

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

COPY

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

CONSOLIDATED CASES NOS:
14569
14570

APPLICATION OF DEVON ENERGY PRODUCTION
COMPANY LP FOR DESIGNATION OF A NON-STANDARD
OIL SPACING AND PRORATION UNIT AND FOR
COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: TERRY WARNELL, Technical Examiner
DAVID K. BROOKS, Legal Examiner

April 28, 2011

Santa Fe, New Mexico

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This matter came on for hearing before the New
Mexico Oil Conservation Division, TERRY WARNELL, Technical
Examiner, and DAVID K. BROOKS, Legal Examiner, on April 28,
2011, at the New Mexico Energy, Minerals and Natural
Resources Department, 1220 South St. Francis, Drive, Room
102, Santa Fe, New Mexico.

REPORTED BY: Irene Delgado, NM CCR 253.
Paul Baca Professional Court Reporters.
500 Fourth Street, NW, Suite 105.
Albuquerque, New Mexico 87102.

A P P E A R A N C E S

FOR THE APPLICANT:

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I N D E X

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|----|---|----|
| 9 | WILLIAM JAMES BALL JR. DIRECT EXAM BY MR. HALL | 04 |
| 10 | STEVEN BURNS | |
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1 EXAMINER BROOKS: I'm assuming that 14569 and 14570
2 will be consolidated --

3 MR. HALL: Yes.

4 EXAMINER BROOKS: -- for purposes of the hearing?

5 MR. HALL: We can do that.

6 EXAMINER BROOKS: At this time we will call Case
7 Number 14569, Application of Devon Energy Production Company
8 LP for a designation of non-standard spacing unit and
9 compulsory pooling, Lea County, New Mexico, and Application
10 Number 14570, Application of Devon Energy Production Company
11 LP for designation of a non-standard spacing unit and for
12 compulsory pooling, Lea County, New Mexico.

13 Call for appearances.

14 MR. HALL: Mr. Examiner, Scott Hall, Montgomery and
15 Andrews Law Firm, Santa Fe, appearing on behalf of Devon
16 Energy Production Company. We have two witnesses this
17 morning.

18 MR. KELLAHIN: Mr. Examiner, Tom Kellahin of the
19 Santa Fe Law Firm of Kellahin and Kellahin. I'm appearing
20 this morning in both cases on behalf of Cimarex Energy
21 Company. I have no witness.

22 EXAMINER BROOKS: Okay. Would the witnesses please
23 stand and identify themselves for the record.

24 MR. BALL: Yes, William James Ball, Jr., Edmund,
25 Oklahoma.

1 MR. BURNS: Steven Burns, geologist for Devon.

2 EXAMINER BROOKS: Okay. Thank you. We will need to
3 swear you, but just to clarify, Tom --

4 MR. KELLAHIN: Yes, sir.

5 EXAMINER BROOKS: That was for Cimarex Energy
6 Company, not for Cimarex Energy Co., not for Cimarex Energy
7 Co., Colorado.

8 MR. KELLAHIN: I always get it confused, Mr.
9 Examiner. Mr. Examiner, for purposes of this case, it's for
10 Cimarex Energy Company. They are to be designated the
11 operator in the second case.

12 (Witnesses sworn.)

13 EXAMINER BROOKS: You may proceed, Mr. Hall.

14 WILLIAM JAMES BALL, JR.

15 (Having been sworn, testified as follows:)

16 DIRECT EXAMINATION

17 BY MR. HALL:

18 Q. For the record, please state your name.

19 A. Yes. William James Ball, Jr.

20 Q. And where do you live, Mr. Ball?

21 A. Edmund, Oklahoma.

22 Q. By whom are you employed and in what capacity?

23 A. Devon Energy Corporation, land advisor.

24 Q. And you appeared before the Division before and
25 testified in the capacity of expert petroleum landman, is

1 that correct?

2 A. That's correct.

3 MR. HALL: Are the witness' credentials acceptable?

4 EXAMINER BROOKS: They are accepted.

5 Q. Mr. Ball, would you explain to the Hearing Examiner
6 what Devon is seeking in these two consolidated cases.

7 A. The short version is designation of non-standard oil
8 spacing and proration units, and originally for compulsory
9 poolings, which Mr. Hall will explain that we'll not do the
10 compulsory pooling.

