

1 STATE OF NEW MEXICO
 2 ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
 3 OIL CONSERVATION DIVISION
 4 IN THE MATTER OF THE HEARING CALLED
 5 BY THE OIL CONSERVATION DIVISION FOR
 6 THE PURPOSE OF CONSIDERING:
 7 APPLICATION OF DEVON ENERGY PRODUCTION
 8 COMPANY, LP, FOR SPECIAL POOL RULES
 9 FOR THE BRINNINSTOOL-BONE SPRING POOL, Case 15438
 10 LEA COUNTY, NEW MEXICO.

ORIGINAL

11 APPLICATION OF DEVON ENERGY PRODUCTION
 12 COMPANY, LP, FOR SPECIAL POOL RULES
 13 FOR THE TRIPLE X-BONE SPRING POOL, Case 15439
 14 LEA COUNTY, NEW MEXICO.
 15 APPLICATION OF DEVON ENERGY PRODUCTION
 16 COMPANY, LP, FOR SPECIAL POOL RULES
 17 FOR THE CRUZ-BONE SPRING POOL, Case 15440
 18 LEA COUNTY, NEW MEXICO.

19 REPORTER'S TRANSCRIPT OF PROCEEDINGS
 20 EXAMINER HEARING
 21 FEBRUARY 4, 2016
 22 Santa Fe, New Mexico

23 BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 24 SCOTT DAWSON, EXAMINER
 25 DAVID BROOKS, COUNSEL FOR THE OCD

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18 This matter came on for hearing before the
 19 New Mexico Oil Conservation Division, William V. Jones,
 20 Chief Examiner, Scott Dawson, Examiner, and David
 21 Brooks, Counsel for the OCD, on February 4, 2016, at the
 22 New Mexico Energy, Minerals, and Natural Resources
 23 Department, Wendell Chino Building, 1220 South St.
 24 Francis Drive, Porter Hall, Room 102, Santa Fe, New
 25 Mexico.

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12 I N D E X

13 CASE NUMBERS 15438, 15439, and 15440 CALLED

14 DEVON ENERGY PRODUCTION COMPANY, LP
 15 CASE-IN-CHIEF:

16 WITNESS CAROL GLASS

	Direct	Redirect	Further
17 By Mr. Bruce	6		

18 EXAMINATION

19 Examiner Dawson 10

20 Examiner Jones 11

21

22 WITNESS STEVEN SCHWEGAL

	Direct	Redirect	Further
23 By Mr. Bruce	17		

24 EXAMINATION

25 Examiner Dawson 23

Examiner Jones 26

1 WITNESS JARON LANG

2

3 By Mr. Bruce

Direct	Redirect	Further
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Examiner Dawson

EXAMINATION
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Examiner Jones

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Mr. Brooks

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Reporter's Certificate

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

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1 (Time noted 8:36 a.m.)

2 EXAMINER JONES: Mr. Bruce, I apologize. I
3 hadn't asked if you were ready to proceed with the three
4 cases from Devon.

5 MR. BRUCE: I am.

6 EXAMINER JONES: Okay. Should they be
7 called separately?

8 MR. BRUCE: Together.

9 EXAMINER JONES: Together.

10 At this time we are going to call cases
11 15437, 15438, and 15439 -- I'm sorry. I retract that.

12 We are calling cases 15438, 15439, and
13 15440. Each case is the application of Devon Energy
14 Production Company, LP, for special pool rules.

15 Case 15438 is for the Brinninstool-Bone
16 Spring Pool in Lea County, New Mexico. Case 15439 is
17 for the Triple X-Bone Spring Pool, Lea County, New
18 Mexico. Case 15440 is for the Cruz-Bone Spring Pool,
19 Lea County, New Mexico.

20 In each case, call for appearances.

21 MR. BRUCE: Mr. Examiner, Jim Bruce from
22 Santa Fe representing the applicant. I have three
23 witnesses.

24 MR. FELDEWERT: Mr. Examiner, Michael
25 Feldewert with the Santa Fe office of Holland and Hart

1 appearing on behalf of COG Operating, LLC, in case No.
2 15439. And I have no witnesses here today.

3 EXAMINER JONES: Any other appearances?

4 (No response.)

5 EXAMINER JONES: Will the witnesses please
6 stand and be sworn in.

7 (WHEREUPON, the presenting witnesses
8 were administered the oath.)

9 EXAMINER JONES: Mr. Bruce, go ahead.

10 CAROL GLASS

11 having been first duly sworn, was examined and testified
12 as follows:

13 DIRECT EXAMINATION

14 By MR. BRUCE:

15 Q. Will you please state your name and city of
16 residence?

17 A. My name is Carol Glass. I am from Oklahoma City,
18 Oklahoma.

19 Q. Who do you work for and in what capacity?

20 A. I am a landman at Devon Energy.

21 Q. And have you previously testified before the
22 Division?

23 A. No, I have not.

24 Q. Would you please describe your educational and
25 employment background for the Examiner.

1 A. I graduated from the University of Oklahoma in
2 1980 with a bachelor's degree in petroleum land
3 management.

4 I was employed as a landman at Oxy from 1980
5 through 1997. And from 1997 through 2014, I worked for
6 various oil and gas companies as a landman.

7 I have been employed at Devon since January of
8 2015.

9 Q. And does your area of responsibility at Devon
10 include this portion of southeast New Mexico?

11 A. Yes, it does.

12 Q. And are you familiar with the land matters
13 involved in these applications?

14 A. Yes, I am.

15 MR. BRUCE: Mr. Examiner, I tender Ms. Glass
16 as an expert petroleum landman.

17 EXAMINER JONES: Any objections? Any
18 objections, Mr. Feldewert?

19 MR. FELDEWERT: No.

20 EXAMINER JONES: Ms. Glass is qualified as
21 an expert in petroleum land matters.

22 Q. Could you please identify Exhibit 1 for
23 Mr. Examiner.

24 A. Exhibit 1 is a Midland Map Company land plat,
25 highlighting the acreage of the three pools for which

1 we're seeking special pool rules. And the second page
2 is the legal description of each of those pools.

