

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:)

CASE NO. 13,661

APPLICATION OF OCCIDENTAL PERMIAN)
LIMITED PARTNERSHIP FOR AMENDMENT OF)
DIVISION ORDER NO. R-6199-B TO EXPAND)
THE PHASE I AREA IN THE NORTH HOBBS-)
GRAYBURG-SAN ANDRES PRESSURE MAINTENANCE)
PROJECT, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

March 16th, 2006

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 16th, 2006, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

March 16th, 2006
 Examiner Hearing
 CASE NO. 13,661

PAGE

APPEARANCES

3

APPLICANT'S WITNESS:

ELIZABETH BUSH-IVIE (Engineer)

Direct Examination by Mr. Carr

4

Examination by Examiner Jones

11

REPORTER'S CERTIFICATE

18

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	11
Exhibit 2	7	11
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Exhibit 7	9	11
Exhibit 8	10	11

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:28 a.m.:

3 EXAMINER JONES: And then let's call Case 13,661,
4 Application of Occidental Permian Limited Partnership for
5 amendment of Division Order Number R-6199-B to expand the
6 Phase I area in the North Hobbs-Grayburg-San Andres
7 pressure maintenance project, Lea County, New Mexico..

8 Call for appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe office of Holland and
11 Hart, L.L.P. We represent Occidental Permian Limited
12 Partnership in this matter, and I have one witness.

13 EXAMINER JONES: Any other appearances?

14 Will the witnesses please stand to be sworn?

15 (Thereupon, the witness was sworn.)

16 ELIZABETH BUSH-IVIE,
17 the witness herein, after having been first duly sworn upon
18 her oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your full name for the record,
22 please?

23 A. Elizabeth Bush-Ivie, that's a hyphenated name.

24 Q. And where do you reside?

25 A. Houston, Texas.

1 Q. By whom are you employed?

2 A. Occidental Permian, Ltd.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

6 Q. At the time of that testimony, were your
7 credentials as an expert in petroleum engineering accepted
8 and made a matter of record?

9 A. Yes.

10 Q. Are you familiar with the Application filed in
11 this case on behalf of Occidental Permian?

12 A. Yes.

13 Q. And are you familiar with the status of the lands
14 in the North Hobbs-Grayburg-San Andres Unit?

15 A. Yes, I am.

16 MR. CARR: Mr. Jones, we tender Ms. Bush-Ivie as
17 an expert in petroleum engineering.

18 EXAMINER JONES: Ms. Bush-Ivie is qualified as an
19 expert petroleum engineer.

20 Q. (By Mr. Carr) Would you briefly state what
21 Occidental Permian seeks with this Application?

22 A. We seek an amendment to the Order Number R-6199-B
23 to include in the Phase I area of the North Hobbs-Grayburg-
24 San Andres pressure maintenance project the north half of
25 the south half of Section 31, Township 18 South, Range 38

1 East. This tract was accidentally omitted from the prior
2 order, approving the pressure maintenance project, and we
3 drilled an injection well on this tract, believing it was
4 in the Phase I area, and found out upon application of
5 injection that there was an error in the original document.

6 Q. And we need to amend the Phase I area so this can
7 be treated as a CO₂ injector, not a water injector?

8 A. Yes.

9 Q. Okay. Have you prepared exhibits for
10 presentation here today?

11 A. Yes, I have.

12 Q. Could you identify what has been marked
13 Occidental Permian Exhibit Number 1?

14 A. This is a portion of the original map that was
15 provided at the application for the original project, and
16 what we've included here is Section 31, which is in the
17 center of the tract, and showing -- the curved lines there
18 show the area of review that was done as part of the
19 pressure-maintenance project, and this shows that the north
20 half of the south half of Section 31 was included in that
21 consideration for this project.

22 You will find just to the right of center a Well
23 Number 322, and it was an injection well we had originally
24 planned to convert to CO₂ injection; for mechanical reasons
25 we weren't able to, and the subject well, 631, is drilled

1 just slightly south of there, but would be in the north
2 half of the south half of the section.

3 Q. Would you identify Occidental Permian Exhibit
4 Number 2, please?

5 A. This is the original application for the pressure
6 maintenance project. And if you will turn to page 4 of the
7 application -- it's about five pages back -- there's a list
8 of the acreage to be included. And if you'll look down
9 there toward the bottom of the page you will see on the
10 original application that we did, in fact, request the
11 north half and the north half of the south half of Section
12 31.

13 Q. So when Mr. Kellahin filed this application, he
14 correctly identified the acreage?

15 A. Yes.

16 Q. Would you identify what has been marked Exhibit
17 3?

18 A. Exhibit 3 is a portion, just two selected pages
19 of the proposed language for the order approving the
20 pressure maintenance project. And this is important, I
21 believe, because it shows the date of September 21st, '01,
22 at the top. And on the second page there, you'll also see
23 that the acreage is correctly identified, including the
24 north half of the south half of Section 31.