11 That -- that being said, if I can go into details on
12 Case Number 14570, Devon originally applied for an order
13 consolidating 40-acre spacing units within the south half of
14 the north half of Section 15 of 18-32, and designated the
15 consolidated units as a 160-acre, plus or minus, non-standard
16 oil spacing proration unit for a well location in the Bone
17 Spring formation for Devon's horizontal drilling project.
18 The area to be dedicated is called the West Shinnery 15
19 Federal Com Number 3H.

20 In a related case, Case Number 14569, Devon Energy
21 Production Company applied for an order consolidating the
22 40-acre spacing units within the north half north half of
23 Section 15, and designated the consolidation -- the
24 consolidated units as 160-acre, plus or minus, non-standard
25 oil spacing proration unit also in the Bone Spring formation,

1 to be dedicated to well named West Shinnery 15 Federal Number
2 2H Well.

3 Since the time Devon filed its application, Cimarex
4 Energy Company filed a compulsory pooling application, Case
5 Number 14573, for its well named the North Young 15 Federal
6 Com Number 2H Bone Spring -- Bone Spring Formation Well, with
7 a standup unit comprised of the east half of the west half of
8 Section 15.

9 Devon Cimarex since then reached a compromise which
10 allowed Devon's application in Cases Number 14569 and 14570
11 to proceed. The proposed resolution will allow Devon to
12 drill and operate the well in the north half of the north
13 half of Section 15, while Cimarex would drill and operate the
14 well in the south half of the north half of the section.

15 On January 3, 2011, Devon filed its amended
16 application in Case Number 14570, which now reflects the
17 proposal that Cimarex will be designated operator of the well
18 in the south half of the north half. Cimarex has accordingly
19 requested the dismissal of its application in Case Number
20 14573, which is Order Number R-13343.

21 Q. Now, Mr. Ball, as a part of Devon's agreement with
22 Cimarex, has Cimarex authorized you to speak on that
23 company's half with respect to the unit it will operate --

24 A. Yes.

25 Q. -- in the south half of the north half?

1 A. Yes.

2 Q. Okay. And since these original applications were
3 filed last fall, has Devon and Cimarex managed to obtain the
4 voluntary participation of all other working interest owners
5 in each of the units?

6 A. That is correct, we have.

7 Q. And, correspondingly, may the compulsory pooling
8 aspect of the applications in both cases be dismissed?

9 A. Yes.

10 Q. And joinder of all of those other parties is a
11 fairly recent development, is it not?

12 A. That is correct.

13 Q. Do Devon and Cimarex continue to have a need to have
14 the division approve the two non-standard units for the two
15 wells?

16 A. Yes, they do.

17 Q. And let's look at the exhibits you brought with you.
18 Would you turn to Exhibit 1 and identify that for us.
19 Explain what that shows.

20 A. The blue hatched area is the well that Devon will
21 operate, the West Shinnery 15 Federal 2H, gives a surface
22 hole location and footages there and the bottom hole
23 location. The green area is the well that Cimarex will
24 operate and gives the same information, the surface and
25 bottom hole locations. The total colored area is the north

1 half of 15.

2 Q. What's the primary target for the wells?

3 A. Second Bone Spring Sand.

4 Q. All right. And are these Wildcat -- I'm sorry, what
5 pool is applicable to the Bone Spring in this area? Is this
6 the undesignated North Young Bone Spring?

7 A. Yes.

8 Q. And pool rules for that pool are statewide rules for
9 spacing of the oil wells, is that correct?

10 A. That's correct, 40 acre.

11 Q. All right. So Devon is requesting the Division's
12 approval of non-standard units comprised of four 40-acre
13 adjacent tracts in each of the project areas?

14 A. Yes.

15 Q. Let's look at Exhibit 2. Will that show us the
16 ownership breakdown for the project area in the north half
17 north half?

18 A. Yes, it does. It's broken down by each of the 40
19 acres, and then with the totals on the right. You can see
20 that Devon has the majority interest and then some other
21 small working interest in that one.

22 Q. Okay. Let's turn to Exhibit 3. What does that show
23 us?

24 A. Exhibit 3 is south half of the north half, and we
25 don't have quite the interest that we did. Cimarex is the

1 majority owner, 50 percent. And again, besides Devon, we
2 have small working interest owners.

