

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. 13,630
APPLICATION OF DEVON ENERGY PRODUCTION)
COMPANY, L.P., FOR LEASE COMMINGLING,)
EDDY COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

RECEIVED

March 2nd, 2006

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Santa Fe, New Mexico

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, March 2nd, 2006, 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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March 2nd, 2006
Examiner Hearing
CASE NO. 13,630

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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FOR OXY PERMIAN:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:25 a.m.:

3 EXAMINER EZEANYIM: At this point I call Case
4 Number 13,630. This is the Application of Devon Energy
5 Production Company, L.P., for lease commingling, Eddy
6 County, New Mexico.

7 Call for appearances, please.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses.

10 EXAMINER EZEANYIM: Any other appearances?

11 MR. CARR: May it please the Examiner, William F.
12 Carr with Holland and Hart, the Santa Fe office. We
13 represent OXY Permian. I do not have a witness.

14 EXAMINER EZEANYIM: May the witnesses stand to be
15 sworn, please?

16 (Thereupon, the witnesses were sworn.)

17 EXAMINER EZEANYIM: Mr. Bruce, you may proceed.

18 MEG MUHLINGHAUSE,
19 the witness herein, after having been first duly sworn upon
20 her oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and city of
24 residence?

25 A. Meg Muhlinghause, Edmond, Oklahoma.

1 Q. Could you spell your last name for the court
2 reporter, please?

3 A. M-u-h-l-i-n-g-h-a-u-s-e.

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

5 A. I'm a landman for Devon Energy Corp.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes, I have.

9 Q. And were your credentials as an expert petroleum
10 landman accepted as a matter of record?

11 A. Yes.

12 Q. And are you familiar with the land matters
13 involved in this Application?

14 A. Yes.

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

17 EXAMINER EZEANYIM: Ms. Muhlinghouse is so
18 qualified.

19 Q. (By Mr. Bruce) Could you please identify Exhibit
20 1 for the Examiner and briefly describe what Devon seeks in
21 this Application?

22 A. Exhibit 1 is a land plat highlighting parts of
23 Section 33, 34 and 35 of Township 17 South, Range 27 East,
24 Eddy County, New Mexico.

25 Devon seeks approval of lease commingling from 58

1 wells located on eight different federal leases that are
2 highlighted different colors by lease.

3 Q. Okay. Which formations do the wells produce
4 from?

5 A. The subject wells produce from the Red Lake-
6 Queen-Grayburg-San Andres Pool and the Northeast Red Lake-
7 Glorieta-Yeso Pool.

8 Q. And will the next witness discuss the actual
9 commingling procedure --

10 A. Yes.

11 Q. -- in detail?

12 A. Yes.

13 EXAMINER EZEANYIM: Are we talking about those
14 two pools there? So are we asking for lease commingling or
15 pool lease commingling?

16 THE WITNESS: We're asking for surface
17 commingling.

18 EXAMINER EZEANYIM: I know. Surface commingling
19 has different values. We have pool lease commingling, we
20 have lease commingling --

21 MR. BRUCE: Well, this is --

22 EXAMINER EZEANYIM: -- we have others, and so --

23 MR. BRUCE: Yeah, the --

24 EXAMINER EZEANYIM: -- I want to understand what
25 you are asking, because when I read it -- when I read it, I

1 understand that you are asking for pool lease commingling.
2 There are two pools involved in this Application.

3 MR. BRUCE: There are two pools, Mr. Examiner,
4 and they are pools that are pre-approved under Rule 303 for
5 downhole -- you know, for downhole commingling.

6 EXAMINER EZEANYIM: Okay.

7 MR. BRUCE: So you know, some of these wells are
8 or will be downhole commingled. But at this point it's
9 just the lease commingling we're asking for.

10 EXAMINER EZEANYIM: Okay, go ahead.

11 Q. (By Mr. Bruce) Are all of these federal leases?

12 A. Yes, they are.

13 Q. And so the royalty interest is common throughout
14 these leases?

15 A. Yes, it is.

16 Q. Is Devon the only working interest owner?

17 A. No, although Devon is by far the largest working
18 interest owner in these wells, OXY owns a working interest
19 in certain depths in parts of all the leases, except the
20 blue and the purple leases on Exhibit 1, those being NMNM-
21 033865 and NMNM-026874-B.

22 Chesapeake Energy owns working interests in the
23 red and the blue leases, being NMNM-0557370 and NMNM-
24 033865, respectively.

25 And Yates Petroleum owns working interest in the

1 blue lease, being NMNM-033865.

2 Q. Okay, what is Exhibit 2?

3 A. Exhibit 2 lists all the interest owners in all
4 eight leases. Other than Devon, OXY, Chesapeake and Yates
5 and the NMS, the royalty owner, all parties -- all listed
6 partie- -- all the other listed parties are overriding
7 royalty interest owners.

