

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

ORIGINAL

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

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. 15145

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. 15146

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 29, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, on Thursday, May 29, 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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1 APPEARANCES
 2 FOR APPLICANT DEVON ENERGY PRODUCTION COMPANY, L.P.:
 3 JAMES G. BRUCE, ESQ.
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 (505) 982-2043
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	PAGE
8 Case Numbers 15145 and 15146 Called	3
9 Devon Energy Production Company's Case-in-Chief:	
10 Witnesses:	
11 Meg Muhlinghause:	
12 Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner Goetze	8
13 Curt McKinney:	
14 Direct Examination by Mr. Bruce	8
15 Proceedings Conclude	15
16 Certificate of Court Reporter	16

EXHIBITS OFFERED AND ADMITTED	
18 Case Number 15145 and 15146:	
19 Devon Energy Production Company Exhibit	
Numbers 1, 2A, 2B, 3, 4A, 4B, 4C, 5A, 5B, 6 and 7	7
21 Devon Energy Production Company Exhibit	
22 Numbers 8, 9 and 10	13
23 Case Number 15144 (See separate record for this case):	
24 Devon Energy Production Company Exhibit Numbers 10,	
11 and 12 for Case Number 15144	13
25	

1 (12:25 p.m.)

2 EXAMINER GOETZE: We will now hear Case
3 15145, application of Devon Energy Production Company,
4 L.P. for a nonstandard oil spacing and proration unit
5 and compulsory pooling, Eddy County, New Mexico. And at
6 the same time, we will also hear evidence for Case
7 15146, application of Devon Energy Production Company,
8 L.P. for a nonstandard oil spacing and proration unit
9 and compulsory pooling, Eddy County, New Mexico.

10 Call for appearances.

11 MR. BRUCE: Mr. Examiner, Jim Bruce of
12 Santa Fe representing the Applicant. I have the same
13 two witnesses.

14 EXAMINER GOETZE: Very good. Let's
15 proceed.

16 MEG MUHLINGHAUSE,
17 after having been previously sworn under oath, was
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE?

21 Q. Ms. Muhlinghouse, could you identify Exhibit 1
22 for the Examiner?

23 A. Exhibit 1 is a Midland Map Company map
24 highlighting the acreage in Section 24 for the Mimosa 24
25 Fed Com 1H, and 2 as well, in Section 24, 19 South, 31

1 East, and this is the acreage that Devon seeks to force
2 pool.

3 Q. And, again, you are seeking to force pool the
4 Bone Spring Formation?

5 A. Correct.

6 Q. It's the same pool, the West Lusk Bone Spring?

7 A. Yes.

8 Q. And both of these wells have been drilled; have
9 they not?

10 A. That is correct.

11 Q. Could you identify Exhibits 2A and 2B and also
12 give the Examiner the footages of the beginning of the
13 producing interval of each well?

14 A. Exhibit 2 is the Form C-102 for the Mimosa 24
15 Fed Com #1H well. The well is in the north half of the
16 north half of Section 24, forming a 160-acre nonstandard
17 unit. The first perforation point is 400 feet from the
18 north line and 800 feet from the west line.

19 Exhibit 2 is the Form C -- 2B is the C-102
20 for the Mimosa 24 Fed Com Well #2H. The unit is in the
21 south half of the north half of Section 24, forming a
22 160-acre nonstandard unit.

23 Q. And do you have the footages of the beginning
24 of the producing interval?

25 A. Yes. The Mimosa 24 Fed Com #1H is 514 feet

1 from the north line and 759 feet from the west line.

2 And the Mimosa 2H well is 2,023 from the north line and
3 330 feet from the west line.

4 Q. Is Exhibit 3 simply a portion of the Serial
5 Register Page for the federal lease, which covers the
6 east half-northeast quarter of Section 24?

7 A. Correct.

8 Q. And who is the record title owner of this
9 lease?

10 A. Charles E. Jones and his wife Sadie Jones. Do
11 you want me to continue on? They're both deceased.
12 They own record title in the east half of the northeast
13 of 24.

14 Q. And is Exhibit 4A an outline of the steps taken
15 by Devon to locate Mr. and Mrs. Jones?

16 A. That is correct.

17 Q. Have any successors been found to Mr. and Mrs.
18 Jones?

19 A. No.

20 Q. They are both deceased, correct?

21 A. Correct.

22 Q. And they do not own a working interest?

23 A. No.

24 Q. The last information was that Sadie Jones had
25 assigned her override, so they -- at this point, they

1 own no interest?

2 A. Correct. Correct.

3 Q. And are Exhibits 4B and 4C simply copies of the
4 proposal letters sent to the last known address?

5 A. Yes. Yes.

6 And in addition, if you'll look at the end
7 of 4B, that was our attempt to find them in Colorado.
8 And anyone who had those names, we contacted, and they
9 were not the relatives of Sadie Jones or the Charles E.
10 Jones Estate.

