

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

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IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

ORIGINAL

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, L.P. FOR
A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

CASE NO. 15195

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 18, 2014

Santa Fe, New Mexico

BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Richard Ezeanyim,
Chief Examiner, on Thursday, September 18, 2014, at the
New Mexico Energy, Minerals and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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APPEARANCES

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

JAMES G. BRUCE, ESQ.
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EXHIBITS OFFERED AND ADMITTED

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1 (8:32 a.m.)

2 EXAMINER EZEANYIM: On page 1 is Case
3 15195, and this is Devon Energy Production Company, L.P.
4 for a nonstandard oil spacing unit and proration unit
5 and compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I have two
9 witnesses.

10 EXAMINER EZEANYIM: Any other appearances?

11 May the two witnesses stand up, state your
12 names carefully for the reporter and then be sworn in.

13 MR. WALKER: My name is Samuel Walker,
14 landman for Devon Energy.

15 MR. BURNS: My name is Steve Burns. I'm a
16 geologist for Devon Energy.

17 EXAMINER EZEANYIM: If you haven't
18 testified before, give the court reporter your card --
19 your business card.

20 (Mr. Walker and Mr. Burns sworn.)

21 EXAMINER EZEANYIM: Mr. Bruce, you may
22 proceed.

23 SAMUEL WALKER,

24 after having been previously sworn under oath, was
25 questioned and testified as follows:

DIRECT EXAMINATION

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BY MR. BRUCE:

Q. Mr. Walker, where do you reside?

A. Oklahoma City.

Q. Who do you work for and in what capacity?

A. Devon Energy as a landman.

Q. Have you previously testified before the Division?

A. I have.

Q. And were your credentials as an expert landman accepted as a matter of record?

A. They were.

Q. And are you familiar with the land matters involved in this case?

A. I am.

MR. BRUCE: Mr. Examiner, I tender Mr. Walker as an expert petroleum landman.

EXAMINER EZEANYIM: So qualified.

Q. (BY MR. BRUCE) Mr. Walker, could you identify Exhibit 1 for the Examiner?

A. Exhibit 1 is Devon's C-102 for the subject well, for the Tomb Raider 1 Fed 1H. This well is located in the west half of the east half, Section 1, Township 23 South, Range 31 East, Eddy County, New Mexico. This is the area that Devon is seeking to

1 pool.

2 Q. And what is the formation you're seeking to
3 pool?

4 A. The Bone Spring.

5 Q. There is a note on Exhibit 1 about the federal
6 lease number. Is this a single federal lease?

7 A. It is.

8 Q. And who do you seek to force pool?

9 A. We are seeking to pool Linn Energy. They hold
10 a .55 [sic] percent interest in the subject area.

11 Q. What is Exhibit 2?

12 A. Exhibit 2 is a copy of our proposal letter sent
13 to Linn Energy for the well.

14 Q. This was sent several months ago. Have you had
15 any additional contact with Linn Energy?

16 A. Yes. We've contacted them by phone and through
17 e-mail.

18 Q. Have they just not indicated whether or not
19 they wanted to join in the well?

20 A. They've indicated that they had no interest in
21 participating.

22 Q. Okay. In your opinion, has Devon made a
23 good-faith effort to obtain the voluntary joinder of the
24 interest owners in the well?

25 A. Yes, we have.

1 Q. Could you identify Exhibit 3 and discuss the
2 cost of the proposed well?

3 A. Exhibit 3 is the AFE that we sent, along with
4 the proposal, to Linn Energy for total well costs of
5 just over 7 million.

6 Q. And are these costs in line with the cost of
7 other horizontal wells drilled to this depth in this
8 area of New Mexico?

9 A. Yes, they are.

10 Q. Do you request that Devon be appointed operator
11 of the well?

12 A. Yes, we do.

13 Q. And what is your recommendation as to the
14 overhead administrative expenses?

15 A. We're requesting the industry average in the
16 area, which is around 10,700 a month for drilling the
17 well and around 1,700 a month for producing the well.

18 Q. And you say that is common in this area?

19 A. Yes.

20 Q. Do you request that the rate be adjusted
21 periodically as provided by the COPAS accounting
22 procedure?

23 A. Yes.

24 Q. And does Devon request a cost plus 200 percent
25 risk charge in the event Linn Energy does not join in

1 the well?

2 A. Yes, we do.

3 Q. And was Linn Energy notified of this hearing?

4 A. Yes, they were. Let the record indicate that
5 it's Exhibit 4, the Affidavit of Notice to Linn Energy.

6 Q. And insofar as offsets, after looking at
7 Division records and lease records, the only offsets
8 would be Devon and Linn Energy and COG, correct?

9 A. Correct.

10 Q. And was -- and since Linn Energy received
11 notice, was notice also given to COG Operating of this
12 case?

13 A. Yes, it was.

14 Q. And is that reflected in Exhibit 5?

15 A. Yes.

16 Q. Were Exhibits 1 through 5 prepared by you or
17 under your supervision or compiled from company business
18 records?

