

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:

CASE NOS: 22884

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

REPORTER'S TRANSCRIPT OF VIRTUAL PROCEEDINGS
EXAMINER HEARING
JULY 7, 2022
SANTA FE, NEW MEXICO

This matter came on for virtual hearing before
the New Mexico Oil Conservation Division, HEARING OFFICER
WILLIAM BRANCARD and TECHNICAL EXAMINER DEAN McCLURE on
Thursday, July 7, 2022, through the Webex Platform.

Reported by: PAUL BACA PROFESSIONAL COURT REPORTERS
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A P P E A R A N C E S

DARIN SAVAGE
ABADIE & SCHILL
214 McKenzie Street
Santa Fe, New Mexico 87501

I N D E X

CASE CALLED	
TAKEN UNDER ADVISEMENT	17
REPORTER CERTIFICATE	18

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

	Admitted
Exhibits and Attachments	17

1 HEARING EXAMINER BRANCARD: Okay. So with that
2 we are looking at Item 66, Case 22884, Devon Energy
3 Production.

4 MR. SAVAGE: Good morning, Mr. Hearing Examiner,
5 Mr. McClure, Darin Savage with Abadie & Schill appearing on
6 behalf of Devon Production Company LLC.

7 HEARING EXAMINER BRANCARD: Are there any other
8 interested persons for Case 22884?

9 (No audible response.)

10 HEARING EXAMINER BRANCARD: Hearing none, you may
11 proceed.

12 MR. SAVAGE: Thank you. This Case Number 22884
13 covers lands in Sections 26 and 35, Township 22 South, Range
14 33 East, and in Section 2 in Township 23 South, Range 33
15 East in Lea County, New Mexico.

16 The landman in this case, Matthew Hoops, has not
17 testified previously before the Division. Mr. Hoops
18 received a bachelor's degree in energy management and
19 finance with emphasis in energy from the University of
20 Oklahoma in 2011. He has worked for Devon for a year and a
21 half and started working in New Mexico within the past year.

22 His resume is attached to his affidavit for
23 Division's review and consideration. We ask that he be
24 accepted into the record as an expert witness in petroleum
25 land matters.

1 HEARING EXAMINER BRANCARD: Thank you. So
2 accepted.

3 MR. SAVAGE: The geologist is Thomas Peryman who
4 has testified as an expert witness and his credentials have
5 been accepted as a matter of record.

6 In Case Number 22884 Devon seeks an order
7 establishing a nonstandard 679.58 acre, more or less,
8 spacing unit comprised of the SW SE of Section 26 and the
9 E/2 of Section 35 and 2, and pooling in the Bone Spring
10 formation all overriding royalty interest owners and one
11 record title owner who does not own working interest. So we
12 are only interested in pooling the overriding owners and
13 record title owner. Devon owns 100 percent interest in this
14 proposed unit.

15 The unit will be dedicated to three initial
16 wells, the Serpentine 2-35 State Fed Com 26H well, the
17 Serpentine 2-35 State Fed Com 30H well, and the Serpentine
18 2-35 -- I apologize -- let me make sure. So the
19 Serpentine, the 30H well is Serpentine 2-26 State Fed Com,
20 the 30H well, so it cut short a little bit before it goes
21 into the -- it actually send to the 26.

22 Orientation of the unit is stand up -- and I
23 believe there is one more well, Serpentine 2-35 State Fed
24 Com 31H well. Orientation of the unit is stand up south to
25 north, and also requirements under statewide rules are met.

1 Since Devon is requesting a non-standard
2 horizontal spacing unit, Devon has applied administratively
3 for approval of the non-standard unit and its application is
4 currently under review with the Division.

5 Mr. Hoops Exhibit A includes his landman
6 affidavit, the C-102s, the ownership breakdown. Devon came
7 into this project owning 100 percent working interest in the
8 proposed unit that includes only federal and state lands,
9 therefore, Devon submits there was no need for a well
10 proposal or chronology of contacts as exhibits.

11 Mr. Peryman's Exhibit B for this case includes
12 his geology affidavit, along with the five standard geology
13 exhibits that showed potential for development, good
14 potential for development as described in his affidavit.

15 Exhibit C provides the affidavit of notice for
16 mailing, the publication notice, notice was both timely sent
17 and published.

18 Mr. Hearing Examiner, and Mr. McClure, if I could
19 direct your attention to Exhibit C-2 the mail in report, you
20 will note BLM and New Mexico State Land Office were provided
21 notice as is customary when public lands are involved,
22 however, the designation of these agencies as working
23 interest owners is a scribner's error as they are -- lessors
24 and royalty interested and we would be glad to submit a
25 revised Exhibit C-2 to correct this oversight.

1 Mr. Hoops and Mr. Peryman affirm that the
2 approval of this application is in the best interest of
3 conservation, protection of correlative rights and the
4 prevention of waste and will prevent drilling of unnecessary
5 wells.

