

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

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, LP, FOR
APPROVAL OF A NONSTANDARD GAS
SPACING AND PRORATION UNIT,
UNORTHODOX WELL LOCATIONS AND
COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO. CASE NO. 14534

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, LP, FOR
COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO. CASE NO. 14535
*Core 14305
R-13114*

APPLICATION DEVON ENERGY
PRODUCTION COMPANY, LP, FOR
COMPULSORY POOLING,
CHAVES COUNTY, NEW MEXICO. CASE NO. 14536

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, LP, FOR
COMPULSORY, POOLING,
CHAVES COUNTY, NEW MEXICO. CASE NO. 14537

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, LP, FOR
NONSTANDARD GAS SPACING AND
PRORATION UNIT IN UNORTHODOX
WELL LOCATIONS, AND COMPULSORY
POOLING, CHAVES COUNTY, NEW MEXICO. CASE NO. 14528

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TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 2, 2010: 9:06 a.m.

Santa Fe, New Mexico

1 BEFORE: TERRY WARNELL, Hearing Examiner
2 DAVID K. BROOKS, Legal Advisor

3 This matter came on for hearing before the New
4 Mexico Oil Conservation Division, TERRY WARNELL,
5 Hearing Examiner, and DAVID K. BROOKS, Legal
6 Advisor, on Thursday, September 2, 2010, at the New
7 Mexico Energy, Minerals and Natural resources
8 Department, 1220 South St. Francis drive, Room 102,
9 Santa Fe, New Mexico.

7 REPORTED BY: Paul Baca
8 Paul Baca Court Reporters
9 500 Fourth Street, NW - Suite 105
10 Albuquerque, New Mexico 87102

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1 THE EXAMINER: Let's go ahead then and go
2 back on the record. And Mr. Bruce, we're going to
3 hear all of these? There are five cases?

4 MR. BRUCE: Correct.

5 THE EXAMINER: So then let's go ahead and
6 call Case 14534. I think they all -- do they all
7 read the same.

8 MR. BRUCE: Not quite.

9 THE EXAMINER: Not quite? Okay. So we're
10 going to hear all five of these cases. Case 14534,
11 application of Devon Energy Production Company, LP,
12 for approval of a nonstandard gas spacing and
13 proration unit, unorthodox well locations and
14 compulsory pooling, Chaves County, New Mexico.

15 Case No. 14535, application of Devon
16 Energy Production Company, LP, for compulsory
17 pooling, Chaves County New Mexico.

18 Case No. 14536, application Devon Energy
19 Production Company, LP, for compulsory pooling,
20 Chaves County, New Mexico. That's three, I believe.

21 Case No. 14537, application of Devon
22 Energy Production Company, LP, for compulsory,
23 pooling, Chaves County, New Mexico.

24 And the fifth case, Case No. 14528,
25 application of Devon Energy Production Company, LP,

1 for nonstandard gas spacing and proration unit in
2 unorthodox well locations and compulsory pooling,
3 Chaves County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce, of
6 Santa Fe, representing the applicant. I have two
7 witnesses.

8 THE EXAMINER: Any other appearances?

9 MR. KELLAHIN: Mr. Examiner, I'm Tom
10 Kellahin, of the Santa Fe law firm of Kellahin &
11 Kellahin, appearing this morning in all five cases
12 for Chisos, LTD.

13 THE EXAMINER: Would the witnesses please
14 stand and state your name and be sworn?

15 (William James Ball, Jr., and Curtis D.
16 McKinney were duly sworn by the court reporter.)

17 WILLIAM JAMES BALL, JR.,
18 having been previously duly sworn, testified as
19 follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Ball, could you state your full name
23 and where you reside?

24 A. William James Ball, Jr., Edmond, Oklahoma.

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

1 A. Devon Energy Production Company, LP. Land
2 advisor for New Mexico.

3 Q. Have you previously testified before the
4 Commission?

5 A. Yes.

6 Q. And were your credentials as an expert
7 petroleum land man accepted as a matter of record?

8 A. Yes.

9 Q. And are you familiar with the land matters
10 involved in these applications?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I tender
13 Mr. Ball as an expert petroleum land man.