25 Q. And what is Occidental Exhibit Number 4?

1 A. This is a copy of the order that was issued by
2 the OCD. And if you'll look down and on the second page,
3 you will find -- did you find it? -- you will find that in
4 the description printed up, Section 31 only shows the north
5 half.

6 Q. Would you identify for the Examiner Occidental
7 Exhibit Number 5?

8 A. This is the administrative application we
9 submitted for the North Hobbs Unit Well Number 631,
10 requesting CO₂ injection for that injection well that we
11 drilled there in the north half of the south half.

12 Q. And this is just a portion of the C-108 filing;
13 is that correct?

14 A. Yes, that's correct.

15 Q. And it included the area of review and all the
16 other portions that are required for approval of an
17 injection zone?

18 A. Yes, including all of the required notice
19 provisions.

20 Q. Would you identify Occidental Permian Exhibit
21 Number 6, please?

22 A. This is an e-mail between Mr. Mark Stephens, the
23 regulatory analyst who works for me. Upon reviewing the
24 application, Mr. Catanach, in going back to the order,
25 identified that the north half of the south half wasn't

1 included, and in there indicated that he thought we might
2 have to come in and amend the order to include that, so
3 that we could, in fact, do carbon dioxide injection in this
4 well.

5 Q. Was this the first time that Occidental was aware
6 that the, in fact, north half of the south half had been
7 omitted from the order?

8 A. Yes, that was our first indication.

9 Q. What is Exhibit Number 7?

10 A. Exhibit Number 7 is the approval of -- for water
11 injection only for the subject well North Hobbs Unit 631.

12 Q. Did you personally meet with Mr. Catanach
13 concerning this matter?

14 A. Yes, I did, a couple months ago I came in after I
15 had researched all of our well files and records on the
16 hearing documents, I came in and visited with Mr. Catanach
17 on the issue. And he suggested that we, in fact, come in
18 and ask for an amendment of the order, to make a correction
19 to the area.

20 Q. Did Mr. Catanach advise you on who he felt should
21 be notified of this Application for amendment?

22 A. He requested that we notify people within a one-
23 mile radius of the well. And we, in fact, notified all of
24 the working interest owners and all of the offset surface
25 owners. It's just easier to do it that way.

1 Q. And is Exhibit Number 8 an affidavit confirming
2 that that notice has been provided?

3 A. Yes.

4 Q. And was notice also published of this proposed
5 change?

6 A. Yes, it was.

7 Q. And the return receipts are enclosed?

8 A. Yes.

9 Q. Has anyone objected to the Application?

10 A. Not to my knowledge.

11 Q. And our conversation with Mr. Catanach was, we
12 advised that we should simply request that the Division
13 take administrative notice of the case and the evidence
14 presented in Case 12,722?

15 A. Yes.

16 Q. And do you ask that the Division take notice of
17 the record in that case?

18 A. Yes, I do.

19 Q. In your opinion, will approval of this
20 Application and amendment of the order as requested be in
21 the best interest of conservation, the prevention of waste
22 and the protection of correlative rights?

23 A. Yes.

24 Q. Were Exhibits 1 through 8 either prepared by you
25 or compiled under your direction?

1 A. Yes, they were.

2 MR. CARR: At this time, Mr. Examiner, we'd move
3 the admission into evidence of Occidental Permian Exhibits
4 1 through 8.

5 EXAMINER JONES: Exhibits 1 through 8 will be
6 admitted to evidence.

7 MR. CARR: And that concludes my direct
8 examination of Ms. Bush-Ivie.

9 EXAMINATION

10 BY EXAMINER JONES:

11 Q. Ms. Bush-Ivie, the well name is 632?

12 A. 632. I think I may have said 631.

13 Q. Yeah, okay.

14 A. Yes, it is 632.

15 Q. So Mr. Catanach caught his previous mistake; is
16 that right?

17 A. Well, he brought it to our attention, and then I
18 went back and actually reviewed, saying we were under the
19 understanding it was different, and so I started going
20 through all of the submissions and the documentation and
21 the drafts, and finally realized that that part had been
22 missed.

23 Q. Okay, so -- Do you guys operate the south half,
24 South Hobbs Unit, also?

25 A. Yes, we do.

1 Q. Okay. And you're getting close to that in this?

2 A. Yes, this well will be just on the north side of
3 the boundary, actually the -- the boundary, I think, is on
4 this -- Let me look here.

5 Q. Pretty close.

6 A. Yeah, I think it's actually the section line, and
7 eventually there will be -- we'll be coming back to the
8 Commission for flooding of additional areas. This is just
9 the Phase I, first part of the project.

10 Q. So in the South Hobbs it's just waterflood?

11 A. Right now it's water injection, yes.

12 Q. But it's gone beyond the primary, it's into the
13 secondary?

14 A. Oh, definitely, yes.

15 Q. Okay. And this pressure maintenance expansion
16 actually approved water injection but not CO₂ injection,
17 but you don't intend any recycled gas?

18 A. Actually, the Phase I project approval approved
19 recycled gas in a portion of the project, so it's CO₂, H₂S
20 and water injection.

