Q. If I turn to what has been marked as Chevron
21 Exhibit 2, does this identify for the Examiners the
22 three leases that you just identified?

23 A. It does. If you will notice the legend in the
24 left-hand corner, the lease at the top in the northeast
25 quarter of section 29, indicated in blue, is a federal

1 lease; the lease in the southeast quarter of 29,
2 indicated in green, is another federal lease; and the
3 lease indicated with the color purple in the
4 northeast -- excuse me -- the north half of the
5 northeast of 32 and lots 1 and 2 of section 32 is a
6 state lease.

7 Q. I see that you have once again outlined the
8 proposed non-standard project area.

9 A. I have, indicated by the thick black line
10 outlining the east half of section 29 and 32.

11 Q. And then what is the significance of four lines
12 that we see within that outlined area?

13 A. So the four lines indicate the four wells. The
14 hard lines indicate the wells that have been drilled to
15 total depth across all six quarter, quarters. And the
16 dashed lines indicate the wells that are proposed to be
17 drilled.

18 All four wells -- the surface hole of all four
19 wells has been batch drilled, and we are moving onto --
20 forgive me -- if we move back, moving from west to east,
21 the wells are numbered 5H through 8H. We have drilled a
22 5H and the 8H, 2TD and we are moving back to the west to
23 drill the 7H and the 6H.

24 Q. Is that part of the batch drilling?

25 A. It will be part of the batch drilling, yes.

1 Q. Now, what is the significance of the yellow
2 square at the top of this exhibit?

3 A. The yellow square indicates the four-well pad
4 from which all four wells -- the surface holes for all
5 four wells have been located.

6 Q. Okay. If I turn to what has been marked as
7 Chevron Exhibit 3, does it comprise the approved C-102s
8 for each of the four wells?

9 A. Correct. All four wells located in the Bone
10 Spring Pool, yes.

11 Q. And they are all located in the same Bone Spring
12 Pool?

13 A. Yes.

14 Q. So these APDs provide the Examiner with the
15 current pool name as well as the pool code?

16 A. For the guidance of Paul Kautz, yes.

17 Q. This particular pool, is it subject to the
18 division of statewide rules?

19 A. It is. 40-acre oil spacing.

20 Q. And each of these wells is currently dedicated to
21 roughly 257 acres, correct?

22 A. That's correct.

23 Q. And in the event that this application is
24 granted, will these APDs be amended to reflect
25 dedication of all four wells to the proposed

1 non-standard project area?

2 A. Correct. The C-102s will indicate the dedicated
3 acres of 474.85, I believe.

4 Q. Again, corresponding to the total acreage
5 comprising the three leases that are involved?

6 A. Correct.

7 Q. And if I turn to what has been marked as Chevron
8 Exhibit 4, is this just simply the sundry notice
9 describing the approval of the batch drilling that you
10 discussed earlier?

11 A. Correct. This indicates the approval of the
12 batch drilling of the four surface hole locations. As
13 indicated in the second page -- excuse me.

14 The first well, the 5H was drilled 2TD. And
15 subsequently the 6H, 7H, and 8H surface holes were batch
16 drilled. And once we reached the 8H, the 8H was drilled
17 to TD in the six quarter, quarter.

18 Q. Okay. Now, given the uniformity of the leases
19 across the acreage and your desire to locate all the
20 facilities at one location, did Chevron have discussions
21 with both the BLM and the New Mexico State Land Office
22 about a communitization agreement for this east half
23 area?

24 A. They have. We did.

25 Q. And what is -- and what was BLM's -- well, what's

1 the nature of the discussion with the BLM?

2 A. The BLM requested as large a communitization
3 agreement as possible. Due to the distribution of the
4 leases and the presence of state acres, they ended up
5 endorsing a path forward of an east half comm agreement.
6 However, such approval is subject to a completion report
7 of all four wells.

