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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:

ORIGINAL

APPLICATION OF DEVON ENERGY PRODUCTION COMPANY, L.P., FOR A NON-STANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE 15286

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

April 16, 2015

Santa Fe, New Mexico

BEFORE: WILLIAM JONES, CHIEF EXAMINER
ALLISON MARKS, LEGAL EXAMINER

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This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and Allison Marks, Legal Examiner, on Thursday, April 16, 2015, 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: ELLEN H. ALLANIC
NEW MEXICO CCR 100
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A P P E A R A N C E S

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

JAMES G. BRUCE, ESQ.
P.O. Box 1056
Santa Fe, New Mexico 87504
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I N D E X

CASE NUMBER 15286 CALLED
DEVON ENERGY PRODUCTION COMPANY, L.P.
CASE-IN-CHIEF:

WITNESS JOE HAMMOND

	DIRECT	REDIRECT	FURTHER
Mr. Bruce	4		
	CROSS	RE CROSS	FURTHER
Examiner Jones	10		

WITNESS CURT McKINNEY

	DIRECT	REDIRECT	FURTHER
Mr. Bruce	11		
	CROSS	RE CROSS	FURTHER
Examiner Jones	14		

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E X H I B I T I N D E X

IDENTIFIED ADMITTED

1	Devon Energy Production Company	5	10
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3	Devon Energy Production Company	7	10
4	Devon Energy Production Company	9	10
5	Devon Energy Production Company	9	10
6	(Not used)	---	
7	Devon Energy Production Company	12	13
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9	Devon Energy Production Company	12	13
10	Devon Energy Production Company	12	13
11	Devon Energy Production Company	12	13

Reporter's Certificate	PAGE
	17

1 (Time noted 9:05 p.m.)

2 EXAMINER JONES: Let's call case 15286,
3 application of Devon Energy Production Company, L.P.,
4 for a non-standard oil spacing and proration unit and
5 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. They are the same witnesses who testified in
10 the previous case.

11 EXAMINER JONES: The record will show that
12 these witnesses have been sworn.

13 MR. BRUCE: And qualified?

14 EXAMINER JONES: And qualified.

15 JOE HAMMOND
16 having been first duly sworn, was examined and testified
17 as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Okay. And please just state your name for the
21 record.

22 A. Joe Hammond, H-a-m-m-o-n-d.

23 Q. This case is fairly similar to the prior case, is
24 it not, Mr. Hammond?

25 A. It is.

1 Q. Could you identify Exhibit 1 for the Examiner,
2 and what does the first page show?

3 (Devon Energy Production Company, L.P.,
4 Exhibit 1 introduced and identified.)

5 A. Exhibit 1 is the C-102 for the -- indicating a
6 project area for the south half of the south half of
7 section 10, 19 South, 31 East. And this is the project
8 area that Devon seeks to pool.

9 Q. And what is the well name?

10 A. It is the Hadar 10 Fed Com 4H Well.

11 Q. And the C-102 gives the surface and terminus
12 footages, does it not?

13 A. It does.

14 Q. And will the producing interval be orthodox?

15 A. It will.

16 Q. And, again, are you force pooling the Bone Spring
17 formation?

18 A. Yes, we are.

19 Q. If you turn to page 2 of Exhibit 1, can you
20 identify the parties you are pooling in this case?

21 A. It is Enduro Operating, L.L.C., and Occidental
22 Permian, L.P.

23 Q. And these are the same parties you pooled the
24 last time?

25 A. Yes, they are. Enduro owns a 25 percent working

1 interest in the proposed well. And Oxy owns a 25
2 percent working interest in the proposed well. And
3 Devon owns a 50 percent working interest in the proposed
4 well. And there are two federal leases that make up the
5 160-acre project area.

6 Q. And what is Exhibit 2?

7 (Devon Energy Production Company, L.P.,
8 Exhibit 2 introduced and identified.)

