

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:

APPLICATION OF DEVON ENERGY PRODUCTION CASE NO. 20085
COMPANY, LP FOR A STANDARD HORIZONTAL
SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 15, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, November 15, 2018, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Third Floor
Meeting Room, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT DEVON ENERGY PRODUCTION COMPANY, LP:

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1 (3:29 p.m.)

2 EXAMINER McMILLAN: I'll call Case 20085.

3 MR. McMILLAN: Fantastic.

4 EXAMINER McMILLAN: 20085, application of
5 Devon Energy Production Company, LP for a standard
6 horizontal spacing and proration unit and compulsory
7 pooling, Lea County, New Mexico.

8 MR. McMILLAN: Seth McMillan, Montgomery &
9 Andrews.

10 EXAMINER McMILLAN: Any other appearances?
11 Please proceed.

12 MR. McMILLAN: Thank you.

13 I'm presenting this case by affidavit. I
14 have four affidavits, and I'll just take a moment to
15 pass them out here.

16 Okay. I'd like to begin with the affidavit
17 of Katie Dean. Katie Dean is a landman with Devon. She
18 has previously had her credentials heard and been
19 qualified. In any event, her credentials are listed
20 there in paragraphs 3A and 3B.

21 We are here to force pool unjoined interest
22 owners into a standard horizontal spacing and proration
23 unit and into a single well to be drilled in the unit.
24 There is, as reflected in paragraph six here, no
25 opposition expected. There is, in fact, only one other

1 working interest owner involved here, and that is
2 Apache.

3 The details of what we're seeking are laid
4 out in paragraph seven. We seek an order creating a
5 standard 320-acre horizontal spacing unit comprised of
6 the east half-east half of Sections 21 and 28, Township
7 21 South, Range 34 East, and pooling all uncommitted
8 interests in the 3rd Bone Spring Sand underlying the
9 horizontal spacing unit.

10 The proposed spacing unit will be dedicated
11 to the Chiles 28-21 State Com 1H well to be drilled --
12 to be horizontally drilled from an approximate surface
13 location of 2,310 feet from the east line and 280 feet
14 from the south line of Section 28, to a bottom-hole
15 location 380 feet from the east line and 20 feet from
16 the north line of Section 21. This well defines the
17 horizontal spacing unit.

18 Exhibit A to Katie Dean's affidavit is a
19 plat outlining the unit and showing the location of the
20 proposed Chiles well within the unit.

21 Exhibit B shows the parties to be pooled,
22 the nature of their interest and their last known
23 addresses. Exhibit B includes information regarding
24 both working interest owners and our overrides.

25 Here's the fun part. There are no existing

1 depth severances in the Bone Spring Formation. However,
2 what Devon is seeking to do here is to pool only the 3rd
3 Bone Spring interval of the Bone Spring Formation, the
4 reason being that Devon already operates a well in the
5 2nd Bone Spring Sand, that being the Monk 21 --

6 EXAMINER McMILLAN: Go ahead and tell him
7 again.

8 MR. McMILLAN: Oh, right. I used the magic
9 words, didn't I?

10 Okay. You'll want to pay attention to this
11 piece, Mr. Brooks.

12 EXAMINER BROOKS: Okay.

13 MR. McMILLAN: There are no existing depth
14 severances in the formation here. However, by this
15 application, what Devon seeks to pool is only the 3rd
16 Bone Spring Sand interval of the Bone Spring Formation.

17 EXAMINER BROOKS: And why?

18 MR. McMILLAN: Getting to that.

19 Devon already operates a well in the 2nd
20 Bone Spring Sand, that being the Monk 21 State 4H.
21 That's API Number 30-025-42193. We have -- I will be
22 presenting as part of my case here an affidavit from a
23 petroleum engineer, a completions engineer, who
24 testifies that there is no expected communication
25 between the 3rd Bone Spring Sand and the 2nd Bone Spring

1 Sand within this proposed horizontal spacing unit.

2 EXAMINER BROOKS: Well, Mr. Goetze approved
3 a similar finding in another case. I don't know what
4 the geographic relationship is, but I will find that
5 out.