8 Q. Okay. So the pink highlighting is simply the
9 working interest owners in these leases?

10 A. Yes.

11 Q. Was notice of this Application given to all of
12 the interest owners in the leases?

13 A. Yes, it was.

14 Q. And is Exhibit 3 an affidavit of notice regarding
15 the certified mailing given to the interest owners?

16 A. Yes, it is.

17 Q. Was notice also published as against any interest
18 owners who may -- or may be unlocatable?

19 A. Yes, it was.

20 Q. And is that submitted as Exhibit 4?

21 A. Yes, that is.

22 Q. Were Exhibits 1 through 4 prepared by you or
23 under your supervision or compiled from company business
24 records?

25 A. Yes, they were.

1 Q. And in your opinion is the granting of this
2 Application in the interests of conservation and the
3 prevention of waste?

4 A. Yes, it is.

5 Q. Now one final matter. OXY, or Occidental
6 Permian, as entered an appearance in this case. Have you
7 had discussions with OXY regarding this Application?

8 A. Yes, we've had discussions with OXY and have
9 provided them with the information that they requested. We
10 also went to their offices in Midland and met with them to
11 answer any questions or concerns that they may have
12 regarding this matter.

13 In our discussions they did request that we
14 clarify two things in our Application.

15 In the Application it states that Devon perform
16 periodic well tests for each well, and OXY wanted us to
17 specify that we do monthly well tests, which is what we
18 actually do.

19 Additionally, OXY also wanted us to specify that
20 the production allocation will be based on the monthly well
21 test as well as the monthly producing days. This is also
22 what we actually do, and our engineer can testify to that
23 more, in more detail.

24 Q. And you would request that the order specify that
25 monthly well tests be done and that the production

1 allocation be based on the well tests and the monthly
2 producing days, as you've just stated?

3 A. Correct.

4 MR. BRUCE: Mr. Examiner, I'd move the admission
5 of Devon's Exhibits 1 through 4, and I have no further
6 questions of the witness.

7 EXAMINER EZEANYIM: Any objection?

8 MR. CARR: No objection.

9 EXAMINER EZEANYIM: Exhibits 1 through 4 will be
10 admitted into evidence. Mr. Carr?

11 MR. CARR: No questions.

12 EXAMINER EZEANYIM: Do you have any questions for
13 this witness?

14 MS. O'CONNOR: I do not.

15 EXAMINER EZEANYIM: I will save my questions. I
16 want to hear from the engineer before I ask all these
17 questions, so you may be excused.

18 The witness has been sworn, right?

19 MR. CARR: Yes.

20 EXAMINER EZEANYIM: Okay, go ahead.

21 CHRIS SINGLETARY,

22 the witness herein, after having been first duly sworn upon
23 his oath, was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. BRUCE:

1 Q. Would you please state your name for the record?

2 A. Chris Singletary.

3 Q. Where do you reside?

4 A. Edmond, Oklahoma.

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

6 A. I work for Devon Energy, as an operations
7 engineer in their southeast New Mexico group.

8 Q. Have you previously testified before the
9 Division?

10 A. No.

11 Q. Could you summarize your educational and
12 employment history for the Examiner?

13 A. Yes, I graduated from Louisiana Tech University
14 in May of 2005, I have a BS degree in mechanical
15 engineering. I started work in December of 2004 for a
16 company called Byrne and Faulkner. I worked for them as an
17 operations engineer in north Louisiana and east Texas until
18 May of 2005. At that time I was transferred to Oklahoma
19 City. I was there to supervise production and operation of
20 their properties in western Oklahoma and in the Arkoma
21 Basin. I worked in that capacity until September of 2005,
22 at which time I took the job with Devon Energy.

23 Q. And does your area of responsibility at Devon
24 include this part of southeast New Mexico?

25 A. Yes, it does.

1 Q. And are you familiar with the operational matters
2 involved in this Application?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I'd tender Mr.
5 Singletary as an expert operations engineer.

6 EXAMINER EZEANYIM: Mr. Singletary is qualified.

7 Q. (By Mr. Bruce) Mr. Singletary, could you just
8 briefly identify what Exhibit 5 is?

9 A. Exhibit 5 is the Form C-107-B that Devon
10 submitted to the Division seeking administrative approval
11 of this surface commingling request.

12 Q. Why couldn't the Application be approved
13 administratively?

14 A. The wells will not be separately metered, and
15 according to Division Rules the Application had to be set
16 for hearing.

17 Q. Okay. Before we go into Exhibit 5 a little more,
18 what is Exhibit 6?

19 A. Exhibit 6 is the Order R-10,759 that was issued
20 for the -- by the Division, which approved a similar Devon
21 application for approximately 20 wells in Sections 33, 34
22 and 35.