8 Q. Have you had extensive discussions with the BLM?

9 A. We have.

10 Q. Over a long period of time?

11 A. Yes.

12 Q. And is this the path that they told you that they
13 wanted Chevron to proceed on?

14 A. It is.

15 Q. Did you also then have discussions with the New
16 Mexico State Land Office?

17 A. We did.

18 Q. And are they willing to approve an
19 communitization covering this east half acreage?

20 A. They are. And they have indicated by their
21 certificate of approval.

22 Q. And has that been marked as Chevron Exhibit 6?

23 A. That is correct.

24 Q. I skipped one.

25 If I turn to what has been marked as Chevron

1 Exhibit 5, is this a copy of the communitization
2 agreement that has been discussed both with the BLM --
3 extensively with the BLM and with the New Mexico State
4 Land Office?

5 A. It is.

6 Q. Did the New Mexico State Land Office indicate
7 what would be necessary from an ONGARD standpoint to
8 implement this east half communitization?

9 A. They did. They indicated that in order to set up
10 multiple -- commit multiple wells to a communitization
11 agreement, the wells -- the acres dedicated to a given
12 well must reflect identical acres under a
13 communitization agreement.

14 Q. Is that why the company is here with the Division
15 seeking approval on a non-standard project that
16 corresponds with the communitized area?

17 A. Yes, that is correct.

18 Q. Looking at this communitization agreement, it
19 identifies -- first off, is this a form that you were
20 directed to use by the BLM and the state land office?

21 A. Yes, I was.

22 Q. And if I look down at paragraph 1, does it
23 reflect that it's limited to the Bone Spring Formation?

24 A. That is correct.

25 Q. If I then flip over to page 2, were there any

1 particular modifications to this agreement that the BLM
2 required?

3 A. Yes, there were.

4 Q. And where is that located?

5 A. That is located within provision 5, beginning
6 with "all proceeds" as it relates to unleased mineral
7 acres.

8 Q. And that was a provision that the BLM required to
9 be added to this form?

10 A. That is correct.

11 Q. And then if I look at page 3, does this identify
12 the effective date for the communitization agreement?

13 A. "September 1st or at the onset of production of
14 the communitized substances, whichever is earlier."

15 Q. And that is located in paragraph 10?

16 A. That is correct, paragraph 10.

17 Q. And then, finally, we see towards the end of this
18 communitization agreement that you have an Exhibit A
19 that corresponds with your depiction of the east half
20 acreage; is that correct?

21 A. That is correct.

22 Q. And then in Exhibit B, it identifies how the
23 production is to be allocated amongst the three leases?

24 A. That is correct.

25 Q. And as you mentioned if I turn to Chevron

1 Exhibit 6, Commissioner Dunn has already provided final
2 approval of this communitization agreement as reflected
3 on Exhibit 6, correct?

4 A. Correct.

5 Q. And I believe -- kind of closing a loop on
6 this -- you've already discussed that the BLM indicated
7 that they would not approve it until we get completion
8 reports?

9 A. That's correct.

10 Q. Okay. But they have indicated to you that this
11 is the path that they want the company to move forward?

12 A. It is the path that they wanted the company to
13 move forward with and that the agreement looked okay,
14 but approval in written form would not be provided until
15 the wells were completed.

16 Q. Who are you dealing with down there at the BLM?

17 A. Specifically related to the communitization
18 agreement, Ed Fernandez. But the matter was discussed
19 in early February at a meeting with Ed Fernandez, George
20 McDonnell, Steve Cathie, Duncan Witlock -- I believe
21 that was all.

22 Q. And to your knowledge have there also been
23 discussions between the BLM and the state land office
24 about this acreage?

25 A. There has been some joint communication with the

1 state land office and the BLM Carlsbad office.

2 Q. Okay. You mentioned that the pool that's
3 involved here is subject to the statewide rules
4 requiring 40-acre spacing?

5 A. That is correct.

6 Q. In preparation for this hearing, did the company
7 identify the effective parties in the 40-acre tracts
8 surrounding your proposed non-standard project area?

9 A. We have.

10 Q. Turn to what has been marked as Chevron
11 Exhibit 7; is this an affidavit prepared by my office
12 with attached letters providing notice of this hearing
13 to these offsetting affected parties?

14 A. That's correct.

15 Q. Finally, Mr. Morrison, were Chevron Exhibits 1
16 through 6 prepared by you or compiled under your
17 direction or supervision?

