

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:

CASE NOS.
15305 AND 15306

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

June 11, 2015

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, June 11, 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
CALIFORNIA CSR 8670
PAUL BACA COURT REPORTERS
500 Fourth Street, NW
Suite 105
Albuquerque, New Mexico 87102

A P P E A R A N C E S

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

JAMES G. BRUCE, ESQ.
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I N D E X

CASE NUMBERS 15305 and 15306 CALLED

DEVON ENERGY PRODUCTION COMPANY, L.P.
CASE-IN-CHIEF CONTINUED

WITNESS ZACK GRAHAM

	Direct	Redirect	Further
By Mr. Bruce	5		
Examiner Goetze	EXAMINATION		
	13		

WITNESS PATRICK JOHNSTON

	Direct	Redirect	Further
By Mr. Bruce	14		
Examiner Goetze	EXAMINATION		
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Reporter's Certificate

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1 (Time noted 8:37 a.m.)

2 EXAMINER GOETZE: Next is case 15305,
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 Santa
8 Fe, representing the applicant. I have two witnesses.
9 And I would ask that this case be consolidated for
10 hearing with the next case, 15306.

11 EXAMINER GOETZE: Seeing that they are
12 adjacent, that would be very nice. So let's include at
13 this time a consolidation with case number 15306,
14 Application of Devon Energy Production Company, L.P.,
15 for a non-standard oil spacing and proration unit and
16 compulsory pooling, Eddy County, New Mexico.

17 Any other appearances?

18 (No response.)

19 EXAMINER GOETZE: And who are your
20 witnesses? And the reporter will swear you in.

21 (Whereupon, the presenting witnesses were
22 administered the oath by the court
23 reporter.)

24 EXAMINER GOETZE: Proceed, Mr. Bruce.

25 ---oOo---

1 ZACH GRAHAM

2 having been first duly sworn, was examined and testified
3 as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. And would you please state your name for the
7 record.

8 A. Yes. It's Zach Graham.

9 Q. And where do you reside?

10 A. I reside in Norman, Oklahoma.

11 Q. And who do you work for and in what capacity?

12 A. I am a landman for Devon Energy.

13 Q. Have you previously testified before the
14 Division?

15 A. I have not.

16 Q. Would you please summarize your educational and
17 employment background for the examiner.

18 A. Yes. I have a bachelor's degree from ~~Avalon~~ *Abilene*
19 Christian University. I have been employed as a landman
20 for the last ten years. I have worked for both private
21 and public energy companies in Texas, Oklahoma, and
22 Kansas.

23 The last two years I have been employed by Devon
24 Energy working in Oklahoma and, mostly recently,
25 southeast New Mexico.

1 Q. Does your area of responsibility at Devon include
2 this portion of southeast New Mexico?

3 A. Yes, it does.

4 Q. And are you familiar with the land matters
5 involved in these applications?

6 A. Yes, I am.

7 MR. BRUCE: Mr. Examiner, I tender
8 Mr. Graham as an expert petroleum landman.

9 EXAMINER GOETZE: He is so qualified.

10 Q. Mr. Graham, could you identify Exhibit 1 for the
11 examiner and discuss the first well at issue today.

12 A. Yes. Exhibit 1 is a well location plat for the
13 Willow Lake 35 Fed Com 1H. It is in section 35 of 24
14 south, 28 east, Eddy County.

15 Has a surface location at 235 feet from the south
16 line and 1,300 feet from the east line.

17 Bottom hole location is in the same section at
18 330 feet from the north line, and 660 feet from the east
19 line.

20 This well is 'compromised' of Devon fee minerals
21 and one federal oil and gas lease.

22 Q. And what is Exhibit 2?

23 A. Exhibit 2 is the plat for the Willow Lake 35 Fed
24 Com 2H. It is directly west of the 1H and it is also in
25 section 35, 24 South, 28 East, Eddy County.

1 The surface location is 235 feet from the south
2 line; 1,350 feet from the east line.

3 The bottom hole location is in the same section,
4 at 330 feet from the north line; 1,980 feet from the
5 east line.

6 This well is also 'compromised' of Devon fee
7 minerals and one federal oil and gas lease.

8 Q. Will the producing intervals of both wells be
9 orthodox?

10 A. Yes, they will.

11 Q. Have these wells been issued API numbers yet?

12 A. They have not. We have applied for permits to
13 drill with the BLM in January, and we have not received
14 those yet. So an API number has not been assigned, to
15 my knowledge.

16 MR. BRUCE: Mr. Examiner, the wells were
17 placed in the Willow Lake Bone Spring Pool, but that
18 pool is based on statewide rules.