14 THE EXAMINER: Any objections,
15 Mr. Kellahin, to him?

16 MR. KELLAHIN: No.

17 THE EXAMINER: So recognized.

18 Q. (By Mr. Bruce) Mr. Ball, could you
19 identify Exhibit 1 for the Examiner and discuss its
20 contents briefly?

21 A. It's an exhibit showing the first five
22 wells that we plan on drilling on the LE Ranch. The
23 LE Ranch is about 164 square miles or sections of
24 land, approximately 104,000 acres. And again, these
25 are the first five wells that we plan on drilling

1 there.

2 You'll note on the bottom notation, below
3 the listed five, the notation is for the Loving
4 7 fee 1H. That notation is there just to indicate
5 to you that that one will be a little bit of a
6 directional down into a pilot hole formation.

7 Q. And what is the approximate depths of
8 these wells?

9 A. The average of all five, as shown on this
10 exhibit, is about 8,600 feet, approximately. And
11 the total vertical depth is approximately
12 11,600 feet.

13 Q. And all of these wells will be drilled --
14 the pilot hole will be drilled to test the Devonian
15 formation?

16 A. That's correct. Our plan is to go into
17 the top of the ~~Devonian~~, because it's just a few
18 ~~hundred feet below the Mississippi Limestone~~, which
19 is our objective.

20 Q. The primary objective?

21 A. Yeah.

22 Q. Mr. Ball, let's go through the plan plats
23 next. What is Exhibit 2?

24 A. They're C-102 forms. I believe you'll see
25 that on this C-102 form, the top page. It shows the

1 proration units, the surface location, the bottom
2 hole location, and other general descriptions.

3 If you note on the top two -- that should
4 be the Loving Well and the Goodnight Well -- those
5 are the proration units that will go across the
6 section lines.

7 Q. Okay.

8 A. Do you want me to describe the second
9 page? It's just the Midland Map Company maps
10 showing the proration unit. Once again, the red dot
11 is the surface location, the green is the bottom
12 hole location.

13 Q. Okay. Now, with respect to the Exhibit 2,
14 which is the Loving 7 No. 1 Well, the pilot hole is
15 at an unorthodox oil well location in the southwest
16 quarter, northeast quarter of the section, correct?

17 A. That's correct.

18 Q. And does Devon request unorthodox location
19 approval for that well?

20 A. Yes.

21 Q. Now, this is the well you mentioned that
22 the pilot hole will be directionally drilled a
23 little bit. There are two unorthodox locations in
24 this case; is that correct?

25 A. That is correct.

1 Q. The initial pilot hole down to, say, the
2 top of the Morrow. And where will the Devonian be
3 located?

4 A. The Devonian is just immediately directly
5 below the Mississippi Limestone formation.

6 Q. And what quarter section will be dedicated
7 in the Devonian?

8 A. That would be southwest of the -- excuse
9 me, southeast of the northeast.

10 Q. So the well will be drilled vertically
11 down towards the Morrow-Mississippian and then
12 deviated slightly over toward the southeast
13 quarter/northeast quarter in the Devonian, correct?

14 A. That's correct, half of Section 7.

15 Q. Okay. So there will be unorthodox
16 locations in the southwest/northeast and in the
17 southeast/northeast?

18 A. That's correct.

19 Q. Devon also requests the highlighted
20 nonstandard unit. And for the record, could you
21 describe the acreage in the nonstandard unit for the
22 Mississippian?

23 A. It would be the south half of the
24 northeast of 7, the north half of the southeast of
25 7. In Section 8, it would be the south half of the

1 northwest and the north half of the southwest of 8.

2 Q. And do you seek forced pooling of both the
3 nonstandard unit as to the Missippian?

4 A. Yes.

5 Q. And then you also seek forced pooling as
6 to separately the southwest/northeast and the
7 southeast/northeast?

8 A. That's correct.

9 Q. The southeast/northeast, as to the
10 Devonian only? And the southwest/northeast as to
11 any oil zone that may be discovered uphole?

12 A. That's correct.

13 Q. Now, turn to the second page of Exhibit 2,
14 briefly. Could you describe a little bit the land
15 holdings within the LE Ranch?

16 A. Devon has leased all these fee lands, with
17 the exception of -- well, has leased or we've
18 recently reached an agreement in the last few days
19 with all the parties that own minerals,
20 approximately 12 royalty owners, with the exception
21 of one.