19 A. Yes, they were.

20 Q. And in your opinion, is the granting of this
21 application in the interest of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I'd move the
25 admission of Exhibits 1 through 5.

1 EXAMINER EZEANYIM: Exhibits 1 through 5
2 will be admitted.

3 (Devon Energy Production Company, L.P.
4 Exhibit Numbers 1 through 5 were offered
5 and admitted into evidence.)

6 MR. BRUCE: I have no further questions of
7 the witness.

8 EXAMINER EZEANYIM: Okay.

9 CROSS-EXAMINATION

10 BY EXAMINER EZEANYIM:

11 Q. Let me start with your overhead rates. Could
12 you tell me again how you come up with those overhead
13 rates?

14 A. Yes. Those -- we have noticed that is the
15 average -- the industry average in the area for overhead
16 rates. So --

17 Q. The industry average in the Bone Spring for a
18 one-mile -- for a one-mile horizontal, the industry rate
19 is around 10,700?

20 A. Around that, yes.

21 Q. Well, you know, with due respect, I haven't
22 seen that before, you know, and I have been working with
23 the Bone Spring for 24 years now. But I haven't seen
24 overhead rates as high as that, but that's what you are
25 asking for. It appears you got it by intuition, not the

1 average. I don't know. But whatever it is, that's what
2 you're asking, right?

3 A. Uh-huh.

4 Q. What is the name of this pool? The Bone
5 Spring?

6 MR. BRUCE: Mr. Examiner, this is a wildcat
7 Bone Spring.

8 EXAMINER EZEANYIM: Wildcat.

9 MR. BRUCE: And the AFE has not been issued
10 yet -- or APD, so there is no API number.

11 EXAMINER EZEANYIM: As to this well, what
12 pool is it? Wildcat?

13 MR. BRUCE: (Indicating.)

14 EXAMINER EZEANYIM: No API number?

15 MR. BRUCE: No API number.

16 EXAMINER EZEANYIM: Is this going to be
17 standard location for the wells? The location of the
18 wells, could you tell me where they are located?

19 REDIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. What is the surface location and the
22 bottom-hole location, Mr. Walker?

23 A. The surface-hole location is -- well, it's
24 located -- the entire well is located in the west half --
25 of the east half of Section 1. The surface location is

1 200 feet from the north line of Section 1, and the
2 bottom hole is 330 feet from the south line.

3 EXAMINER EZEANYIM: 200 what?

4 THE WITNESS: 200 feet from the north line
5 is the surface, and the bottom hole is 330 feet from the
6 south line.

7 EXAMINER EZEANYIM: Do you have a plat that
8 shows that, so I don't have to write this down?

9 MR. BRUCE: Exhibit Number 1.

10 THE WITNESS: 1.

11 EXAMINER EZEANYIM: Okay. Very good.

12 RE CROSS EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. The completed downhole will be standard?

15 A. Yes.

16 Q. That's all I need to know.

17 And the land is federal?

18 A. Yes, it is.

19 Q. Okay. Let's go back to the notice. How did
20 you conduct your notice? Did you do all the due
21 process?

22 MR. BRUCE: Yes. Mr. Examiner --

23 Q. (BY EXAMINER EZEANYIM) Contacted everybody?
24 Did you find everybody? That's my question. Did you
25 find everybody?

1 MR. BRUCE: Mr. Examiner, Mr. Walker
2 testified the only other working interest owner in the
3 well is Linn Energy Holdings, LLC, and they were given
4 notice as shown on Exhibit 4. And then the only other
5 operators other than Devon are COG Operating and Linn
6 Operating, Inc., obviously a sister company. And they
7 were both given notice as shown by Exhibits 4 and 5.

8 EXAMINER EZEANYIM: You located everybody?

9 MR. BRUCE: Yes.

10 EXAMINER EZEANYIM: You may step down. No
11 further questions.

12 Call your next witness.

13 STEVEN BURNS,

14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Where do you reside, Mr. Burns?

19 A. In Edmond, Oklahoma.

20 Q. And who do you work for?

21 A. Devon Energy.

22 Q. What's your job there?

23 A. I'm a geologist working southeast New Mexico.

24 Q. Have you previously testified before the
25 Division?

1 A. Yes, I have.

2 Q. And were your credentials as an expert
3 petroleum geologist accepted as a matter of record?

4 A. Yes.

5 Q. And are you familiar with the geology involved
6 in this application?

7 A. Yes, I am.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. Burns as an expert petroleum geologist.

10 EXAMINER EZEANYIM: He is so qualified.

11 Q. (BY MR. BRUCE) Mr. Burns, what is Exhibit 5 --
12 excuse me -- Exhibit 6?

13 A. Exhibit 6 is a structure map on top of the 2nd
14 Bone Spring covering Section 1 and the surrounding
15 sections. It is on a 50-foot contour and dips from the
16 west to the east.

17 Q. And what is Exhibit 7?

18 A. Exhibit 7 is a net isopach of the 2nd Bone
19 Spring interval, the sand interval. It shows that there
20 is a thick running through Section 1.