6 MR. McMILLAN: That's certainly promising.

7 Ms. Dean testifies here that she's
8 conducted a diligent search of the public records in Lea
9 County where the proposed horizontal spacing unit is
10 located. She conducted phone directory and computer
11 searches to locate contact information for parties
12 entitled to notification, and she mailed to all parties
13 well proposals, including an AFE. As such, she
14 testifies that Devon has made a good-faith effort to
15 obtain voluntary joinder of the unjoined interests.
16 Again, the only unjoined interest is that of Apache.

17 There is a proposed C-102 attached as
18 Exhibit C, and, helpfully enough, that shows our pool
19 code and our pool name. The pool code is 96660. It's
20 an oil and gas pool. The name of the pool code is
21 Berry; Bone Spring, South Pool.

22 Attached as Exhibit D is a sample proposal
23 letter that Ms. Dean sent to all of the parties who were
24 owed notice, and it includes a proposed AFE.

25 Ms. Dean testifies that the estimated well

1 costs set forth in the AFE are fair, reasonable and
2 comparable to the costs of other wells of similar depths
3 and lengths drilled in this area of New Mexico. Devon
4 is requesting here overhead and administrative rates of
5 \$6,000 a month for drilling and \$600 a month for
6 producing. Ms. Dean testifies that these rates are fair
7 and comparable. She also requests that these rates be
8 adjusted periodically as provided by the COPAS
9 accounting procedure. Devon requests the maximum costs
10 and the 200 percent risk be assessed against
11 nonconsenting working interest owners and, of course,
12 requests that it be designated operator of the Chiles
13 well.

14 Finally, Ms. Dean testifies that the
15 granting of the application is in the interest of
16 conservation, the prevention of waste and the protection
17 of correlative rights, that the exhibits were prepared
18 by her or compiled from Devon's company business records
19 and that all of the foregoing is correct and complete to
20 the best of her knowledge and belief.

21 Shall I field any questions that might be
22 appropriately directed to me as opposed to the affiant
23 with respect to land?

24 EXAMINER BROOKS: I am concerned about
25 the -- you said there was not a depth severance, and

1 then you went on to say there is another well. So
2 why does it -- how does the -- why do you need to limit
3 the depth interval of this spacing unit of this
4 compulsory pooling if you're pooling the same interest
5 as in another well?

6 MR. McMILLAN: I believe that was an
7 approach that was developed in concert with Apache,
8 which is to say that it's my understanding -- and I kind
9 of wish that my affiant was here to discuss --

10 EXAMINER BROOKS: I kind of wish he were,
11 too. She.

12 MR. McMILLAN: She, yes. Yes.

13 EXAMINER BROOKS: I'm sorry.

14 MR. McMILLAN: In any event, the idea is to
15 isolate just the 3rd Bone Spring Sand here. We have
16 testimony in evidence that the formation -- that this --
17 this interval is, in fact, adequately isolated from the
18 2nd Bone Spring Sand and furthermore believe that under
19 the Division's -- under the rules -- under the new
20 horizontal drilling rules that there is really no
21 impediment to this approach under the rules.

22 EXAMINER BROOKS: Well, but we have always
23 made the vertical limits of a spacing unit equivalent to
24 the vertical limits to the pool until recently.

25 MR. McMILLAN: Right.

1 EXAMINER BROOKS: And so that would be the
2 only impediment. But the Division order on the new
3 well, subject to anything that may happen between and
4 now the time it's cut, will be identical to that and the
5 other well.

6 MR. McMILLAN: That may well be. I haven't
7 seen the order for the other.

8 EXAMINER BROOKS: You don't have the
9 information?

10 MR. McMILLAN: To be honest, I do not have
11 that with me today. Perhaps -- well, yes. Certainly
12 that's not something we've done until recently, but we
13 are fortunate to be living in interesting times, and the
14 rules have changed. And as you mentioned, this is being
15 done, maybe not a lot. But we like to think that this
16 is a kind of neat and clean situation where this kind of
17 thing can go forward, yeah, without a lot of complicated
18 factors.

