

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. 20154
COMPANY, L.P. FOR A STANDARD HORIZONTAL
SPACING AND PRORATION UNIT AND COMPULSORY
POOLING, LEA COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

February 21, 2019

Santa Fe, New Mexico

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

 This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, Terry Warnell, Technical Examiner, and
David K. Brooks, Legal Examiner, on Thursday, February
21, 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.

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

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

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FOR INTERESTED PARTY CONOCOPHILLIPS COMPANY:

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1 (3:22 p.m.)

2 EXAMINER McMILLAN: So I'm on page 3 now.
3 I'm on Case 20154.

4 MS. CALLAHAN: That's me.

5 EXAMINER McMILLAN: Okay.

6 MR. BRUCE: Mr. Examiner, I am entering an
7 appearance in this case for ConocoPhillips Company. I
8 have no witnesses.

9 EXAMINER McMILLAN: This is for Conoco?

10 MR. BRUCE: Uh-huh, ConocoPhillips.

11 EXAMINER McMILLAN: Okay. This is the
12 application of Devon Energy Production Company, L.P. for
13 a standard horizontal spacing and proration unit and
14 compulsory pooling, Lea County, New Mexico.

15 Proceed.

16 MS. CALLAHAN: Candace Callahan appearing
17 on behalf of Devon Energy Production Company, L.P. in
18 Case 20154. This case is being heard for the first time
19 today. Since we understand there is no opposition,
20 we're presenting this case by affidavit. It's a pretty
21 straightforward compulsory pooling case.

22 There are two affidavits for this case.
23 The first is the affidavit of Tim Prout, who is a senior
24 landman for Devon, and he's previously qualified before
25 the Division as an expert in petroleum land matters, and

1 I offer him as such again.

2 EXAMINER McMILLAN: Any objections?

3 MR. BRUCE: No.

4 EXAMINER McMILLAN: So qualified.

5 MS. CALLAHAN: Thank you.

6 In his affidavit, Mr. Prout states Devon is
7 seeking an order pooling all uncommitted mineral
8 interests in the WC-025 G-06 S253206M Bone Spring, pool
9 code 96715, underlying the east half-east half of
10 Sections 16 and 21, Township 25 South, Range 32 East,
11 Lea County, New Mexico.

12 This spacing unit is to be dedicated to the
13 Marwari 28-16 State Fed Com 238H well. There are no
14 depth severances within the Bone Spring Formation, and
15 Mr. Prout states he conducted a diligent search of the
16 public records in the county where the wells are
17 located. He conducted a phone directory and computer
18 search to locate contact information on for parties
19 entitled to notice and mailed all parties well
20 proposals, including an AFE. The estimated cost of the
21 well is set forth in the AFE. He states it is fair and
22 reasonable and is comparable to the cost of other wells
23 of similar depths and lengths drilled in this area of
24 New Mexico.

25 In his opinion, Devon has made a good-faith

1 effort to obtain voluntary joinder of the other working
2 interest owner in the proposed well, who is
3 ConocoPhillips.

4 The producing interval for the well will be
5 orthodox and comply with the Division setback
6 requirements.

7 Devon is requesting overhead and
8 administrative rates of 8,000 a month for drilling and
9 800 a month for producing, which rates, Mr. Prout
10 states, are fair and reasonable, and he asks these rates
11 be adjusted periodically as provided for under the COPAS
12 accounting procedure. Devon also seeks the maximum cost
13 plus 200 percent risk charge to be assessed against any
14 nonconsenting working interest owner and that Devon be
15 designated operator of the well.

16 Attached to Mr. Prout's affidavit are four
17 exhibits. Exhibit A sets forth the working interest
18 ownership within the proposed unit. You'll see that
19 ConocoPhillips Company is the only other working
20 interest owner. And they are -- and Devon is seeking to
21 have them made a pooled party. There are no unleased
22 mineral interests to be pooled, and there are numerous
23 overriding royalty interest owners that Devon seeks to
24 pool.

25 Exhibit B gives an outline of

1 communications between Devon and ConocoPhillips
2 regarding Devon's proposed well in this case, and he
3 states that -- Mr. Prout states a joint operating
4 agreement was provided to ConocoPhillips in October of
5 2018, and he understands it is currently under their
6 review. To date, he's received no request for changes
7 to the JOA.

8 Exhibit C is the C-102 for the proposed
9 Marwari 28-16 State Fed Com 238H well.

10 Exhibit D is a copy of the proposal letter
11 and accompanying AFE that Mr. Prout sent to
12 ConocoPhillips Company. The date on the letter is
13 October 11th, 2018. Mr. Prout states that it's his
14 opinion that the granting of this application will be in
15 the interest of conservation and the prevention of
16 waste.

