

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:

APPLICATION OF DEVON ENERGY PRODUCTION CASE NOS. 16346,
COMPANY, L.P. FOR COMPULSORY POOLING, 16349
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 6, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, September 6, 2018, 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.

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APPEARANCES

FOR APPLICANT DEVON ENERGY PRODUCTION COMPANY, L.P.:

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20		
21		
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1 (3:55 p.m.)

2 EXAMINER McMILLAN: Down to our last four
3 cases.

4 MS. CALLAHAN: Yes.

5 EXAMINER McMILLAN: So we're going to call
6 Case 16346.

7 MS. CALLAHAN: Mr. Examiner, we'd like to
8 consolidate for the purposes of this hearing both 16346
9 and 16349.

10 EXAMINER McMILLAN: Okay. So Case 16346 is
11 application of Devon Energy Company for compulsory
12 pooling, Eddy County, New Mexico, and this is combined
13 with Case 16349.

14 Call for appearances.

15 MS. CALLAHAN: Mr. Examiner, Candace
16 Callahan, with Beatty & Wozniak, appearing for Devon
17 Energy Production Company.

18 EXAMINER McMILLAN: Okay.

19 MS. CALLAHAN: I have two witnesses to be
20 sworn.

21 EXAMINER McMILLAN: If the witnesses would
22 please stand up and be sworn in at this time.

23 (Mr. Hammond and Ms. Estes sworn.)

24 MS. CALLAHAN: First I'd like to call
25 Mr. Joe Hammond.

1 I put the two groups of the exhibits for
2 the two different cases separately, so they're
3 rubber-banded. And then there is just one combined
4 exhibit for the geology, which is the colored exhibit.

5 EXAMINER McMILLAN: Okay.

6 JOE HAMMOND,
7 after having been first duly sworn under oath, was
8 questioned and testified as follows:

9 DIRECT EXAMINATION

10 BY MS. CALLAHAN:

11 **Q. Mr. Hammond, for the record, please state your**
12 **name, identify by whom you're employed and in what**
13 **capacity.**

14 A. My name is Joe Hammond. I work for Devon
15 Energy as a landman.

16 **Q. And how long have you been employed by Devon?**

17 A. Six years.

18 **Q. What are your responsibilities as a landman**
19 **with Devon?**

20 A. I handle all land matters pertaining to the
21 Potato Basin area, which is part of Eddy County,
22 New Mexico.

23 (The court reporter requested a repeat of
24 the basin name.)

25 A. Well, we call it the Potato Basin. You'll see

1 that when you see our well names.

2 Q. Yes.

3 So your area of responsibilities at Devon
4 includes the Permian Basin in New Mexico?

5 A. Yes.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes, I have.

9 Q. Were you qualified as an expert petroleum
10 landman?

11 A. Yes, I was.

12 Q. Are you familiar with the applications that
13 have been filed by Devon in this case?

14 A. Yes, I am.

15 Q. And are you familiar with the status of the
16 lands which are the subject of these cases?

17 A. Yes, I am.

18 MS. CALLAHAN: I tender the witness as an
19 expert in petroleum land matters.

20 EXAMINER McMILLAN: So qualified.

21 Q. (BY MS. CALLAHAN) Mr. Hammond, would you
22 briefly state what Devon seeks in Cases 16346 and 16349?

23 A. Devon seeks the pooling of uncommitted mineral
24 interests in two spacing and proration units for
25 development of the Bone Spring Formation.

1 16346 proposes a 312.39-acre spacing and
2 proration unit, for the drilling of a horizontal Bone
3 Spring well to be -- to be in the Cedar Canyon; Bone
4 Spring Pool, Pool Number 11520, which will encompass the
5 west half-west half of Sections 30 and 31, Township 23
6 South, Range 29 East.

7 And the second case is Case 16349, and it
8 proposes a 320-acre spacing and proration unit and the
9 drilling of a horizontal well in the Cedar Canyon; Bone
10 Spring Pool that encompasses the east half-east half of
11 Sections 30 and 31, Township 23 South, Range 29 East.

12 **Q. Devon has also filed applications that cover**
13 **these same lands for development of the Wolfcamp, which**
14 **are going to be heard after these cases; is that right?**

15 A. Yes. Those are Case Numbers 16163 and 16164.

16 **Q. But they're not consolidated with these Bone**
17 **Spring cases?**

18 A. No, not with this.

19 **Q. Okay. Let's first look at Exhibit 1 in Case**
20 **16346, the west half-west half one.**

21 A. This is a C-102 for the Spud Muffin 331H well,
22 again targeting the Bone Spring in the Cedar Canyon;
23 Bone Spring pool.

