

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 NO. 13,272
APPLICATION OF DEVON ENERGY PRODUCTION)
COMPANY, L.P., FOR AN EXCEPTION TO)
DIVISION ORDER NUMBER R-111-P, EDDY)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 27th, 2004

Santa Fe, New Mexico

2004 JUN 10 PM 3 25

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 27th, 2004, 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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I N D E X

May 27th, 2004
Examiner Hearing
CASE NO. 13,272

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APPLICANT'S WITNESS:

JAMES BLOUNT (Engineer)

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REPORTER'S CERTIFICATE

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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 9:42 a.m.:

3 EXAMINER STOGNER: Let's go back on the record,
4 and at this time I'll call Case Number 13,272, which is the
5 Application of Devon Energy Production Company, L.P., for
6 an exception to Division Order Number R-111-P, Eddy County,
7 New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing the Applicant. I have one witness.

11 EXAMINER STOGNER: Any other appearances? There
12 being none, witness please remain standing.

13 (Thereupon, the witness was sworn.)

14 JAMES BLOUNT,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Will you please state your name for the record?

20 A. James Blount.

21 Q. Where do you reside?

22 A. In Oklahoma City.

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

24 A. I work for Devon Energy as an operations
25 engineer.

1 Q. Have you previously testified before the
2 Division?

3 A. Yes, I have.

4 Q. And were your qualifications as an expert
5 operations engineer accepted as a matter of record?

6 A. Yes, they were.

7 Q. And are you familiar with the operations and the
8 drilling of the wells in the area affected by this
9 Application?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I'd tender Mr. Blount
12 as an expert operations engineer.

13 EXAMINER STOGNER: Where did you say you resided?

14 THE WITNESS: Oklahoma City.

15 EXAMINER STOGNER: Oklahoma City. I thought you
16 said Humble City.

17 MR. BRUCE: They're about the same size.

18 EXAMINER STOGNER: Okay, yes, Mr. Blount is so
19 qualified.

20 Q. (By Mr. Bruce) Mr. Blount, briefly, what does
21 Exhibit 1 depict?

22 A. Exhibit 1 is a land map showing the acreage in
23 question that we're requesting an exemption of the
24 cementing to surface on.

25 Q. Okay, and we're here today seeking an exception

1 from Rule R-111-P, are we not?

2 A. That's correct.

3 Q. And Devon desires to drill -- are they Bone
4 Spring, or will they test the Delaware?

5 A. They will be topped out into the Bone Spring, but
6 they're primarily Delaware tests.

7 Q. Okay, and you seek approval to drill the wells
8 without having to cement the production strings to the
9 surface; is that correct?

10 A. That's correct.

11 Q. Now, looking at this area, all of Section 1,
12 which we're here for today, is a single federal lease owned
13 by Devon, I believe?

14 A. Yes, it is.

15 Q. And insofar that -- This is within, or at least
16 partly within the boundaries of the oil-potash area of
17 southeast New Mexico, is it not?

18 A. Yes, it is.

19 Q. And has Devon had the records searched to
20 determine if there are any existing potash leases within a
21 mile of this section?

22 A. Yes, they have.

23 Q. And are there any such potash leases?

24 A. No, there are not.

25 Q. Okay. Let's move on to your Exhibit 2, Mr.

1 Blount, and just identify that briefly for the Examiner.

2 A. Okay, Exhibit 2 is a 1990s map of the potash
3 reserve area. The outlined area in green is our lease in
4 question in Section 1. The bluish color is the potash
5 reserves as mapped. The pinkish area is identified as
6 being barren. And as you can see, ours is -- even though
7 in the dark blue line is the R-111-P boundaries, we are
8 actually in R-111-P in most of the northwest portion of
9 that lease, but it is all in the barren area of the potash.

10 Q. Okay, and there are 120 acres in the southeast
11 portion of that lease that are not in the oil potash area;
12 is that correct?

13 A. That's correct.

14 Q. Now, over to the northeast, Mr. Blount, in 23-31,
15 there's some acreage that's shaded in purple.

16 A. Yes.

17 Q. Is that Devon acreage?

18 A. Yes, that is. That's the Todd leases.

19 Q. And has -- the relief you're seeking today, has
20 Devon received similar relief for a number of the leases
21 over in that area?

