

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 NOS. 13,048
COMPANY, L.P., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)
)
APPLICATION OF EGL RESOURCES, INC.,) and 13,049
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)
) (Consolidated)

OFFICIAL EXHIBIT FILE REPORTER'S TRANSCRIPT OF PROCEEDINGS
(2 of 3: Devon Exhibits D)
EXAMINER HEARING

BEFORE: DAVID K. BROOKS, JR., Hearing Examiner

April 10th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, April 10th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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DEVON ENERGY PRODUCTION COMPANY, L.P.

EXHIBIT BOOK

**New Mexico Oil Conservation Division
Cases 13049 and 13049
April 10, 2003**



**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**IN THE MATTER OF THE APPLICATION
OF DEVON ENERGY PRODUCTION COMPANY, L. P.
FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

CASE NO. 13048

DEVON EXHIBIT 1

(1) Devon is the current operator, and a working interest owner in, for the Rio Blanco "4" Federal Well Com No. 1 (API #30-025-34515) located in Unit F of Section 4, T23S, R34E, Lea County New Mexico.

(2) This well is currently dedicated to a standard 320-acre gas spacing unit for Morrow/Atoka Gas consisting of the N/2 of this section dedicated for gas production from the Morrow and Atoka formations.

(3) Devon's predecessor, Santa Fe Energy Resources, drilled a Devonian formation test, being the Gaucho Unit #1 Well (API #30-025-33440) in unit G of Section 29, T22S-R34E. The well was spud on May 31, 1996, and reached TD on October 28, 1996. The well was drilled to a total depth of 15,100'.

(4) Devon believed that it needed additional data in the area. Received internal approval February 8, 2001, to underwrite WesternGeco's SW Lea Phase I 3D survey covering 172 square miles. Devon purchased a license covering 133 square miles. WesternGeco began acquiring the data in August 2001, completed in November 2001. The processed data was shipped to Devon on July 23, 2002. Devon loaded the data in its system on July 30, 2002

(5) Devon received an AFE from EGL Resources, Inc., dated March 15, 2002, proposing to re-enter and deepen the Rio Blanco "4" Federal #1 Well. As stated earlier, Devon received internal approval to underwrite WesternGeco on February 8, 2001. Since Devon made the investment to underwrite the WesternGeco Seismic survey across the area, Devon believed it prudent to wait for the processed data before moving forward with re-entry operations.

(6) Devon has been in negotiations with Landreth since September 20, 2002, having exchanged approximately 18 detailed letters with the last being February 28, 2003. All of these proposals are based upon Devon being the operator and Landreth being a working interest owner who either participates with a portion of his interest or farms-out all or a portion of his interest to Devon.

(7) In the letter dated September 20, 2002, Landreth stated that he was willing to farmout up to 2/3rds of his 62.5% interest in all of Section 4, on terms to be negotiated, to move forward with the project. Devon forwarded an offer on November 4, 2002, to which Landreth did not respond.

(8) After inquiry by Devon, Devon forwarded a revised proposal dated December 3, 2002. Landreth responded on December 4, 2002, stating that since the 12/3/03 proposal was subject to management approval, he could not give it serious consideration – He was currently working with EGL to decide the best way to move forward on the project.

(9) Landreth forwarded a letter dated December 11, 2002, detailing the way he wanted to see the project proceed – Devon's AFE, Devon's best offer incorporating a carried working interest, Devon's proposed form of Operating Agreement including a cap of \$700/month overhead charge, Devon's agreement to market Landreth's share of the gas, at his option, with no future time limitation, an immediate assignment to Landreth of 1/3 of Devon's interest in the S/2 NW/4, Commitment from Devon to spud no later than 2/1/03, Devon's agreement to make seismic data available covering Rio Blanco and Landreth's Bootleg Ridge East Prospect. Landreth would make a final determination as to farmout terms following review of Devon's proposal

(10) Devon's next proposal, dated December 17, 2002, incorporated a number of points Landreth requested in his 12/11/02 letter, including a carry of Landreth's costs (limited to 110% of AFE) to earn an assignment of 2/3rds of Landreth's 62.5% WI in Section 4.