19 Q. (By Mr. Bruce) What is Exhibit 3?

20 A. Exhibit 3 is a breakdown of the working interest
21 of the Willow Lake 35 Fed Com 1H. It shows Devon Energy
22 Production Company with just over 51 percent. Chevron
23 U.S.A., Inc., RKC, Inc., and EOG Resources, Inc., with
24 the remaining interest in that wellbore.

25 Q. And what is contained in Exhibit 4?

1 A. Exhibit 4 is the proposal letters that were sent
2 to Chevron, RKC, and, then, the next page is the
3 proposal letter that was sent to EOG Resources.

4 Q. Why was the EOG Resources letter sent a little
5 later than the others?

6 A. This area had a unique title situation. There
7 was an unrecorded joint operating agreement that covered
8 a portion of both of these tracts.

9 We prepared a title opinion on this, came up with
10 the record owners, which were Chevron and RKC. We
11 proposed those owners.

12 Chevron let us know that there was an unrecorded
13 joint operating agreement. They refused to give us a
14 copy of that joint operating agreement so that we
15 couldn't identify the other work interest owners.

16 We spent four to six weeks trying to track that
17 down. And we eventually got that from an offset
18 operator, and we were able to complete our title
19 examination. And it's about a 35-year-old JOA that we
20 had to chain the title forward.

21 Q. And Devon is not part of that JOA?

22 A. That is correct.

23 Q. Have you also had discussions or e-mail contact
24 with Chevron, RKC, and EOG?

25 A. Yes, we have.

1 Q. And have they indicated whether or not they want
2 to join in the well?

3 A. They have not.

4 Q. What is Exhibit 5?

5 A. Exhibit 5 is the breakdown of the working
6 interest of the Willow Lake 35 Fed Com 2H. It shows
7 Devon Energy with just over 75 percent of the interest;
8 Chevron U.S.A., Inc., RKC, Inc., and EOG with the
9 remaining interest in the wellbore.

10 Q. And as to this well, have the other three parties
11 expressed any desire to join in the well?

12 A. They have not.

13 Q. What is Exhibit 6?

14 A. Exhibit 6 is a copy of the proposal letters that
15 were sent to Chevron and RKC, and, then, the next page
16 is the proposal letter that was sent to EOG Resources.

17 Q. And is this the same situation, it was the same
18 JOA that was involved and you didn't have immediate
19 knowledge of all of the interest owners?

20 A. That is correct.

21 Q. In your opinion, has Devon made a good faith
22 effort to identify the parties in the well units and to
23 obtain their joinder in the well units?

24 A. Yes.

25 Q. What is Exhibit 7?

1 A. Exhibit 7 is Devon's authorization for
2 expenditure for the Willow Lake 35 Fed Com 1H. It is a
3 Bone Spring well. It shows a total drill and complete
4 cost of \$7,838,622.12.

5 Q. And what is Exhibit 8?

6 A. Exhibit 8 is the authorization for expenditure
7 for the Willow Lake 35 Fed Com 2H, also a Bone Spring
8 well. It shows a total drill and complete cost of
9 \$7,783,622.12.

10 Q. Are these costs fair and reasonable and in line
11 with the costs of other horizontal wells drilled to this
12 depth in this area of the state?

13 A. Yes, they are.

14 Q. And does Devon request that it be appointed
15 operator of the proposed wells?

16 A. Yes, we do.

17 Q. And do you request the maximum cost plus 200
18 percent risk charge if any of these parties go
19 non-consent in the wells?

20 A. Yes, we do.

21 Q. What overhead rates do you request?

22 A. We would like to request \$750 for a producing
23 well and \$7,500 for a drilling well.

24 Q. And are these rates fair and are they common in
25 this area for wells of this depth?

1 A. They are.

2 Q. Was notice given to all of the parties being
3 pooled?

4 A. Yes, it was.

5 Q. And is that reflected in the affidavit of notice
6 marked Exhibit 9?

7 A. Yes, it is.

8 Q. And what is Exhibit 10?

9 A. Exhibit 10 is a copy of the offset operators in
10 the Bone Spring formation.

11 Q. And was notice given to those operators?

12 A. Yes, it was.

13 Q. And is that reflected in my affidavit marked
14 Exhibit 11?

15 A. Yes, it is.

16 MR. BRUCE: Mr. Examiner, this letter was
17 sent to people who only owned offsets. There are a
18 couple of additional offsets, being EOG and Mewbourne,
19 but they were given notice because they were parties who
20 were working interest owners in the wells, so they
21 received notice as shown in Exhibit 9.

22 Q. Were Exhibits 1 through 11 prepared by you or
23 under your supervision or compiled from company business
24 records?

25 A. Yes.

1 Q. And, in your opinion; is the granting of these
2 applications in the interests of conservation and the
3 prevention of waste?