22 A. Yes, we have. We've received reliefs on all of
23 Section 14, 15, 22, 23 and the south half of 11.

24 MR. BRUCE: Okay. And Mr. Examiner, I forgot to
25 give you the order numbers. I will get those for you.

1 EXAMINER STOGNER: Please do.

2 Q. (By Mr. Bruce) And you mentioned you're drilling
3 primarily Delaware wells. What does Exhibit 3 depict, Mr.
4 Blount?

5 A. Exhibit 3 is an EUR map of the existing wells in
6 the area, or our projected EURs. You can see they're
7 roughly -- and almost all of these wells are Delaware
8 producers and, you know, you can see the wells just
9 offsetting us are around 100-MBO-type wells.

10 Q. Okay, and you would hope to duplicate that over
11 in Section 1?

12 A. Yes.

13 Q. And so these wells do have some value over in
14 Section 1?

15 A. Yes.

16 Q. And I didn't ask you this before, but I noticed
17 all these circles are different colors. What does that
18 indicate? Is that just the size of the reserves?

19 A. That's correct.

20 Q. Okay.

21 A. The larger ones are in red and the smaller ones
22 are in green.

23 Q. In looking at Exhibit 1, I take it that the
24 majority of these wells to the east and northeast have been
25 drilled either by Devon, Yates or Pogo; is that correct?

1 A. That's correct, and also EOG was another driller
2 of the --

3 Q. Operator --

4 A. -- in Section 32.

5 Q. -- in that area.

6 Let's move on to your Exhibit 4. What does that
7 depict?

8 A. Exhibit 4 is a visualization of the current
9 interpretation of the R-111-P, showing a well that's
10 shallower than 5000 feet would require a production string
11 to be cemented to the surface, or, in lieu of that, a salt
12 string be cemented to the surface, and then the production
13 string be tacked on bottom. Deeper than 5000 feet, it has
14 been interpreted that we have to have two strings of
15 cemented pipe across the salt.

16 Q. Okay. Now, when you say interpreted, is this
17 what the District Office in Artesia has been telling Devon?

18 A. That's correct.

19 Q. Okay. And you seek relief from that, and what
20 will be the first well that will be drilled on this
21 section, Mr. Blount?

22 A. What we are currently, actually, is the Blackjack
23 1 Federal Number 2, and it's identified on that first land
24 map at 1980 from the south and east.

25 Q. Okay, and this is the way -- Is Exhibit 5 a

1 schematic of the way you propose to complete this well?

2 A. That's correct.

3 Q. And is this -- And again, what the Artesia Office
4 is telling you is that you need to bring the cement further
5 on up on the production string?

6 A. That's correct, they're requiring the 5-1/2 to be
7 circulated to surface.

8 Q. Now, before we get into the final exhibits, why
9 do you -- First of all, in your opinion, is Exhibit 5, the
10 way you propose to complete this well, is it proper from an
11 engineering standpoint, and it will adequately comply
12 otherwise with Rule R-111-P?

13 A. Yes, it will. It's fully protected across the
14 salt section with the 8-5/8 cemented to surface, and it's
15 got the 5-1/2 cemented into the 8-5/8, so if at a later
16 date we needed to come back and bring it to surface we
17 could easily set a retainer and pump cement to the surface.

18 Q. Okay. So in other words, if you complete a well
19 in this fashion but you were later ordered to cement it to
20 the surface, you could come back in and do it at that time?

21 A. That's correct.

22 Q. What is the difference in cost between completing
23 a well this way and completing it as the Artesia Office has
24 requested you to do so?

25 A. It's roughly \$30,000 to \$40,000 per well.

1 Q. Okay. Now, in looking at these exhibits, these
2 sections are basically being developed on 16 wells per
3 section; is that correct?

4 A. That's correct.

5 Q. So overall, without doing the math in my head,
6 granting this relief, assuming Devon is successful and
7 drills up those wells, would save you what? Over \$600,000?

8 A. Something in that range.

9 Q. So there is a matter of -- it will improve the
10 economics of the situation?

11 A. Yes.

12 Q. Okay. Now, what does Exhibit -- Well, let's take
13 them together. What do Exhibits 6 and 7 depict, Mr.
14 Blount?

15 A. Six and 7 -- Exhibit 6 is a typical well in this
16 -- If you'll look back at the Exhibit 1, it's the typical
17 wells that are located in Section 6 and Section 32. Almost
18 every well out there was drilled with a 13-3/8 set at
19 roughly 500 feet cemented to surface, 8-5/8 at roughly 4200
20 feet cemented to surface, and the long string at 8100 feet
21 cemented up into the 8-5/8.