(11) Sent a proposal to EGL on December 17, 2002, offering the same terms as offered to Landreth.

(12) Letter from Landreth dated December 20, 2002, accepting Devon's basic terms offered 12/17/02, given certain agreement to certain details – Landreth to farmout 45%, participate with 17.5%; operations to be commenced no later than 4/1/03; inclusion of the Bootleg Ridge East area in the seismic review; sharing of offset acreage purchases.

(13) Letter from Devon to Landreth dated January 7, 2003, addressing issues raised in his letter dated 12/20/02 – Will not include seismic over Bootleg Ridge East; Will agree to commence operations w/I 90 days of receipt of approved BLM permit; Initial OH rates of \$5,000/\$500 not to exceed \$7,000/\$700; AMI to address acquisition of offset acreage.

(14) Letter from Landreth dated January 8, 2003 addressing Devon's response dated 1/7/03 – Commencement date no later than 4/1/03; Want Section 33 included in trade; Devon may not terminate gas marketing arrangements, even upon written notice; Devon may not "net out" Landreth's revenues for disputed joint interest billings; Makes a claim to a portion of Devon's leasehold interest in the S/2 NW/4 of Section 4 – Devon must assign all of its interest in Section 4, should it fail to perform.

(15) Letter from Landreth dated January 14, 2003, updating his letter of 1/8/03 – Any acreage acquired by Devon in Section 33 after 6/1/02, would be included in the AMI; Adamant about requirement to relinquish interest in the S/2 SW/4 if Devon does not timely commence operations.

(16) Letter from Devon to Landreth dated December 17, 2002 (should have been January 17, 2003) state 2 issues that must be resolved before Devon can finalize trade – 1) Devon will not include any portion of Section 33 in the trade, 2) Devon will not agree to relinquish its interest in the S/2 NW/4 of Section 4 for any reason.

(17) Devon's Sundry Notice approved by BLM on January 27, 2003

(18) Letter from Landreth to Devon dated January 23, 2003, requesting Devon's proposed form of farmout/participation agreement and operating agreement for review before proceeding with negotiations.

(19) February 5, 2003 – Forwarded proposed form of Operating Agreement to EGL and Landreth.

(20) February 7, 2003 – Forwarded proposed form of Participation and Farmout Agreement to EGL and Landreth. Designates the N/2 of Section 4 as the proration unit for the Rio Blanco "4" Federal Com #1 Well.

(21) February 11, 2003 – Forwarded exhibits to the proposed Participation and Farmout Agreement to EGL and Landreth.

(22) February 14, 2003 – Landreth forwarded to Devon proposed changes to Devon's draft form of Participation and Farmout Agreement. Landreth agrees to form a N/2 of Section 4 proration unit. Landreth wants to include a provision preventing Devon from drilling a well in Section 33, T22S-R34E, closer than 1320' FSL.

(23) February 25, 2003 – Devon forwarded a letter to Landreth addressing the changes recommended in his 2/14/03 letter. Landreth to have an election when costs exceed 125% of AFE costs; Will not agree to 1320' offset limitation for Section 33. If these terms are not acceptable then Devon proposes that the parties move forward with their current interest in the N/2 of Section 4.

(24) February 27, 2003 - BLM approved EGL's Sundry Notice for re-entering and deepening the Rio Blanco "4" Federal #1 Well.

(25) February 28, 2003 – Devon forwarded (via facsimile) an AFE to EGL, Landreth and Southwestern Energy Production Company for the proposed re-entry and deepening of the Rio Blanco "4" Federal Com #1 Well to test the Devonian formation.

(26) February 28, 2003 – Devon forwarded (via facsimile) a revised proposal to the above parties, requesting their response by March 13, 2003, or Devon would commence compulsory pooling procedures.

(27) March 3, 2003 – Received a proposal from EGL dated February 27, 2003, to re-enter and recomplete the “4” #1 Well in the Devonian formation.

(28) March 3, 2003 – Per Landreth’s request, forwarded the approved BLM Sundry notice via facsimile.

(29) March 5, 2003 - Forwarded to EGL the approved BLM Sundry notice via facsimile.