22 And as you can see, in most cases all the
23 way around the proration unit Devon has these lands
24 leased up.

25 Q. But as to mineral ownership in the

1 LE Ranch, are the 12 owners or so you've mentioned
2 common throughout this area?

3 A. Yes, they are.

4 Q. Okay.

5 A. It's kind of on a checkerboard pattern for
6 some. For example, as you can see, there are 320
7 splits in most of the sections, and the ratios on
8 some of the royalty owners are different on one side
9 than they are on the other.

10 But in some cases, they're consistent.
11 For example, if someone might have 6.25 on the east
12 half, they'll have 6.25 on the west half percent.

13 Q. Okay. But with respect to -- and this
14 goes back to notice purposes for the nonstandard
15 unit portion or even the unorthodox location portion
16 of the application.

17 The interest owners are all the same in
18 Sections 7 and 8 and in most of the other sections,
19 correct?

20 A. That's correct.

21 Q. Let's go to Exhibit 3. And what does that
22 reflect?

23 A. Of course, it's a C-102. And it reflects
24 the same type of information: Surface location,
25 bottom hole, location proration unit or well unit

1 outline.

2 It's the same situation as far as the
3 depth. We'll go down to the top of the Devonian.
4 But our objective, as with each one, is again the
5 horizontal and Mississippi Limestone.

6 Q. And in this instance, the well location,
7 which is an unorthodox oil well location, will be
8 vertically drilled from the surface down into the
9 Devonian, correct?

10 A. That's correct.

11 Q. And you seek approval of the unorthodox
12 locations for any oil zones that may be included in
13 that vertical limit, correct?

14 A. That's correct.

15 Q. And you also seek approval of the
16 nonstandard unit?

17 A. That's correct.

18 Q. And finally, you seek forced pooling of
19 all the -- and we'll get to the company in a
20 minute -- of mineral interests in the nonstandard
21 unit and in the 40 acres where the vertical hole is
22 located?

23 A. That's correct.

24 Q. Okay. The remaining three are a little
25 simpler, Mr. Ball. Could you run through

1 Exhibits 4, 5 and 6 and just discuss what is being
2 sought in these cases?

3 A. The same objectives as the other two.
4 They're obviously just a regular well unit, not a
5 nonstandard location and not a special well unit
6 situation.

7 Q. So the Mississippian unit will be the
8 north half of Section 28 in this matter?

9 A. That's correct.

10 Q. And the well locations are orthodox?

11 A. That's right.

12 Q. And the surface location, the pilot hole,
13 will be vertically drilled to the Devonian?

14 A. That's correct.

15 Q. So you seek the forced pooling of the
16 northeast/northwest quarter as to 40-acre zones and
17 the north half as to 320-acre zones?

18 A. That's correct.

19 Q. And does the same hold true as to the
20 Jinglebob 29 fee reflected on Exhibit 5?

21 A. Yes, it does.

22 Q. Again, it's a north half well unit for the
23 Mississippian or any gas zone?

24 A. That's correct.

25 Q. And you would also seek to force pool the

1 northwest quarter/northwest quarter as to any
2 40-acre oil zones?

3 A. That's correct.

4 Q. And again, the surface location, the pilot
5 hole, will be drilled vertically into the Devonian?

6 A. That's correct.

7 Q. And finally, as to the Open Range Well in
8 Section 34, the north half unit will be will be
9 dedicated to any gas well zones?

10 A. That's correct.

11 Q. And the northwest/northwest will be
12 dedicated as to any oil zones?

13 A. Correct.

14 Q. Who do you seek to force pool in these
15 cases?

16 A. We've reached agreement with two other
17 parties. But we're only force pooling Samedan
18 Royalty Corporation.

19 Q. Two other parties were notified of these
20 matters, I believe, Pure Energy Resources and
21 Chisos?

22 A. That's correct.

23 Q. And you have reached voluntary agreement
24 with those two interests, obviously?

25 A. Yes, we have.

1 Q. And you do not seek to force pool them?

2 A. That's correct.

3 Q. As to Samedan, what interest does it own
4 in all of these well units?

5 A. In all of these well units, Samedan
6 Royalty Corporation owns 6.25 percent.

7 Q. And that is of unleased mineral interest?

8 A. That's correct.

9 Q. What is Exhibit 7, Mr. Ball?

10 A. Exhibit 7, lower in your stack, of course,
11 going from the bottom up, is the operating
12 agreement, certain pages out of it.

13 Then just above that is the AFE which
14 accompanied the well proposal. And that was made
15 back on July 14th. There's proof of the facts, and
16 then it was sent Certified Mail.