6 At this time I move that Exhibits A, B and C and
7 all sub exhibits be accepted into the record for Case 22884
8 and that this case be taken under advisement. I'm available
9 to field any questions you may have.

10 HEARING EXAMINER BRANCARD: Thank you.
11 Questions, Mr. McClure?

12 TECHNICAL EXAMINER McCLURE: Yes, Mr. Brancard, I
13 do have a question here. I guess, what is the intent for
14 this -- is it the 30H well? I mean, it quite literally
15 almost looks -- I don't know what a directional survey is,
16 but it looks like they end up taking a bend and then going
17 straight. Is it accurately depicted to what their intent is
18 or is it going to be linear over there?

19 MR. SAVAGE: One thing, it will meet the setback
20 requirements as it takes that bend. It looks like -- I
21 think that's a general, generally accurate representation,
22 but, you know, the graphic versus the actual execution of
23 it, you know, there will be some form of -- there will be
24 some form of movement towards that SW SE quarter in Section
25 26.

1 So I would assume it would be the most efficient
2 move in that direction to penetrate that quarter-quarter
3 section. We did the best we could to represent that in the
4 graphic.

5 TECHNICAL EXAMINER McCLURE: I guess my next
6 question, Mr. Savage, I guess, is there a reason that we are
7 extending a well into that quarter-quarter. I apologize if
8 you mentioned it and I didn't catch it. Go ahead.

9 MR. SAVAGE: As I understand, you know, we want
10 to make sure that we penetrate all the tracts for optimal
11 development, but those those are continuous tracts, even
12 though it's a non-standard unit, those are, you know,
13 continuous tracts for full development of that proposed
14 unit.

15 You also notice that even in the non-standard
16 unit, proximity tracts are not usually applicable within
17 that category, but they can provide guidance for best
18 development, optimal development and respecting correlative
19 rights.

20 And we also positioned another well, if this were
21 a standard unit, it would have been a proximity -- it would
22 have qualified as a proximity well. So to answer your
23 question, I believe Devon wanted to maximize the -- I mean
24 optimize the location of wells and penetrate that SW SE
25 quarter-quarter section. Apparently they wanted to use that

1 middle well to do that.

2 TECHNICAL EXAMINER McCLURE: I guess, to give you
3 a little more context to why I'm asking, I guess I'm
4 wondering, is there active wells in that Section 6 that's
5 excluding that quarter-quarter. I'm curious it's all like
6 the same lease across there, and I'm just trying to
7 understand what we are doing here, whether we are going to
8 have three-quarter length area that doesn't have a well in
9 it or what it's looking like.

10 MR. SAVAGE: In the W/2 there are some existing
11 wells that account for those, and I believe that they did
12 that to the best of their ability. The SE/4 of Section 26,
13 you know, we would have preferred to been able to do a
14 standard unit that would have included the SE SE/4 --
15 quarter-quarter section, but BLM has restrictions on the
16 SE/4.

17 And I believe that's based on wildlife and
18 habitat issues, so there's restrictions, and they will not
19 lease those surrounding quarter-quarter sections. I hope
20 that -- does that address your question about why we have
21 that quarter-quarter section sticking up there as a sole
22 tract that we are trying to include in, in the unit?

23 TECHNICAL EXAMINER McCLURE: Well, I guess maybe
24 my GIF is incorrect here, but it's indicating here it's the
25 exact same federal lease for all of Section 6 and it

1 actually extends into Section 7 there.

2 MR. SAVAGE: Section 7 --

3 MR. McCLURE: So it's -- I'm sorry, go ahead.

4 MR. SAVAGE: Section 26, Section 6.

5 TECHNICAL EXAMINER McCLURE: Oh, I apologize, I
6 apologize. Actually, I was looking at the -- let me get
7 reoriented here. I had the wrong -- I was looking at the
8 wrong -- 22 South, 33 East. Okay, yeah, this does make more
9 sense now that I'm looking at the right section, it makes
10 more sense than what I was looking. There is a federal
11 lease, this just extends into that quarter-quarter right
12 there. Is that federal ownership in the rest of that
13 quarter section?

14 MR. SAVAGE: That is correct.

15 TECHNICAL EXAMINER McCLURE: Is that unleased
16 acreage?

17 MR. SAVAGE: Unleased and it's restricted. We
18 talked to the BLM pretty extensively and tried to get an
19 idea of what kind of time lines, and we couldn't get
20 anything -- any feedback in that regard.

21 So we would have preferred, like I said, we would
22 have preferred to have included the whole SE/4 of Section
23 26, but that won't a possibility.

24 TECHNICAL EXAMINER McCLURE: Now, I guess, to
25 your understanding, the restrictions are surface use, I'm

1 assuming. Did they indicate to you they are not going to
2 lease that acreage?