19 And when I get to the affidavit of
20 Mr. Sheldon Moos -- he's the completions engineer --
21 you'll see that we have, as in other depth severance
22 cases, provided adequate evidence that these intervals
23 are not in communication.

24 EXAMINER BROOKS: Okay. We may request a
25 supplemental affidavit from the land witness --

1 MR. McMILLAN: Sure. Absolutely.

2 EXAMINER BROOKS: -- when we get to
3 studying this record.

4 MR. McMILLAN: Okay.

5 EXAMINER BROOKS: Go ahead.

6 MR. McMILLAN: Proceeding to Devon's second
7 affidavit, that being -- let's take a look at the
8 affidavit of Kenton Shaw. Mr. Shaw is a geologist.
9 Mr. Shaw has not previously had his credentials made a
10 matter of record and been qualified as an expert, so he
11 lays out his credentials in paragraphs 4A and 4B. In a
12 nutshell, he has a BS in Geology from Grand Valley State
13 University and a Master's in Geology from Baylor. He's
14 worked at Devon as a geophysicist since 2016 and in New
15 Mexico acreage, specifically, since 2017.

16 Mr. Shaw has attached to his affidavit an
17 Exhibit A. This is a Bone Spring structure map. He
18 shows the area being pooled outlined by a red rectangle,
19 the strata dip approximately 200 feet westward across
20 the proposed horizontal spacing unit. The structural
21 dip along the proposed Chiles wellbore is just around
22 1 degree, and the Chiles well is positioned a full
23 quarter mile west of the Bell Lake Fault.

24 Exhibit A identifies wells -- doesn't it?
25 Let me see. Oh, right. I'm sorry. Exhibit A

1 identifies wells in the vicinity of the proposed
2 horizontal spacing unit with a cross section line
3 running from A to A prime.

4 Exhibit B is, of course, that cross
5 section. The cross section is hung on the top of the
6 Bone Spring. It shows a consistent target thickness in
7 wells near the Chiles well. The well logs on the cross
8 section give a representative sample of the Bone Spring
9 Formation in the area and demonstrate reasonable well
10 control. Again, the pooled unit for the Chiles well is
11 limited in depth to the 3rd Bone Spring Sand, which is
12 indicated by the green line in Exhibit B. Off to the
13 right, you can see that we have isolated the target
14 interval.

15 Exhibit C to Mr. Shaw's affidavit is a
16 gross isochore of the Bone Spring Formation. It shows
17 the thickness -- it shows the thickness for the 3rd Bone
18 Spring Sand interval indicated in Exhibit B.
19 Importantly, the 3rd Bone Spring Sand is uniform across
20 the proposed well unit. The 2nd Bone Spring Sand is
21 also continuous across the well unit, as is the interval
22 between the two.

23 Mr. Shaw concludes from his exhibits that
24 the horizontal spacing and proration unit is justified
25 from a geologic standpoint, that there are no structural

1 impediments or faulting that will interfere with
2 horizontal development and that each quarter-quarter
3 section in the unit will contribute more or less equally
4 to production.

5 Mr. Shaw also notes that the preferred well
6 orientation in this area is north-south, which is --
7 these wells -- this well is also a stand-up well.

8 Finally, he confirms that the granting of
9 the application is, in his opinion, in the interest of
10 conservation, the prevention of waste and the protection
11 on the correlative rights, and that he prepared the
12 exhibits attached to his affidavit.

13 I'd be happy to field any questions with
14 respect to geology, keeping in mind that --

15 EXAMINER McMILLAN: Okay. The first thing
16 is, looking at his -- at his structure map and his
17 isochore map, there is no way to tell if the data is
18 right because there are no log values on them.

19 MR. McMILLAN: That's on Exhibit C or both?

20 EXAMINER McMILLAN: The structure map and
21 the isochore map, it's not tied to any wells that I can
22 tell. I don't see the log values on there. So he has
23 to resubmit those with the well.