17 Just above that is -- basically after it
18 was mailed out, we felt like there needed to be some
19 clarification, a better clarification, as to the
20 situation with the pilot hole.

21 So there's correspondence in there, e-mail
22 and another Certified letter. The Certified letter
23 is August 2nd.

24 And then again, not knowing what Samedan
25 was going to do, on August 5th, regardless of not

1 knowing what they did, I just decided to mail them
2 the JOA, which is the bottom part of this exhibit.

3 Q. Okay. And Exhibit 7 contains all of the
4 proposal letters as to all five wells, correct?

5 A. That is correct.

6 Q. Now, these proposals were sent out in July
7 and August, not that long ago. Did Devon have prior
8 contacts with Samedan?

9 A. Our contacts started with Samedan on
10 October 17, 2008, so almost two years.

11 It's been quite an experience from my end
12 to have dealt with five different land men within
13 the organization. And we did not get an inclination
14 or a response as to what they were going to do
15 until, I think, a week ago today, when they finally
16 did respond to what they considered was a lease
17 form, that they wanted to lease interest.

18 But the conditions in the lease were not
19 acceptable to Devon nor the terms that they put with
20 this.

21 During that time, just to show how much
22 time, it was almost 19 months that I had been
23 getting the reason that they didn't have an answer
24 out of their business unit.

25 So basically, we are still in

1 negotiations. I am hopeful that we will come to an
2 agreement. Devon wants to make an agreement with
3 them, and I think we'll get there.

4 Q. And if Samedan does sign a lease or reach
5 other voluntary agreement, will you notify the
6 Division?

7 A. Yes.

8 Q. Now, you mentioned the first contact was
9 October 2008. It wasn't just then, and then these
10 letters? There were a number of contacts and
11 negotiations in the interim, correct?

12 A. Many dozens, yes.

13 Q. In your opinion, has Devon Energy made a
14 good-faith effort to obtain the voluntary joinder of
15 Samedan in these well units?

16 A. Yes, we have.

17 Q. Now, each well proposal to Samedan
18 contained in AFE. What are the approximate costs of
19 these wells?

20 A. They're in the approximate range of
21 3,100,000.

22 Q. And is this cost reasonable and comparable
23 to the cost of other wells drilled at this depth in
24 this area of New Mexico?

25 A. Yes, they are.

1 Q. And what overhead rates does Devon
2 propose?

3 A. Monthly drilling -- excuse me. Daily
4 drilling overhead rates, 5,500. Monthly is \$550.

5 Q. Are these rates reasonable and comparable
6 to what you're charging in your operating agreement?

7 A. Yes, they are.

8 Q. Do you request a 200 percent risk charge
9 if Samedan goes nonconsent?

10 A. Yes.

11 Q. And do you request that Devon Energy be
12 appointed operator of the well?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I've handed you
15 Exhibits 8A through 8E. And these are the
16 individual well notifications for each of the cases.
17 You will see that Pure and Chisos were notified, as
18 well as Samedan.

19 Of course, Pure and Chisos are dismissed
20 from the case, but Samedan did receive actual notice
21 of all of the pool of applications.

22 Q. (By Mr. Bruce) Mr. Ball, in your opinion,
23 is the granting of these applications in the
24 interest of conservation and the prevention of
25 waste?

1 A. Yes, they are.

2 Q. And were Exhibits 1 through 7 prepared by
3 you or under your supervision or compiled from
4 company business records?

5 A. Yes, they were.

6 MR. BRUCE: Mr. Examiner, I move the
7 admission of Devon Exhibits 1 through 7 and 8A
8 through 8E.

9 MR. KELLAHIN: No objection, Mr. Examiner.

10 THE EXAMINER: Exhibits 1 through 7 and 8A
11 through 8E are admitted.

12 (Devon Exhibits 1 through 7 and 8A through
13 8E inclusive were admitted.)

14 MR. BRUCE: I have no further questions of
15 the witness.

16 MR. KELLAHIN: Mr. Examiner, because
17 Mr. Ball has testified that Devon and my client have
18 reached a voluntarily agreement, I have no
19 questions. And dismissal of my client from these
20 cases causes us not to engage Mr. Ball in any
21 questions.

