

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

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

CASE NOS. 20792

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, L.P. FOR
HORIZONTAL SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO:

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 17, 2019

Santa Fe, New Mexico

BEFORE: LEONARD LOWE, HEARING EXAMINER
PHILLIP GOETZE, EXAMINER
DEAN MCCLURE, EXAMINER
BILL BRANCARD, LEGAL EXAMINER

ALSO PRESENT: Marlene Salvidrez

This matter came on for hearing before the New Mexico Oil Conservation Division, Leonard Lowe, Chief Examiner; Phillip Goetze, Technical Examiner; and Dean McClure, Examiner, on Thursday, October 17, 2019, 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 THE APPLICANT DEVON ENERGY PRODUCTION COMPANY, L.P.:

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FOR MARATHON OIL PERMIAN, LLC:

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 MODRALL SPERLING ROEHL HARRIS & SISK, P.A.
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EXHIBITS OFFERED AND ADMITTED

Devon Energy Production Company Exhibits 1
 Devon Energy Production Company Exhibits 2, 2B, 10/11
 2B, 2C, 2D(1), 2D(2), 2D(3), 2D(4), 4, 4A,
 4B, 4C, 5

1 (Commenced at 8:45 a.m.)

2 EXAMINER LOWE: We will now continue on to
3 Case -- Docket Number 80, which is Case Number 20792.

4 Call for appearance, which an application
5 for a Devon Energy Production Company for horizontal
6 spacing a proration unit and compulsory cooling in Lea
7 County, New Mexico.

8 Call for appearance.

9 MR. SAVAGE: Darin Savage with Abadie &
10 Schill on behalf of Devon Energy Production Company.

11 Mr. Examiner, we'll be doing this by
12 affidavit, and I've informed the party that's appearing
13 to that effect.

14 MS. BENNETT: Good morning Mr. Examiner,
15 Deana Bennett on behalf of Marathon Oil Permian, LLC.

16 EXAMINER LOWE: Okay. Any other entries?
17 Okay.

18 What's your first name, Mr. Savage?

19 MR. SAVAGE: Darin.

20 EXAMINER LOWE: Darin?

21 MR. SAVAGE: D-A-R-I-N.

22 EXAMINER GOETZE: So a question to
23 Ms. Bennett, you're not opposed to affidavit
24 presentation?

25 MS. BENNETT: No.

1 EXAMINER LOWE: And your purpose is just
2 to?

3 MS. BENNETT: Well, Marathon and Devon are
4 negotiating -- in negotiations. And so my purpose here
5 today is to protect Marathon's rights just in case that
6 those negotiations are not fruitful.

7 EXAMINER GOETZE: Not fruitful?

8 MS. BENNETT: Which we anticipate that
9 they will be, but to preserve our rights and to preserve
10 our rights to appeal I'm here today.

11 EXAMINER GOETZE: Very good. That's what
12 we would like is clarification to make sure that the
13 affidavit process is still valid. Thank you.

14 MR. SAVAGE: Mr. Examiners, Darin Savage,
15 Abadie & Schill appearing for Devon Energy Production
16 Company.

17 Based on my review of the new affidavit
18 procedures, there's a little bit of a expedition
19 involved in the presentation. So, I will begin
20 Exhibit 1 of the case, this is Case 20792, Exhibit 1 is
21 just the application for your reference.

22 (Exhibit Number 1, marked for
23 identification.)

24 MR. SAVAGE: Exhibit 2, page 6. And I
25 have numbered the -- each page with a number in a

1 circle -- on that Exhibit 2, page 6, is the affidavit of
2 the supervising landman, Mr. Joe Hammond.

3 (Exhibit Number 2, marked for
4 identification.)

5 MR. SAVAGE: He is employed by Devon as a
6 landman. He has previously testified before the
7 division and his credentials have been accepted as an
8 expert witness in petroleum land matters. He is
9 familiar with the subject applications and the lands
10 involved. I would like to tender Mr. Hammond as an
11 expert witness.

12 EXAMINER LOWE: Would you happen to have
13 the specific date and case Mr. Hammond was noted to be a
14 expert witness?

15 MR. SAVAGE: He did not include that in
16 his affidavit.

17 EXAMINER LOWE: Okay. I was just curious.

18 MR. SAVAGE: He just said that he had
19 testified a number of times before the division. And
20 the division is familiar with his testimony.