9 A. Exhibit 2 is my proposal letter to the parties
10 being pooled, dated February 12th, 2015.

11 Q. And I presume that when you discussed the 3H well
12 from the prior case with Enduro and Oxy, you also
13 discussed the 4H well with them?

14 A. There was a little lag between, but, yes. The
15 later stages of negotiations involved both wells. The
16 last contact I had with Enduro was on March 11th and
17 again -- for this particular well -- and again they
18 indicated that they would be nonconsenting or
19 nonparticipating in this well.

20 Q. Under the forced pooling --

21 A. Under the order.

22 Q. And, again, you are continuing discussions with
23 Oxy?

24 A. Yes. And, again, Oxy has told me for this
25 particular well, the last conversation was on April 8th,

1 indicating a non-consent or non-participation election
2 for this well and with the possibility of working out a
3 trade. But that hasn't come to fruition yet.

4 Q. Again, if you come to terms with Oxy, will you
5 notify the Division?

6 A. Yes, I will.

7 Q. One thing, on Exhibit 1, the C-102, it does not
8 contain an API number. Has this well be permitted?

9 A. I am trying to remember if it has or not. I
10 believe it has.

11 Q. Okay. Will you provide the Division with the API
12 number?

13 A. Yes, I will.

14 Q. In your opinion, has Devon made a good faith
15 effort to obtain the voluntary joinder of the working
16 interest owners in this well?

17 A. Yes.

18 Q. What is Exhibit 3?

19 (Devon Energy Production Company, L.P.,
20 Exhibit 3 introduced and identified.)

21 A. Exhibit 3 is the AFE that was provided to the
22 pool parties with the proposal letter.

23 Q. And are the drilling costs and the total well
24 costs set forth in the AFE in line with the costs of
25 horizontal wells drilled at this depth in this area of

1 New Mexico?

2 A. Yes. The drilling cost is \$3,662,000 and the
3 completed well cost is \$7,616,000. And, most likely,
4 those may be going down when this is drilled.

5 Q. Do you request that Devon be appointed operator
6 of the well?

7 A. Yes, I do.

8 Q. And what is your recommendation for overhead
9 expenses?

10 A. It is \$7,500 a month for a drilling well and \$750
11 a month for a producing well.

12 Q. And are these amounts equivalent to those charged
13 by Devon and other operators in this area for wells of
14 this depth?

15 A. Yes.

16 Q. And do you request that the rates be adjusted
17 periodically under the Copas accounting procedure?

18 A. Yes, I do.

19 Q. And does Devon request the maximum cost plus
20 200 percent risk charge if an interest owner
21 non-consents the well under the pooling order?

22 A. Yes.

23 Q. Were Oxy and Enduro notified of this hearing?

24 A. Yes, they were.

25 Q. And is that reflected in Exhibit 4?

1 A. Yes, Exhibit 4 reflects that.

2 (Devon Energy Production Company, L.P.,
3 Exhibit 4 introduced and identified.)

4 Q. And what is Exhibit 5?

5 (Devon Energy Production Company, L.P.,
6 Exhibit 5 introduced and identified.)

7 A. Exhibit 5 lists the offsetting operators or
8 owners.

9 MR. BRUCE: Mr. Examiner, I kind of spaced
10 out notifying Yates for this case. I have notified them
11 for the April 30th docket.

12 And, so, at the end of the hearing, I would
13 like the case to be continued for two weeks so that we
14 can provide notice.

15 BY MR. BRUCE (cont'd):

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. In your opinion, is the granting of this
21 application in the interests of conservation and the
22 prevention of waste?

23 A. Yes.

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

1 EXAMINER JONES: Exhibits 1 through 5 are
2 admitted.

3 (Devon Energy Production Company, L.P.,
4 Exhibits 1 through 5 were admitted into
5 evidence.)