3 Q. Could you please identify Exhibit 2.

4 A. Exhibit 2 sets forth the special rules which
5 Devon seeks for all three pools. Devon is requesting a
6 standard oil spacing and proration unit of 320 acres of
7 horizontal wells; wells to be located no closer than 330
8 feet from the exterior boundary of each unit and with
9 interior setbacks of 10 feet from the quarter, quarter
10 section line.

11 We are also requesting special depth bracket
12 allowables of 6,400 barrels of oil per day for a
13 standard well unit and a GOR of 5,000 cubic feet of gas
14 per barrel of oil.

15 Q. And the other witnesses will discuss the reason
16 for these special pool rules, including multiple wells
17 in a well unit, correct?

18 A. Correct.

19 Q. What are Exhibits 3, 4, and 6?

20 A. We were required to give notice of the
21 applications to operators of active Bone Spring wells
22 within a mile of each of these pools.

23 Exhibit 3 pertains to the Brinninstool pool.

24 Exhibit 4 pertains to the Triple X pool. And Exhibit 5
25 pertains to the Cruz pool.

1 Q. And what are Exhibit 6 and 7?

2 A. We operate the Black Mamba wells in section 15 of
3 23 south and 33 east. We also operate the Thistle Unit.
4 The names listed on Exhibit 6 are the royalty owners and
5 overriding royalty owners of the Black Mamba wells. And
6 on Exhibit 7 are the working interest owners, royalty
7 owners, and overriding royalty owners in the Thistle
8 unit.

9 Q. And, of course, Devon isn't listed but Devon is a
10 working interest owner?

11 A. Correct.

12 Q. Were all of these interest owners notified of
13 this hearing?

14 A. Yes, they were. Exhibit 8 is an affidavit
15 stating so.

16 Q. And have you had contact with any of the interest
17 owners other than the notice letter?

18 A. Yes. I received phone calls from a landman at
19 Oxy and a landman at Murchison. They've had questions
20 but no objections.

21 MR. BRUCE: And, Mr. Examiner, Exhibit 9 is
22 superfluous at this point. But I had not received one
23 green card back -- the one from Endurance Resources --
24 until yesterday. So I made this an exhibit simply to
25 show that I had mailed it to the OCD approved address on

1 the operator list.

2 Q. Were Exhibits 1 through 8 prepared by you or
3 under your supervision or compiled from company business
4 records?

5 A. Yes.

6 Q. And is the granting of these applications in
7 the interest of conservation and the prevention of
8 waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I move the
11 admission of Exhibits 1 through 9.

12 MR. FELDEWERT: I have no objection.

13 EXAMINER JONES: Exhibits 1 through 9 are
14 admitted.

15 (Devon Energy Production Company, L.P.,
16 Exhibits 1 through 9 were offered and admitted.)

17 MR. BRUCE: And I have no further questions
18 of the witness.

19 MR. FELDEWERT: Mr. Examiner, I have no
20 questions.

21 EXAMINER JONES: Mr. Dawson.

22 EXAMINATION BY EXAMINER DAWSON

23 EXAMINER DAWSON: In looking at Exhibit 3,
24 4, and 5, some of those -- it looks like that was
25 highlighted, some of the wells in these exhibits. What

1 is the highlight for?

2 THE WITNESS: The highlights were duplicate
3 notifications, because the fields overlap.

4 EXAMINER DAWSON: Okay.

5 THE WITNESS: Or the pools overlap.

6 EXAMINER DAWSON: Okay. I have no further
7 questions. Thank you.

8 EXAMINER JONES: Mr. Brooks.

9 MR. BROOKS: No questions.

10 EXAMINATION BY EXAMINER JONES

11 EXAMINER JONES: Well, I guess, Ms. Glass, I
12 would ask about the existing wells in these pools.

13 You said something that -- they are not on
14 the exhibits, are they? There's no existing wells in
15 these pools -- or are there? -- vertical wells or
16 horizontal wells?

17 THE WITNESS: There are wells in each of the
18 pools, yes.

19 EXAMINER JONES: Okay. So any horizontal
20 wells?

21 THE WITNESS: Yes. We drilled the Black
22 Mamba wells and we also drilled some horizontal wells in
23 the Thistle unit.

24 EXAMINER JONES: So the Thistle unit would
25 be in which pool?

1 THE WITNESS: They are in the Triple X.

2 MR. BRUCE: Right. I believe one of them is
3 placed in the Cruz pool.

4 THE WITNESS: The Cruz, yes. Sorry.

5 MR. BRUCE: Immediately south of the Queen.

6 EXAMINER JONES: Are they producing, already
7 been completed?

8 THE WITNESS: We are in the process of
9 completing those now.

10 EXAMINER JONES: Okay. So the date this
11 would happen, are you looking for a date forward? It's
12 easier for us --

13 THE WITNESS: Oh, yes.

14 EXAMINER JONES: It's hard for us to go back
15 in time...

16 MR. BRUCE: As quickly as possible. I would
17 imagine, if they're completing them now, March 1 would
18 be a prospective date.

19 EXAMINER JONES: I had made promises to you
20 earlier, and I --

21 MR. BRUCE: I wasn't going to raise that.

22 EXAMINER JONES: Well, I wouldn't mind. But
23 you shouldn't have to wait long. But these existing
24 wells, are they spaced on 160s?

25 THE WITNESS: Yes.

1 EXAMINER JONES: So you would want them to
2 be re-spaced on 320?

3 THE WITNESS: Yes.

4 EXAMINER JONES: And the vertical well rules
5 for these pools --

6 MR. BRUCE: We would leave those in place I
7 think for...

8 EXAMINER JONES: Even the allowable?

9 MR. BRUCE: Well, the allowable doesn't
10 matter. But, certainly, we don't want existing vertical
11 wells -- or it's up to the operators.

12 We don't want existing -- other horizontal
13 wells re-spaced unless they seek -- unless the operators
14 seek that, just so that their equities aren't adversely
15 affected.

16 EXAMINER JONES: Other operators with wells
17 within a mile around the pools?

18 MR. BRUCE: Yes.

19 EXAMINER JONES: So does Devon own and
20 operate all the -- at least operate all the wells within
21 these three pools?