18 A. They were.

19 MR. FELDEWERT: Mr. Examiner, I move Chevron
20 Exhibits 1 through 7, which includes my notice
21 affidavit.

22 EXAMINER JONES: Exhibit 1 through 7 will be
23 admitted.

24 (Whereupon, CHEVRON U.S.A. INC. Exhibits 1
25 through 7 were offered and admitted.)

1 MR. FELDEWERT: And that completes my
2 examination of this witness.

3 EXAMINER DAWSON: I just have a couple of
4 questions.

5 EXAMINATION BY EXAMINER DAWSON

6 EXAMINER DAWSON: On Exhibit 5, the
7 communitization agreement, that is on a state form?

8 THE WITNESS: Yes, that's on a state form as
9 published online.

10 EXAMINER DAWSON: And this is a -- I'm
11 almost sure it is going to be used by both agencies,
12 just the one form?

13 THE WITNESS: That's correct.

14 EXAMINER DAWSON: Because the BLM did have
15 some corrections that they wanted on it?

16 THE WITNESS: That's correct.

17 EXAMINER DAWSON: On paragraph 10 of that
18 agreement, the effective date, September 1st, 2015, is
19 that when the 5H was completed, was it completed that
20 month?

21 THE WITNESS: So September 1st, 2015, is in
22 the future. And all four wells --

23 EXAMINER DAWSON: Yes, that's right.

24 THE WITNESS: -- will be zipper fracked,
25 will be completed simultaneously, with completions

1 commencing in late July. So the onset of production is
2 anticipated sometime in late August, early September.

3 EXAMINER DAWSON: And you have already
4 drilled the 5H and the 8H?

5 THE WITNESS: Correct.

6 EXAMINER DAWSON: Because I notice that that
7 state lease had an April 1st expiration date, so you
8 commenced drilling before April 1st on those wells?

9 THE WITNESS: We had. In fact, we had
10 another well that was drilled and producing prior to
11 that April 1st date.

12 EXAMINER DAWSON: Okay. Are there any other
13 existing wells within that acreage now?

14 THE WITNESS: Within the east half acreage?

15 EXAMINER DAWSON: Yes.

16 THE WITNESS: No, sir.

17 EXAMINER DAWSON: It looks like there's a
18 well down in the southeast quarter of 29 on this map on
19 Exhibit 2?

20 THE WITNESS: There is no production.

21 EXAMINER DAWSON: That well is not producing
22 anymore?

23 THE WITNESS: Correct.

24 EXAMINER DAWSON: And then that well looks
25 like it was dry-holed up in the northeast quarter?

1 THE WITNESS: That's correct.

2 EXAMINER DAWSON: Again, you guys will
3 notify us if there are any interwell communication
4 issues?

5 THE WITNESS: Absolutely.

6 EXAMINER DAWSON: That's all the questions I
7 have.

8 EXAMINATION BY EXAMINER JONES

9 EXAMINER JONES: Mr. Morrison, who pays for
10 these wells? Who's the cost interest people, just
11 Chevron?

12 THE WITNESS: Yes, that's it. 100 percent
13 Chevron U.S.A.

14 EXAMINER JONES: And the lessees of record
15 in the project area, all Chevron?

16 THE WITNESS: The record title for the
17 state -- excuse me -- for the southeast of 29 has been
18 filed with the BLM. It's before the Fluidstine for
19 review and we anticipate the approval of the assignment
20 of record title within the next month.

21 But Chevron has had 100 percent working
22 interest and 100 percent operating rights for over a
23 year now. Just some clean up work.

24 EXAMINER JONES: Yeah. So in the southeast
25 of 29, who is the record title owner right now before

1 this assignment happens?

2 THE WITNESS: So EOG was the record title
3 owner. They have actually signed --

4 EXAMINER JONES: They have signed it?

5 THE WITNESS: Yes, and it has been sent to
6 the BLM for approval.

7 EXAMINER JONES: Okay. So the BLM is
8 recording it?

9 THE WITNESS: Yes, sir.

10 EXAMINER JONES: And on the comm agreement
11 that's -- by that time -- the state land office comm
12 agreement required the record title owners to sign. So
13 they required EOG to sign?