22 Exhibit Number 7 shows the identified wells in
23 Section 6, which is the nearest lease, and shows how many
24 sacks were cemented. And if you'll note, there's two of
25 them down at there at the bottom, the Number 10 Adeline and

1 Number 11 Adeline. The 10 was with 850 sacks. They ran a
2 CBL and its identified top of cement was 4934. The Number
3 11 was one of the few wells that had 1300 sacks. That one
4 actually was reported that it got to surface.

5 All the ones that are in the 800 range, there's a
6 little calculation off to the right that shows that more
7 than likely 6600 feet is all the lift you would get in an
8 average hole size of nine inches out there, and so that
9 4900 feet is a pretty typical cement top for a well that
10 would have been cemented with 800 sacks.

11 And the Section 32 are all state leases, and
12 almost all of those wells had, you know, 800 sacks of
13 cement cemented. So I mean, there's only one well, the
14 Pauline State Number 4, that probably had enough to reach
15 surface.

16 Q. All the others, just based on your calculation,
17 would not be cemented to surface?

18 A. That's correct.

19 Q. So even though the Artesia District Office has
20 requested you to complete the wells by cementing to the
21 surface, it appears that the usual method of completion is
22 not to do so?

23 A. That's correct. Prior to 2001 no wells out here
24 were cemented to surface.

25 Q. Okay. And again, you see nothing wrong from an

1 engineering standpoint in completing the wells this way?

2 A. That's correct.

3 Q. Okay. And then finally, Mr. Examiner, Exhibit 8
4 is simply my affidavit of notice. The Bureau of Land
5 Management was notified of this Application since it is the
6 lessee of Section 1.

7 Mr. Blount, were Exhibits 1 through 8 prepared by
8 you or under your supervision or compiled from company
9 business records?

10 A. Yes.

11 Q. And in your opinion, is the granting of this
12 Application in the interests of conservation and the
13 prevention of waste?

14 A. Yes, it is.

15 MR. BRUCE: Mr. Examiner, I'd move the admission
16 of Exhibits 1 through 8.

17 EXAMINER STOGNER: Exhibits 1 through 8 will be
18 admitted into evidence at this time.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. Okay, I'm going to refer now to Exhibit Number 2,
22 just kind of muddle through this right now, since a lot of
23 these exhibits are going to be imaged and the colors may
24 not necessarily be -- so please indulge me here.

25 A. Okay.

1 Q. I look at this map and I see that Section 1,
2 which is your lease -- and you've labeled it the Blackjack
3 lease; is that correct?

4 A. That's correct.

5 Q. Okay. And it's -- Within Section 1 you have
6 highlighted or you have put red hachings through there.
7 What is the red hachmarks?

8 A. The red hachings indicate Devon leaseholds.

9 Q. And there's other red haches around the map; is
10 that correct?

11 A. That's correct, and those may or may not be
12 operated by Devon. There are varying interests. They're
13 just something we have interest in.

14 Q. Now, referring to Section 1, keeping in that,
15 underlying that hachmark area, there are two different
16 depictions. One is -- I believe you called it pinkish or a
17 tannish color?

18 A. Yes.

19 Q. And then the other would be about 120 acres to
20 the extreme southeast, and that's white?

21 A. That's correct.

22 Q. And what is the boundary and the colors
23 depicting?

24 A. The white is outside of R-111-P, and the pink is
25 indicating the barren section of the identified potash.

1 Q. Okay. Now, I see that Section 1 are between two
2 purplish -- I'm sorry, bluish colors. I guess purple is
3 reserved for something else. But there is a bluish
4 indication which looks like an egg back to the southwest,
5 and then it gets larger back to the southeast and -- I'm
6 sorry, back to the northeast and up to the north. And what
7 is this depicting, the bluish color?

8 A. That's indicated potash reserves.

9 Q. Okay, and then there are some yellow up in the
10 extreme -- a yellow-shaded area up in the extreme northern
11 portion of the map. What does that depict?

12 A. That indicates the mines as of 1990. I don't
13 have an updated version of how far those mine shafts have
14 extended, but as of the early 1990s, mid-1990s, actually,
15 that's where the mine shafts were located.

16 Q. Okay. And then the purplish areas as what you
17 indicated to Mr. Jim Bruce.

18 Okay. Now, the wells in Exhibit Number 7, as I
19 understand it, they're all either in Section 32 or 6; is
20 that correct?

21 A. That's correct. They're either in the 6 that is
22 immediately to the east, or 32 which is immediately to the
23 northeast of that.