24 MR. McMILLAN: Which is to say -- okay. So
25 are we looking at the cross-section line?

1 EXAMINER McMILLAN: No. I'm looking at
2 Exhibit A --

3 MR. McMILLAN: Right.

4 EXAMINER McMILLAN: -- 3rd Bone Spring
5 structure map.

6 MR. McMILLAN: Right.

7 EXAMINER McMILLAN: He didn't include the
8 well costs in there -- or the well values.

9 MR. McMILLAN: Okay. We can --

10 EXAMINER McMILLAN: That has to be
11 supplemented.

12 MR. McMILLAN: Is there anything else I can
13 provide by supplementation?

14 EXAMINER McMILLAN: No. He needs to do
15 that. There is no way to tell if it's legitimate or
16 not.

17 MR. McMILLAN: Apologies. I missed that.
18 We will supplement accordingly.

19 EXAMINER McMILLAN: Do you have anything?

20 EXAMINER BROOKS: No. Geology is not in my
21 field.

22 EXAMINER McMILLAN: It was last hearing
23 (laughter).

24 EXAMINER BROOKS: Sometimes it has to be,
25 but usually it's not.

1 MR. McMILLAN: Moving on to Devon's
2 affidavit of Sheldon Moos. That's not a typo. That is
3 his name, M-O-O-S.

4 Mr. Moos is employed at Devon as a
5 completions engineer. He's familiar with the
6 application and the engineering involved. He has not
7 previously been qualified as an expert before the
8 Division and has set forth his credentials in paragraphs
9 4A and 4B. He holds a Bachelor's in Petroleum
10 Engineering from Texas A&M, awarded in 2012. He
11 immediately began employment at Devon as an operations
12 engineer. Since May of 2018, he has been working in the
13 Gaucho area, Lea County, New Mexico, and he has
14 experience in well remediation, stimulation, design and
15 modeling, production evaluation and formation
16 communication and interaction. Obviously, it's that
17 last piece that really comes in handy here.

18 Paragraph five of Mr. Moos' affidavit lays
19 out the broad strokes of the stimulation design for the
20 proposed Chiles well. It's a slick water-based fluid
21 with a sand ramp of 100 mesh and 40/70 mesh. They're
22 going to be pumping approximately a gazillion --
23 18,300,000 pounds of proppant and 16 million gallons of
24 completion fluid per well. The design is intended to
25 control height and maximize fracture half-length.

1 However -- and here's the key -- paragraph
2 six. "Devon's completion team expects the Chiles well
3 to stay contained and produce primarily from the 3rd
4 Bone Spring Sand due to the following reasons."
5 Mr. Moos is looking at the gross height between the 3rd
6 Bone Spring Sand and the producing 2nd Bone Spring Sand.
7 It's about 700 feet. And the conductive frac height,
8 with respect to the 3rd Bone Spring Sand, the Chiles
9 well, is not expected to exceed plus or minus 200 feet.
10 Mr. Moos has run stimulation models suggesting that the
11 limestone formation separating the 2nd and 3rd Bone
12 Spring Sand will act to baffle and isolate the
13 formations.

14 And finally, Devon is not aware of any
15 lasting communication effects between these zones in the
16 immediate area. Mr. Moos has attached an Exhibit A
17 showing exactly that.

18 At this point, perhaps -- well, let me just
19 wrap it up, and then I'll take questions.

20 In light of his investigation, Mr. Moos has
21 concluded that the 2nd Bone Spring Sand and the 3rd Bone
22 Spring will be isolated from each other in the proposed
23 unit and are not within hydraulic fracture
24 communication. He concludes that the granting of the
25 application is in the interest of conservation, the

1 prevention of waste and the protection of correlative
2 rights and that he prepared the affidavit and the
3 exhibit.

4 Mr. Examiners, questions?

5 EXAMINER McMILLAN: Okay. The first
6 comment is he needs to be careful. If you come over
7 here to 6B, baffle --

8 MR. McMILLAN: Yes.

9 EXAMINER McMILLAN: -- baffle and barrier
10 are two different things.

11 MR. McMILLAN: Aha.

12 EXAMINER McMILLAN: Baffle is a -- is a
13 barrier of limited extent. A barrier has a large area.
14 That means you can go around the baffle. Whereas, you
15 can't go around a barrier. You've got to change that.