22 THE WITNESS: Well, there are other
23 operators.

24 EXAMINER JONES: There are other operators.

25 MR. BRUCE: We will have some maps showing

1 the Devon wells in this area.

2 EXAMINER JONES: Okay. And is this -- these
3 pools are all Bone Spring pools?

4 THE WITNESS: Yes, sir.

5 EXAMINER JONES: That means from the top of
6 the Bone Spring to the bottom is the pool designated
7 pool thickness or pool top and bottom?

8 THE WITNESS: No, that is my understanding.

9 EXAMINER JONES: Are they all formally based
10 on some type well, each one of these three pools, or
11 they just mention Bone Spring?

12 THE WITNESS: The existing pools?

13 EXAMINER JONES: Yes. I can find that out.

14 MR. BRUCE: They cover the entire Bone
15 Spring. They are not limited as to the depth or --

16 EXAMINER JONES: They just say "Bone
17 Spring"?

18 MR. BRUCE: And the applications contain the
19 order numbers.

20 EXAMINER JONES: Okay. The questions you
21 got from Oxy -- which is your old company --

22 THE WITNESS: Yes.

23 EXAMINER JONES: And Murchison, the landman
24 questions, are you willing to talk about those?

25 THE WITNESS: They were just questioning the

1 purpose of this. And I would explain to them, we were
2 seeking the increased allowable and the larger size unit
3 so we would have more flexibility in placing the
4 laterals.

5 EXAMINER JONES: Yes.

6 THE WITNESS: And their question, the
7 landman from Murchison specifically asked about the
8 distance rules, the setback rules. And I explained to
9 her that we would still be required to be 330 feet
10 from the outer boundary, the 10-foot rule applied to
11 the quarter, quarter section. And she was fine with
12 that.

13 EXAMINER JONES: For the surface hole
14 location?

15 THE WITNESS: Yes, sir.

16 EXAMINER JONES: So you formally have in
17 here and advertised for 330-foot setbacks?

18 THE WITNESS: From the outside boundary.

19 EXAMINER JONES: Even though some of the
20 well density testimony in previous hearings for Devon
21 mentioned optimal six wells per section -- which I
22 don't -- I am sure that will come later -- but that
23 would be 440 setbacks, so you still want the flexibility
24 of the 330 setbacks?

25 THE WITNESS: Yes.

1 EXAMINER JONES: For what reason?

2 THE WITNESS: For the proper distance.

3 EXAMINER JONES: But you still want the
4 flexibility of 330 setbacks from the boundaries of the
5 perimeter of the spacing unit, the proposed spacing
6 unit. Is that for flexibility in maybe even more than
7 six wells per section in the future? Or are you not
8 going to worry about spacing them exactly 440, 880, like
9 that?

10 MR. BRUCE: However, we're talking about the
11 10 feet is, you know, if you want to drill a well more
12 or less down the center, 320 acres. And the geologist
13 will have some exhibits showing how they plan on
14 drilling and spacing the wells apart.

15 EXAMINER JONES: I see that argument.
16 That's a very good argument. But if there are six wells
17 per section, that works out to 440, 440 from the
18 perimeter; 880 from each well in order to be optimal
19 with your spacing the wells.

20 MR. BRUCE: I think the geologist can point
21 out what they're looking at.

22 EXAMINER JONES: You still want the 330?

23 THE WITNESS: Yes.

24 EXAMINER JONES: Okay. Thanks a lot.

25 Mr. Bruce, go ahead.

1 STEVEN SCHWEGAL

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

4 DIRECT EXAMINATION

5 By MR. BRUCE:

6 Q. Okay. Would you please state your name for the
7 record?

8 A. Steven Schwegal.

9 Q. And where do you reside?

10 A. Edmond, Oklahoma.

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

12 A. Devon Energy. I am a geologist.

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

15 A. No.

16 Q. Could you summarize your educational and
17 employment background for the Examiner?

18 A. I have a master's degree in geology from the
19 University of Nebraska. I graduated in 1981.

20 I started with Phillips Petroleum. Then worked
21 for 32 years and eight months with Phillips, and, then,
22 ConocoPhillips.

23 And then I retired from there and moved to
24 Oklahoma City and started with Devon. And I have been
25 there three years.

1 Q. And at Devon, does your area of responsibility
2 cover this portion of southeast New Mexico?

3 A. Yes.

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

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I tender
8 Mr. Schwegal an expert petroleum geologist.

9 MR. FELDEWERT: No objection.

10 EXAMINER JONES: He is so qualified.

11 Q. What is Exhibit 10, Mr. Schwegal?

12 A. It is a stratigraphic column illustrating the
13 various prospective intervals in the Thistle unit. And
14 it shows an average of the depths within the unit.

15 There's also prospectivity deeper in the
16 Wolfcamp. But we are not here to talk about that today,
17 is what I am told.

18 Q. And what is Exhibit 11?

19 A. That is an outline of the Devon acreage. The
20 yellow is operated by Devon. Sections 3, 9, and 10 are
21 operated by other operators. And the little well tracts
22 you see are the Second Bone Spring wells that have been
23 drilled and some additional ones that are planned to the
24 north and the south end of Thistle.

25 Q. And what does Exhibit 12 show?

1 A. That is what I'm told is a gun barrel plot. That
2 shows the proposed, planned, and actually existing wells
3 that have been drilled. Just an example on the far west
4 side of Thistle in sections 28 and 33, they are planned
5 for two-mile laterals halfway across then
6 mile-and-a-half laterals on the east side of the
7 section.

8 Q. And does this give an idea of, say, how in the
9 Second Bone Spring you would place wells?

10 A. Right.

11 And it also shows, you know, spacing tests are
12 still ongoing in other formations. So your question
13 earlier about six wells per section, we don't really
14 know the resolution of that yet.