23 MR. BRUCE: Mr. Examiner, this order, R-10,759,
24 pertains to surface commingling of only Red Lake-Queen-
25 Grayburg-San Andres production, but it involves most but

1 not all of these same leases.

2 EXAMINER EZEANYIM: Uh-huh.

3 MR. BRUCE: So that's why we're submitting it.

4 Q. (By Mr. Bruce) So in essence, Mr. Singletary,
5 Devon wants to get a new order or amend this order to add
6 more wells to the surface commingling approval?

7 A. Yes, that's correct.

8 Q. Looking at Exhibit 6 on page 4, what did this
9 order provide with respect to well testing?

10 A. I required that monthly production tests be
11 conducted on each well for the production allocation.

12 Q. And Devon has continued to do that out here since
13 this order was issued?

14 A. That's correct.

15 Q. Not only for the original wells but for all wells
16 out here?

17 A. Yes.

18 Q. Let's go back to Exhibit 5 and go through the
19 administrative application. Why don't you just run through
20 it with particular attention to the setup for the surface
21 commingling battery?

22 A. Okay. Devon is seeking administrative approval
23 to be able to surface commingle these wells referenced in
24 this Application and allocate production based on monthly
25 well tests. As we talked about before, the production from

1 these wells is from the Red Lake-Queen-Grayburg-San Andres
2 Pool and the Northeast Glorieta -- Northeast Red Lake-
3 Glorieta-Yeso Pool. Downhole commingling for these pools
4 has been preapproved by the Division.

5 If you look at page 5 [sic] of the Application,
6 you'll see a schematic of the proposed production facility.
7 What this shows in regard to well testing is that the fluid
8 produced from each well is produced to a common header.
9 The header is configured so that individual wells can be
10 turned to the test heaters that you see, and their
11 production can be individually metered from that test
12 heater.

13 The gas from each well is also produced to a
14 common header that goes to a common sales meter. The gas
15 production tests are done by an orifice meter on a test
16 trailer that's pulled to each individual well.

17 Q. Look at the schematic, you said that the wells
18 will be tested monthly. Is there a necessary change to
19 this --

20 A. Yes, there is.

21 Q. -- schematic?

22 A. In October of 2005, another test heater was added
23 to this battery to allow for each well to be tested on a
24 monthly basis. There's 73 total wells coming into this
25 battery, so you have to have more than two test heaters to

1 be able to test each on a monthly basis. And that has been
2 added, but it's not represented in the schematic.

3 Q. This represents two, and there are actually three
4 out there?

5 EXAMINER EZEANYIM: Three instead of two, is that
6 what you said?

7 THE WITNESS: Yes.

8 EXAMINER EZEANYIM: Okay, three.

9 MR. BRUCE: There are or will be three.

10 THE WITNESS: There is three, there are three.

11 MR. BRUCE: At this time.

12 EXAMINER EZEANYIM: Okay.

13 Q. (By Mr. Bruce) Now, the final page of this
14 exhibit is a sundry notice that was filed on these wells
15 with the BLM. Has the BLM approved this surface
16 commingling?

17 A. Yes.

18 Q. And in your opinion, will Devon's proposal with
19 respect to surface commingling accurately allocate
20 production to each lease and each well?

21 A. Yes.

22 Q. How will the interest owners benefit by approval
23 of this Application?

24 A. Surface commingling reduces the operating costs
25 and allows us to extend the productive life of these wells,

1 which increases revenue for all the interest owners in
2 these leases.

3 Q. Were Exhibits 5 and 6 prepared by you or under
4 your supervision or compiled from company business records?

5 A. Yes.

6 Q. And in your opinion, is the granting of this
7 Application in the interests of conservation and the
8 prevention of waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I'd move the admission
11 of Devon Exhibits 5 and 6.

12 EXAMINER EZEANYIM: Any objections?

13 MR. CARR: No objection.

14 EXAMINER EZEANYIM: Okay, Devon Exhibits 5 and 6
15 will be admitted into evidence.

16 MR. BRUCE: I have nothing further of the witness
17 at this time, Mr. Examiner.

18 EXAMINER EZEANYIM: Mr. Carr?

19 MR. CARR: No questions.

20 EXAMINER EZEANYIM: Do you have any questions?

21 MS. O'CONNOR: No, sir.

22 EXAMINATION

23 BY EXAMINER EZEANYIM:

24 Q. Now, let's get this Application clear. I know --
25 I think sometime in 1996 you had a lease commingling order,

1 CTB-440, that authorized lease commingling on these leases,
2 right?

3 A. That's correct.

4 Q. And then in 1997 you had this Order Number 10,759
5 that authorized you to add more wells and more leases?

6 A. Yes.

7 Q. And at that point you obtained the authority
8 to --

9 (Fire alarm sounded)

10 EXAMINER EZEANYIM: Oh, man -- we have to go, we
11 have to come back.

12 (Off the record at 9:45 a.m.)