21 Q. Is the 2nd Bone Spring the primary target for
22 this well?

23 A. It is.

24 Q. Is there a line of cross section on this plat?

25 A. Yes, there is.

1 Q. And is that the next exhibit, Exhibit 8?

2 A. That is Exhibit Number 8, yes. And it has
3 three wells on it. Do you want me to kind of go through
4 that?

5 Q. Go ahead.

6 A. It starts up -- it starts with the Union Oil
7 Company Barclay State #1, and it goes through the Union
8 Oil Company Barclay #1 in Section 1, and then the Samson
9 Resources as well. It shows the base of the 2nd Bone
10 Spring sand indicated -- and it's actually the top of
11 the 3rd Bone Spring lime indicated at about 10,5 on that
12 cross section, and then the top of the 2nd Bone Spring
13 sand indicated at about 10,120 feet. So the interval
14 that is mapped on the isopach is the interval between
15 those two markers.

16 Q. And does it show that the target interval is
17 continuous across this area?

18 A. It does.

19 Q. Based on the isopach and the cross section, do
20 you anticipate each quarter-quarter section in the well
21 unit contributing more or less equally to production?

22 A. Yes.

23 Q. Were Exhibits 6, 7 and 8 prepared by you or
24 under your supervision?

25 A. Yes.

1 Q. And in your opinion, is the granting of this
2 application in the interest of conservation and the
3 prevention of waste?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I move the
6 admission of Exhibits 6, 7 and 8.

7 EXAMINER EZEANYIM: Exhibits 6, 7 and 8
8 will be admitted.

9 (Devon Energy Production Company, L.P.
10 Exhibit Numbers 6, 7 and 8 were offered and
11 admitted into evidence.)

12 MR. BRUCE: I have no further questions of
13 the witness.

14 EXAMINER EZEANYIM: Thank you, Mr. Bruce.

15 CROSS-EXAMINATION

16 BY EXAMINER EZEANYIM:

17 Q. Mr. Burns, right?

18 A. Yes.

19 Q. Okay. Let's go back to the net isopach map. I
20 love that. You are trying to drill north-south, right?

21 A. We do.

22 Q. Am I wrong because I want to drill east-west?
23 Because I can see I can do that, if I look at --

24 A. You could, yeah.

25 Q. Why did you choose north-south?

1 A. We choose north-south. And most of the wells
2 generally -- there aren't a lot on the plat, but south
3 of here and in surrounding areas, they have all been
4 drilled north-south.

5 In addition, down in our Cotton Draw Unit,
6 we've done quite a bit of science on 218 -- our Cotton
7 Draw Unit 218H well, and the indication of the proper
8 way to drill these wells would be in a north-south
9 pattern from that science that we've collected.

10 Q. From -- of state wells?

11 A. Yes.

12 Q. Okay. Because, you know, that's my job, to
13 make sure we get the correct orientation. Even
14 though -- when I look at the isopach, I can go
15 east-west; I can go north-south. That's why I'm asking
16 you to explain to me why north-south is more beneficial
17 than east-west.

18 A. We did some microseismic in two different
19 wells, the 218H in the Cotton Draw Unit and the 202H,
20 and the fracture orientation was about north, 35 degrees
21 east, meaning that the fractures that we recorded in
22 those two wellbores were running across the map at about
23 this orientation. So by drilling north and south, we
24 tend to emphasize that, and that would be the proper way
25 to go.

1 Q. In a transverse direction?

2 A. I'm sorry?

3 Q. In a transverse direction to the
4 microseismic --

5 A. Yeah. Exactly.

6 Q. Okay. Okay. I want to understand because it's
7 important. North-south is what we're going to develop
8 so that we can develop those in Section 1.

9 Did you run 3D seismic or just the seismic
10 event?

11 A. We do have -- you know, that's a good question.
12 I don't know the answer for sure. I know we have 3D in
13 this area generally. I don't know if I have it across
14 this particular location.

15 Q. Okay. Okay. That's okay. What I'm asking you
16 doesn't impact your application. It's for my own
17 perusal --

18 A. Sure.

19 Q. -- so we know how you develop that section.

20 A. Yeah. And those orientations might change a
21 little bit depending on where you are.

22 Q. Of course.

23 A. And I'm not saying that a frack or a well going
24 east-west wouldn't recover economic reserves, but I
25 think that by going north-south, our reserves are larger

1 and the well is more economic.

2 Q. Yeah. That's my question. If you go
3 east-west, it will be beneficial, but, I mean, which one
4 is more beneficial? North-south or -- that's why I'm
5 asking the questions.

6 A. Yeah.

7 Q. And this is a wildcat in the Bone Spring,
8 right? It's a wildcat?

9 MR. BRUCE: Correct.

10 EXAMINER EZEANYIM: No more further
11 questions.

12 MR. BRUCE: That's all I have in this
13 matter, Mr. Examiner.

14 EXAMINER EZEANYIM: Thank you very much.

15 At this point Case Number 15195 will be
16 taken under advisement.

17 (Case Number 15195 concludes, 8:47 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15195
heard by me on 9/18/14
[Signature] Examiner.
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

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

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

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

19

20



21

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014

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