22 THE EXAMINER: Thank you.

23 Mr. Brooks.

24 MR. BROOKS: Well, I think the Examiner
25 having experienced some difficulty in keeping this

1 all sorted out, I'm having a little trouble keeping
2 it sorted out in my mind. I want to ask you a few
3 questions, just to clarify.

4 We're dealing with five different wells
5 here, correct?

6 THE WITNESS: Yes, sir.

7 MR. BROOKS: And there's a different unit
8 for each one?

9 THE WITNESS: Yes, sir.

10 MR. BROOKS: You know, it looked to me
11 like only, from what I saw, two of them, 14528 and
12 14534, involve an unorthodox unit for the purpose
13 of, I assume, a horizontal well; is that correct?

14 THE WITNESS: Yes, sir. Those two cases
15 have three things going on with it: Nonstandard
16 location, the pooling, and the nonstandard gas
17 spacing.

18 MR. BROOKS: Are the other three vertical
19 wells?

20 THE WITNESS: Yes, sir, down to the
21 Devonian. But in all cases, they're all going to be
22 horizontal. That's our objective.

23 MR. BROOKS: Okay. Well, what is the
24 spacing unit in these cases?

25 THE WITNESS: For Mississippi, horizontal

1 limestone is 320; and the Devonian oil would be 40.

2 MR. BROOKS: Okay. But you're not
3 applying for a nonstandard unit. So what is the
4 situation there?

5 THE WITNESS: I think the difference is
6 the two that we are doing the nonstandard versus the
7 others is they cross the section lines.

8 MR. BROOKS: I'm not sure I understand why
9 it would not be necessary, if you're doing a
10 horizontal in a 40 acre spacing, to have a
11 nonstandard unit, even if they didn't cross the
12 section lines.

13 MR. BRUCE: The Mississippian would be
14 320 acres of gas.

15 MR. BROOKS: Okay. You're doing the
16 horizontal in the Mississippian and in the Devonian?

17 MR. BRUCE: That is correct.

18 MR. BROOKS: Okay. So the horizontal is
19 only in the Mississippian?

20 MR. BRUCE: But the pilot holes go down to
21 the Devonian. But then they come back and kick off
22 in the Mississippian.

23 MR. BROOKS: Okay. So the only horizontal
24 wells are in the Mississippian?

25 MR. BRUCE: That is correct.

1 MR. BROOKS: Which is some 320-acre
2 spacing. Okay, that helps.

3 Samedan is the only party to be approved,
4 correct?

5 THE WITNESS: Yes, sir.

6 MR. BROOKS: And that is true of all
7 cases?

8 THE WITNESS: Yes, sir.

9 MR. BROOKS: All five cases?

10 THE WITNESS: Yes, sir.

11 MR. BROOKS: And do I understand that
12 Samedan's interest is uniform in all the lines
13 involved?

14 THE WITNESS: Yes, sir.

15 MR. BROOKS: And that would apply to all
16 formations?

17 THE WITNESS: Yes, sir.

18 MR. BROOKS: Okay. That also simplifies
19 things.

20 Now, what about the unorthodox well
21 location aspects in Cases 28 and 34? Have you given
22 notice to the owners?

23 I don't recall any that I heard the
24 explanation of the compliance with the notice
25 requirements for the nonstandard location.

1 Are there any, or are they all common
2 ownership?

3 THE WITNESS: It's all the same parties.
4 And Devon, our working interest is the same all the
5 way around.

6 MR. BROOKS: Are all the working interests
7 identical in the offsetting units versus the units
8 where the nonstandard locations will be?

9 THE WITNESS: Yes, sir.

10 MR. BROOKS: Okay. So then there are no
11 discrepant working interests between any of the
12 units adjoining the nonstandard units?

13 THE WITNESS: Say that again, sir.

14 MR. BROOKS: Well, I think I was just
15 repeating myself. I think I've already got your
16 answer.

17 But just to be sure: In every instance
18 where, in both of the two nonstandard locations, ~~the~~
19 ~~offsetting units have identical working interest~~
20 ownership to the unit in which the nonstandard
21 location is located; is that correct?

22 THE WITNESS: I'm looking, sir. Just a
23 second. The royalty ownership for the offsetting
24 nonstandard proration units --

25 MR. BRUCE: For the unorthodox locations,

1 Mr. Ball. That's what he asked.

2 THE WITNESS: Yes, they're the same.

3 MR. BROOKS: Okay. So I'm looking at
4 Exhibit 2, which is 14528.

5 THE WITNESS: Yes, sir.

6 MR. BROOKS: And in Exhibit 2, the project
7 area consists of -- I'm not clear on this. What is
8 the project area for the well in Exhibit 2?