24 Q. Okay. Now, I think this is worth pointing out
25 because those two sections, when you first see them, since

1 Sections 6, 32, 16 and 36 are usually state acreages,
2 that's not so with Section 6; is that correct?

3 A. That's correct, Section 6 is BLM.

4 Q. Is BLM, and that's federal property. And how
5 about Section 32?

6 A. That is state.

7 Q. That is state. And so between these two --

8 A. Although they do show a surface federal, but it
9 shows state minerals.

10 Q. Okay, I'm just referring to minerals.

11 A. Right, it is state.

12 Q. Okay. So in both state and federal acreage you
13 have gotten this variance as you have depicted on Exhibit
14 Number 6; is that correct?

15 A. We didn't operate any of those wells in 32 or 6.
16 Those are not -- As far as I know, none of those wells had
17 variances. The interpretation has been changed since the
18 -- basically since the 1990s, of R-111-P. Used to be you
19 would just have to bring one string, your intermediate, to
20 the surface. And now it's been interpreted that an
21 intermediate and a salt-protection string is two different
22 strings, and so you have to bring both to the surface.

23 Q. But they were nonetheless approved by the
24 respective either BLM or OCD Artesia Office?

25 A. I would assume so, sir. They were drilled in the

1 1990s. A few of them were drilled in the 2000s, but most
2 of them were drilled in the 1990s.

3 Q. And they're still producing?

4 A. Yes, sir.

5 Q. Okay. And are they all completed in the
6 Delaware?

7 A. Yes, they are. They're all Delaware wells. A
8 typical TD is 8100 feet. There's a few deep wells that I
9 didn't pull up the records on, and I couldn't tell you
10 whether they were cemented, but there was a few Morrow
11 tests out here also.

12 Q. Okay. But it's your understanding of Rule 111
13 and the casing, the deep gas wells casing programs are
14 handled differently than what has been -- hold true for the
15 shallower Delaware-Bone Springs oil productions; is that
16 correct?

17 A. Actually, I'm not absolutely sure whether they've
18 requested those to be circulated to surface. Those are --
19 quite a few older wells -- I mean the R-111-P, the salt
20 string thing was written, I think, in the early 1980s, I
21 believe, and some of these are even pre-existing those.

22 Q. Okay. What kind of bottomhole pressures are you
23 seeing in these Delaware-Bone Springs wells?

24 A. 3000, 3500 pounds.

25 Q. Have you contacted anybody in the BLM office in

1 Carlsbad about this -- about your proposed casing program?

2 A. Yes, we have. As a matter of fact, they approved
3 the original AFE -- or the original APDs that we submitted
4 in Sections 23 and 14 with the -- basically the design we
5 have in Exhibit 5, and the OCD informed them that that was
6 not correct and they would have to circulate to surface.
7 So they changed it as per requested by the OCD. And that
8 was over in the Todd lease that we have in Section 14 and
9 23.

10 Here they knew they were already in R-111-P.
11 They've already been contacted several times, so they
12 immediately just changed it to start with.

13 EXAMINER STOGNER: I have no other questions of
14 this witness, Mr. Bruce.

15 MR. BRUCE: I have nothing further.

16 EXAMINER STOGNER: And if you will provide me a
17 reference to the earlier exceptions or exception -- Was
18 that one order or two --

19 MR. BRUCE: There were two separate orders, Mr.
20 Examiner. One covered a block of acreage, another one
21 covered a half a section, but I will -- They're all in the
22 same area.

23 EXAMINER STOGNER: Were you a party to those
24 cases?

25 MR. BRUCE: Yes, sir.

1 EXAMINER STOGNER: So you would have them, huh?

2 MR. BRUCE: Yes.

3 EXAMINER STOGNER: Okay, because they're probably
4 somewhere within our computer system, but they're as good
5 as lost, I'm sure.

6 MR. BRUCE: I meant to bring them.

7 EXAMINER STOGNER: It would be easier for you to
8 get them, I suppose, than to go look for them, is what I'm
9 getting at.

10 MR. BRUCE: Yes, I will --

11 EXAMINER STOGNER: Okay.

12 MR. BRUCE: -- I will get that.

13 EXAMINER STOGNER: Okay, with that, Case 13,272
14 will be taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 10:00 a.m.)

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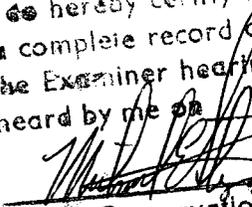
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13272,
heard by me on 27 May 2004.
 , Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 1st, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006