11 MR. BRUCE: Mr. Examiner, Exhibits 5A and
12 5B are the notices published in the Carlsbad newspaper.

13 EXAMINER GOETZE: Which is very popular
14 right now (laughter).

15 MR. BRUCE: Yeah. I sent in about eight of
16 these things at the same time, and I still haven't
17 gotten them back.

18 Q. (BY MR. BRUCE) Ms. Muhlinghouse, is Exhibit 6
19 the list of offsets to the two wells?

20 A. Yes, it is.

21 Q. And the only offset other than Devon is COG
22 Operating?

23 A. Correct.

24 Q. And was COG given notice of this application?

25 A. Yes, they were.

1 Q. And is that reflected in Exhibit 7, my
2 Affidavit of Notice?

3 A. Yes.

4 Q. Were Exhibits 1 through 7 prepared by you or
5 under your supervision or compiled from company business
6 records?

7 A. They were.

8 Q. And in your opinion, is the granting of this
9 application in the interest of conservation and the
10 prevention of waste?

11 A. It is.

12 MR. BRUCE: Mr. Examiner, I'd move the
13 admission of Exhibits 1 through 7 in Cases 15145 and
14 146.

15 EXAMINER GOETZE: And for the court record
16 and the submission of the evidence, Exhibits 1, 2A, 2B,
17 3, 4A, 4B, 4C, 5A, 5B, 6 and 7 are so entered in Case
18 Numbers 15145 and 15146.

19 (Devon Energy Production Company Exhibit.
20 Numbers 1, 2A, 2B, 3, 4A, 4B, 4C, 5A, 5B, 6
21 and 7 were offered and admitted into
22 evidence.)

23 MR. BRUCE: And no further questions of the
24 witness.

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CROSS-EXAMINATION

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BY EXAMINER GOETZE:

Q. And so, again, in both cases, as far as compulsory pooling, we're looking to get a pooling so that we can get a CA approved from the BLM?

A. Correct. Correct.

Q. So we're not worried about rates, and we're not worried about overheads?

A. Correct.

Q. Very good.

EXAMINER GOETZE: I have no further questions for this witness.

MR. BRUCE: Call Mr. McKinney to the stand.

CURT MCKINNEY,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. McKinney, where do you reside?

A. Oklahoma City, Oklahoma.

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

A. I'm a petroleum geologist for Devon Energy Corporation.

Q. And have you previously testified before the Division?

1 A. 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 these applications?

7 A. Yes.

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

10 EXAMINER GOETZE: He is so qualified.

11 Q. (BY MR. BRUCE) Mr. McKinney, let's look at the
12 geologic exhibits for Case 15144, which begin with
13 Exhibit 10. What is Exhibit 10?

14 A. Exhibit 10 is a subsea structure map on top of
15 the 2nd Bone Spring Sand, middle sand member. Do you
16 want me to describe the exhibit?

17 Q. Go ahead.

18 A. The exhibit is the southeast portion of 19
19 South, 31 East. The contour interval of the subsea
20 structure map is 20 feet. Devon's gross position is
21 depicted in yellow. The wells under discussion are
22 shown as the red dashes. That's the well path, and the
23 wells are so named just above the well path. And then
24 wells that are actually producing from this 2nd Bone
25 Spring middle sand member are depicted with a green

1 outline around the well symbol.

2 There's one last thing on there. There is
3 a blue index line connecting several wells. That's the
4 index for the cross section that is a subsequent
5 exhibit.

6 Q. And what is Exhibit 11?

7 A. Exhibit 11 is a net pay isopach of the 2nd Bone
8 Spring Sand -- middle sand member using a 10 percent
9 cutoff for porosity as a proxy for pay. The other items
10 I described are shown also, including the cross section.
11 The contour interval here is 20 feet, and it depicts
12 that the 2nd Bone Spring middle sand member is present
13 across the area underlying the three wells under
14 discussion.

15 Q. Finally, what is Exhibit 12?

16 A. Exhibit 12 is the cross section previously
17 mentioned that runs from west to east across the north
18 half of Section 23 and the north half of Section 24,
19 which is the area under the -- the wells under
20 discussion. And it's a six-well cross section hung
21 stratographically on a datum -- a subsea datum that's
22 depicted by the dark black line near the top of the
23 cross section that represents the base of the 2nd Bone
24 Spring Lime or top of the 2nd Bone Spring Sand interval,
25 which is the interval that these wells are landed in.

1 I've depicted two sands that are primary
2 objectives in this area, the upper sand and the middle
3 sand. The middle sand is what's depicted on the two
4 previous exhibits. Our wells are generally landed in
5 the middle sand. Most of the people that drill in this
6 area, Concho, Devon and others, land their wells in the
7 middle sand across the area.

