

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

**APPLICATIONS OF CHEVRON U.S.A. INC.
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.**

**Case Nos. 21242, 21243,
21246, 21247**

PRE-HEARING STATEMENT

Michael L. and Patricia S. Stewart, Helms Oil & Gas, LLC, JAFT Investments, LLC,
and Patrick K. and Shelly R. Worrell (collectively "Helms") submit this Pre-Hearing
Statement pursuant to the Division's Amended Pre-Hearing Order dated June 19, 2020.

APPEARANCES

APPLICANT

Chevron U.S.A Inc.

ATTORNEY

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500 Don Gaspar Avenue
Santa Fe, New Mexico 87505
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OPPONENT

Helms/Worrells

ATTORNEY

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Santa Fe, NM 87505
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EOG Resources, Inc.

Ernest Padilla
Padilla Law Firm, P.C.
P.O. Box 2533
Santa Fe, NM 87501
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Antelope Energy Co., LLC

James Bruce
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STATEMENT OF THE CASE

Chevron has filed four force pooling applications in connection with its proposal to drill horizontal oil wells in the Bone Spring and Wolfcamp formations in Sections 15 and 22, Township 22 South, Range 33 East, N.M.P.M., Lea County, New Mexico. These lands are referred to herein as the "Southern Units."

PROPOSED EVIDENCE

Helms Witnesses and Qualifications

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
Michael Stewart (Operator/Engineer)	2 hours	40 approx.

Mr. Stewart is a petroleum engineer, President of Helms Oil & Gas LLC,, and an owner of interests in Sections 15 and 22 which are the subject of Chevron's applications. A copy of his resume is attached hereto. He has given expert testimony before the OCD and the Texas Railroad Commission. He has been in direct contact with Chevron representatives concerning these applications and his testimony will be based on his own personal knowledge and experience.

APPLICANT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
EOG		

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>

ANTELOPE

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>

ADDITIONAL INFORMATION REQUESTED BY SCHEDULING ORDER

In addition to the information required by Rule 19.15.4.13.B NMAC, the Division has requested that the parties address the following additional categories of information:

List of Material Facts not in Dispute

On July 29, 2020, Chevron provided a list of twelve (12) proposed stipulated facts. Helms agrees with proposed stipulated facts 1, 5, 6, 9, 10, 11 and 12. As to facts 3 and 4, the working interests owned by Worrell are owned by Patrick and Shelly Worrell, and the overriding royalty interests owned by Stewart are owned by Michael and Patricia Stewart. As to facts 2 and 8, Helms stipulates that Chevron owns interests in the listed formations in Sections 15 and 22, but Helms does not know the exact ownership interest. Helms disputes that Chevron has the right to force pool, and thus to drill as set forth in the issues identified in the Full Narrative below. As to fact 7, Helms disputes Chevron's characterization on the grounds stated in the Full Narrative, below.

Full Narrative of Direct Testimony and Exhibits for Each Witness

Mr. Stewart will present testimony and exhibits on the following disputed issues which Helms will offer in opposition to the Chevron applications:

1. There is an existing JOA covering the lands of Section 15 which precludes force pooling.

The Joint Operating Agreement at issue is dated September 1, 1980 between Getty Oil Company, Operator and Richard Yates, et al., Non-Operators. In establishing the history of ownership and the JOA, Mr. Stewart will offer the following:

- Chain of Title for HeLMS / Worrell

- NMNM – 17740 USA to Burton (**Exhibit 1**)
- Assignment Burton to Brunson and McKnight, Inc (**Exhibit 2**)
- Assignment Brunson and McKnight, Inc to Amoco (**Exhibit 3**)
- Assignment Amoco to Greenhill Petroleum (**Exhibit 4**)
- Assignment Greenhill Petroleum to Patrick K. Worrell (**Exhibit 5**)
- Assignment Patrick K. Worrell to Michael Stewart (**Exhibit 6**)
- Assignment Michael Stewart to HeLMS (**Exhibit 7**)
- Assignment ORRI Patrick K. Worrell to JAFT Investments (**Exhibit 8**)
- JOA Dated 9/1/80 between Getty Oil Company, Operator, and Richard Yates, et al, as Non-Operators (**Exhibit 9**)
 - Covers all of Sections 10, 11, 14, 15, 22 & 23, T22S, R33E, Lea Co., NM 3,840 acres.
- Map of area covered by 9/1/80 JOA with detail of leases contributed and leaseholders at the time the JOA was created (**Exhibit 10**)
- Federal 15 B Com #1 Well History (**Exhibit 11**)
- Federal 15 B Com #1 Production History Rate vs. Time Plot (**Exhibit 12**)

Mr. Stewart will utilize these exhibits to demonstrate that the JOA has not been terminated, in part, because Helms, a working interest owner in the JOA, has never agreed to termination. Section 70-2-17 only allows force pooling when the parties have not been able to reach voluntary agreement. Where there is a voluntary agreement such as a JOA, force pooling is not authorized.

2. Chevron has not made a timely, good faith effort to secure voluntary agreement by Helms.

Helms has attempted unsuccessfully to get agreement with Chevron on a term assignment at market terms and rates since Chevron first proposed this development but has been unsuccessful in getting Chevron to negotiate a fair assignment. Mr. Stewart will offer the following:

Mr. Stewart will testify generally as to his communications with Chevron responding to Chevron's various communications, refuting Chevron's claim that the 1980 JOA has been terminated, and identifying Helms' numerous requests that Chevron offer a fair term assignment, purchase or trade regarding the leasehold interest in Section 15. Chevron's communications have not been timely. For instance, Chevron sent an email on July 28, 2020 with a purchase offer that was dated June 20, 2020. **(Exhibit 30)**. Helms has made a counter offer that Chevron has not yet responded to. To the extent Chevron has communicated, it is using the force pooling proceedings to force Helms to accept a term assignment or purchase of interests at below market terms. It asks Helms to make a decision to participate or not without sufficient data to evaluate the merits of the proposed wells and units. The Division is only entitled under NMSA 1978 Section 70-2-17 to force pool where there is no voluntary agreement, and the Division has historically required an applicant to show it has made a good faith effort at voluntary agreement. Without that, Chevron cannot establish that force pooling is authorized under NMSA 1978 § 70-2-17.

The exhibits supporting this testimony will be:

- **8/14/19 Chevron – DL Poseidon Participation Proposals in Sections 3, 10 & 15 (Exhibit 13)** and spreadsheet recap **(Exhibit 14)**

- 8/21/19 HeLMS email to Shalyce Holmes, Chevron Land Rep (S. Holmes), w/ spreadsheet recap of 8/14/19 Proposals with AFE'd cost. HeLMS requests additional information. (Exhibit 15)
- Testimony concerning various email and phone communications dated 8/26/19, 9/11/19, 10/3/19, 10/4/19 about the status of Chevron's proposals and the competing Tap Rock applications and requests for additional information supporting the proposals.

11/27/19 Chevron – DL Poseidon Participation Proposals Sections 3, 10 & 15 (Exhibit 16)

Spreadsheet Recap of 11/27/19 Proposals with AFE Cost (Exhibit 17)