24 **Q. Has this application been approved?**

25 A. It has not yet, no.

1 **Q. And what are you asking for?**

2 A. The pooling of uncommitted mineral interests in
3 this 312.39-acre spacing and proration unit, which again
4 comprises the west half-west half of Section 31 and the
5 west half-west half of Section 30.

6 **Q. Does this well -- does the statewide 40-acre**
7 **oil spacing rule apply to this?**

8 A. Yes, it does.

9 **Q. What is the current setback requirement for**
10 **this pool?**

11 A. 100 feet.

12 **Q. Under the new rules?**

13 A. Under the new rules, yes.

14 **Q. And will the completed interval for this well**
15 **comply with the new setback requirement?**

16 A. Yes, it will.

17 **Q. And it's your understanding that the spacing**
18 **unit encompassing the west half-west half of both**
19 **Sections 30 and 31 is considered a standard horizontal**
20 **well spacing and proration unit under the new horizontal**
21 **rules?**

22 A. Yes, it does.

23 **Q. What type of mineral ownership is involved in**
24 **this unit?**

25 A. Except for the southwest-southwest quarter of

1 Section 31, which is also called Lot 4, Lot 4 is a
2 40-acre federal lease. The rest of the spacing unit is
3 all fee.

4 **Q. And how will the well proposed for the west**
5 **half-west half of 30 and 31 be developed?**

6 A. It'll be developed in a batch-type format in
7 conjunction with drilling the next -- the other case,
8 which is 16349, and plus, probably, additional wells
9 that we haven't even filed for yet.

10 **Q. Let's look at Exhibit 2. What interests are**
11 **you seeking to pool within this unit?**

12 A. We're seeking to pool all parties on Exhibit 2.
13 And so they're all listed there with the interest out to
14 the side. I will say that we -- OXY USA is -- we've
15 entered into a signed letter of agreement with OXY and
16 whereby -- whereby we're working to acquire their
17 interest by trade. And if we should not acquire it by
18 trade, the letter agreement says that we will enter into
19 a joint operating agreement mutually acceptable. And
20 so that's one.

21 We've talked to Chevron. We've pretty much
22 talked to almost -- well, to everybody on this list that
23 we could locate.

24 **Q. But there were some owners that you were unable**
25 **to --**

1 A. That's correct. There were four owners that we
2 were not able to locate.

3 Q. Okay. Is this mineral ownership severed by
4 depth?

5 A. It is not.

6 Q. What is Exhibit 3?

7 A. Exhibit 3 is simply a lease tract map that
8 describes the working interest owners by unit ownership
9 in the west half-west half of both sections.

10 Q. And it provides the percentage breakdown?

11 A. Yes, it does.

12 Q. Okay. What is Exhibit 4?

13 A. Exhibit 4 is a copy of my well-proposal letter
14 to all the parties and is dated May 24th, 2018.

15 Q. Okay. And Exhibit 4A?

16 A. 4A is the attached AFE that was sent to
17 everybody, also, at the same time.

18 Q. And what did the AFE provide as costs?

19 A. \$8,184,067.

20 Q. And is this cost in line with the cost of other
21 horizontal wells in this area drilled to this length and
22 depth?

23 A. Yes, it is.

24 Q. And there were unleased mineral interest owners
25 within this unit, correct?

1 A. Yes. Yes, there is.

2 **Q. And for those unleased mineral interest owners**
3 **that you were able to locate, did Devon make an offer to**
4 **lease or purchase their interest?**

5 A. Yes, we did. We hired a broker who researched
6 the records and checked the Internet searches, and all
7 parties have been contacted either by me personally or
8 the broker, except for the unlocatable ones.

9 **Q. Okay. So let's look at Exhibit 5, please.**
10 **What is Exhibit 5?**

11 A. Exhibit 5 is a documentation of my
12 communication efforts to acquire these parties, and so
13 that's just a summary of what all's been done.