8 Q. Is the Bone Spring continuous across each of
9 these three well units?

10 A. It is.

11 Q. And from a geologic standpoint, would each
12 quarter-quarter section in each well unit contribute
13 more or less equally to production?

14 A. I believe they do.

15 Q. In looking at your maps, it appears that most
16 of the people in this neighborhood have been drilling
17 lay-downs versus stand-ups?

18 A. That's essentially correct.

19 Q. And is there any particular reason for that?

20 A. We've observed, we think, a very slight
21 improvement in performance in drilling east to west.
22 The technical reasons for that are subject to debate,
23 but we're just going with what we think is going to
24 perform best, to be honest with you. But probably the
25 foremost reason is we end up having to drill wherever

1 the BLM will allow us, the physical location. So that
2 plays a large part also on whether they're drilled
3 east-west or north-south. We have drilled some
4 north-south, but we prefer to drill east-west for the
5 performance consideration.

6 Q. And were Exhibits 10, 11 and 12 prepared by you
7 or under your supervision?

8 A. Yes.

9 Q. And with respect to Cases 15145 and 15146, are
10 Exhibits 8, 9 and 10 submitted in that case identical in
11 sequence to Exhibits 10, 11 and 12 submitted in the
12 first case?

13 A. Yes, they are.

14 Q. And in your opinion, is the granting of these
15 applications in the interest of conservation and the
16 prevention of waste?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I'd move the
19 admission of Exhibits 10, 11 and 12 in Case 15144 and
20 the identical exhibits which are marked 8, 9 and 10 in
21 cases 15145 and 15146.

22 EXAMINER GOETZE: Well, we got a little bit
23 ahead of ourselves on this, but for the record, we have
24 three cases we are having exhibits entered into, and
25 they're all the same exhibits.

1 For Exhibits 8, 9 and 10, in Cases 15145
2 and 15146, they are so admitted.

3 And for the record, Exhibits 10 and 11 and
4 12, which are the same exhibits, are also attached to
5 Case 15144 for entry in that case, also.

6 MR. BRUCE: I did that, Mr. Examiner, so
7 there would be exhibits in the second case file.

8 EXAMINER GOETZE: I understand the concept
9 of having the neighborhood production and exploration --
10 concentration of effort here, but we also have to keep
11 the record straight because this lady over here on my
12 left-hand side has to keep us in line.

13 MR. BRUCE: Yes.

14 (Devon Energy Production Company Exhibit
15 Numbers 8, 9 and 10 for Cases 15145 and
16 15146, and Exhibit Numbers 10, 11 and 12
17 for Case 15144 were offered and admitted
18 into evidence.)

19 CROSS-EXAMINATION

20 BY EXAMINER GOETZE:

21 Q. So in light of that, we have both directions
22 out here, and our history is that the north-south
23 orientation is basically a result of surface access?

24 A. That's generally the case, yes.

25 Q. But you see no difference in production

1 north-south, east-west?

2 A. Not significantly. We have drilled
3 north-south. We are perfectly happy to drill
4 north-south if that's what the BLM requires us to do.
5 We don't feel like we're at a disadvantage.

6 Q. And just clarifying this for the record,
7 because our concern is about the conservation of
8 resources, so our interest, albeit kind of in conflict
9 with the BLM, is what's subsurface. So as long as we
10 see no significant variations between production and the
11 orientation, then east-west will be good.

12 EXAMINER GOETZE: I have no other
13 additional questions for this witness.

14 And we have two affidavits out there still?

15 MR. BRUCE: So continue the cases.

16 EXAMINER GOETZE: You're going to be here
17 on June 12th, aren't you?

18 So Case 15145 and Case 15146 are continued
19 to June 12th principally for the submittal of the
20 Affidavit of Publication.

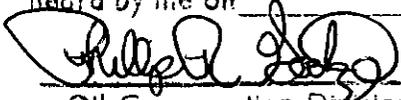
21 MR. BRUCE: And, Mr. Examiner, thank you
22 for accommodating us.

23 EXAMINER GOETZE: Well, good luck on
24 getting home.

25 At this point, we will take a break. I

1 still have five cases.

2 (Case Numbers 15145 and 15146 conclude,
3 12:41 p.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. 15145
heard by me on _____
 , Examiner
Oil Conservation Division

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25 COUNTY OF BERNALILLO

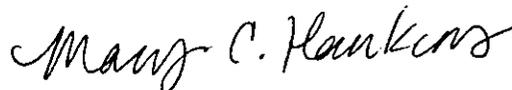
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CERTIFICATE OF COURT REPORTER

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

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

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



MARY C. HANKINS, CCR, RPR
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