9 THE WITNESS: For the horizontal
10 Mississippi Limestone, the project area is outlined
11 on the second page.

12 MR. BROOKS: Okay. That's what I was
13 thinking. Because it's the same as is outlined on
14 the first page by the hashmarks, right?

15 THE WITNESS: Yes, sir.

16 MR. BROOKS: So that the project area
17 consists of Units G, H, I and J in Section 7 and
18 Units E, F, K and L in Section 8?

14528

19 THE WITNESS: That's correct, sir.

20 MR. BROOKS: Okay. And it's a 320-acre
21 unit. So what's nonstandard about the location?

22 MR. BRUCE: Mr. Examiner, that would be
23 the oil well location.

24 MR. BROOKS: Okay. So the horizontal
25 well, it's not nonstandard in the Mississippian?

1 It's only nonstandard in the Devonian?

2 MR. BRUCE: It is standard in the
3 Mississippian. It would be nonstandard as to any
4 oil zone.

5 MR. BROOKS: Forty-acre unit?

6 MR. BRUCE: Yes.

7 MR. BROOKS: That's because it's 2,500
8 from the north, which puts it 140. From the south
9 edge of the unit, it's 1,400 from the east line of
10 the section, which puts it 80 feet from the east
11 line of the unit?

12 MR. BRUCE: That is correct, Mr. Examiner,
13 for everything but one thing. And I think
14 Mr. McKinney will go into this a little bit.

15 As to the Devonian --

16 MR. BROOKS: Yeah.

17 MR. BRUCE: -- the unorthodox location is
18 actually in the southeast/northwest in Unit H.

19 MR. BROOKS: So the bottom hole location
20 will be in H, rather than G, for the Devonian?

21 MR. BRUCE: For the Devonian. And it will
22 be approximately 2,500 feet from the north line and
23 I think about 1,280 from the east line.

24 MR. BROOKS: So the offsetting units to
25 the nonstandard location are going to be Units F, I

1 and J in Section 7?

2 MR. BRUCE: Well, I and J, not F.

3 MR. BROOKS: Why not F?

4 MR. BRUCE: It doesn't encroach on Unit F.
5 It's only 1,400 feet from the east line.

6 MR. BROOKS: Well, I thought you said that
7 the bottom hole location was going to be in Unit G?

8 MR. BRUCE: Mr. Examiner, for this well --

9 MR. BROOKS: Or Unit H? Where is the
10 bottom hole location going to be?

11 MR. BRUCE: The bottom hole location in
12 the Devonian only will be in Unit H. But you said,
13 "Unit F." So it should be G, I and J; not F.

14 MR. BROOKS: Okay, I understand that. I'm
15 sorry. I said "F," and I should have said "G."
16 It's G, I and J are the offsetting units?

17 MR. BRUCE: In the Devonian.

18 MR. BROOKS: In the Devonian.

19 MR. BRUCE: As to other uphole zones that
20 are oil, the offsetting units will be H, I and J.

21 MR. BROOKS: Okay. Now, is the ownership
22 of the working interest uniform as to Units G, H, I
23 and J in Section 7?

24 THE WITNESS: Yes, they are.

25 MR. BROOKS: And is that true in all

1 formations?

2 THE WITNESS: Yes, sir.

3 MR. BROOKS: Thank you. That's what I
4 needed to know.

5 Now, let me go to Case No. 14534. That
6 will be what exhibit number?

7 MR. BRUCE: Exhibit 3, Mr. Examiner.

8 MR. BROOKS: Exhibit 3? Okay. Yeah, it
9 looks like 145311, but I realize that's probably
10 something you didn't get copied. Something didn't
11 come out on the copy. Okay.

12 This well is located in Unit G of
13 Section 1, correct?

14 THE WITNESS: Correct.

15 MR. BROOKS: And the drilling pattern is
16 the same, i.e., it's going to be a horizontal in the
17 Mississippian and a vertical in other formations in
18 which it might be completed?

19 THE WITNESS: Yes, sir.

20 MR. BROOKS: Okay. And the project area
21 for the horizontal is in Section 1 of 12 South, 28
22 East? It's Units G, H, I and J?