16 MR. McMILLAN: Okay. Well, assuming that
17 it's a correct statement, we will do exactly that.

18 EXAMINER McMILLAN: It is a correct
19 statement.

20 MR. McMILLAN: No. I'm not calling into
21 question your analysis there or your definition there.
22 We will confirm it is, in fact, a barrier and not a mere
23 baffle.

24 EXAMINER McMILLAN: Yes. It makes a
25 difference.

1 MR. McMILLAN: Great. Thank you.

2 EXAMINER McMILLAN: Okay. Do you have
3 anything.

4 EXAMINER BROOKS: No.

5 EXAMINER McMILLAN: Okay.

6 MR. McMILLAN: The final affidavit we'll be
7 looking at is my Affidavit of Notice noticing up the
8 folks -- the unjoined interest owners for this hearing.
9 Let's see. Exhibit A to my affidavit shows that it's
10 just Apache Corporation, and both the notice letter sent
11 to Apache and -- we did belt and suspenders here. We
12 also published legal notice, but the bottom line is we
13 did receive back a signed -- looks like we received back
14 a green card from Apache.

15 EXAMINER McMILLAN: So it was done out of
16 an abundance of caution?

17 MR. McMILLAN: Exactly. Exactly.

18 EXAMINER McMILLAN: Okay.

19 MR. McMILLAN: And that would complete my
20 presentation here.

21 I would move for the admission -- I
22 apologize they're not labeled as exhibits, but I'd move
23 for the admission of the affidavits of Katie Dean,
24 Kenton Shaw and Sheldon Moos and my Affidavit of Notice.

25 (Devon Energy Production Company, LP

1 Exhibit Numbers 1 through 4 are offered
2 into evidence.)

3 MR. McMILLAN: I have a number of notes
4 here, things I will go back to my client to get sorted
5 out. It's my understanding that with respect to the
6 geology, we need to change Exhibits A and C to represent
7 the wells in the vicinity. We will look into the baffle
8 versus barrier issue and confirm that it is a barrier
9 and change the affidavit accordingly supplementally.

10 I'm sorry. Was there anything with respect
11 to land that would helpful?

12 EXAMINER BROOKS: I think there will be. I
13 want to clarify that the interests are or are not
14 identical between these two wells, but I don't know what
15 the affidavit says about it except generally now. So
16 I'll need to look specifically at the affidavit before I
17 indicate what my question exactly is.

18 MR. McMILLAN: Okay. In the interim, would
19 a statement that just sets forth the respective
20 interests in the two wells be of assistance to you?

21 EXAMINER BROOKS: That would probably deal
22 with the problem.

23 MR. McMILLAN: Let's do that.

24 EXAMINER McMILLAN: Let's do one more
25 thing. Let's call the affidavit of Katie Dean Exhibit

1 1. Call this one Exhibit 1. And call Kenton Shaw 2,
2 and call Sheldon's 3 and yours 4.

3 MR. McMILLAN: Okay. With that naming
4 convention, I would move the admission of Exhibits 1
5 through 4.

6 EXAMINER McMILLAN: Exhibits 1 through 4
7 may now be accepted as part of the record.

8 (Devon Energy Production Company, LP
9 Exhibit Numbers 1 through 4 are offered and
10 admitted into evidence.)

11 MR. McMILLAN: Great. I will get you the
12 supplemental information. Otherwise, I will ask this
13 case be taken under advisement pending my submissions.

14 EXAMINER McMILLAN: Case Number 20085 shall
15 be taken under advisement.

16 MR. McMILLAN: Fantastic. Thank you.

17 (Case Number 20085 concludes, 3:52 p.m.)

18 (Recess, 3:52 p.m. to 3:54 p.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, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

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

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

20 DATED THIS 18th day of December 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25