14 THE WITNESS: No, they did not.

15 EXAMINER JONES: They didn't?

16 THE WITNESS: No, as it was indicated that
17 we are the 100 percent record title owner. At the time
18 it was prepared, we had the executed record title --
19 assignment of record title from EOG, but it had been
20 filed of record with the BLM at the time.

21 EXAMINER JONES: Okay. Are there any
22 overrides in this?

23 THE WITNESS: Yes, sir, there are. And they
24 will be -- until the approval by the BLM, they will have
25 to be paid identical to that of the BLM per the

1 reserving -- or the creating document.

2 They will be paid basically unreduced until
3 the BLM approves the comm agreement, which allows us to
4 pay override and royalty owners in the same manner with
5 which we pay the federal government.

6 EXAMINER JONES: I think I understood a
7 little bit of that. Everything mainly on the federal
8 leases or --

9 THE WITNESS: They are only located in the
10 northeast quarter of section 29. The remainder of the
11 leases, the federal lease in the southeast of 29 and the
12 state lease in section 32 are free of burdens.

13 EXAMINER JONES: So they are listed in the
14 comm agreement --

15 EXAMINER DAWSON: Yes.

16 THE WITNESS: Yes, sir.

17 EXAMINER JONES: So they know about this --

18 THE WITNESS: They --

19 EXAMINER JONES: They know about this or
20 they are contractually covered by this?

21 THE WITNESS: Correct.

22 EXAMINER JONES: Okay. Are there any other
23 Division permits pertaining to this area that's already
24 been obtained by non-standard locations, non-standard
25 spacing, any of that stuff; in the east half here

1 there's nothing, right?

2 THE WITNESS: No.

3 EXAMINER JONES: Okay. And so Paul Kautz or
4 the Hobbs district office knows about this; is that
5 correct?

6 THE WITNESS: Paul Kautz was made aware of a
7 previous plan to create a whole section super-comm and
8 an enlarged project area. We have not revisited the
9 issue since we reduced it from 949 to 474.

10 EXAMINER JONES: Okay. So there's no --
11 they are going to wait for all wells to file a
12 completion report and then they will go ahead and ratify
13 the comm agreement?

14 THE WITNESS: Correct.

15 EXAMINER JONES: Record it, I guess.

16 THE WITNESS: Examiner, could you re-ask
17 your question regarding the overriding royalty owners?
18 I want to make sure that we have an understanding.

19 EXAMINER JONES: Okay.

20 Are they aware -- and in what method would
21 they be made aware of the combination of the acreage
22 that they have interest in with this other acreage?

23 THE WITNESS: They will receive notice of
24 that by division order, internal division order to the
25 owners of interest, and will be paid unreduced until the

1 approval of the -- the approval of the communitization
2 agreement by the deal in Carlsbad, at which time another
3 division order will be submitted that shows their
4 proportionally reduced interest per the approved
5 communitization agreement.

6 EXAMINER JONES: Thank you.

7 THE WITNESS: Yes, sir.

8 EXAMINER JONES: Just trying to build a
9 record here.

10 THE WITNESS: Good. I wanted to make sure
11 we got that built.

12 EXAMINER WADE: Want to take a break --

13 EXAMINER JONES: No questions?

14 EXAMINER WADE: -- before I ask any
15 questions?

16 EXAMINER JONES: Yes. If it is okay, we
17 will take a ten-minute break.

18 (Brief recess.)

19 EXAMINER JONES: Let's go back on the
20 record. And I don't think we have any more questions
21 for this witness.

22 MR. FELDEWERT: Okay. We will call our next
23 witness.

24 ZAID PATRICK TAHA
25 having been first duly sworn, was examined and testified

1 as follows:

2 DIRECT EXAMINATION

3 BY MR. FELDEWERT:

4 Q. Good morning.

5 A. Good morning.

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

8 A. Sure. My name is Zaid Patrick Taha and I'm
9 employed by Chevron. I am a geologist.

10 Q. How do you spell your last name?

11 A. T-a-h-a, Taha.

12 Q. And, Mr. Taha, how long have you been a
13 geologist?

14 A. With Chevron eight-and-a-half years.

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

17 A. No, I haven't.

18 Q. Would you provide the examiners with your
19 educational background.

20 A. Sure. The last degree I got was a Ph.D in
21 geology at Rice University.

22 Q. And when was that?

23 A. It was 2007 when I finished.

24 Q. So you have been employed with Chevron since that
25 time?

1 A. Yes.

2 Q. As a geologist?

3 A. Yes.

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

6 A. They have.

7 Q. And are you a member of any professional
8 affiliations or associations?

9 A. Yes. The Geologist Society of America on and off
10 for the last ten years; continuous for the last three
11 years.

12 Q. Okay. Are you familiar with the application
13 filed in this case?

14 A. Yes.

15 Q. Have you conducted a geologic study of the
16 subject area?

17 A. Yes, I have.

18 MR. FELDEWERT: I tender Mr. Taha as an
19 expert witness in Petroleum geology.

20 EXAMINER JONES: Are you a member of the
21 Society of Petroleum Geologists?

22 THE WITNESS: In the past, I have been a
23 part of the AAPG.

24 EXAMINER JONES: And are you in the labs
25 with Chevron or are you in a team?

1 THE WITNESS: I'm in a team. I'm in the
2 development team here. So I'm a development geologist
3 imbedded with the team that's developing the Salado Draw
4 acreage.

5 EXAMINER JONES: He is so qualified.

6 Q. (By Mr. Feldewert) And by the Salado Draw
7 acreage, you're talking about the subject acreage of the
8 testimony here today?

9 A. This is a portion of the larger Salado Draw
10 development acreage.

11 Q. Okay. What is the target of the wells that have
12 been discussed here today?

13 A. The target is the upper Avalon unit; that's our
14 current development in this area.

15 Q. And that's within the Bone Spring Formation?

16 A. That is. It's at the very top. You will see, if
17 I can direct your attention to where I think you are
18 going, that we have BSGI at the top, Bone Spring line.

19 Q. So we are going to move to Chevron Exhibit No. 8.

20 A. And just below that, we start at the upper
21 Avalon. There just wasn't enough space to put "Upper
22 Avalon" there, to kind of orient you.

23 Q. Why don't you describe for the record Chevron
24 Exhibit 8, and then identify what is shown on this
25 particular exhibit.

1 A. Sure. It's difficult to put an A and A Prime
2 when you are designating a cross section. And,
3 unfortunately, I left those out here. So let me orient
4 you another way.

5 We have the Porter Brown well to the northwest
6 and Madera Malcolm well to the southeast. These are the
7 two closest wells to the cross -- to the subject area.

8 Q. And one of those wells is actually in Texas,
9 right?

10 A. Yes, one of those wells is just across the border
11 in Texas. It is in section 5.

12 The Porter Brown well is drilled by Chevron,
13 2012; and the Madera Malcolm well is an older well
14 drilled in '81. In terms of logs we have here, we were
15 missing the density log for the Madera Malcolm well. So
16 for continuity, I just indicated a gamma ray log on the
17 left-hand side and the neutron log, neutron porosity log
18 on the right-hand side.

19 And what I want to show here is continuity of the
20 stratigraphy across the subject area.

21 Q. Okay. Starting at the -- if I am looking at the
22 left-hand side, starting at the top, why don't you just
23 describe what the lines indicate.

24 A. Sure. So the Bone Spring line is the top of the
25 Bone Spring. 20 to 40 feet below that you get into the

1 Upper Avalon.

2 The Upper Avalon net pay interval in this case is
3 about 220 feet thick across the entire area.

4 Q. So you have a line there that is BSGI, and that's
5 the Upper Bone Spring?

6 A. Right, correct.

7 Q. And then you have a line here in green, and that
8 is the Lower Avalon?

9 A. That is another development target for us.
10 Another 200-to-250 feet of net pay for a second
11 development target. And below that, we have the first
12 Bone Spring. And we have yet another target there.

13 At the very base, you'll see WFMP, the Wolfcamp.
14 So that's the base of the Bone Spring.

15 Q. And based on your analysis, what do you observe
16 about the continuity of these target formations across
17 the proposed non-standard project area?

18 A. They appear to be continuous, based upon the
19 stratigraphy, based upon the wire line logs and based
20 upon seismic data.