4 A. Yes, it is.

5 MR. BRUCE: Mr. Examiner, I move the
6 admission of Exhibits 1 through 11.

7 EXAMINER GOETZE: Exhibits 1 through 11 are
8 so entered.

9 (DEVON ENERGY PRODUCTION COMPANY, L.P. Exhibits 1
10 through 11 offered and admitted.)

11 MR. BRUCE: One final thing, Mr. Examiner.
12 On Exhibit 11, one green card did not come back from SM
13 Energy Company. I don't know how you want to handle
14 that. I know they received notice because I got a phone
15 call from them.

16 EXAMINER GOETZE: Ahh, the green cards live
17 on. And that would be for both cases or just --

18 MR. BRUCE: I sent both applications by one
19 notice letter.

20 EXAMINER GOETZE: Okay.

21 MR. BRUCE: I don't see a problem having the
22 cases continued for a couple of weeks so that we collect
23 the green card and submit it.

24 EXAMINER GOETZE: Well, we will take note of
25 that. Do you have any questions?

1 EXAMINER WADE: Mr. Bruce, you said you
2 already spoke with them on the phone?

3 MR. BRUCE: Yes, I spoke with them on the
4 phone.

5 EXAMINER WADE: Maybe it is just as simple
6 as getting some kind of confirmation --

7 MR. BRUCE: If I don't get the green card
8 back, I will e-mail the landman, Rita Burse, and get her
9 to acknowledge that they did receive notice.

10 EXAMINER WADE: That's it for me.

11 EXAMINER GOETZE: Just one question for the
12 land person.

13 EXAMINATION

14 EXAMINER GOETZE: So there was no response
15 from EOG or have there been discussions with any of
16 the --

17 THE WITNESS: Yes, sir. We've spoken to all
18 three of the parties that do own an interest, and
19 they've made no election as to whether or not to
20 participate in the wells.

21 EXAMINER GOETZE: So yes, no, no response,
22 or just they haven't come back to you --

23 THE WITNESS: Right, they just haven't
24 gotten back with me.

25 EXAMINER GOETZE: Thank you. No further

1 questions for this witness.

2 MR. BRUCE: One final thing, and this
3 doesn't require the witness to be recalled. But on the
4 notice letter to the parties who were sent the pooling
5 letter, the actual working interest owner, there are
6 another four parties who came to terms with Devon and
7 those are Mobile Producing, X-CO Resources, Triple T
8 Resources, and certain Mewbourne entities. And although
9 they were originally notified, they should be dismissed
10 from this case.

11 EXAMINER GOETZE: Very good. Thank you.

12 PATRICK JOHNSTON
13 having been first duly sworn, was examined and testified
14 as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you state your name for the record.

18 A. Patrick Johnson.

19 Q. And where do you reside?

20 A. I live in Edmond, Oklahoma.

21 Q. And who do you work for and in what capacity?

22 A. I work as a geologist for Devon Energy.

23 Q. Have you previously testified before the OCD?

24 A. I have not.

25 Q. Would you please summarize your educational and

1 employment background.

2 A. Yes. I got a bachelor's degree in geology and
3 environmental studies from Whitman College in Walla
4 Walla, Washington. And after that, I went to Central
5 Washington University in Ellensburg, Washington, where I
6 got my master's of science in geology.

7 Then I went to California and worked for Kendrick
8 Jone Technology as a logging geologist for two years.
9 And then I went to Occidental Petroleum in California
10 and worked as a development geologist for three years.

11 In December of 2014, I moved to Oklahoma City, to
12 Edmond, Oklahoma, and started working for Devon Energy
13 in southeast New Mexico.

14 Q. Does your current area of responsibility at Devon
15 include this portion of southeast New Mexico?

16 A. It does.

17 Q. And are you familiar with the geology involved in
18 these applications?

19 A. I am.

20 MR. BRUCE: I tender Mr. Johnson as an
21 expert petroleum geologist.

22 EXAMINER GOETZE: He is so qualified.

23 Q. Could you identify Exhibit 12 for the Examiner?

24 A. Yes. Exhibit 12 is a structure map of the Second
25 Bone Spring Sand. It's on the base of the main sand,

1 which is the producing interval retarding these two
2 wells, showing a regional dip to the east.

3 Q. And what is Exhibit 13?

4 A. Exhibit 13 is an isopach map with cutoffs and a
5 porosity of less than 8 percent and a deep resistivity
6 of less than 30 ohms. And it shows a general thickening
7 to the northeast of section 35.

8 Q. So looking at Exhibit 14, the thickness of the
9 Bone Spring in each of these wells is 200-plus or
10 200-minus feet?

11 A. Yes.

12 Q. And what is Exhibit 14?

13 A. It is a cross section, which is also shown on the
14 structure map, of which wells are on the Second Bone
15 Spring interval. It's flattened on the lower sand,
16 which the structure map is showing.