15 EXAMINER JONES: Okay.

16 Q. Okay. And even though we are not here for it,
17 there's also potential in the multiple wells in the
18 Wolfcamp?

19 A. That's correct, yes.

20 Q. Your next two exhibits, one is for the Black
21 Mamba wells and one is the Thistle unit.

22 Could you please run through that and discuss the
23 geology in both of these areas.

24 A. Sure. The Black Mamba and Tiapan sections are at
25 the very north end of the Thistle unit. We conducted a

1 spacing test. The geologist previous to me apparently
2 liked snakes, because he named everything after snakes.
3 So you will hear those names.

4 The cross section shows the tests of 7, 8, and 9
5 Black Mamba wells.

6 We tested two wells in the lower Second Bone
7 Spring and then one well in the upper portion of the
8 Second Bone Spring sand.

9 And then the next one is -- the thickness using
10 8 percent porosity cutoff. And you can see the thick
11 trend pretty much right across Thistle acreage. The
12 warmer colors are the thicks; the cooler colors are the
13 thins.

14 And, then, finally, on the last one, you can see
15 the structural configuration of the area. The Thistle
16 unit lies in a structural low just on the west side of
17 the Bell Lake fault system.

18 Q. And one thing, on the cross section you have, the
19 well -- the leftmost well looks like it's down in the
20 Third Bone Spring, too --

21 A. Yes. Those are vertical wells just to illustrate
22 where the tops tie into the horizontal wells that were
23 drilled.

24 Q. But the well is not completed in the Second and
25 the Third Bone Spring?

1 A. No, no. That is projected in. I see what you
2 are saying. That is projected in.

3 Q. At the final page of the exhibit is the structure
4 and then -- is the -- just looking at the Black Mamba
5 acreage, are the Bone Spring zones continuous across
6 this area?

7 A. Yes, they are.

8 Q. And let's move on to Exhibit 14, which is more
9 concentrated on the Thistle. Would you run through
10 that, please.

11 A. Sure. We have chosen four wells to illustrate
12 the continuous nature of the sands across the acreage of
13 the Thistle unit 596443, and the C Snake 35 1H, which is
14 just off the east edge of the acreage but shows the
15 continuous nature of the sediments.

16 The first slide is a structure map, just zoomed
17 in from the previous map. Essentially, it's the same
18 structure map. And you can see that we are in a
19 structural low.

20 The four wells are shown. 49H is in the
21 northwest. And then 64 is to the east of it. 43, to
22 the southwest. And the C Snake well is to the east,
23 just off the Thistle unit.

24 The next map again is a zoom in of the map we
25 just looked at as far as the thickness map. And you see

1 that within the Thistle unit the Second Bone Spring
2 lower sand is thick and continuous across the acreage.

3 I put -- there's two cross sections as examples.
4 One of those you saw already, are the Black Mamba
5 wells -- the first one is the cross section location.
6 Sorry.

7 And then the same cross section you saw
8 previously. And then the last cross section is three
9 wells that were recently drilled as a stacked lateral in
10 the far east side of the Thistle unit.

11 We tested the lower First Bone Spring siltstone
12 and what we called the Leonard C, which is the lowermost
13 siltstone in the Leonard or Avalon.

14 And then the Leonard B is the mid siltstone
15 within the interval. And we've already tested that with
16 the Thistle unit 66H. And that well has been flowing
17 since September.

18 And we have not yet drilled a well in the
19 uppermost siltstone in the Leonard.

20 Q. In looking at your exhibits, virtually all the
21 Bone Spring wells out here are stand-up wells, not only
22 Devon's but other operators, correct?

23 A. (Nodding head.)

24 Q. So from a geologic standpoint, does it make sense
25 to build stand-ups in this area?

1 A. Yes.

2 Q. Were exhibits 10 through 14 prepared by you or
3 under your supervision?

4 A. Yes.

5 Q. And in your opinion is the granting of this
6 application in the interests of conservation and the
7 prevention of waste?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I move the
10 admission of Exhibits 10 through 14.

11 EXAMINER JONES: Any objection,
12 Mr. Feldewert, to Exhibits 10 through 14?

13 MR. FELDEWERT: No.

14 EXAMINER JONES: Exhibits 10 through 14 are
15 admitted.

16 (Devon Energy Production Company, L.P.,
17 Exhibits 10 through 14 were offered and admitted.)

18 EXAMINER JONES: Okay. Mr. Dawson.

19 EXAMINATION BY EXAMINER DAWSON

20 EXAMINER DAWSON: Mr. Schwegal, on the
21 stand-up wells -- in looking at this map on Exhibit 11,
22 it looks like all of them are stand-ups. Have there
23 been any lay-down or east, west --

24 THE WITNESS: Not drilled by Devon.

25 EXAMINER DAWSON: But by other operators?

1 THE WITNESS: Yes.

2 EXAMINER DAWSON: And you looked at the
3 results of those wells?

4 THE WITNESS: Yes.

5 EXAMINER DAWSON: And they don't compare to
6 the north, south or south --

7 THE WITNESS: That's right, yes. Other
8 operators appear to have changed their minds and are now
9 going north, south.

10 EXAMINER DAWSON: So, apparently, the north,
11 south is the preferred direction as you said before.

12 THE WITNESS: That's correct.

13 EXAMINER DAWSON: On your well in Exhibit
14 No. 14, the last page --

15 THE WITNESS: Uh-huh.

16 EXAMINER DAWSON: On the well, it has the I
17 guess you would call it a triple lateral?

18 THE WITNESS: Okay.

19 EXAMINER DAWSON: The second one from the
20 right-hand side on the cross section?

21 THE WITNESS: Yes.

22 EXAMINER DAWSON: Did they test those zones?

23 THE WITNESS: No. They're recent wells.
24 They have not yet been tested. They are still awaiting
25 completion.

1 EXAMINER DAWSON: Are they planning on
2 trying to commingle those?

3 THE WITNESS: I don't know that for sure. I
4 would expect since it's Bone Spring, they will flow them
5 into the same tank, but I don't know that for sure.