14 **Q. Okay. And in your opinion, has Devon made a**
15 **good-faith effort to obtain the voluntary joinder or**
16 **other agreements with these parties?**

17 A. Yes, we have.

18 **Q. In addition to the working interest owners**
19 **you've identified as parties to be pooled, is Devon**
20 **pooling any other interest owners?**

21 A. The overriding royalty interest owners.

22 **Q. Okay. And where can we find a list of these**
23 **overriding royalty interest owners? Is that available**
24 **on Exhibit 6?**

25 A. It's Exhibit 6. Yes.

1 Q. Let's look at Exhibit 7 now. What is Exhibit
2 7?

3 A. Exhibit 7 is the attorney's Affidavit of
4 Notice.

5 Q. And attached to this exhibit, we find a letter
6 that was sent to all the working interest owners that
7 you wanted to be pooled?

8 A. Yes.

9 Q. And this is attached as Exhibits 6A1; is that
10 correct? Oh, I'm sorry. 7A1.

11 A. 7A1, yes.

12 Q. Yes. Okay.

13 And there is a list attached to this
14 letter; is that right?

15 A. Exhibit 7A1?

16 Q. The pooling list. This is for the working
17 interest owners that we initially -- that I sent notices
18 to?

19 A. Yes. Yes.

20 Q. Okay. Does it correctly identify all the
21 working interest owners that Devon seeks to pool and the
22 addresses to which the notices were sent?

23 A. It does for most part. You'll see
24 Kaiser-Francis on there. We have purchased
25 Kaiser-Francis' interests in there. You'll see Tap Rock

1 Resources on the list. We have purchased Tap Rock
2 Resources' interest. And you'll see AllDale Minerals on
3 the list. We purchased all AllDale Minerals' interests
4 on the list -- from this list also.

5 Q. Then there is attached to this the
6 return-receipt cards that we did receive, correct?

7 A. Yes.

8 Q. And as to the unleased mineral interest owners
9 that you attempted to locate, did we publish notice --

10 A. Yes, we did.

11 Q. -- for the unlocatables?

12 And is that reflected in Exhibit 7B?

13 A. Well, I'm not sure I have a 7B.

14 Q. Did you not get a 7B on your --

15 A. I mean, I'm looking at the same thing you are,
16 and it looks like -- oh, I take that back. It's up in
17 the corner. Yeah, 7B.

18 Q. Okay. And if we look at Exhibit 7A2, is this a
19 letter -- a notice letter that was sent -- mailed out
20 September 5th to an overriding royalty interest owner?

21 A. Yes.

22 MS. CALLAHAN: And since this was just
23 mailed out, we are going to ask for a continuance to
24 September 20th to allow for notice to these overriding
25 royalty interest owners. And I see they are actually

1 listed on Exhibit A of 7A2.

2 Q. (BY MS. CALLAHAN) Let's turn now, please, to
3 Exhibit 1 for Case 16349. Would you look at Exhibit 1
4 and tell us what that is?

5 A. Yes. It is the C-102 for the Spud Muffin 31-30
6 334H well.

7 Q. And what is the target zone for this well?

8 A. It would be the Bone Spring, and the pool
9 code -- or the pool is the Cedar Canyon; Bone Spring
10 Pool.

11 Q. Okay. And the pool code is?

12 A. 11520.

13 Q. Has this application to drill been approved?

14 A. It has not yet. No.

15 Q. And what are you asking of the Division in this
16 case?

17 A. We're asking the Division for the pooling of
18 all uncommitted mineral interests in this 320-acre
19 spacing and proration unit comprised of the east
20 half-east half of Sections 30 and 31.

21 Q. And the 40-acre oil spacing rule applies to
22 this well as well?

23 A. It does as well.

24 Q. Okay. And will this well also comply with the
25 100-foot setback?

1 A. Yes, it does.

2 Q. Okay. And this well also -- the spacing
3 unit -- the spacing unit is also considered a standard
4 horizontal well spacing and proration unit under the new
5 horizontal rules; is that right?

6 A. Yes. Under the rules, yes.

7 Q. Okay. What type of mineral ownership is
8 involved in this?

9 A. This has all fee ownership.

10 Q. And how will the well proposed for this be
11 developed?

12 A. It will be drilled in a batch format, along
13 with the prior case we talked about, and with other
14 wells that are forthcoming down the road.

15 Q. And let's look at Exhibit 2.

16 A. Exhibit 2 is the list of -- of working interest
17 owners within this unit. Again, the same deal with OXY.
18 I've got a deal working with them.

19 I actually have a deal working with
20 Chevron, too, where Chevron will trade all or part of
21 their acreage out of this unit, but at this time, they
22 are a pooled party.

23 And then Nortex has signed their AFE and
24 sent it back, but, again, they are a pooled party also.

25 Q. So you want all these parties to be pooled

1 parties in this case?