3 Q. Now, so are the owners of these interests committed
4 to the respective wells under separate JOAs or farm-outs to
5 Devon and Cimarex for each of the units?

6 A. Yes. They are all under JOA.

7 Q. So we no longer have a need for the Division to
8 address the recovery of well costs or risk penalties in this
9 case, is that right?

10 A. That's correct.

11 Q. Tell us just generally how much experience Devon has
12 in drilling in these types of Bone Spring wells in the
13 general area.

14 A. We have drilled several successful Bone Spring
15 wells, as well as Delaware wells, both formations being
16 horizontal in the Township of 18 South and 19 South.

17 Q. All right. Looking back at Exhibit 1 where it shows
18 your surface locations and your bottom hole locations, in
19 each case, the surface locations are 330 feet from the east
20 line. Is that right?

21 A. That is correct.

22 Q. And so does that mean the penetration point for the
23 wellbore itself into the Second Bone Spring Sand is farther
24 than the 330 foot setback?

25 A. Yes, it does.

1 Q. And so the penetration point, as well as the bottom
2 hole location in each case, they are orthodox?

3 A. Yes, they are.

4 Q. Now, were all of the offset operators surrounding
5 the two project areas identified and notified of Devon's
6 applications in these cases?

7 A. Yes. There is approximately two to three dozen
8 different names, and I can name them all if you want, or I
9 think Mr. Hall is going to present a list of the names.

10 MR. HALL: We can supplement the record with a list
11 of all those interest owners. They are in the affidavit
12 which we will submit at the conclusion of the hearing. If
13 you would like, we can separate out the operators themselves,
14 identify those two after the hearing.

15 EXAMINER BROOKS: You're talking about the offset
16 operators?

17 MR. HALL: Yes.

18 EXAMINER BROOKS: Yes, we would like to have a list
19 of those.

20 MR. HALL: Okay.

21 Q. Mr. Ball, in your opinion, would granting Devon's
22 application be in the interest of conservation and prevention
23 of waste and protection of product rights?

24 A. Yes.

25 Q. Were Exhibits 1 through 3 prepared by you or at your

1 direction?

2 A. Yes, they were.

3 MR. HALL: Move the admission of Exhibits 1, 2 and
4 3, and that concludes our direct examination of this witness.

5 EXAMINER BROOKS: Okay. 1, 2 and 3 are admitted.

6 (Exhibits 1, 2 and 3 admitted.)

7 EXAMINER BROOKS: Did you say all the offset
8 operators received notice?

9 THE WITNESS: Yes, sir.

10 EXAMINER BROOKS: Okay. That's all I have.

11 Mr. Warnell?

12 EXAMINER WARNELL: No questions.

13 EXAMINER BROOKS: You may call your next witness.

14 MR. HALL: At this time we would call Steven Burns.

15 STEVEN BURNS

16 (Having been sworn, testified as follows:)

17 DIRECT EXAMINATION

18 BY MR. HALL:

19 Q. For the record, state your name.

20 A. Steven Burns.

21 Q. And where do you reside, Mr. Burns?

22 A. I live at 2305 Coach Light Drive in Edmund,
23 Oklahoma.

24 Q. By whom are you employed, and in what position?

25 A. I am employed by Devon Energy as a geological

1 advisor.

2 Q. And you have not previously testified before the New
3 Mexico agency and had your credentials as a geologist
4 accepted as matter of record, have you?

5 A. I have not.

6 Q. Would you give the Hearing Examiner a brief summary
7 of your educational background and work experience?

8 A. I was primarily educated in Kansas. Went to the
9 Kansas State College of Pittsburgh 1973 through 74, then
10 transferred to the University of Kansas and attended there
11 from 75 -- excuse me -- 75 through 79. I graduated with a
12 bachelor of science in geology.

13 Q. All right. You have considerable experience
14 testifying before the Oklahoma Corporation Commission?

15 A. I have. I have practiced in Oklahoma for 30-plus
16 years.

17 Q. And recent experience in the Permian Basin?

18 A. I started working the Permian Basin for Devon in
19 January of 2010.

20 Q. All right. You are familiar with the landset or the
21 subject of these two applications?

22 A. I am.

23 MR. HALL: Mr. Examiner, we would offer Mr. Burns as
24 an expert petroleum geologist.

25 EXAMINER BROOKS: So qualified.

1 Q. Mr. Burns, have you conducted a geologic
2 investigation to determine whether the four 40-acre tracts in
3 each of the two proposed non-standard units are each
4 prospective for oil production?