6 EXAMINER DAWSON: That's one of the more
7 recent wells drilled?

8 THE WITNESS: Right.

9 EXAMINER DAWSON: And the one on the
10 left-hand side, the Thistle unit -- it's kind of hard to
11 read.

12 THE WITNESS: 66.

13 EXAMINER DAWSON: 66H?

14 THE WITNESS: Right.

15 EXAMINER DAWSON: Is that well producing?

16 THE WITNESS: Since early September.

17 EXAMINER DAWSON: Do you have an idea how
18 much that's producing --

19 THE WITNESS: About 120,000 barrels.

20 EXAMINER DAWSON: 120,000 barrels. Do you
21 have a daily rate on that?

22 THE WITNESS: I don't. I think it is still
23 flowing at about 500 barrels a day.

24 EXAMINER DAWSON: So that is a fairly recent
25 well, too?

1 THE WITNESS: Yes, it is. Right.

2 EXAMINER DAWSON: Okay. That's all the
3 questions I have. Thank you.

4 THE WITNESS: Okay.

5 EXAMINER JONES: Mr. Brooks.

6 EXAMINER BROOKS: No questions.

7 EXAMINER JONES: Let me know if you have
8 some later.

9 MR. BROOKS: I will.

10 EXAMINATION BY EXAMINER JONES

11 EXAMINER JONES: Mr. Schwegal, so where
12 did you work with Phillips? What areas of the
13 country?

14 THE WITNESS: Here, there, and everywhere.
15 I started in Houston, went to Bartlesville, went
16 overseas, back to Bartlesville. And then they drug me
17 back to Houston. And I'm glad to be in Oklahoma City
18 now.

19 EXAMINER JONES: And I heard when there was
20 a struggle between Bartlesville and Houston with
21 Phillips.

22 THE WITNESS: That's for sure.

23 EXAMINER JONES: You mentioned the Leonard.
24 Is that what you are calling the -- what some people
25 call the Avalon?

1 THE WITNESS: Right. It's the same.

2 EXAMINER JONES: Okay. So the optimum well
3 length out here; north, south is the way to drill, but
4 how about well length?

5 THE WITNESS: For the three that you see on
6 the last picture, those are all mile-and-a-half
7 laterals. We also just recently drilled a two-mile
8 lateral, knowing that the COG wells look really good
9 just offset to that.

10 And so we are still trying to figure that
11 out. But we think mile-and-a-half and even, perhaps,
12 two-mile laterals will be best.

13 EXAMINER JONES: Do you talk to the
14 geologist with COG?

15 THE WITNESS: I have not.

16 EXAMINER JONES: And a number of horizons
17 was in the Bone Spring that you're looking at?

18 THE WITNESS: You can see on the gun barrel
19 plat that there's -- we're still not sure if the First
20 Bone Spring is going to have one or two landings.

21 It's 450 feet thick in total. So there may
22 be two landings in the First Bone Spring.

23 We have tested the sandier section, and that
24 well -- I can't remember the cum on that one. Sorry.

25 The lower one is the one -- the 94H that has

1 not yet been completed. And then we've tested the
2 Leonard B, the Leonard C, and not yet tested the
3 Leonard A. So there's at least three zones in the
4 Leonard or the Avalon.

5 EXAMINER JONES: Okay. So it's possible you
6 might drill several wells in the Leonard and the -- is
7 your main target the Avalon?

8 THE WITNESS: That is my main target, yes.

9 EXAMINER JONES: Okay.

10 THE WITNESS: The Second Bone Spring, we've
11 drilled a lot of wells already. So we're kind of at the
12 end, except in the very north and the very south where
13 we still have potential to drill the upper and the
14 lower. But for the most part, the main part of Thistle,
15 the Second Bone Spring has been drilled.

16 EXAMINER JONES: Okay. What about gas
17 versus oil out here? Are you -- you probably looked at
18 all the vertical wells; are they completed in the
19 carbonate -- those vertical wells?

20 THE WITNESS: In the Leonard.

21 EXAMINER JONES: In the whole Bone Spring,
22 any of the Bone Spring wells?

23 THE WITNESS: I don't believe there's any
24 Bone Spring completions within Devon acreage within the
25 Bone Spring. Most of those are deep Morrow wells, Atoka

1 wells, Strawn wells.

2 EXAMINER JONES: So you have logs?

3 THE WITNESS: We have logs, yes.

4 EXAMINER JONES: Are you seeing gas on those
5 logs?

6 THE WITNESS: All the time.

7 EXAMINER JONES: So are you seeing crossover
8 on your porosity logs?

9 THE WITNESS: No. We don't normally see
10 crossover on the porosity logs.

11 EXAMINER JONES: But you're seeing an oil
12 effect --

13 THE WITNESS: The 66H is a really good well,
14 so we are pretty happy with what we see in the Leonard
15 so far.

16 I know that EOG has drilled actively to the
17 south. COG has drilled actively to the west. So we are
18 pretty comfortable that the Leonard is going to be a
19 good formation to drill.

20 EXAMINER JONES: But are you -- the wells --
21 you are asking for a higher -- a limiting GOR. So I am
22 just wondering, geologically and log analysis-wise, if
23 you are seeing that gas.

24 THE WITNESS: It starts off more oily and
25 then the gas comes up as time goes on.

1 EXAMINER JONES: Okay. So a typical
2 solution in gas drive type?

3 THE WITNESS: Seems like.

4 EXAMINER JONES: Does the gas come up really
5 fast and the oil totally go away?

6 THE WITNESS: I think that is an engineering
7 question, if we could do that.

8 EXAMINER JONES: Yeah. And what about the
9 pools in the Bone Spring in this area, are there
10 records of special pool rules asking for increased
11 GOR?

12 MR. BRUCE: I didn't find any in this area.

13 EXAMINER JONES: And what's your -- the main
14 wells you're looking at here, for example, wells in the
15 Bone Spring for horizontals, is that the Black Mamba
16 and --

17 THE WITNESS: In the Second Bone Spring,
18 it's the Black Mamba wells, right.

19 EXAMINER JONES: Okay. So do you have any
20 opinion on -- you are not asking for a well density deal
21 here; you are just asking for an increased allowable?
22 But, geologically, you support everything that's being
23 asked for in these places?