21 Q. Have you also examined the structure of the Bone
22 Spring in this area?

23 A. I have.

24 Q. Have you observed any faults or pinch-outs or
25 other geologic impediments that will prevent this

1 acreage from being developed with full section
2 horizontal wells?

3 A. I have observed the fault. I haven't observed
4 any geologic pinch-outs or anything that would be an
5 impediment to development of all the acreage across
6 here.

7 Q. Now have you examined this fault?

8 A. I have.

9 Q. And in your opinion, is it going to be an
10 impediment or is it an impediment to the development of
11 this area?

12 A. It is not.

13 Q. Why don't we turn to what's been marked as
14 Chevron Exhibit 9. Would you please identify it and
15 explain how it relates to your opinion about what you
16 label on here as a minor fault.

17 A. Sure. Let me describe this briefly, what we're
18 looking at here. We have a legend here showing depth at
19 TTV SubC. So we are looking at the eastern half of
20 section 29 and 32.

21 The highest -- structurally the highest point is
22 about 5,700 feet TTV SubC and the lowest is about
23 5,900 feet. So we have about 200 feet of structural
24 depth across this area, 1 to 3 degrees depending on
25 where you are at.

1 Q. To the south --

2 A. To the southeast.

3 We have one fold. I know I have two little red
4 lines here -- it's an echelon fold. So there's a --
5 there's an overall fault in the northeastern section of
6 section 29, the eastern half of section 29 --
7 northwestern rather. And there's a little offset and
8 there's a second fault.

9 That second small fault has the greatest amount
10 of throw. We've drilled a well through there, the
11 Salado Draw 29 5H well, and we had no problems remaining
12 in zone the entire way.

13 Q. So you've actually drilled a well through the
14 fault that you label here as a minor fault?

15 A. Yes.

16 Q. And do you see any concerns with drilling the
17 remaining wells across this area?

18 A. No. In fact, we've drilled a second well. We've
19 drilled the 8H well on the eastern side. And we're
20 currently drilling the 7H well and going to follow that
21 up with the 6H well.

22 Q. Anything else with respect to this exhibit?

23 A. I guess the only other point I would make here is
24 the net pay in this interval is about 220-feet thick and
25 the maximum displacement longest fault is 110 feet.

1 Q. If I then turn to what's been marked as Chevron
2 Exhibit 10, is this a further exhibit that analyzes this
3 area, in particular the minor fault?

4 A. Yes.

5 Q. And why don't you identify this exhibit for us
6 and explain what it shows.

7 A. Sure. Let me orient you here. So the 29 5H well
8 that I mentioned, which is on the eastern side of
9 Exhibit 9 -- sorry -- rather, on the western side of
10 section -- the eastern half of section 29.

11 This is the seismic cross section indicating both
12 the entire stratigraphy from the top to the base of the
13 Bone Spring. And it has the pilot hole for the 29 5H on
14 the far right, and we have the horizontal itself
15 crossing the entire -- the entire seismic interval here.

16 In terms of color-coding this, the gamma ray --
17 according to the pilot hole, we encounter carbonate and
18 we confirmed that with mud logs. So we know we have
19 carbonate at the very base. At no point along the
20 horizontal did we encounter carbonates.

21 So we never dipped out of the net pay interval,
22 highlighted here as the Upper Avalon pay zone on the
23 right-hand side.

24 The fault can be seen about 200 -- occurring at
25 about 2000 feet into the lateral. And the gamma ray

1 curve indicates continuity on one side and the other
2 side of the fault.

3 And I guess the only other thing I would point
4 out here is, based upon the stratigraphy -- because the
5 upper Avalon is not our only target -- we have pretty
6 continuous beds across the entire interval and no other
7 faults.

8 Q. And this then further reflects that despite this
9 minor fault your well remained in the zone along the
10 entire interval?

11 A. It did.

12 Q. Based on your analysis, Mr. Taha, would the
13 slight fault depicted on Chevron Exhibits 9 and 10
14 impact the ability of the wells drilled in this enlarged
15 project area to develop and produce the Bone Spring
16 Formation?

17 A. We do not believe it will.

18 Q. And in your opinion, will the leases that
19 comprise the proposed non-standard project area
20 contribute to production in proportion to the acreage
21 contribution of each of these?