(30) March 5, 2003 - Telephone conversation with Wes Perry at EGL about the competing well proposals. Agreed to meet in Midland, Texas, on 3/13/03 to work toward a resolution.

(31) March 6, 2003 – Notice from the BLM to EGL rescinding EGL’s approved Sundry Notice, since EGL is not the operator of record.

(32) March 7, 2003 - Devon filed compulsory pooling application

(33) March 12, 2003 – Called Landreth to invite him to the scheduled meeting with EGL at 9:00 at EGL’s office. Landreth stated that he did not see the need to meet since he felt a resolution was unlikely.

(34) March 13, 2003 – Met with Wes Perry, Chipper Dippel and Jim Brezina (all with EGL) at 9:00 am in EGL’s office. Discussed each company’s respective position toward the issues of operatorship and the designated proration unit for said well. It appeared that EGL wanted to use the compulsory pooling process to gain access to Devon’s 3D seismic data – after all, they had attempted to gain access to the data in WesternGeco’s Midland office, by telling Western that Devon had granted them permission to review the data. There appeared to be no common ground.

(35) March 19, 2003 – Received EGL’s application for compulsory pooling.

(36) March 25, 2003 – Received a letter from Landreth dated March 21, proposing that the parties form a 640 acre working interest unit and conduct operations based on 640-acre spacing, in return for Devon operating.

(37) March 26, 2003 – Received SWE's election to participate, along with their support of Devon's position in its compulsory pooling application.

(38) March 27, 2003 – Spoke with Paul Kautz at the OCD's Hobbs Office regarding the wildcat designation for the #1 re-entry. He is convinced that the well is properly permitted as a wildcat. He said that we could reference our conversation at the hearing.

(39) March 28, 2003 – Letter from Devon to EGL and Landreth addressing Landreth's proposal dated 3/21/03 – Stated Devon's position that the well is properly designated as a wildcat, with the proration unit being the N/2 of Section 4. Will proceed with Devon as operator.

(40) April 4, 2003 – Letter from Landreth to Devon dated April 4, 2003, rebuts Devon's assertion that all of EGL's/Landreth's proposals have been conditioned upon Devon granting them access to the 3D seismic. States that Landreth has seismic line indicating that the two areas are a common reservoir.

(41) Status of negotiations:

- (a) Devon's latest proposed farmout terms included carrying a disproportionate share of the well costs, through completion of the well, to earn a percentage of Landreth's interest. Landreth has not responded to Devon's letter dated February 25, 2003, setting forth Devon's position on certain farmout agreement terms. Due to Landreth's lack of response, Devon believes that it has concluded its efforts to reach a voluntary agreement with Landreth.
- (b) Devon made its first formal proposal to EGL on December 17, 2002, although there have been numerous telephone conversations concerning the proposed operations prior to such date. Devon's proposal letter to EGL incorporated terms identical to those offered to Landreth under a proposal letter of the same date. Despite its efforts, Devon has not been able to reach a voluntary agreement with Landreth or EGL.
- (c) Devon, as the designated operator of record for the Rio Blanco "4" Federal Com #1 Well, formally proposed reentry and

drilling operations to test the Devonian formation in said well on February 28, 2003. EGL has not responded to this proposal.

- (d) On March 13, 2003, I met with Wes Perry.
- (e) Landreth refused to meet unless Devon agrees to 640-acre spacing units.

(41) With the exception of his proposals date March 21, 2003, and April 4, 2003, all of Landreth's proposals linked to getting Devon's 3D seismic data.

(42) Q: Were all of Landreth's proposals linked to Devon agreeing to 640-acre spacing for the Devonian.

A: No. Landreth's recommended changes to Devon's proposed Participation and Farmout Agreement incorporated 320-acre spacing, being the N/2 of Section 4.

Summary: Devon made numerous attempts to reach a voluntary agreement with EGL and Landreth. Reasonable efforts failed. Now Devon, as operator of record, has proposed moving forward with testing the Devonian formation in the Rio Blanco "4" Federal Com #1 Well. Devon's proposal is based on current NMOCD rules for wildcat gas wells targeting the Devonian formation, with the N/2 of Section 4 as the applicable proration unit.