13 (The following proceedings had at 10:00 a.m.)

14 EXAMINER EZEANYIM: Thank you for coming back.

15 We're going to continue the hearing and continue where we
16 stopped before we were forced to take a recess.

17 Q. (By Examiner Ezeanyim) I was addressing you
18 about what you really want in this order, you know. In
19 1997, you got an R order 10,759 where you have a lease
20 commingling with additional wells and obtained permission
21 to get allocation on the basis of well tests. And at this
22 point, you want to add two more leases to your lease,
23 right?

24 A. That's correct.

25 Q. And then you want to add many more wells to those

1 leases, to the old leases, with the new leases and the
2 wells, okay?

3 A. (Nods)

4 Q. And now you want to allocate production on all of
5 them on the basis of well tests. And as you know, for such
6 surface commingling we want you to meter each of them
7 separately. I understand that you have obtained permission
8 to do it in the past, and at this point you don't have any
9 objection from any of the interest owners on that
10 allocation for the --

11 A. No, no one has objected.

12 Q. Is that -- some well tests, you are going to
13 allocate production to the leases, each individual lease?
14 How are you going to allocate production to -- some well --
15 well tests?

16 A. I don't think I understand the question.

17 Q. I said, you know, you are going to allocate
18 production on the basis of well tests on each well. How
19 are you going to allocate production on each lease? Well
20 tests?

21 A. Each lease?

22 Q. Yes.

23 A. The production for each lease, I think -- the way
24 I understand the question, it would be just the sum of all
25 the allocated production to each well on that lease.

1 Q. That's what I'm asking you. Is that how you are
2 going to do that?

3 A. Yes.

4 Q. When you gave your notice to BLM, did you have
5 any approval?

6 A. As far as prior approval for the --

7 Q. Yeah, for what you are trying to do here.

8 A. The notice to the BLM that we sent -- this -- the
9 one that we have approved on November 10th.

10 Q. Okay, is this -- What exhibit is that? Do I have
11 it?

12 A. Yes, it's on the last page of this --

13 MR. BRUCE: Exhibit 5.

14 THE WITNESS: -- Application.

15 EXAMINER EZEANYIM: Okay.

16 THE WITNESS: And it does include all the wells
17 that are referenced in the letter.

18 Q. (By Examiner Ezeanyim) Okay. You know, I'm
19 concerned about this -- several wells are going to add to
20 these leases. I don't know -- Can you tell me about
21 reduction in the production value? Do you think that will
22 reduce the value of the -- because you have a bunch of
23 wells you're going to add from -- even from a different
24 pool or something. Have you done any calculations to
25 indicate that the value of the production that's going to

1 be reduced in any way?

2 A. As far as producing from the different pools, I
3 think that the order that the Division pre-approved to
4 downhole commingle those wells was based on the fact that,
5 you know, it was accepted that commingling those two pools
6 would not damage production, as far as downhole
7 commingling.

8 As far as surface production, I don't see -- I
9 don't think there's any way that this would damage the
10 value of the production or reduce production from any of
11 these pools.

12 Q. And you said -- How is gas going to be metered?
13 You are using a portable meter, mounted on the trailer? Is
14 that how you're going to meter your gas?

15 A. That's how we get the monthly allocation well
16 test for the gas. The actual sales volume is at a common
17 meter at the battery.

18 Q. Uh-huh. So actually, this is an amendment to
19 this R order, not a different order? It's an amendment to
20 the order you already have; is that correct?

21 A. Yes.

22 EXAMINER EZEANYIM: No further questions, you may
23 step down.

24 Do you have anything, Mr. Carr?

25 MR. CARR: No, I do not.

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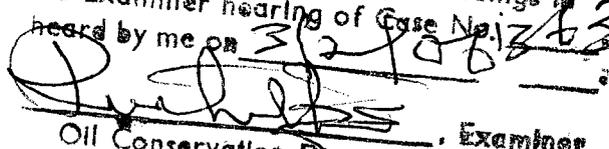
EXAMINER EZEANYIM: Anything further, Mr. Bruce?

MR. BRUCE: Nothing further, Mr. Examiner.

EXAMINER EZEANYIM: At this point, Case Number
13,630 will be taken under advisement.

(Thereupon, these proceedings were concluded at
10:05 a.m.)

* * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13630
heard by me on 3/2/80

Oil Conservation Division, Examiner

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 March 6th, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006