22 A. We feel they will.

23 Q. And in your opinion, will the approval of this
24 application be in the best interests of conservation and
25 the prevention of waste and the protection of

1 correlative rights?

2 A. We feel that it will.

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

5 A. Yes, they're prepared by me.

6 MR. FELDEWERT: Mr. Examiner, I move the
7 admission into evidence of Chevron Exhibits 8
8 through 10.

9 EXAMINER JONES: Exhibits 8 through 10 are
10 admitted.

11 (Whereupon, CHEVRON U.S.A. INC. Exhibits 8
12 through 10 were offered and admitted.)

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

15 EXAMINATION BY EXAMINER DAWSON

16 EXAMINER DAWSON: Good morning, Mr. Taha.

17 THE WITNESS: Good morning.

18 EXAMINER DAWSON: The question I have,
19 you're drilling these mile-and-a-half laterals, correct?

20 THE WITNESS: Yes.

21 EXAMINER DAWSON: How much does it cost to
22 drill one of those mile-and-a-half laterals; do you have
23 any idea?

24 THE WITNESS: I do. Give me a second. It
25 should be about 2.9 million.

1 EXAMINER DAWSON: 2.9 million?

2 THE WITNESS: Yes.

3 EXAMINER DAWSON: So the 5H is in production
4 now?

5 THE WITNESS: No. As indicated, by the
6 previous -- by Rob Morrison, we are going to zipper frac
7 all four wells at the same time.

8 EXAMINER DAWSON: What is your estimation on
9 the ultimate recovery from these wells?

10 THE WITNESS: I am not the reservoir
11 engineer. My understanding is it's between -- in terms
12 of oil equivalent, it's going to be 200- to 250,000.
13 But, as I said, I am not the expert on that. I'm not
14 the reservoir engineer.

15 EXAMINER DAWSON: That should be more than
16 enough to pay it out, then, for the drilling costs.

17 I have no further questions. Thank you.

18 EXAMINATION BY EXAMINER JONES

19 EXAMINER JONES: So where did the Abo go in
20 this area?

21 THE WITNESS: What's that?

22 EXAMINER JONES: The Abo is missing -- I'm
23 just kidding you. It's the Delaware Basin -- correct?
24 -- so there is no Abo.

25 THE WITNESS: Right.

1 EXAMINER JONES: You go straight from the
2 Bone Spring into the Wolfcamp?

3 THE WITNESS: Right.

4 EXAMINER JONES: Are you guys interested in
5 the Wolfcamp down here?

6 THE WITNESS: We are. And we have an
7 expiration well in the works. But in terms of
8 development wells, we are only targeting the Upper
9 Avalon, Lower Avalon, Brislin, and the North Spring --
10 Brislin Spring at the moment.

11 EXAMINER JONES: Geologically, can you see
12 the need to drill more wells than the two that -- in
13 other words, do you need to drill wells at a lot denser
14 spacing, smaller acreage per well?

15 THE WITNESS: Chevron appears to be drilling
16 about as denser spacing as I've seen anywhere in the
17 basin. To the south, COG has drilled wells at 330
18 spacing.

19 But I have seen the results on three
20 wells -- they have six wells lined up; I have seen the
21 results on three of those wells. They are early and
22 they would not be factored in -- they have not been on
23 production long enough to be able to get a good feel for
24 communication between the wells and what the EURs would
25 be. So they are certainly in our sites, we are looking

1 at those wells. But for our purposes, we made the
2 decision to go with 8 wells per session.

3 EXAMINER JONES: So you are not bringing a
4 case today, I guess, for the west half of those two
5 sections. But what do you think geologically for over
6 on the west half?

7 THE WITNESS: It looks pretty continuous.
8 In terms of sign-offs, you have to keep a mile
9 distance -- we ensure we keep a mile distance between
10 completions and drilling operations. So we will be
11 drilling that as our pad number 4. This is pad
12 number 2. So we'll step away and drill a third pad
13 somewhere else.

14 EXAMINER JONES: Okay. A mile away?

15 THE WITNESS: Yes.

16 EXAMINER JONES: So that -- doing all the
17 fracs at once, you can --

18 THE WITNESS: We try to keep a mile between
19 those operations just to ensure that we would not --
20 for the purposes of safety and de-risking the area.