24 THE WITNESS: Yes.

25 EXAMINER JONES: Thank you. Mr. Bruce.

1 JARON LANG

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

4 DIRECT EXAMINATION

5 By MR. BRUCE:

6 Q. Will you please state your name for the record.

7 A. Jaron Lang.

8 Q. And where do you reside?

9 A. In Edmond, Oklahoma.

10 Q. Who do you work for and in what capacity?

11 A. Devon Energy as a reservoir engineer.

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

14 A. Not in the state of New Mexico.

15 Q. Could you please summarize your educational and
16 employment background.

17 A. I graduated from the University of Oklahoma with
18 a bachelor's in petroleum engineering. And I previously
19 worked for Continental Resources for approximately
20 six and a half years.

21 And I have since been with Devon since that time.
22 And I am a Registered Professional Engineer in the state
23 of Oklahoma.

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

1 A. Yes.

2 Q. And are you familiar with the reservoir
3 engineering matters involved in these cases?

4 A. Yes, yes.

5 MR. BRUCE: Mr. Examiner, I tender Mr. Lang
6 as an expert reservoir engineer.

7 MR. FELDEWERT: No objection.

8 EXAMINER JONES: He is so qualified.

9 Q. Mr. Lang, could you identify Exhibit 15 for the
10 Examiner and discuss its contents.

11 A. Page 1 of Exhibit 15 is a summary of what we are
12 asking for. The current maximum allowable for some of
13 these pools is 320 barrels of oil per day for a 40-acre
14 unit with a maximum GOR of 2,000 standard cubic feet per
15 stock tank barrel.

16 We are requesting an allowable to increase to
17 6,400 barrels of oil per 320, which equates to
18 800 barrels per day on a 40-acre spacing. And also a
19 GOR increase to 5,000 standard cubic feet per stock tank
20 barrel.

21 This increased allowable will allow for the
22 development of multiple stack pay zones and an increased
23 well density within the separate prospective horizons.

24 An increased well density will allow for optimum
25 project economics and maximize resource recovery.

1 Some numerical modeling techniques were used in
2 predicting the production rates for each of the
3 downspacing scenarios to justify.

4 Q. Mr. Lang, the heading on it is "Thistle
5 Allowable" in this area; the general area within Devon
6 is known as the Thistle area -- is that correct?

7 A. Correct. That's how we refer to it internally.

8 Q. Okay.

9 A. Page 2 is similar to the previous gun barrel
10 diagram that you previously saw, except this one is
11 sliced down to the Bone Spring only. And so what it
12 shows is our current plan based on a
13 six-well-per-section spacing.

14 And in there it shows, as the blue dots, our
15 initial plan tests that we have been referring to, the
16 Thistle stacked pays, the Leonards in the First Bone.
17 And then, also, the Black Mambo three-well density test
18 in the Second Bone Spring.
19 All the red dots show the future anticipated plans if
20 those tests are successful.

21 Q. But if these zones test out the way you hope they
22 do, there could be over 30 wells in a section?

23 A. Correct. So this is our current plan at six
24 wells. You also previously saw our increased spacing
25 from there, 8, 10, and multiple horizons that could

1 also...

2 Q. Okay.

3 A. Page 3 shows a little bit of the results,
4 historical results for the area. The left-hand graph
5 shows wells that were drilled on a one-mile basis with
6 160-acre spacing. And you can see over time. And these
7 are all single wells.

8 You can see over time, we've increased the
9 initial production rates to getting to the point of
10 almost exceeding the allowable on their own basis as
11 single wells.

12 The right-hand graph shows the GOR produced over
13 time for that same set of wells. And you can see that
14 over time the production results have increased or
15 gained efficiency, and over time, the GORs have also
16 increased exceeding the 2,000 standard cubic feet per
17 stock tank barrel allowable.

18 Q. That's not anomalous in the Bone Spring?

19 A. Correct, correct.

20 Page 4 goes into a little bit about the economics
21 behind our density tests. The left-hand graph shows the
22 well density versus the reverses as you go from
23 four-wells-per-section spacing down to eight -- or up to
24 eight.

25 You can see that our incremental per well EUR is

1 decreasing as we downspace those wells. But the
2 incremental total EUR for the section increases, so
3 total recovery should be going up as we increase the
4 wells that we drill.

5 The right-hand graph shows the well density
6 versus economics. So, again, as you drill more wells,
7 your expected rate of return goes down because of your
8 lower EURs and lower production per well.

9 But your overall total unit MPV is increasing.
10 And, currently, based on commodity prices and our
11 capital scenarios that we're currently running, we
12 are looking at an optimal of six-wells-per-section
13 spacing.

14 Q. Could you summarize your findings?

15 A. The last page summarizes the potential
16 development in multiple landing zones within the Bone
17 Spring interval supports the need for an increased
18 allowable.

19 In addition, the downspace development within
20 each horizon also provides justification for the
21 necessity to increase the allowable.

22 Current analysis suggests the optimal well
23 density at six wells per section based on net present
24 value.

25 The potential to realize a 20 to 30 percent

1 increase in the total reserves is there, depending on
2 the spacing test successfulness.

3 And we are requesting the current allowable and
4 GOR limit will help maximize the recovery and the
5 economics of the sections.

6 Q. And even at 6,400 barrels of oil per day, you are
7 getting good results from these wells; however, the
8 proposed wells -- potentially over 30 wells per
9 section -- will be developed over time, correct?

10 A. Correct.

11 Q. And so you think at this point 6,500 barrels of
12 oil per day would be adequate?

13 A. Correct, yes. That is based on developing three
14 wells simultaneously at the same time.

15 EXAMINER JONES: Okay.

16 Q. Was Exhibit 15 prepared by you?

17 A. Yes.

18 Q. And in your opinion is the granting of this
19 application in the interests of conservation and the
20 prevention of waste?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I move the
23 admission of Exhibit 15.

24 EXAMINER JONES: Any objection?

25 MR. FELDEWERT: No objection.

1 EXAMINER JONES: Exhibit 15 is admitted.

2 (Devon Energy Production Company, L.P.,
3 Exhibit 15 was offered and admitted.)