5 A. Yes.

6 Q. What did you conclude?

7 A. I -- and I will kind of -- this may be a little
8 premature, but I will go ahead and talk about the exhibits a
9 little bit.

10 Q. Sure.

11 A. I conducted a multi-township and range study for the
12 Bone Spring interval in general, inclusive of the First Sand,
13 Second Sand and Third Sand. From that I concluded that the
14 Section 15 was underlying -- underlain by the Second Sand in
15 sufficient quantities to justify drilling horizontal wells.

16 Q. And it's the Second Sand that's your target, as well
17 as Cimarex's target for development, is that right?

18 A. That is correct.

19 Q. Let's look at Exhibit 4. If you would explain that
20 to the Hearing Examiner.

21 A. Exhibit Number 4 is -- actually, let's include -- I
22 believe that's Exhibit Number 6 or 7, which is the
23 cross-section. Let's start with that particular -- Exhibit
24 7, I believe, is the cross-section for the Second Bone Spring
25 Sand intervals, and you will note that there are different

1 colored markers on the cross-section.

2 The Second Sand top is exhibited on that by the red
3 line with the sand lying immediately below that. The
4 corresponding map is Exhibit Number 4. As you can see -- and
5 actually, let me take a moment to kind of describe what I
6 think the depositional pattern looks like for this well.

7 If you use your hand and wrist as an example or an
8 analogy, your wrist would be the upper or northern part of
9 the map. Your palm and back of your hand area would be the
10 center part, Section 15. Your fingers then would be the
11 southern part of the map where you begin to see the channels
12 break up into separate intervals. Section 15, in particular
13 in the northern part of that unit, is more coalesced. It --
14 it's that way because you had a change in slope at that
15 point, so you had a pile of sand occur. As you move north of
16 that, you are more channelized again because it's a very
17 steep sloped. And so Exhibit Number 4 represents that
18 depositional model as I see it.

19 Q. And for the record, Exhibit 4 is the A Sand?

20 A. That's correct.

21 Q. Let's talk about Exhibit 5.

22 A. Exhibit 5 is the B Sand. That's represented by the
23 orange marker on the cross-section, and again a very similar
24 depositional pattern. And you can see that there is a thick
25 in the northern part of the Section 15, and it begins to

1 break out into individual channels as you move into the
2 southern part of Section 15 and down into the southern area
3 of the map.

4 Q. And Exhibit 6?

5 A. Exhibit 6 is indicated on the cross-section by the
6 dark blue line. The sand lies below that marker, and it's
7 represented on the map on Exhibit 6. It's a little bit
8 different. This sand is not very prevalent in the area. It
9 tends to be more channelized at this point, so I'm going to
10 say that it's closer in its depositional time to the slope.

11 Q. Anything further with respect to Exhibit 7
12 cross-section?

13 A. No. I think we have talked about that. The only
14 thing I would say is it's a stratigraphic cross-section hung
15 on the top of the Second Bone Spring Sand Interval.

16 Q. And in the proximity of the other two wells you have
17 shown to Section 15 are Section 16, is that right?

18 A. Actually, no. I think -- yes. I'm sorry. You can
19 see at the top of the cross-section, Section 16 is included
20 in that. Section 15, there are two wells taken out of that.
21 That would be the well in approximately the southwest of the
22 northwest and the southeast southeast would be those other
23 two wells.

24 Using the cross-section also to indicate where our
25 target interval is, if you choose the Second Bone Spring B

1 Sand, which again is the orange marker, the sand lying below
2 that, we will target about the middle of that package for our
3 horizontal lateral, and of course our fracs will go up and
4 down from there.

5 Q. Do you have an opinion whether Bone Spring formation
6 reserves in Section 15 are best developed with lay down
7 orientation wells as opposed to standup?

8 A. Let's go back to Exhibit 4 and 5. To answer your
9 question, yes, I do. On Exhibit 4 and 5, if you look at --
10 we'll start with Exhibit 4 which is the A Sand. If you look
11 at that particular sand, you notice that if you go in an east
12 west orientation in either of those units in the north half
13 of the section, you're in a thick portion of the sand the
14 entire length.