2 A. Yes, they are.

3 Q. Is the mineral ownership severed by depth
4 within this spacing unit?

5 A. No.

6 Q. What is Exhibit 3?

7 A. Exhibit 3 is the unit ownership of the parties
8 that are in this unit right presently.

9 Q. Okay. And Exhibit 4?

10 A. Exhibit 4 is my well proposal dated May 24th
11 that was sent out to all parties, along with the AFE in
12 the amount of \$8,184,067.

13 Q. And this cost is in line with the cost of the
14 other horizontal wells in this area drilled to this
15 length and depth, right?

16 A. Yes.

17 Q. I think you've already discussed your attempts
18 to obtain joinder?

19 A. Yes.

20 Q. In addition to the working interest owners
21 we've just identified, is Devon pooling any other
22 interest owners in this spacing unit?

23 A. The overriding royalty interest owners, yes.

24 Q. Okay. And I think we need to look at Exhibit

25 7. No. I'm sorry. This is Exhibit 6 in this case.

1 **What is Exhibit 6?**

2 A. It's the Affidavit of Notice from your office.
3 Yes.

4 Q. Okay. And this is the notice that was sent to
5 the working interest owners originally, correct?

6 A. Yes.

7 Q. Okay. And there were no returned -- they all
8 returned receipt cards received from these working
9 interest owners, correct?

10 A. Yes.

11 Q. And we didn't have any unleased mineral
12 ownership in this spacing unit?

13 A. No.

14 Q. Let's look at Exhibit 6A2. Is this a letter
15 that was sent on September 5th, 2018 to the overriding
16 royalty interest owners in this spacing unit?

17 A. Dated September 5th, yes, that was the letter
18 that was sent.

19 Q. All right. And if we look at Exhibit A
20 attached to it, that seems to be mismarked in Exhibit 5.

21 A. Yes, I see that.

22 Q. It's Exhibit A to --

23 A. That's a list of the overriding royalty
24 interest owners.

25 Q. Yeah. This is a list of the overriding royalty

1 **interest owners in the east half-east half of Sections**
2 **30 and 31?**

3 A. Yes.

4 MS. CALLAHAN: And this case we will also
5 ask be continued September 20th for notice purposes to
6 the overriding royalty interest owners.

7 And that concludes my questions for this
8 witness.

9 EXAMINER McMILLAN: Okay. What exhibits
10 are going to be accepted as part of the record for each
11 case?

12 MS. CALLAHAN: We'd like to submit, in Case
13 16346, Exhibits 1 through 7, including the subparts, A1,
14 A2 and 7B.

15 And in Case 16349, we'd like to submit
16 Exhibits 1 through 6 and its subparts as well.

17 EXAMINER McMILLAN: Okay. Exhibits 1
18 through 7 and subparts may be accepted as part of the
19 record in Case 16346, and Exhibits 1 through 6 and
20 subparts in Case 16349 may now be accepted as part of
21 the record.

22 (Devon Energy Production Company, LP,
23 in Case Number 16346, Exhibit Numbers 1
24 through 7 and its subparts, and in Case
25 Number 16349, Exhibit Numbers 1 through 6

1 and its subparts are offered and admitted
2 into evidence.)

3 Q. (BY MS. CALLAHAN) And for clarification -- I
4 think I forgot to ask this question -- Mr. Hammond, were
5 all of these exhibits prepared by you, under your
6 supervision or compiled from company business records?

7 A. Yes.

8 Q. Thank you.

9 CROSS-EXAMINATION

10 BY EXAMINER McMILLAN:

11 Q. Okay. So let's look at -- we're looking at the
12 C-102 for 16346, and then we're looking also at Exhibit
13 4. Why is there a discrepancy in the C-102 for the
14 bottom-hole location? The C-102 shows 20 from the
15 north. The letter shows 230 from the north.

16 A. I believe this C-102 was recently revised to
17 reflect the new field rules.

18 EXAMINER BROOKS: You mean the new
19 horizontal well rule?

20 THE WITNESS: Yes.

21 EXAMINER BROOKS: The reduced heel and toe
22 setbacks?

23 THE WITNESS: Yes.

24 Q. (BY EXAMINER McMILLAN) And the producing
25 interval will be orthodox?

1 A. Yes, it will.

2 Q. And the same thing for 349? You revised the
3 C-102 to match --

4 A. Yes.

5 Q. -- the horizontal well rules?

6 A. Yes.

7 Q. So it's really 20 feet from the north --

8 A. Yes.

9 Q. -- in both cases?

10 A. Again -- yeah. I think there is 80 feet of
11 rathole.

12 Q. And just for clarity, when were these submitted
13 to the OCD?

14 MS. CALLAHAN: They were originally
15 submitted -- I don't have that information in front of
16 me. I apologize. It's been well over 30 days.