4 EXAMINER JONES: Mr. Dawson.

5 EXAMINATION BY EXAMINER DAWSON

6 EXAMINER DAWSON: Mr. Lang, are you -- is
7 Devon currently -- are they drilling two-mile laterals?

8 THE WITNESS: Yes. We currently have the
9 one two-mile Leonard test in the Thistle unit that we
10 are working on completing as we speak, so we drilled it.
11 And so -- we don't have production from a two-mile
12 lateral in the Thistle area yet.

13 EXAMINER DAWSON: The mile-and-a-halves,
14 what's the initial production rates on those
15 mile-and-a-halves, just generally?

16 THE WITNESS: We've only had one to date.
17 And I think the initial rate, daily rate, was 12- or
18 1,300 a day.

19 EXAMINER DAWSON: How did you get to 6,400?

20 THE WITNESS: It was based on -- so if we
21 took our type curves as they are and using
22 three-wells-per-section development, simultaneous
23 development, and over time, say, we came back every two
24 years and developed three wells at a time every two
25 years and we took the peak of that -- and that was our

1 basis for developing the 3,200 number, so the 3,200 per
2 160, and then we doubled that for --

3 EXAMINER DAWSON: 320s?

4 THE WITNESS: Yes.

5 EXAMINER DAWSON: Do you anticipate that
6 some of these wells will be stacked laterals?

7 THE WITNESS: Yes. We have drilled the
8 Thistle three-well set currently and it's still in the
9 completion stage as stacked laterals. That is depicted
10 on page 2.

11 EXAMINER DAWSON: So the Third Bone Spring,
12 you don't have any plans to complete any wells in the
13 Third Bone Spring at this point?

14 THE WITNESS: Yes, correct, correct -- in
15 this specific area.

16 EXAMINER DAWSON: Have you looked at, I
17 guess, some of the other operators drilling two-mile
18 laterals.

19 THE WITNESS: Yes.

20 EXAMINER DAWSON: And so you have been
21 watching their production on those?

22 THE WITNESS: Yes.

23 EXAMINER DAWSON: Does that appear to be
24 effective and those wells produce better you think?

25 THE WITNESS: There is a multiplier on.

1 production because you are accessing more reservoir. It
2 goes into an economic driver if you know you're drilling
3 less vertical section per lateral. And so your
4 economics are proving to be a little bit better.

5 We have -- outside of this area, we drilled
6 another two-mile Leonard and another one-and-a-half-mile
7 Leonard, so we have a few other long lateral tests.

8 EXAMINER DAWSON: Do you anticipate that you
9 will be drilling more two-mile laterals?

10 THE WITNESS: We anticipate as much as
11 possible trying to optimize lateral length where
12 possible to enhance the economics.

13 EXAMINER DAWSON: That's all the questions I
14 have. Thank you.

15 EXAMINER JONES: Mr. Brooks.

16 MR. BROOKS: Yes.

17 EXAMINATION BY MR. BROOKS

18 MR. BROOKS: I would assume the optimal
19 lateral length depends on various factors that are
20 specific to a formation; would that be accurate?

21 THE WITNESS: That's correct.

22 MR. BROOKS: Are there a lot of places where
23 two-mile laterals would be preferable to one-mile
24 laterals or is this unique to this area?

25 THE WITNESS: I do not feel it's unique to

1 this area. You know; like I said, we are currently
2 still evaluating lateral length across the board for the
3 various formations. And so we have not settled on an
4 optimal lateral length in this area.

5 MR. BROOKS: Okay. Thank you.

6 EXAMINATION BY EXAMINER JONES

7 EXAMINER JONES: Well, it looks like you
8 talked to the other engineers. You have a team that you
9 all kind of share information in New Mexico on these
10 allowable cases? The previous engineer that came up, I
11 think, he was the simulator guy --

12 THE WITNESS: Pedro.

13 EXAMINER JONES: Pedro. You and he worked
14 together on this?

15 THE WITNESS: Yes. Pedro, he works on a
16 different area but inside the Delaware Basin.

17 EXAMINER JONES: Okay. The top of
18 reservoirs out here, I mean the map shows three
19 different pools. And is there differences in these
20 pools, tops of reservoir? Are they close enough
21 together that you think they're -- are they volatile oil
22 reservoirs?

23 THE WITNESS: (Witness gesturing.)

24 EXAMINER JONES: They're just gassy oil
25 reservoirs? They're not -- there's not a chance they're

1 gas wells?

2 THE WITNESS: That is correct.

3 EXAMINER JONES: And the drive mechanism for
4 all of them?

5 THE WITNESS: You know, we are determining
6 that, you know, as a solution gas drive. It's not a
7 water drive.

8 EXAMINER JONES: But they are not going to
9 be rate sensitive?

10 THE WITNESS: Correct, as it stands right
11 now. We are doing an analysis on our flow-backs in
12 determining what's the best optimally -- seeing if
13 changing anything on rate affects us at all. So we are
14 still kind of evaluating that -- if there's any
15 optimization we can do there on that point. And it all
16 depends. It's different for each horizon. All this
17 analysis is ongoing.

18 EXAMINER JONES: So it's ongoing.

19 How about the frac jobs; are they rate
20 sensitive as far as damaging your frac job if you pull
21 it too fast initially?

22 THE WITNESS: The flow-back portion?

23 EXAMINER JONES: Yes.

24 THE WITNESS: We've currently taken the
25 stance of being more conservative, not only just because

1 of reservoir damage, you know, potential out there, but,
2 also, gas takeaway constraints and concerns, so not
3 wanting to overload the surface constraints that we have
4 out there. So a couple of different things working both
5 sides.

6 EXAMINER JONES: Do you use sand control in
7 your fracs to control sand flow-back?

8 THE WITNESS: A special sort of prop-up of
9 some sort?

10 EXAMINER JONES: Tail prop-up with some sort
11 of net stuff that keeps it from flowing back?

12 THE WITNESS: Net stuff? You mean resin
13 coated?

14 EXAMINER JONES: Yes, resin coated. People
15 call it different things.

16 THE WITNESS: Different areas have different
17 things. We have a different -- historically, there was
18 some resin going in. And then we switched to doing
19 straight sand, all sand jobs. And then I think we've
20 trickled some resin coat back in, depending on where it
21 is in the formation.