- 1/24/20 S. Holmes email to HeLMS regarding update on Chevron's development plans and counterproposals to Tap Rock's Lower Hughes Development. PowerPoint (PP) map attached showing Chevron's plans. (Exhibit 18)
- Emails dated 1/24/20, 1/27/20, 2/17/20 and 2/19/20 between Stewart and Holmes concerning the applications/proposals.
- **2/26/20 Chevron DL 15 22 Ogoopogo Fed, DL 10 3 Kraken Fed, DL 15 22 Narwhal Fed & DL 10 3 Morag Fed Participation Proposals in Sections 3, 10, 15 & 20. (Exhibit 19)**
 - Spreadsheet Recap of 2/26/20 Proposals with AFE Cost (Exhibit 20)
- 3/5/20 HeLMS email to S. Holmes requesting: (Exhibit 21)
 - Fully Executable Model Form of JOA w/ Exhibit A & COPAS Accounting Procedure
 - Anticipated Drilling Schedule
 - Detailed Wellbore Proposals for each of the three (3) HZ targets
- Emails dated 3/6/20 (Exhibit 22), 3/20/20, 4/14/20, 4/16/20 (Exhibit 23), 4/17/20 (Exhibit 24), 4/20/20 (Exhibit 25), 4/21/20 (Exhibit 26), 4/22/20 (Exhibit 27) and (Exhibit 28), 5/11/20, 5/12/20, 5/13/20, 5/27/20, 5/29/20, 6/2/20, 7/27/20 (Exhibit 29), 7/28/20 (Exhibit 30), and 7/29/20 regarding the scheduled hearings and proposals), and the fact that Helms has not received sufficient information from Chevron about its proposed wells.

3. Except for the proposed wells in the Lower Avalon, Chevron is not targeting the optimal parts of the target intervals.

Mr. Stewart will sponsor Exhibits 31-34 to (a) identify the locations of various wells along with their cumulative productions & HZ producing zones / targets, (b) review the lands / leases that comprised the original 9/1/80 JOA acreage including lease NMNM

17740 from which HeLMS / Worrell's leasehold is derived, (c) review the current Chevron proposed JOA area consisting of Sections 15 & 22 along with current leasehold ownership. He will discuss the geology of the Bone Spring and Wolfcamp formations in the subject lands. The testimony will be that except for the lower Avalon, Chevron has not targeted the optimal parts of the target intervals.

- HeLMS Fed 15 Com Area Well Data Map 9-1-80 JOA Acreage & Associated Leases **(Exhibit 31)**
 - This map illustrated the location / paths of existing wells & proposed wells
- HeLMS Fed 15 Com Detail Area Well Data Map 9-1-80 JOA Acreage & Associated Leases **(Exhibit 32)**
 - Detail of Map of Exhibit 31
- HeLMS Fed 15 Com Area Well Data Map with Current Lease Details **(Exhibit 33)**
 - Same map / attributes as above but illustrating current lease details
- HeLMS Fed 15 Com Area Detail Well Data Map with Current Lease Details **(Exhibit 34)**

Mr. Stewart will sponsor Exhibits 35-38 to identify offset wells, the general lateral continuity of the landings in the area, the structural position of the Chevron proposals vs offsetting wells.

- HeLMS Fed 15 Com Area Stratigraphic X- Section A-A' hung on the Upper Avalon Marker **(Exhibit 35)**
- Exhibit 35 illustrates Formation tops and various HZ landings of offsetting wells along with proposed landings of the Chevron wells.
- Helms Fed 15 Com Area Stratigraphic X-Section A-A' hung on the Upper Avalon Marker **(Exhibit 36)**
- HeLMS Fed 15 Com Area Structural X – Section A-A' **(Exhibit 37)**
 - Same X – Section as Exhibit 33 but illustrating the structural relationship between wells.
- Rate vs Time Plot of the COG – Tenderloin Fed Com #4H well **(Exhibit 38)**

4. There is no basis for Chevron's risk penalty request.

Rule 19.15.13.8 NMAC—Charge for Risks, is contrary to and in violation of the legislative mandate set forth in NMSA 1978 § 70-2-17 and contrary to the standard burden of proof rules imposed on the movant in any proceeding. Chevron has provided no facts to support a 200% non-consent penalty, which is not warranted under the facts.