15 If you were to drill a well in the west half west
16 half of Section 15 in a north south orientation, then you
17 would have an interval in the southern part of that which
18 would be much thinner in nature. So, in my opinion, the best
19 way to exploit that would be to go east west in both of those
20 units.

21 Q. Is there a prevailing development pattern for the
22 Bone Spring and the adjoining sections?

23 A. There really isn't, and you can see several -- you
24 see approximately four, five, six horizontal wells in this
25 area, and it is somewhat mixed. And Devon has actually

1 drilled wells in a north south pattern and in an east west
2 pattern in the area in general, both in Lea County and also
3 in Eddy County, and I think that in general you are better
4 off trying to maximize your reservoir thickness for those
5 particular zones as opposed to choosing a particular
6 pattern.

7 Q. In your opinion, if the Division approves Devon's
8 applications, will Devon and Cimarex be able to recover
9 additional reserves that would have otherwise gone
10 unrecovered?

11 A. Yes.

12 Q. And will waste be avoided as a result?

13 A. Yes.

14 Q. In your opinion as an expert petroleum geologist,
15 will granting Devon's application be in the interest of
16 conservation and the prevention of waste and protection of
17 product rights?

18 A. Yes.

19 Q. And were Exhibits 4, 5, 6 and 7 prepared by you?

20 A. Yes, they were.

21 MR. HALL: Move the admission of Exhibits 4, 5, 6
22 and 7, and that concludes our direct of this witness.

23 EXAMINER BROOKS: Okay. Exhibits 4, 5, 6 and 7 are
24 admitted.

25 (Exhibits 4, 5, 6 and 7 admitted.)

1 EXAMINER BROOKS: I'm a little confused about why
2 you proceeded with this case when you know I will grant any
3 parties that are not joined. My understanding is that there
4 are no parties that are not committed to these wells. Is
5 that right?

6 MR. HALL: That's right. A very recent development.

7 EXAMINER BROOKS: So that you could have
8 accomplished the same results simply by filing a C-102 and
9 designating the project area under the existing rules. Is
10 there a reason why you needed to create --

11 MR. HALL: Advice I had been given by the Division
12 on occasion suggesting that we need to have evidentiary
13 support to approve non-standard unit formation.

14 EXAMINER BROOKS: Yeah. That, of course, is true,
15 and that's the position that we are taking, and of course,
16 that deals with compulsory pooling situations, however, we're
17 allowing people more or less everywhere to pool these
18 non-standard -- these project areas without hearing or even
19 notice of the -- other than filing a C-102, so I'm not sure
20 that it's even necessary, but we had the case presented to us
21 now. If there is nothing further, then -- did you have any?

22 EXAMINER WARNELL: No, I have no questions.

23 EXAMINER BROOKS: Very good. We'll take cases 1
24 through 4 -- did you have --

25 MR. HALL: I do have more paper for you. I do have

1 Notice of Affidavits for both cases, and in the case of Case
2 Number 14570, we provided additional notice for the amended
3 application by Cimarex as operator.

4 EXAMINER BROOKS: Okay. Case Number 14569 and 14570
5 will be taken under advisement.

6 MR. HALL: So you didn't need us to identify the
7 offsets for you?

8 EXAMINER BROOKS: No, I don't think that is
9 necessary under the circumstances. I was speaking without
10 really focusing on that point that you weren't compulsory
11 pooling anyone.

12 Cases 14569 and 14570 will be taken under
13 advisement. And this hearing will be adjourned.

14 (Adjourned 10:12 a.m.)
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18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. 14569 & 14570
21 heard by me on 4-28-11
22 David K. Boehm, Examiner
23 Oil Conservation Division
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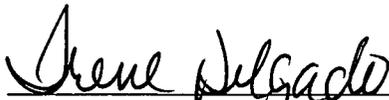
REPORTER'S CERTIFICATE

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I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY CERTIFY THAT ON April 28, 2011, proceedings in the above-captioned case were taken before me and that I did report in stenographic shorthand the proceedings set forth herein, and the foregoing pages are a true and correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor related to nor contracted with any of the parties or attorneys in this case and that I have no interest whatsoever in the final disposition of this case in any court.

WITNESS MY HAND this 28th day of April 2011.


Irene Delgado, CCR 253
Expires: 12-31-2011