17 EXAMINER McMILLAN: Okay. So it was done
18 after June 25th? June 25th is the magical date.

19 EXAMINER BROOKS: 26th?

20 MS. CALLAHAN: I thought it was the 26th.

21 EXAMINER McMILLAN: Okay. 26th. But it
22 was after June 26th?

23 MS. CALLAHAN: It was. It was. Yeah. It
24 was after the new horizontal well rules came into
25 effect.

1 EXAMINER McMILLAN: I just want to make
2 that clear.

3 EXAMINER BROOKS: 12:01, June 26th.

4 MS. CALLAHAN: Was it June?

5 EXAMINER BROOKS: June.

6 MS. CALLAHAN: I remember the 26th. I
7 didn't remember June.

8 Q. (BY EXAMINER McMILLAN) What about costs? What
9 are your producing and overhead rates?

10 A. 8,000 and 800.

11 MS. CALLAHAN: Oh, yes. I skipped a bit.
12 I have a few questions to ask him related to both the
13 cases.

14 REDIRECT EXAMINATION

15 BY MS. CALLAHAN:

16 Q. So, Mr. Hammond, for both the west half-west
17 half and the east half-east half of Sections 30 and 31
18 spacing units, who should be designated as operator?

19 A. Devon Energy Production Company, L.P.

20 Q. And in each case, what amount do you recommend
21 that Devon be paid for supervision and administrative
22 expenses?

23 A. 8,000 a month drilling rate and then 800 a
24 month producing rate.

25 Q. And are these amounts equivalent to those

1 charged by Devon and other operators in this area for
2 horizontal wells drilled to this length and depth?

3 A. Yes.

4 Q. And do you request that these rates be adjusted
5 periodically under the COPAS accounting procedure?

6 A. Yes.

7 Q. And in each case, does Devon request a maximum
8 cost plus 200 percent risk charge if any pooled working
9 interest owner fails to pay its share of costs for
10 drilling, completing and equipping the wells?

11 A. Yes.

12 Q. And is this -- in your opinion, is the granting
13 of these applications in the best interest of
14 conservation, the prevention of waste and the protection
15 of correlative rights?

16 A. Yes, it is.

17 CONTINUED CROSS-EXAMINATION

18 BY EXAMINER McMILLAN:

19 Q. Are there any API numbers for these wells?

20 A. Not for these two.

21 EXAMINER McMILLAN: Go ahead, David.

22 CROSS-EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. I don't think I really have much of any
25 questions here, but you said some kind of format was --

1 they were going to be drilled in some kind of format.
2 The first time you said it, I thought you said the
3 bagpipe format.

4 A. No. It's batch, batch drilling.

5 Q. That's what I thought you said. What do you
6 mean by that?

7 A. Well, one of two rigs will be brought in to
8 drill a bunch of wells at one time in a batch, and then
9 we'll get those drilled. And, again, I'm not qualified
10 to talk too much about it. But then we'll bring in a
11 completion rig and complete them all in a batch.

12 Q. I've heard other witnesses testify about that
13 procedure. I guess you threw me off the first time.

14 A. Right. It's not bagpipes. I don't know how to
15 play those.

16 Q. I don't know why I heard it, but I'm fairly
17 deaf, so it's understandable.

18 EXAMINER BROOKS: When you refer to Exhibit
19 6 in the first case -- in the first case, that was
20 actually Exhibit 7 in that case, right?

21 MS. CALLAHAN: Yes. Yes. And it's
22 Exhibit 6 -- the same exhibit as Exhibit 6 in 16349.

23 EXAMINER McMILLAN: Okay. So the exhibits
24 that should be accepted as part of the record in 16346
25 are Exhibits 1 through 5 and 7, not 6?

1 (Devon Energy Production Company, L.P.
2 Exhibit Numbers 1 through 5 and 7 are
3 admitted into evidence.)

4 EXAMINER BROOKS: I don't believe there is
5 an Exhibit 6.

6 MS. CALLAHAN: Oh, you're right. You're
7 right. The list is included in Exhibit 6, correct.

8 EXAMINER BROOKS: So all testimonial
9 references to Exhibit 6 in Case Number 16346 should be
10 construed as references to Exhibit 7, instead of 6.