6 MR. BRUCE: I have no further questions of
7 Mr. Hammond.

8 CROSS-EXAMINATION BY EXAMINER JONES

9 EXAMINER JONES: So Devon is carrying these
10 people then?

11 THE WITNESS: Yes, yes.

12 EXAMINER JONES: It's a lot of money Devon
13 is working out?

14 THE WITNESS: We will carry them under the
15 billing order, that's correct.

16 EXAMINER JONES: And if they do own Oxy to a
17 farm-out, I am sure you are not going to want to give up
18 too much NRI --

19 THE WITNESS: Well, there's what I
20 consider -- yeah, that is kind of one sticking point. I
21 mean, there's what I call the standard terms for the
22 area, and some people want non-standard. And we do
23 deals with other operators fairly often in this general
24 area. 19 South, 31 East is a fairly active area for
25 Devon.

1 EXAMINER JONES: So you guys are committed
2 to drill not only this year but next year?

3 THE WITNESS: Yes. These wells are on the
4 drilling schedule. They will be drilled.

5 EXAMINER JONES: So, basically, they should
6 almost look the same for this well as the other one, I
7 guess. This one was two months after the other AFE.
8 But the actual cost is what matters here anyway.

9 THE WITNESS: Yes. And, again, the same
10 response from Oxy, they basically ask us if we could
11 delay the well until prices come back and we don't in
12 this particular case.

13 EXAMINER JONES: Is this one also you are
14 pooling the entire Bone Spring?

15 THE WITNESS: Yes, we are. Lusk West.

16 EXAMINER JONES: The same pool?

17 THE WITNESS: Yes.

18 EXAMINER JONES: Thank you very much.

19 THE WITNESS: Uh-huh.

20 CURT MCKINNEY
21 having been first duly sworn, was examined and testified
22 as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Please state your name for the record.

1 A. Curt McKinney.

2 Q. Mr. McKinney, if you look at Exhibits 7 through
3 10, are these exhibits identical to the Exhibits 7
4 through 10 in the prior case?

5 A. Yes, they are.

6 (Devon Energy Production Company, L.P.,
7 Exhibits 7 through 10 introduced and
8 identified.)

9 Q. And would your testimony be the same in this case
10 as in the prior case?

11 A. Yes, it would.

12 Q. And would you simply request that the testimony
13 from case 15273 be incorporated into the record on this
14 case?

15 (With reference to the immediately above
16 incorporation, see Case 15273 Hearing of April 16th,
17 2015.)

18 A. Yes. Except for the one exhibit.

19 Q. And the only difference would be Exhibit 11?

20 A. That's right.

21 Q. And what is Exhibit 11?

22 (Devon Energy Production Company, L.P.
23 Exhibit 11 introduced and identified.)

24 A. Exhibit 11 is the specific drilling plan for this
25 well, Hadar 10 Fed Com 4H, from company records to show

1 how we intend to drill it, where we want to land it, and
2 where the heel and toe are and how it will conform
3 within the producing area prescribed by the south half,
4 south half of section 10.

5 Q. Were Exhibits 7 through 10 prepared by you or
6 under your supervision?

7 A. Yes.

8 Q. And is Exhibit 11 compiled from company business
9 records?

10 A. It is.

11 Q. And in your opinion is the granting of this
12 application in the interest of conservation and the
13 prevention of waste?

14 A. Yes.

15 MR. BRUCE: And Mr. Examiner, I request the
16 admission of 7 through 11, and I pass the witness.

17 EXAMINER JONES: Exhibits 7 through 11 will
18 be admitted.

19 (Devon Energy Production Company, L.P.,
20 Exhibits 7 through 11 were admitted into
21 evidence.)

22 EXAMINER JONES: I should let Legal Counsel
23 Marks talk about incorporating the case. The only
24 previous language I would use is we are going to
25 incorporate case -- the record indicates 15273 into case

1 15286.