3 MR. SAVAGE: That is correct. It is a surface
4 restriction, but they restricted the whole leasing of the
5 subsurface minerals as well.

6 TECHNICAL EXAMINER McCLURE: So to your
7 understanding, that will not be leased at any point at least
8 in the near future then?

9 MR. SAVAGE: Yes, that was the indication and
10 feedback that we received on that, yes, that is correct.

11 TECHNICAL EXAMINER McCLURE: Thank you, Mr.
12 Savage. Mr. Brancard, I have no more questions.

13 HEARING EXAMINER BRANCARD: Trying to get a grip
14 of where your wells are going here, Mr. Savage.

15 MR. SAVAGE: I hope they are going to good
16 places.

17 HEARING EXAMINER BRANCARD: I think that what Mr.
18 McClure was looking at that jog that the 30H takes.

19 MR. SAVAGE: Yes, let me --

20 HEARING EXAMINER BRANCARD: According to C-102
21 it's not quite as significant.

22 MR. SAVAGE: I believe it's an efficient
23 curvature trying to maintain as much of a, you know, the
24 linear path and then veering over as needed. That's my --
25 that's my sense. They did assure me that they were --

1 during that -- as they pass that corner, the right corner of
2 the SW SE bottom right, they assured me that they were
3 maintaining the proper setback distance on that.

4 HEARING EXAMINER BRANCARD: What's confusing
5 though is 26H, when I look at the C-102, it looks like it is
6 inside the E/2 of the E/2, not the W/2 of the E/2. If you
7 look at the first take point and the last take point.

8 MR. SAVAGE: You know, that would have to be a
9 mistake, I would assume, yeah, I hope that would be, but --
10 I'm sorry. I'm sorry. Okay, yeah, okay.

11 HEARING EXAMINER BRANCARD: 26H, which on your
12 little color chart shows it as being the well --

13 MR. SAVAGE: Yeah, let me --

14 HEARING EXAMINER BRANCARD: So W/2 of the E/2.

15 MR. SAVAGE: That's correct. The 30H is the one
16 that goes up into Section 26. This, this one stops before
17 26 -- 26H stops before 26, and it looks like -- that is
18 the -- that is the proximity -- that would be the one that
19 would qualify as the proximity well if there was still one
20 needed.

21 HEARING EXAMINER BRANCARD: Right. But if you
22 look at 26H on the color track, with the color, the cartoon
23 there --

24 MR. SAVAGE: Yeah, hold on. I'm flipping through
25 here.

1 HEARING EXAMINER BRANCARD: Page 22 of your --

2 MR. SAVAGE: That is correct.

3 HEARING EXAMINER BRANCARD: It does appear to be
4 in the W/2 of the E/2.

5 MR. SAVAGE: Yeah, you know, I think --

6 HEARING EXAMINER BRANCARD: When you look at the
7 C-102, the first take point and last take point are --

8 MR. SAVAGE: Yes, that is -- that is not an
9 accurate -- the cartoon is not an accurate representation,
10 it is a general schematic to give an idea of the direction
11 of the wells. I can revise that.

12 HEARING EXAMINER BRANCARD: Well, I'm just
13 concerned you have two wells that appear to have the same
14 first take point and then one crosses the other at some
15 point.

16 MR. SAVAGE: Yes, that is --

17 TECHNICAL EXAMINER McCLURE: Not first take
18 point, right, Mr. Brancard.

19 HEARING EXAMINER BRANCARD: I'm looking at the
20 take point.

21 TECHNICAL EXAMINER McCLURE: You are looking at
22 the take point.

23 HEARING EXAMINER BRANCARD: Looking at the first
24 take point for 26H and 30H and they are almost identical.

25 MR. SAVAGE: Well, they are different depths.

1 HEARING EXAMINER BRANCARD: That could be the
2 answer.

3 MR. SAVAGE: Yes. So the 26H -- the 30H has a
4 vertical depth of 11,000, and then what was the -- the two
5 wells -- I'm sorry, Mr. Brancard, what was the other well
6 that you are concerned about?

7 HEARING EXAMINER BRANCARD: The 30H, 26H and 30H.

8 MR. SAVAGE: 30H, and that has a total vertical
9 depth of 12,050, so they are at different depths.

10 HEARING EXAMINER BRANCARD: Okay.

11 MR. SAVAGE: And I think that would address that,
12 as you point out.

13 TECHNICAL EXAMINER McCLURE: Mr. Brancard?

14 MR. SAVAGE: Go ahead, Mr. McClure.

15 TECHNICAL EXAMINER McCLURE: The only thing I was
16 going to mention, I was going to tell Mr. Brancard I do have
17 another question for you, Mr. Savage. I forgot to mention
18 before, just to confirm you have a pool code listed as 7320
19 in the checklist. It's not in the C-102, it is correct that
20 that is the pool, 7320, to your understanding?