11 MS. CALLAHAN: Yes, for the 16346 case.

12 EXAMINER BROOKS: Yeah. That's what I
13 thought.

14 Then there is an Exhibit 6 and not an
15 Exhibit 7 in 16349, correct?

16 MS. CALLAHAN: Correct.

17 **Q. (BY EXAMINER BROOKS) Okay. Now, in Case 16349,**
18 **if you get all the agreements you're expecting to get**
19 **from the other working interest owners there, there**
20 **would be nobody left to pool; is that correct?**

21 A. Well, Nortex is still out there as a party.
22 We're working with OXY, which we think will go through.
23 It's a trade deal.

24 **Q. Less certain about Nortex?**

25 A. Well, they've already sent in their AFE.

1 Nortex has.

2 **Q. They're participating --**

3 A. Yes.

4 **Q. -- but they've not signed a JOA?**

5 A. That's right. Not yet.

6 **Q. Okay. And if you get agreements with**
7 **everybody, you'll dismiss the cases; is that accurate?**

8 A. Yeah, it is. I kind of don't think -- Chevron,
9 right now, we are working on a trade issue, trade acres.

10 **Q. Oh.**

11 A. And I think they will end up with some interest
12 in these units.

13 **Q. They will have an interest in the units?**

14 A. It just won't be as much as it is now.

15 **Q. So their interest will be need to be compulsory**
16 **pool in any case?**

17 A. Yes.

18 **Q. That's all I have.**

19 **REDIRECT EXAMINATION**

20 BY MS. CALLAHAN:

21 **Q. Just to clarify, we're asking for all those**
22 **pooled parties --**

23 A. Yeah, at this time.

24 **Q. At this time.**

25 **But you will let the Division know at some**

1 point if they sign the JOA?

2 A. Yes.

3 Q. After an order is issued?

4 EXAMINER BROOKS: Well, it would just be a
5 dismissal of all of them.

6 MS. CALLAHAN: If all of them join.

7 EXAMINER BROOKS: And, again, Chevron
8 probably may not.

9 MS. CALLAHAN: We may still have overriding
10 royalty interest owners who may need to be pooled.

11 EXAMINER BROOKS: Okay. I understand.
12 Thank you.

13 MS. CALLAHAN: That's all I have.

14 I would like to call Susan Estes.

15 SUSAN L. ESTES,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MS. CALLAHAN:

20 Q. Ms. Estes, would you please state your name for
21 the record, identify by whom you are employed and in
22 what capacity?

23 A. I'm Susan Leona Estes, and I work for Devon
24 Energy as a geologic advisor.

25 Q. And how long have you been employed by Devon?

1 A. 19 years. It'll be 20 in a couple of months.

2 **Q. Did you get a watch?**

3 A. I'm not sure. Good question. Probably not.

4 **Q. What are your responsibilities as a geologist**
5 **with Devon?**

6 A. My main responsibilities include evaluating,
7 planning and executing and managing both development,
8 exploratory plays, both conventional and unconventional,
9 in various geologic settings, the Rockies, the Permian,
10 Gulf Coast, et cetera.

11 **Q. Have you previously testified before the**
12 **New Mexico Oil Conservation Division?**

13 A. I have not.

14 **Q. Okay. Would you please outline your**
15 **educational background?**

16 A. I've got a Bachelor of Science in Geology from
17 Oklahoma State University and with a minor in business
18 law.

19 **Q. And would you outline, please, your proposal**
20 **background?**

21 A. After over 31 years in the business: Anadarko
22 Petroleum, 1985 to '92; a smaller dependent, Oakland
23 Oil, '93 to '98; SameDan, '98 to '99; and then I've been
24 Devon Energy since 1999.

25 **Q. Do you hold any professional certifications or**

1 **professional affiliations?**

2 A. I do. I'm a qualified witness for the Oklahoma
3 Corporation Commission, and in Montana, for the Board of
4 Oil and Gas. And I'm a member of the AAPG, RMAG OPGS,
5 WTGS, and all that stuff.

6 **Q. Does your area of responsibility at Devon**
7 **include the Permian Basin in New Mexico?**

8 A. It does. I have basically the western half of
9 the Delaware Basin, so all of Eddy County and then some
10 and some of Lea County as well.