2 EXAMINER MARKS: Per the testimony of
3 Mr. McKinney from case 15273 into case 15286, with the
4 exception of Exhibit 11 from Case 15273, will be
5 substituted with its testimony of Exhibit 11 in case
6 15286, correct, Mr. Bruce?

7 MR. BRUCE: Yes.

8 CROSS-EXAMINATION BY EXAMINER JONES

9 EXAMINER JONES: So why not put these at the
10 same surface location?

11 THE WITNESS: Other people in the company
12 make those decisions for me. I could speculate but I
13 don't know an exact answer to that that would be
14 reasonable.

15 EXAMINER JONES: You are going to have to
16 have separate facilities for both of these wells?

17 THE WITNESS: I doubt it. I doubt they'll
18 combine the facilities and tithe it over to the common
19 battery, I suspect.

20 EXAMINER JONES: Anything else different
21 with this well and the other well?

22 THE WITNESS: Well, as I said, one of them
23 is going to have a pilot hole. And, to be honest with
24 you, it's likely when they were permitted, they were
25 both permitted with pilot holes, because we are never

1 quite sure when we're going to get the permits back, and
2 we want to drill the well with the pilot hole first. So
3 there's all these timing questions.

4 So we'll end up, whichever one we don't do
5 the pilot hole in, we would end up filing saying we are
6 not going to do a pilot hole on the second one. And
7 that is just a matter of how you have to handle the
8 timing.

9 EXAMINER JONES: When will you put your mud
10 loggers on location?

11 THE WITNESS: In this case, I think they'll
12 go on after we set our intermediates. So approximately
13 the top of the Delaware, which is 4,500 feet or so in
14 this area.

15 EXAMINER JONES: So you're going to mud log
16 the Delaware and the Bone Spring?

17 THE WITNESS: We would like to see
18 everything that's out there. Occasionally, we will log
19 from much shallower in case we want to -- we need more
20 data for other objectives, Yates, Seven Rivers,
21 whatever. Not in this case.

22 EXAMINER JONES: If you are going to set
23 your ^{intermediate casing} immediate so high, are you going to run open hole
24 logs?

25 THE WITNESS: Not the shallow part. We will

1 run cased hole logs for that. Again, it's a cost
2 savings issue.

3 EXAMINER JONES: But if you set your shoe
4 above the Delaware, are you going to run open hole logs
5 as far down as you can get them?

6 THE WITNESS: Yes.

7 EXAMINER JONES: Okay. And what kind of
8 logs?

9 THE WITNESS: Just a standard suite.
10 Nothing exotic in this case.

11 EXAMINER JONES: I have no more questions.
12 Thank you very much.

13 THE WITNESS: Sure.

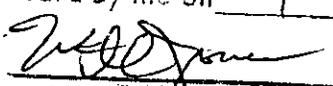
14 EXAMINER JONES: Anything more in this case?

15 MR. BRUCE: Mr. Examiner, nothing further in
16 this case. I request that it be continued for two
17 weeks.

18 EXAMINER JONES: Case 15286 will be
19 continued to April 30th. Thank you, Mr. Bruce.

20 We have one more case on the docket that I
21 can see here. Let's take a ten-minute recess. I am
22 going to bring down another hearing examiner.

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 5286
(Time noted 9:21 a.m.) heard by me on 4-16-15

25  , Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
 4
 5
 6

7 REPORTER'S CERTIFICATE

8
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
 10 No. 100, DO HEREBY CERTIFY that on Thursday, April 16,
 11 2015, the proceedings in the above-captioned matter were
 12 taken before me, that I did report in stenographic
 13 shorthand the proceedings set forth herein, and the
 14 foregoing pages are a true and correct transcription to
 15 the best of my ability and control.

16
 17 I FURTHER CERTIFY that I am neither employed by
 18 nor related to nor contracted with (unless excepted by
 19 the rules) any of the parties or attorneys in this case,
 20 and that I have no interest whatsoever in the final
 21 disposition of this case in any court.

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