5. Chevron's cost estimates are not proper.

Mr. Stewart will testify using Exhibits 19 and 20 to make the following points about Chevron's cost estimates:

- The AFEs were reportedly generated in 2/20. Since this time, the cost of drilling and completing wells has reduced significantly. The cost of fracture stimulation has seen a 30-40% reduction. Helms has repeatedly requested updated / revised AFE's from Chevron to make informed financial decisions regarding participating in the Chevron proposals.
- Chevron has failed to provide updated AFE cost estimated.
- Chevron has generated a cost estimate of \$50,029,230 for their Tank Battery Facility. They have burdened all 30 of the proposed wells that are planned on Sections 3, 10, 15 and 22 with a per well cost of \$1,667,641 associated with their Tank Battery Facility. Despite Chevron's plans to drill packages of wells over a 3-4-year period, conversations with S. Holmes of Chevron indicates that Chevron will build facilities capable of handling full peak well stream for all wells. This is an egregious waste of capital. The Tank Battery facility should be constructed to handle the full well stream of the initially planned wells. Then as incremental wells are D&C'd facility upgrades should be made to increase capacity, if required, given that the prior D&C's wells will have undergone a significant decline in production.

PROCEDURAL MATTERS

None at this time.

Respectfully submitted,

GALLEGOS LAW FIRM, P.C.


By /s/ J.E. Gallegos
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Worrells

VERIFICATION

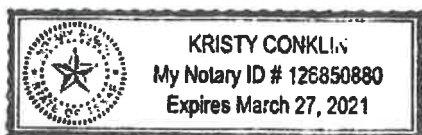
STATE OF TEXAS)
)
COUNTY OF MIDLAND)

I am Michael Stewart and make this statement based on my own knowledge and experience. The statements in this Pre-Hearing Statement reflecting the position of Helms, et al., are true and correct and represent the testimony I would give if called in person as a witness in this proceeding.



Michael Stewart

Subscribed and sworn before me this 30th day of July, 2020, by Michael Stewart.



Notary Public

My Commission expires: March 27, 2021

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served on counsel of record by electronic mail this 30th day of July, 2020.

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MICHAEL L. STEWART
President, Member

Conscientious, detail-orientated, individual with hands-on experience in petroleum production operations / exploration / reservoir evaluation / geology / and gas gathering & marketing. Comprehensive familiarity with successful independent operator's methods and strategies.

EMPLOYMENT HIGHLIGHTS

- August 2009** **HeLMS Oil & Gas, LLC**
To **Midland, Texas**
Present **PRESIDENT, MEMBER, ENGINEER**
Responsible for founding and managing consulting oil and gas engineering firm that provides Oil & Gas Property Management, Engineering & Geological Consulting Services and Wellsite Supervision Services.
- May 2008** **SFS Field Services, LLC**
to **Midland, Texas**
August 2010 **VP, SEC, MEMBER**
Responsible for managing former wells servicing assets and staff of Stanolind Field Services after sale of Oil & Gas Holdings to Eagle Rock Energy Partners (EROC). Sold assets of SFS Field Services, LLC to Hamilton Oilfield Services, Inc in August, 2010. While managing SFS, provided office and field engineering services to several of SFS's customers.
- May 2008** **Eagle Rock Operating Company, LLC**
to **Midland, Texas**
May 2009 **VP OPERATIONS - PERMIAN**
Responsible for managing former assets and staff of Stanolind Operating Corp. for publically traded Houston based Eagle Rock Energy Partners (EROC).
- Aug 2004** **Stanolind Operating Corp. - Stanolind Oil & Gas Corp. - Stanolind Holdings, LLC**
to **Midland, Texas**
May 2008 **VP OPERATIONS - PARTNER**
Founding partner of NGP equity portfolio company. Acquired assets of MR Oil Company and Three B Oil Company in 9/04 & 4/05, respectively for ± \$18MM. Developed assets by implementing operational efficiencies, identifying drilling (PUD) and behind pipe potential (PDNP) and strategically executing several of the opportunities identified. Responsible for day-to-day management of Midland and Monahans office consisting of over 45 employees. Organized and managed ancillary field services company, Stanolind Field Services, consisting of three (3) well service units, roustabout crews, backhoes and haul equipment to provide services on company owned oil and gas properties. Sold oil and gas assets to publically traded Eagle Rock Energy Partners (EROC) in April, 2008 for over \$80MM yielding the equity partners an ROI of over 5:1.
- Nov 2000** **Permian Resources, Inc.**
to **Midland, Texas**
May 2004 **ENGINEERING MANAGER**
Provided comprehensive engineering services focusing on daily field operations, remedial project evaluation & implementation and drilling operations for independent operator in the Permian Basin. Principals and equity partner, NGP, divested oil and gas assets to Chesapeake Energy in April, 2004.
- Jan 1998** **Malco Trucking, Inc.**
to **Odessa, Texas**
Nov 2000 **PRESIDENT / OWNER**
Purchased oilfield fluid transportation and environmental waste hauling service company. Oversaw all phases