11 **Q. Are you familiar with the applications that**
12 **have been filed by Devon in these cases?**

13 A. Yes, I am.

14 **Q. And have you conducted a geologic study of the**
15 **lands that are the subject of this hearing?**

16 A. I have.

17 MS. CALLAHAN: I tender the witness as an
18 expert in petroleum geology.

19 EXAMINER McMILLAN: So qualified.

20 **Q. (BY MS. CALLAHAN) Ms. Estes, let's first look**
21 **at Case Number 16346, Exhibit Number 8.**

22 A. Uh-huh. This is a map overview basically of
23 our Bone Spring execution plan. These are our proposed
24 locations in Sections 31 and 30 of 23, 29 East. The
25 proposed location or well path are the red lines. We're

1 going to be drilling two-mile laterals from south to
2 north. The bottom-hole location is denoted by the red
3 dot. The labels -- you'll see the well labels are
4 labeled the 331H on the western part. The middle is the
5 332H, and the 334H is on that east half-east half. The
6 PSU -- I've got both PSUs for both. I've consolidated
7 it in this picture. But when I say PSU, proposed
8 spacing unit.

9 The blue, the west half-west half, is on
10 the west at 312.39 acres and the east half-east half at
11 320 acres.

12 And initially we had planned four wells per
13 section for the Bone Spring, but now we've -- after we
14 kind of evaluated everything, we think that three wells
15 per section will adequately drain the reservoir. And
16 also, we didn't want to overcapitalize the project,
17 basically. That's always a concern. So we think
18 that'll be adequate for draining the reservoir. And
19 we'll be coming back in a few weeks to do this middle
20 spacing unit.

21 **Q. Okay. And let's look at Exhibit 9. What is**
22 **that?**

23 A. Exhibit 9 is a top of the 3rd Bone Spring
24 structure map. The contour interval is 50 feet. It's
25 not 25, but I thought you would like to see some of the

1 writing on it. So I didn't want it to get too
2 cluttered. But regionally, you can see, it's basically
3 the same. Every structure map you're going to look at
4 that I have is basically all -- they all strike
5 north-south. They all dip from west down to east into
6 the basin at 1 degree, plus or minus.

7 The PSU that we're talking about on the
8 16346, the west half-west half, is denoted by the blue
9 outline.

10 And just a note also, the stress
11 direction -- I know that sometimes that's a question.
12 So you notice the producing wells, I have those two --
13 at least the two that are within this area are denoted
14 by the blue triangles. And they're drilled north-south,
15 but if you go off this map, there are wells in the area
16 that are drilled both ways. And we really don't feel
17 like -- there is really no evidence to support -- you
18 can drill -- your stress direction is really at about 45
19 degrees, so you can drill north-south or east-west and
20 still make good wells. Either way.

21 Also, there are no geohazards that we see
22 on seismic. We do have seismic over this, by the way.
23 So no issues with that.

24 Q. Shall we look at Exhibit 10?

25 A. Exhibit 10 is -- you'll have to ignore that.

1 That was a mistake. It's not the top of the 3rd Bone
2 Spring isopach. This is just an isopach of the 3rd Bone
3 Spring, overall, interval. Contour interval is 10 feet.
4 The range over the map goes from about 330 to 370 feet
5 from north to south. Average thickness over our
6 development block is 31 in Sections [sic] 3, is about
7 350 to 370 feet.

8 Again, the PSU is denoted by the blue
9 outline. And also on this -- on the isopach map, I have
10 lines of section for the cross sections that you're
11 going to see in the next exhibit. So your strike
12 section will be in red from A to A prime from south to
13 north, and then the blue, B to B prime, goes from west
14 to east. And that's your dip section.

15 **Q. Let's talk about Exhibit 11.**

16 A. In Exhibit 11, this is a stratigraphic cross
17 section, A, A prime. It goes from south to north, as
18 shown in the inset map.

19 The three type wells, if will you, for the
20 entire development block are these three middle wells.
21 The tops are shown on the sides. I have the 3rd Bone
22 highlighted in yellow, the entire interval. Our target
23 interval is normally about right at the middle or just
24 right at or below the middle of that entire interval.
25 That's where we will be targeting. And you can also see

1 that the formations are consistent in their overall
2 thickness, log character and also lateral and contiguous
3 across the development block and really across the area
4 as well.