22 So, again, all things -- since there's
23 multiple horizons being tested, there's a lot of
24 different completion techniques being evaluated.

25 EXAMINER JONES: What's the biggest size

1 sand you use?

2 THE WITNESS: There's 30, 50 and 10, 20, 40.

3 EXAMINER JONES: Okay.

4 What are you looking at to make the wells
5 better? Are you looking at maybe some special logs on
6 them to figure out where to perf or are you just doing
7 the stage perfs all along the length of the well?

8 THE WITNESS: Currently, we are working
9 those analyses, too, of entered points per stage and how
10 many stages and spacing and things of that nature.

11 Again, we haven't settled them, optimal
12 design, because, as you can see, across these areas, we
13 are testing different horizons. And some areas, it's
14 our first time to test. So we haven't quite settled on,
15 Here's the answer across the board.

16 EXAMINER JONES: Do you work with the
17 completions engineers?

18 THE WITNESS: Yes. I am settled more on the
19 execution side of the completion engineers. So the
20 modeling and stuff is handled by a different group of
21 people that are modeling and doing those kinds of --

22 EXAMINER JONES: Modeling the frac job, the
23 (inaudible) analysis and everything?

24 THE WITNESS: (Nodding head up and down.)

25 EXAMINER JONES: But do you think -- is it

1 5,000 you are asking for limiting GOR?

2 THE WITNESS: That is correct.

3 EXAMINER JONES: And that looks reasonable
4 at this time?

5 THE WITNESS: Yes.

6 EXAMINER JONES: Consistent with what you
7 have been asking for in other words?

8 THE WITNESS: Yes. There's a lot of signal
9 tests and we've seen offset operators that have
10 developed the Leonard, a little bit farther along in
11 developing the Leonard. And so we've seen some of their
12 wells going towards those rates.

13 And our 66 that we spoke about, I think you
14 have an initial GOR of 2,000. So, you know, we are
15 already starting at a higher point than some of our
16 historical --

17 EXAMINER JONES: I guess one of the big
18 issues here is increasing the allowable per acre, I
19 should say, or per 40 acres for horizontal -- basically,
20 we are talking about horizontal well rules here,
21 correct?

22 THE WITNESS: Uh-huh.

23 EXAMINER JONES: With increased allowable?

24 MR. BRUCE: Right.

25 EXAMINER JONES: But we are ignoring the

1 vertical wells allowable?

2 MR. BRUCE: Frankly, I didn't think of
3 that, Mr. Examiner. But allowing vertical wells, 800
4 barrels for a 40-acre well, we have no issue with
5 that.

6 EXAMINER JONES: You think procedurally it
7 would have to be advertised and see if anybody would
8 object -- most people wouldn't object to an increased
9 allowable. I don't think I've ever seen it happen
10 before.

11 MR. BROOKS: Well, I haven't read the
12 implications, so I don't know what was asked for. And I
13 can't comment on whether -- what can be done with that
14 red --

15 EXAMINER JONES: I am sure you two -- you
16 got a nice team you work on. Do you talk to Paul Kautz
17 in Hobbs? He's the geologist there.

18 MR. BRUCE: I know members have spoken with
19 him before. I am not sure if Mr. Lang has.

20 EXAMINER JONES: I think Mr. Bruce knows who
21 I am talking about. He's got some opinions on the
22 nomenclature out here. He probably calls it the Avalon
23 instead of the Leonard. But that's between you guys and
24 him. Do you see any issues of your shallower wells in
25 the Bone Spring being invaded by disposal wells in the

1 Delaware?

2 THE WITNESS: Currently, we have the
3 Delaware prospective in the Thistle area, so as it
4 stands right now we are trying to avoid any disposal
5 into the Delaware formation itself, because of the
6 prospective nature.

7 EXAMINER JONES: Okay. The Brushy Canyon
8 mainly.

9 THE WITNESS: (Nodding head up and down.)

10 EXAMINER JONES: Okay. I think -- I don't
11 have any more questions, pending the question about
12 whether we can address the vertical well allowables or
13 not with an order in this case.

14 MR. BRUCE: I mean, if you want, we can
15 re-advertise that. I don't foresee anybody objecting to
16 anything here.

17 MR. BROOKS: If it was not asked for in the
18 application, I don't think it can be granted technically
19 correctly without re-advertising. As a practical
20 matter, I would be surprised -- like you, I would be
21 surprised if anyone objected.

22 MR. BRUCE: It's whatever the Division
23 wants. You know, it will take a few weeks to get an
24 order out.

25 EXAMINER JONES: I was hoping not, it

1 wouldn't take long at all, but everybody has hopes on
2 their workload.

3 MR. BRUCE: Yeah, most of the vertical well
4 allowables out here are 320 barrels a day.

5 EXAMINER JONES: Okay. That's a pretty good
6 allowable for a vertical well.

7 How long would it take you to re-advertise,
8 just to match the vertical, the 40-acre allowable with
9 this --

10 MR. BRUCE: March 3rd.

11 MR. BROOKS: That would be four weeks from
12 today, right?

13 MR. BRUCE: Yes.

14 EXAMINER JONES: Is that acceptable to you
15 guys?

16 MR. BRUCE: We don't see a problem with it.

17 EXAMINER JONES: Okay. Maybe two years ago
18 it wouldn't be acceptable, but now it changed.

19 We are going to then continue these cases
20 until -- all three cases until March the 3rd. And thank
21 you all for coming up here. I appreciate it.

22 THE WITNESS: Thank you very much.

23 EXAMINER JONES: Case 15438, 15439, and
24 15430 are continued until --

25 EXAMINER DAWSON: -440.

1 EXAMINER JONES: Sorry -- and case 15440 are
2 continued until March the 3rd.

3 EXAMINER JONES: Let's take a ten-minute
4 break and we'll come back.

5

6

7

(Time noted 9:32 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____,
heard by me on _____.

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_____, Examiner
Oil Conservation Division

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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, February 4,
11 2016, 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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