of business including daily field and office operations. Pioneered the development and implementation of closed-loop, "pit-less", drilling systems in the Permian Basin area of Texas and SE New Mexico.

**Aug 1993
to
Oct 1999**

**Lion Production, Inc.
Midland, Texas
PRESIDENT / OWNER**

In conjunction with three (3) stockholders founded startup independent oil & gas production company focusing on the acquisition of producing properties with exploitation upside via recompletions, infill drilling or enhanced recovery. Responsible for all phases of business including purchase evaluations, acquisition financing, daily field and office operations and redevelopment work.

**May 1991
to
Feb 1993**

**Coastal Management Corporation
Midland, Texas
SENIOR OPERATIONS ENGINEER**

Project Management service for 80,000-acre Central Basin Platform, Waddell Ranch properties, located in Crane County, Texas. Responsible for daily field operations on over 450 wells producing from multiple horizons. Majority of reservoirs were under secondary recovery operations. Evaluated all phases of project including: lift efficiencies, stimulations, add pays, water flood studies, long-term development opportunities and made recommendations to working interest owners regarding projects to increase the properties profitability.

**July 1989
to
May 1991**

**Doyle Hartman, Oil Operator
Midland, Texas
PETROLEUM ENGINEER**

Responsible for all drilling, completion and daily production operations for a successful independent operator focusing in SE New Mexico. Responsible for compliance with state oil conservation division regulations and representative at several state hearings and legal proceedings.

**Oct 1988
to
July 1989**

**Pinnacle Natural Gas Company
Smart & Kuss Natural Gas Marketing Consultants
Midland, Texas
CONSULTANT/ENGINEER**

Supervised installation and operation of over 350 miles of gas gathering systems to gather, treat, compress, measure, and redeliver gas to resale purchasers. Handled natural gas marketing issues for independent producers including gas sales contracting, settlement negotiations and audits.

**Feb 1985
to
Oct 1988**

**MWJ Producing Company
Midland, Texas
PETROLEUM ENGINEER**

**Oct 1984
to
Feb 1985**

**E. Ralph Green & Associates
Consulting Petroleum Engineers
Midland, Texas
PETROLEUM ENGINEER**

**May 1984
to
Oct 1984**

**Brinkerhoff - Signal Drilling Contractor
Denver, Colorado
ENGINEER TRAINEE**

EDUCATION

Fall 1984

**Colorado School of Mines
Golden, Colorado
BACHELOR OF SCIENCE PETROLEUM ENGINEERING**

Major GPA 3.45 / 4.00

Attended on athletic and academic scholarship participating in baseball four (4) years. Solely responsible for 100% of college expenses.

1980

**Mesa College
Grand Junction, Colorado**

1979

**Graduate of Green Mountain Senior High School
Lakewood, Colorado**

INCIDENTAL INFORMATION

**Married, 2 Children
Excellent health; no limitations**