21 EXAMINER LOWE: Okay.

22 MR. SAVAGE: According to the affidavit,
23 paragraph 5, Devon is seeking an order creating a
24 horizontal spacing a proration unit comprising of Lots 1
25 through 4 in the east half, west half of Section 67.

1 And pooling all uncommitted mineral interest in the
2 Wolfcamp formation designated as WC025G09S263504N.
3 Wolfcamp pool code 98117.

4 The main parties with claim to interests
5 to be pooled are OXY USA Incorporated and Marathon,
6 whose interest is also subject to Marathon. OXY USA has
7 record title for working interest and it's subject to an
8 unrecorded farm out with Marathon as described in
9 Paragraph 6 of the affidavit.

10 Both OXY and Marathon, as described in
11 paragraphs -- as both OXY and Marathon have been
12 contacted multiple times about the proposed wells but
13 have not committed their interests, they have
14 represented that they do not oppose this pooling
15 application at this point. Devon seeks to pool the
16 acreage owned by OXY and any interest that Marathon
17 could earn or claim pursuant to the farm out agreement.
18 Mr. Hammond also says that Devon and Marathon also
19 negotiations for acreage trade.

20 May I direct the examiners attention to
21 Exhibit 2B, page 12, which provides the ownership
22 breakdown of the proposed unit. Mr. Hammond has
23 addressed OXY and Marathon. The other working interest
24 owners is Chevron USA, USA Incorporated. Mr. Hammond
25 states that Chevron has committed its interest and is a

1 participating party and has executed Devon's AFE.

2 In tracts 1 and 3, Devon and Chevron split
3 that interest 50/50. And with the committing the
4 interest Devon will control 75 percent of the working
5 interest for the proposed unit.

6 Exhibit 2B also shows the overriding
7 interest owners that Devon seeks to include in the
8 pooling orders. In paragraph 12 of his affidavit
9 Mr. Hammond states that he provided Abadie & Schill the
10 list of names and addresses of the owners in Exhibit 2B,
11 having compiled the list by a diligent search of public
12 records in Lea County, New Mexico, of phone directories
13 and computer searches.

14 And I would like to direct you to
15 Exhibit 4 where we see -- page 61, where we see the
16 attorneys affidavit of notice stating that the list of
17 owners were sent notice letters within the appropriate
18 time frame required.

19 And Exhibit 4A is an example of the
20 letters to the interest owners. And Exhibit 4B is a
21 notice letter to Marathon regarding the farm out.

22 The report of the certified mailings on
23 page 62 shows six overriding royalty interest owners who
24 were not locatable, which are also listed in
25 paragraph 12 of Mr. Hammond's affidavit.

1 Exhibit Number 5 shows the affidavit of
2 publication. That notice was published in the Hobbs
3 News-Sun newspaper in Lea County. And Devon, therefore,
4 asks the examiners to recognize notice for the
5 unlocatable parties.

6 Also, on the mailing report shows an --
7 shows as undelivered the mailings to the overriding
8 royalty interest owners Brian Bell Family Limited
9 Partnership and Ruby C. Bell Family Limited Partnership,
10 however, these parties confirmed delivery with letters
11 to Devon as shown in Exhibit 4C, page 67.

12 Exhibit 2A on page 11 shows the land plat
13 of the proposed unit and location of the wells and their
14 surface hole locations and their bottom hole locations.

15 Exhibit 2R, page 16, provides the C102s
16 for the four wells. In his affidavit, paragraph 7,
17 Mr. Hammond seeks to dedicate the unit to the proposed
18 Billiken 7-6 Bed Com 6H well as the defining well. It's
19 first take point is 100 feet from the south line and
20 1,000 feet from the west line of Section 7. And it's
21 last take point is 100 feet from the north line and
22 1,000 feet from the west line of Section 6 as shown on
23 its C102 on page 7.

24 The remaining three wells are infill
25 wells, the 5H, the 7H and 8H as shown by the wells'

1 C102s pages 16 through 19. All the take points are
2 orthodox and all setback requirements are satisfied the.
3 Wells will have a total vertical depth 12,550 feet as
4 listed in Mr. Hammond's affidavit.