21 EXAMINER JONES: It looks like -- is it true
22 that it's dipping to the south a bit?

23 THE WITNESS: It is. So these wells were --
24 if I recall, we are about 70 feet deeper at the toe than
25 we were at the heel.

1 EXAMINER JONES: Is that optimum for
2 drilling?

3 THE WITNESS: It is optimum for drilling
4 along the lateral, to ensure that we can get casing over
5 to the end.

6 EXAMINER JONES: And for a gas well, it
7 would be good, you can flow it out --

8 THE WITNESS: Yes.

9 EXAMINER JONES: -- but for producing
10 liquids, you kind of like your heel of the well to be
11 lower, wouldn't you?

12 THE WITNESS: I've heard various arguments
13 and I've seen data to indicate that you get a better
14 well drilling toe up and toe down. So to me, it's
15 inconclusive.

16 EXAMINER JONES: Okay.

17 THE WITNESS: I know our production
18 engineers would prefer we drill toe up. But the geology
19 just doesn't allow us to do that in this case.

20 EXAMINER JONES: And the faults, what was
21 the geologic environment that caused the faults?

22 THE WITNESS: Well, you have a number -- you
23 have some deep-seated faults here and down at Silurian
24 and in the Devonian. So I think it's a continuation. I
25 think you have reactivation of faults over time. These

1 line up pretty well with deeper seated faults that we
2 see. So ongoing thrusting of the Awadgatar Orogeny, I
3 think probably produced -- it certainly has created
4 stress and it's allowed faulting to occur. You can get
5 both small reverse and small normal faults.

6 EXAMINER JONES: So Pennsylvanian time is
7 the oldest you would see them?

8 THE WITNESS: No. We see them all the way
9 down into the ore division. These are older --

10 EXAMINER JONES: Youngest would be the Lower
11 Permian.

12 THE WITNESS: Early Paleozoic.

13 EXAMINER JONES: But stand-up wells are the
14 way to go here and you don't want to drill wells at
15 different angles, I mean for stress purposes or --

16 THE WITNESS: No. It's optimal. I mean, we
17 have drilled a well east, west, and it had poor
18 production.

19 EXAMINER JONES: Okay.

20 THE WITNESS: And the few wells that have
21 been drilled east, west in this area, by us and other
22 operators, appear to have had fairly poor production
23 with respect to north, south wells in the immediate
24 vicinity.

25 EXAMINER JONES: And you didn't want to put

1 surface hole locations down close to the state line --

2 THE WITNESS: No. You can drill it from the
3 south to the north. Ultimately, we will probably have
4 to. I mean this is the first stage of what will
5 probably be anywhere from three to five targets. So at
6 some point we're going to be forced to put some of the
7 surface hole locations in the south and drill north.

8 EXAMINER JONES: And at Wolfcamp, you
9 mentioned, would be oil, Upper Wolfcamp Shale --

10 THE WITNESS: At the Wolfcamp A. What we
11 designate as the Wolfcamp A.

12 EXAMINER JONES: Okay. I don't have any
13 more questions. Thank you very much.

14 EXAMINER WADE: No questions.

15 MR. FELDEWERT: That concludes our
16 presentation.

17 EXAMINER JONES: Okay. We are going to take
18 case 15309 under advisement. And thank you very much.

19

20

21 (Time noted 10:10 a.m.)

22

23

24

25

~~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) ss.
 3 COUNTY OF BERNALILLO)
 4
 5
 6

7 REPORTER'S CERTIFICATE

8
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
 10 No. 100, DO HEREBY CERTIFY that on Thursday, May 28,
 11 2015, the proceedings in the above-captioned matter were
 12 taken before me, that I did report in stenographic
 13 shorthand the proceedings set forth herein, and the
 14 foregoing pages are a true and correct transcription to
 15 the best of my ability and control.

16
 17 I FURTHER CERTIFY that I am neither employed by
 18 nor related to nor contracted with (unless excepted by
 19 the rules) any of the parties or attorneys in this case,
 20 and that I have no interest whatsoever in the final
 21 disposition of this case in any court.

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