17 Q. And the Second Bone Spring Sand is the primary
18 target, correct?

19 A. It is.

20 Q. And the cross section shows that the Second Bone
21 Spring is continuous across these well units?

22 A. Yes, it does.

23 Q. Looking at Exhibits 13 and 14, would you
24 anticipate that each quarter, quarter section in the
25 well unit would contribute to production?

1 A. I would.

2 Q. And is there any faulting or other type of
3 impediment that would prevent the successful drilling of
4 a Bone Spring well in each well unit?

5 A. I do not think so.

6 Q. In looking at your Exhibit 13, it appears that
7 operators drill both stand-ups and lay-downs in this
8 area. Are these Bone Spring wells that are noted on
9 here, horizontal Bone Spring?

10 A. Yes. Exhibit 12 shows the Bone Spring wells in
11 the blue dots. And the black dots in the center show
12 producing Second Bone Spring wells and the white dots
13 are proposed wells.

14 Q. Is there any preferred well unit orientation in
15 this area?

16 A. We are proposing to drill these north, south
17 which will go with the general thickening on the isopach
18 map to the northeast.

19 Q. And what is Exhibit 15?

20 A. Exhibit 15 is a directional drilling plan for the
21 Willow Lake 35 Fed Com 1H Well, which shows that we plan
22 to land in the lower Second Bone Spring sandstone and
23 hold 90 degrees, fill in approximately along strike to
24 the structure.

25 Q. Both wells are more or less sharing the same

1 drilling location; is that correct?

2 A. They are.

3 Q. And it looks like the landing point or the
4 beginning of the producing interval will be orthodox in
5 each well, correct?

6 A. Correct.

7 Q. And is Exhibit 16 simply the drilling plan for
8 the 2H well?

9 A. It is.

10 Q. How many completion stages does Devon use in
11 these wells?

12 A. About sixteen.

13 Q. In your opinion, is the granting of this
14 application -- these applications in the interests of
15 conservation and the prevention of waste?

16 A. I believe it is.

17 Q. And were Exhibits 12 through 14 prepared by you?

18 A. They were prepared under my direction.

19 Q. And were Exhibits 15 and 16 compiled from company
20 business records?

21 A. They were.

22 MR. BRUCE: Mr. Examiner, I move the
23 admission of Exhibits 12 through 16.

24 EXAMINER GOETZE: Exhibits 12 through 16 are
25 so entered.

1 (DEVON ENERGY PRODUCTION COMPANY, L.P.
2 Exhibits 12 through 16 offered and admitted.)

3 MR. BRUCE: I have no further questions of
4 the witness.

5 EXAMINER GOETZE: Do you have any questions
6 for the witness?

7 EXAMINER WADE: I have no questions.

8 EXAMINER GOETZE: Very good. I have just a
9 few questions.

10 EXAMINATION

11 EXAMINER GOETZE: So we have good control
12 going north, south; as far as isopach or thickness
13 there, we're more comfortable going in a north, south
14 orientation, as opposed to east, west?

15 THE WITNESS: Yes, in the west subpart of
16 the section, Mewbourne has already drilled a well north,
17 south.

18 EXAMINER GOETZE: That is what I was
19 figuring.

20 With regards to that, we still have an east
21 half of the west half. Do you know if there is acreage
22 associated with Devon there or is that something -- has
23 anybody looked at that?

24 THE WITNESS: I believe we don't have that
25 acreage.

1 EXAMINER GOETZE: Okay. So your interest is
2 just the east half?

3 THE WITNESS: Yes.

4 MR. BRUCE: Mr. Examiner, I can't remember.
5 I think there's -- I think that's Mewbourne acreage over
6 there.

7 EXAMINER GOETZE: Very good.

8 I have no more questions for this witness.

9 MR. BRUCE: And that's all I have,
10 Mr. Examiner.

11 EXAMINER GOETZE: And I would like to just
12 discuss this with you. Off the record.

13 (Discussion between Examiners.)

14 EXAMINER GOETZE: Back on the record.

15 Based upon the opinion of Counsel, we will
16 go ahead and take cases No. 15305 and case No. 15306
17 under advisement with the condition that you give us an
18 e-mail or at least a copy of the green card.

19 MR. BRUCE: Okay. Thank you.

20 EXAMINER GOETZE: Thank you.

21

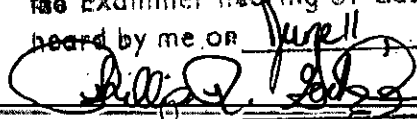
22 (Time noted 8:56 a.m.)

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15305 & 15306
heard by me on June 11, 2015.

 Examiner

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, June 11,
 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.

22
 23
 24
 25


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