5 In his affidavit page -- paragraph 13,
6 Mr. Hammond states that Devon made a good faith effort
7 to obtain volunteer joinder of the working interest
8 owners. Exhibits 2D()1 through 2D(4), pages 20
9 through 44, are the examples of the well proposal
10 letters along with the AFEs sent to the working interest
11 owners of record. Mr. Hammond states that the estimated
12 costs are fair, reasonable and comparable to other
13 wells.

14 Devon requests overhead and administration
15 rates of 6,000 per month for drilling and 600 per month
16 for producing a well, which Mr. Hammond says are fair
17 and comparable to the rates charged by other operators
18 and requests that these of be adjusted periodically as
19 provided by copus procedures or county procedures.

20 Devon requests the maximum cost plus
21 200 percent risk charge be assessed against
22 non-consenting working interest owners. And Devon
23 request that it be designated as operator of the wells.

24 Devon also requests an extension of the
25 normal 120-day period to drill and complete the initial

1 well since they'll be doing it as a simultaneous program
2 with batch well drilling.

3 The exhibits to Mr. Hammond's affidavit,
4 2A, 2B, 2C, 2D()1 through 2D(4) were prepared by him or
5 compiled under his supervision. Mr. Hammond concludes
6 that the granting of this application is in the interest
7 of conservation and the preservation of waste.

8 At this point before I move on to the
9 affidavits for the geology exhibits, I ask that the
10 examiners receive the records -- receive into the
11 records Exhibits 2, 2A, 2B, 2C and 2D(1) through 2D(4),
12 which are the landman exhibits, as well as the notice
13 exhibits for Exhibit 4, 4A, 4B, 4C and 5.

14 EXAMINER GOETZE: Mr. Savage, did I hear
15 you say the preservation of waste?

16 MS. BENNETT: I hope not.

17 EXAMINER GOETZE: Well, prevention.

18 MR. SAVAGE: The prevention of waste.
19 Thank you very much. Very good.

20 EXAMINER LOWE: Okay. All exhibits stated
21 will be accepted for this case.

22 MS. BENNETT: No objection.

23 (Exhibit Number 2, moved into evidence.)

24 (Exhibit Number 2A, moved into evidence.)

25 (Exhibit Number 2B, moved into evidence.)

1 (Exhibit Number 2C, moved into evidence.)

2 (Exhibit Number 2D(1), moved into
3 evidence.)

4 (Exhibit Number 2D(2), moved into
5 evidence.)

6 (Exhibit Number 2D(3), moved into
7 evidence.)

8 (Exhibit Number 2D(4), moved into
9 evidence.)

10 (Exhibit Number 4, moved into evidence.)

11 (Exhibit Number 4A, moved into evidence.)

12 (Exhibit Number 4B, moved into evidence.)

13 (Exhibit Number 4C, moved into evidence.)

14 (Exhibit Number 5, moved into evidence.)

15 EXAMINER LOWE: I have a question on
16 your -- you indicated that -- actually, the pool that
17 you indicate here, 98117, what are the setbacks for this
18 pool?

19 MR. SAVAGE: Standard setbacks, 330 and --
20 100 for the end points and 330 on the side.

21 EXAMINER LOWE: Is it an oil well or gas
22 well?

23 MR. SAVAGE: Oil.

24 EXAMINER LOWE: Okay.

25 EXAMINER McCCLURE: On your emails to Oxy

1 it looks like you're requesting the -- of 8,800 rate for
2 operating, but, yet, in the application you have 6,600.

3 MR. SAVAGE: That was the estimation at
4 the time of the proposal.

5 EXAMINER McCLURE: Okay.

6 MR. SAVAGE: The parties have been in
7 negotiations since then.

8 EXAMINER McCLURE: So OXY's aware of the
9 new -- okay.

10 EXAMINER LOWE: Any questions?

11 MR. SAVAGE: If I may direct examiners
12 attention to affidavits of the geologist, Mr. Russell
13 Goodin, as Exhibit 3, page 52. As is described in his
14 affidavit -- as described in his affidavits Mr. Goodin
15 is employed as a petroleum geologist for Devon and is
16 familiar with the subject application and the geology
17 involved. He has been employed as a geologist since
18 2008 and has previously testified before the division as
19 an expert witness in petroleum geology matters. His
20 credentials have been accepted by the division and made
21 a matter of record.