21 MR. SAVAGE: Yes. I'm looking in the affidavit
22 here. I believe that pool code is correct that we provided.

23 TECHNICAL EXAMINER McCLURE: Okay, thank you.

24 MR. SAVAGE: I'm trying to flip through this PDF,
25 and it's not being very friendly to me.

1 TECHNICAL EXAMINER McCLURE: Yeah, I think there
2 is some notes or comments on them, and that's making it lag
3 every time you go over the C-102s.

4 MR. SAVAGE: Mr. Brancard, the C-102s would be
5 accurate as far as the schematic with -- with the attempt to
6 provide a representation.

7 HEARING EXAMINER BRANCARD: Yeah, I'm more
8 concerned actually with the C-102. The other concern I have
9 is with the 30H well. Okay? When it does that jog, is it
10 now too close to that missing quarter-quarter section?

11 MR. SAVAGE: Not --

12 HEARING EXAMINER BRANCARD: You now have a
13 non-standard location here?

14 MR. SAVAGE: In terms of like does violate the
15 setback?

16 HEARING EXAMINER BRANCARD: Yes.

17 MR. SAVAGE: They had assured me that it does not
18 on that, they assured me that respects the setback as it
19 makes that curvature. So I -- if you want, I can try to
20 get further detail and information on that from Devon to
21 provide assurance on that, I believe I can do that, but
22 that's the information I received from Devon as we drafted
23 these exhibits.

24 HEARING EXAMINER BRANCARD: All right. So if I
25 understand, the non-standard spacing unit process that you

1 have undertaken is that you have submitted an application
2 for hearing that says it includes approval of a non-standard
3 spacing unit. However, you have said today that you are
4 also pursuing administratively the approval of a
5 non-standard spacing unit.

6 MR. SAVAGE: We are. We were asking the Division
7 to acknowledge that the need for a non-standard spacing unit
8 in this application, and we hope that the process to be
9 completed and confirmed by the -- administratively by the
10 application to the Division that's under review.

11 HEARING EXAMINER BRANCARD: Okay. So that's
12 means we don't need to ask you about questions about notice,
13 et cetera, because that's being handled administratively?

14 MR. SAVAGE: That is correct, Mr. Brancard.
15 We -- in fact, we -- there is there is two ways to approach
16 notice on that non-standard unit. One would be to notice
17 the parties that were excluded that would otherwise be
18 standard, and we see the SE SE/4 in 26 is going to be
19 excluded, but we took a broader approach and we assumed that
20 Section 35 and 2, E/2 consisted of what would be the
21 standard and the additional quarter-quarter section created
22 non-standard, so we noticed everybody surrounding the
23 adjacent -- all adjacent tracts around the unit, the
24 non-standard unit. So we believe we went overboard on the
25 scope to ensure notice.

1 HEARING EXAMINER BRANCARD: All right. But that,
2 the important point is the evidence of that is not before us
3 today.

4 MR. SAVAGE: That is correct. We would like to
5 rely on the administrative process to consummate that.

6 HEARING EXAMINER BRANCARD: Okay. Well, maybe
7 you can use that process then to make sure you don't have a
8 non-standard location.

9 MR. SAVAGE: Okay. We will do that. That would
10 be great. Thank you.

11 HEARING EXAMINER BRANCARD: Any other questions,
12 Mr. McClure?

13 TECHNICAL EXAMINER McCLURE: I have no questions
14 at this time anymore. Thank you, Mr. Brancard.

15 HEARING EXAMINER BRANCARD: All right. With
16 that, are there any other interested persons for Case 22884?

17 (No audible response.)

18 HEARING EXAMINER BRANCARD: Hearing none, the
19 exhibits in 22884 will be admitted into the record and the
20 case will be taken under advisement. Is there any other
21 information we needed, Mr. McClure?

22 TECHNICAL EXAMINER McCLURE: I don't think so.
23 If we were satisfied -- or if you were satisfied of it being
24 taken care of administratively.

25 HEARING EXAMINER BRANCARD: We will assume that

1 the issues related to non-standard spacing units and any
2 possible non-standard location will be addressed
3 administratively.

4 MR. SAVAGE: We will do that. Thank you,
5 Mr. Brancard.

6 HEARING EXAMINER BRANCARD: Thank you.

7 (Exhibits admitted.)

8 (Taken under advisement.)

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1 STATE OF NEW MEXICO
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REPORTER'S CERTIFICATE

I do hereby certify that I reported the foregoing virtual proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings to the best of my ability.

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.

I FURTHER CERTIFY that the Virtual Proceeding was of poor to good quality.

Dated this 7th day of July 2022.

/s/ Irene Delgado

Court Reporter
License Expires: 12-31-22