17 I offer the affidavit of Mr. Prout, which
18 is Tab 1, together with his exhibits, which are Tabs A
19 through D, into evidence.

20 MR. BRUCE: No objection.

21 EXAMINER McMILLAN: The affidavit of the
22 landman and Exhibits A through D may now be accepted as
23 part of the record.

24 (Devon Energy Production Company, L.P.

25 Exhibit Number 1 and A through D are

1 offered and admitted into evidence.)

2 MS. CALLAHAN: Thank you.

3 I'd like to look now to the affidavit of
4 Kirk Malinowsky.

5 EXAMINER McMILLAN: Okay. I have a
6 question. My question is: On the C-102, are you going
7 to drill -- I'm looking at Exhibit C.

8 MS. CALLAHAN: Yes.

9 EXAMINER McMILLAN: Are you ultimately
10 going to drill at 100 feet, or are you going to drill at
11 330?

12 MS. CALLAHAN: Well, I would expect, since
13 it's a Bone Spring, that it would be 100.

14 EXAMINER McMILLAN: Well, this says "330."
15 So I assume you'll update the C-102.

16 MS. CALLAHAN: Okay. I'll be sure they do
17 that.

18 EXAMINER McMILLAN: Okay. And there are
19 unlocatable interests, correct?

20 MS. CALLAHAN: I believe we're getting to
21 that. Let's see. Let me -- I believe there were
22 because we published. And the last page of Exhibit 3A,
23 the very last page of it, it lists -- it gives the
24 status of the return receipts, and it also, for our
25 purposes in this case, identifies all the parties to be

1 pooled. There are 12 overriding royalty interests. One
2 was unlocatable. And four, they had addresses for, but
3 the return-receipt cards -- the packages were returned.
4 So they didn't get delivered. So on Tab 4, you'll see
5 an Affidavit of Publication. The copy we received and
6 the copy you have before you is a little difficult to
7 read. It does list all of the parties that we sent
8 notice to.

9 EXAMINER McMILLAN: Okay.

10 MS. CALLAHAN: So attached to
11 Mr. Malinowsky's affidavit, there are three exhibits,
12 which we've tabbed as A, B and C.

13 Exhibit A is a structure map for the 2nd
14 Bone Spring

15 And Exhibit B is the stratigraphic cross
16 section for the 2nd Bone Spring. It does identify the
17 producing zone.

18 And Exhibit C is the gross interval isopach
19 map for the 2nd Bone Spring.

20 Mr. Malinowsky testifies that based on his
21 study, he concludes the horizontal spacing unit is
22 justified from a geologic standpoint. There are no
23 geologic impediments or faulting that will interfere
24 with horizontal development. Each quarter-quarter
25 section in the unit will contribute more or less equally

1 to production and that the preferred well orientation in
2 this area is north to south because the maximum
3 horizontal stress orientation is more or less east to
4 west.

5 He concludes with his opinion that granting
6 the application will be in the interest of conservation
7 and the prevention of waste.

8 And then as I pointed out before, Exhibit 3
9 is my Affidavit of Notice. The last page of that
10 Affidavit of Notice, as I said, also lists all the
11 parties to be pooled.

12 And Exhibit 4 is the Affidavit of
13 Publication.

14 EXAMINER McMILLAN: Okay. Do you have --
15 okay. So Exhibit 2, you want that accepted as part of
16 the record?

17 MS. CALLAHAN: Yes, please.

18 EXAMINER McMILLAN: Objections?

19 MR. BRUCE: No objection.

20 EXAMINER McMILLAN: Exhibit 2 may now be
21 accepted as part of the record --

22 MS. CALLAHAN: And the exhibits, which are
23 A through C.

24 EXAMINER McMILLAN: -- and Exhibits A
25 through C may be accepted as part of the record.

1 (Devon Energy Production Company, L.P.
2 Exhibit Number 2 and A through C are
3 offered and admitted into evidence.)

4 MS. CALLAHAN: And I'd also like to offer
5 Exhibits 3 and 4.

6 EXAMINER McMILLAN: Any objection?

7 MR. BRUCE: No objection.

8 EXAMINER McMILLAN: Exhibits 3 and 4 may
9 now be accepted as part of the record.

10 (Devon Energy Production Company, L.P.
11 Exhibit Numbers 3 and 4 are offered and
12 admitted into evidence.)

13 MS. CALLAHAN: With that, I ask that Case
14 20154 be taken under advisement.

15 EXAMINER McMILLAN: Okay. Case Number
16 20154 shall be taken under --

17 Any objections to that?

18 MR. BRUCE: No.

19 EXAMINER McMILLAN: Case 20154 may now be
20 taken under advisement.

21 MS. CALLAHAN: Thank you.

22 (Case Number 20154 concludes, 3:36 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 27th day of March 2019.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

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