5 **Q. Are the wells you've selected representative of**
6 **the Bone Spring in this area?**

7 A. Yes, they are. Matter of fact, like I said,
8 the type wells are indicative of what's in the block.

9 **Q. Let's look at Exhibit 12.**

10 A. Exhibit 12 is just the dip section. It goes
11 from west to east. And this is a little exaggerated.
12 I don't have it spaced to scale. It very gently dips
13 1 degree, like I said, plus or minus, down to the east.
14 Then, again, the 3rd Bone is highlighted in that very
15 thick interval across the top, and the target would be
16 right in about the middle of that interval.

17 **Q. Let's move to your exhibits for Case 16349, the**
18 **east half-east half of Sections 30 and 31.**

19 A. Mr. Examiner, these maps are exactly -- they're
20 the same maps. The only difference with these maps,
21 just for the record, is I really show that east
22 half-east half, you know, that relates to this case.
23 But they're exactly the same.

24 EXAMINER McMILLAN: Yeah. Let's move on.

25 THE WITNESS: I didn't think you wanted to

1 go through every one.

2 EXAMINER McMILLAN: Yeah. Let's move on.

3 THE WITNESS: That's what I thought.

4 They're exactly the same.

5 Q. (BY MS. CALLAHAN) All right. Were Exhibits 8
6 through 12 in Case 16346 and 7 through 11 in Case 16349
7 prepared by you or compiled under your direction and
8 supervision?

9 A. They were.

10 Q. And in your opinion, is the granting of this
11 application in the best interest of conservation and the
12 prevention of waste and the protection of correlative
13 rights?

14 A. Yes.

15 Q. And I think I neglected to ask you whether you
16 were of the opinion that all of the 40-acre
17 quarter-quarters are going to contribute more or less
18 equally to the production from each of these wells.

19 A. Yes, they are.

20 MS. CALLAHAN: I have no more questions.

21 EXAMINER McMILLAN: Okay. Exhibits 8
22 through 12 in 16346 may now be accepted as part of the
23 record, and Exhibits 7 through 11 in Case 16349 may now
24 be accepted as part of the record.

25 (Devon Energy Production Company, L.P., in

1 Case Number 16346, Exhibit Numbers 8
2 through 12, and in Case Number 16349,
3 Exhibit Numbers 7 through 11 are offered
4 and admitted into evidence.)

5 EXAMINER McMILLAN: Good presentation. I
6 don't have any questions.

7 Do you?

8 EXAMINER BROOKS: I do not.

9 EXAMINER McMILLAN: I want to bring the
10 landman back for a second.

11 CONTINUED DIRECT EXAMINATION

12 BY MS. CALLAHAN:

13 Q. We are going to -- I guess I'll ask -- ask you
14 one more question. It's related to the time frame we
15 may need to get all of this done.

16 MS. CALLAHAN: Since we have haven't
17 presented the Wolfcamp cases yet, I'm just asking you to
18 take into consideration the fact that all of the wells,
19 Wolfcamp wells and Bone Spring wells, are going to be
20 batch drilled and completed. Ms. Estes will address
21 kind of the whole plan at the end of the Wolfcamp cases
22 in terms of showing you exactly why and what they're
23 going to do in terms of the execution of the development
24 plan. It shouldn't take too long.

25 EXAMINER McMILLAN: Okay. That's fine.

1 JOE HAMMOND,

2 after having been previously sworn under oath, was
3 re-called, questioned and testified as follows:

4 CROSS-EXAMINATION

5 BY EXAMINER McMILLAN:

6 Q. My question is: Since you're drilling the 3rd
7 Bone Spring, is ownership identical in the Bone Spring
8 and the Wolfcamp in case the fracs go into the Wolfcamp?

9 A. They are -- well, again, your spacing units are
10 different because, you know -- so the owners are the
11 same, but the percentages are not the same. Does that
12 make sense?

13 MS. CALLAHAN: And I do want to just give
14 you a heads-up that Ms. Estes will also be addressing
15 their attempts to mitigate any communication between the
16 3rd Bone Spring and the Upper Wolfcamp.

17 EXAMINER McMILLAN: That was my question.
18 Thanks.

19 Go ahead.

20 MS. CALLAHAN: Yes. Would you please take
21 Cases 16346 and 16349 under advisement subject to
22 continuing them for notice purposes to September 20th?

23 EXAMINER McMILLAN: 16346 shall be
24 continued until September 20th, and 16349 shall be
25 continued until September 20th.

1 MS. CALLAHAN: Thank you.
2 (Case Numbers 16346 and 16349 conclude,
3 4:40 p.m.)
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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 DATED THIS 28th day of September 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25