21 Q. But in this particular well --

22 A. -- it's just the CO₂, I believe.

23 Q. -- it's just CO₂ and water?

24 A. I believe that was right.

25 Q. Okay. And why did you decide to carve out a

1 certain area for recycled gas injection in the North Hobbs
2 Unit?

3 A. The east side is closer to the city limits of
4 Hobbs, New Mexico, and residences, and so there was a
5 safety issue to use just the CO₂ and the water in that
6 area, and use the recycled gas in the western part, which
7 is a more rural area.

8 EXAMINER JONES: Okay. This couldn't have been
9 handled with a *nunc pro tunc* order?

10 MR. CARR: Mr. Examiner, we requested that, and
11 Mr. Catanach thought that it would be better to notify the
12 people in the area before that was entered to see if there
13 was an objection.

14 EXAMINER JONES: Okay.

15 MR. CARR: So that's why we went this route.

16 Q. (By Examiner Jones) And these notices went out
17 -- actually right after you probably -- you probably
18 noticed them right after he said to -- it would have to
19 come to hearing, so --

20 A. Yes.

21 Q. -- it's been longer than 15 days --

22 A. Yes, it has.

23 Q. -- and longer than 30 days, probably, for this
24 hearing, so...

25 A. Yes, I don't remember exactly when the notice was

1 first sent out, but it was --

2 MR. CARR: Notice was provided February 16th.

3 THE WITNESS: Right, so --

4 EXAMINER JONES: Okay.

5 THE WITNESS: -- a month ago.

6 Q. (By Examiner Jones) Why is it called Phase I? I
7 haven't seen any evidence of a Phase II, and --

8 A. Well, in designing the project it's called Phase
9 I because there's different parts, and they're under
10 discussion --

11 Q. Oh.

12 A. -- internally, so it's an internal identification
13 as much as anything, is that this was the first part. And
14 after we get it fully implemented, which it now is, they're
15 starting to look at the next part, what they do, which
16 wells to identify. And there's actually, I believe, four
17 phases identified in the entire project.

18 Q. Operational phases?

19 A. Yes, operational phases.

20 Q. So ownership phases were set with the original
21 unit that started the waterflood; is that correct?

22 A. Yes, I believe so.

23 Q. And were those changed at all when the CO₂
24 project was contemplated and started and approved here,
25 where -- the unit agreement, did it change any of the

1 ownership?

2 A. I was not part of that original application, but
3 in reviewing the hearing files, I don't believe there were
4 any changes.

5 Q. Okay, so pretty much the same owners --

6 A. Yes.

7 Q. -- would benefit from --

8 A. Yes.

9 Q. -- secondary recovery and tertiary recovery?

10 A. Right.

11 MR. CARR: And Mr. Examiner, the project was
12 qualified under the Enhanced Oil Recovery Act for that
13 severance tax rate, the lower special severance tax rate.
14 You have a five-year window within which to get a positive
15 production response to qualify for the incentive tax rate.

16 And so you break it down and do it by phases,
17 because if you did the entire project, there are issues
18 with that Phase II through Phase IV and not seeing a
19 positive production response within five years. And so,
20 the way you're going to develop first is Phase I, you look
21 for a positive production response, and you qualify that
22 under the Enhanced Oil Recovery Act. And then as you move
23 into Phase II, you have a different time frame for that,
24 and it's really designed to help you qualify for the
25 incentive tax rate.

1 EXAMINER JONES: Okay. This Phase I, north half,
2 but not the north half of the south half, since it was
3 omitted from the original, does that mean it was omitted
4 from qualifying it --

5 MR. CARR: I don't believe that has yet occurred,
6 but all we're trying to do is correct the order so that we
7 can use this well for CO₂ injection, which is actually what
8 we originally planned, and there was just an error in the
9 order, and we didn't pick it up either until Mr. Catanach
10 discovered it.

11 EXAMINER JONES: Okay.

12 THE WITNESS: And the CO₂ injection is important
13 on the actual pressure maintenance in this section and the
14 overall performance of this part of the Phase I
15 development.

16 Q. (By Examiner Jones) So you really need it?

17 A. Yes, we do.

18 Q. How is the -- How is your production response for
19 that? Is it --

20 A. Actually, it's coming up. It looks like it's
21 doing very well.

22 Q. Does it look like a target percent, original in
23 place, will be recovered from tertiary --

24 A. Well, I don't as the target will be, but we're
25 certainly seeing some increased production from it.

1 (Off the record)

2 EXAMINER JONES: Okay, we're going to take
3 administrative notice of the original case and the
4 application in the original 6199-B -- that resulted in the
5 6199-B order.

6 And thank you very much.

7 THE WITNESS: Thank you.

8 EXAMINER JONES: We'll take Case 13,661 under
9 advisement.

10 (Thereupon, these proceedings were concluded at
11 8:44 a.m.)

12 * * *

13
14 I do hereby certify that the foregoing is
15 a complete record of the proceedings in
16 the Examiner hearing of Case No. _____
17 heard by me on _____

18 _____ Examiner
19 Oil Conservation Division
20
21
22
23
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL March 19th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006