22 I tender Mr. Goodin as expert witness for
23 this case.

24 EXAMINER LOWE: He's so qualified.

25 MS. BENNETT: No objection.

1 MR. SAVAGE: In his affidavit Mr. Goodin
2 provides a description of Exhibit 3A, page 55,
3 describing it as Wolfcamp structure map. The unit
4 pooled is outlined in red. Strata depth approximately
5 100 feet southward across Section 6 and 7. Apparent
6 structural dip along the proposed built-in well board is
7 approximately .6 degrees to the south. Mr. Goodin
8 states that no major structural hazards exist at this
9 location. Exhibit 3A also identifies wells in the
10 vicinity of the proposed well with a cross section line
11 from A to A prime.

12 Mr. Goodin provides a description of
13 Exhibit 3B on page 57 as a Wolfcamp stratigraphic cross
14 section flattened on the top of the Wolfcamp 100. The
15 cross section shows consistent target thickness, and the
16 well logs give a representative sample of the upper
17 formation and demonstrate reasonable well control,
18 according to Mr. Goodin.

19 The target zone for the wells is the upper
20 Wolfcamp as indicated by the green lines in Exhibit 3B,
21 and the target zone is continuous across the well unit.

22 Mr. Goodin describes Exhibit 3C as a gross
23 isochore of the upper Wolfcamp formation. The map shows
24 a thickness for the target interval in the upper
25 Wolfcamp is uniform across the proposed well units.

1 Mr. Goodin, in his affidavit, concludes the following
2 based on the maps, one, the horizontal spacing a
3 proration unit is justified from geologic standpoint;
4 two, there are no structural impediments or faulting
5 that will interfere with the horizontal development; and
6 three, each quarter-quarter section in the unit will
7 contribute more or less equally to production.

8 Mr. Goodin states that the preferred well
9 orientation in this area is south to north, because as
10 he states, the inferred orientation of -- because the
11 inferred orientation of the maximum horizontal stress is
12 roughly east to west.

13 Mr. Goodin concludes that the granting of
14 this application is in the interest of conservation and
15 the prevention of waste.

16 Mr. Goodin states that the content of the
17 affidavits and the referenced exhibits are correct and
18 complete to the best of his knowledge, which he has
19 reviewed.

20 At this point I ask the examiners to
21 accept the -- into the record the geology exhibits,
22 Exhibit 3, 3A, 3B and 3C.

23 EXAMINER LOWE: Deana?

24 MS. BENNETT: No objection.

25 EXAMINER LOWE: Okay. All exhibits stated

1 will be accepted for the record.

2 (Exhibit Number 3, moved into evidence.)

3 (Exhibit Number 3A, moved into evidence.)

4 (Exhibit Number 3B, moved into evidence.)

5 (Exhibit Number 3C, moved into evidence.)

6 MR. SAVAGE: Okay. Thank you.

7 Mr. Examiners if there's no further
8 questions, this will conclude Case Number 20792. I ask
9 that the examiners take this matter under advisement.

10 EXAMINER LOWE: Any questions?

11 EXAMINER GOETZE: No questions.

12 MS. BENNETT: No questions and no
13 objection.

14 EXAMINER LOWE: Okay. Well, thank you for
15 that Mr. Savage.

16 MR. SAVAGE: All right. Thank you.

17 EXAMINER LOWE: Case Number 20792 will be
18 taken under advisement.

19 MR. SAVAGE: Thank you, Mr. Examiners.

20 (Concluded at 9:02 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, BELEN A. SOTO, New Mexico Certified Court
6 Reporter No. 106, and Registered Merit Reporter, do hereby
7 certify that I reported the following proceedings in
8 stenographic shorthand and that the foregoing pages are a
9 true and correct transcript of those proceedings that were
10 reduced to printed form by me to the best of my ability.

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

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

18 DATED THIS 29th day of October, 2019.

19

20

21

BELEN A.SOTO, CSR, RMR
22 Certified Court Reporter
23 New Mexico CCR No. 106
24 Date of CCR Expiration: 12/31/2019
25 Paul Baca Professional Court Reporters

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