23 And in Section 6 of 12 South, 29 East,
24 it's Units E, F, K and L; is that correct?

25 THE WITNESS: That's correct.

1 MR. BROOKS: And that's a 320-acre
2 nonstandard unit. But it's nonstandard in
3 configuration, not in size, correct? So it's
4 320-acre spacing?

5 THE WITNESS: That's correct.

6 MR. BROOKS: Okay. Now, as to then the
7 nonstandard unit aspects, the surface location is in
8 Unit G of Section 1, correct?

9 THE WITNESS: Yes, sir.

10 MR. BROOKS: And it's nonstandard to the
11 south, but it's not nonstandard to the east or west,
12 correct?

13 THE WITNESS: That's correct.

14 MR. BROOKS: Now, that surface location,
15 is the same thing going to be true of the bottom
16 hole locations in the units that might be completed
17 on 40 acres?

18 THE WITNESS: I believe the bottom hole
19 location is standard, which is 1,980 on the south
20 and the west.

21 MR. BRUCE: Mr. Ball, the surface
22 location.

23 THE WITNESS: Oh. I thought he said,
24 "bottom hole."

25 MR. BROOKS: Yeah. I was asking about the

1 bottom hole location because, you know, a
2 nonstandard surface location does not require an
3 exception. So unless you're trying to complete in a
4 formation in which it will be nonstandard, then you
5 don't need a nonstandard location.

6 Well, if you plan to complete a formation
7 and any part of the hole and that formation is a
8 nonstandard, then you need a nonstandard location
9 approval.

10 But only the surface location or location
11 in formations in which you're not going to have the
12 hole opened or completed then doesn't require
13 nonstandard location approval. That's why I'm
14 asking the question the way I am.

15 MR. BRUCE: Well, the surface location,
16 that is the pilot hole location --

17 MR. BROOKS: Right.

18 MR. BRUCE: -- is unorthodox as to any oil
19 zone.

20 MR. BROOKS: Right. And it may be
21 completed as to oil zones as to which it's
22 unorthodox?

23 MR. BRUCE: That is correct.

24 MR. BROOKS: Okay. But the only
25 encroachments as from the surface location, at least

1 the only encroachment, is toward Unit I in
2 Section 1, correct?

3 MR. BRUCE: J.

4 THE WITNESS: J.

5 MR. BROOKS: Okay, J. I stand corrected.

6 The only encroachment is toward Unit J in
7 Section 1?

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8 THE WITNESS: That's correct.

9 MR. BROOKS: And so here comes my question
10 then: Is ownership of the working interest
11 identical as between Units G and J in Section 1,
12 12 South, 28 East?

13 THE WITNESS: Yes, sir, it is.

14 MR. BROOKS: And is that true for all
15 formations?

16 THE WITNESS: Yes, sir.

17 MR. BROOKS: Okay. Now, let's talk about
18 the unorthodox spacing units or proration units that
19 you are requesting. And once again, that only
20 applies in Cases No. 14528 and 14534; is that
21 correct?

22 THE WITNESS: That's correct, sir.

23 MR. BROOKS: And this is in the
24 Mississippian?

25 THE WITNESS: Yes, sir.

1 MR. BROOKS: Okay. Now, I foresee that
2 these are problem situations. Because if you cut
3 out four units in this way out of the middle of two
4 sections, then it's going to be very difficult for
5 anybody to form standard spacing units in that
6 pattern.

7 So it's important that we have
8 notification all the way around. Do you have
9 notification all the way around to the extent that
10 there's not other ownership?

11 MR. BRUCE: I think I asked Mr. Ball this
12 question. But Mr. Ball confirmed that if you just
13 look at the Loving Well, that the interest owners in
14 Sections 7 and 8 surrounding the nonstandard unit
15 are also all the same interest owners within the
16 nonstandard unit.

17 THE WITNESS: Yes.

18 MR. BROOKS: Okay. And is the same thing
19 true of Section 1 of 12 South, 28 East, and
20 Section 6 of 12 South, 29 East, in Case No. 14534?

21 THE WITNESS: If what you're saying is,
22 you take the 320 project area of this well, the
23 Goodnight, and if I was to take exact 320s all the
24 way around, it's not the same leasehold owners.

25 Because you can see there in Section 36 we

1 have plantation. And going around, it looks like
2 it's all Devon until another area to the south,
3 where it says "Crystal" and "Chase."

4 MR. BRUCE: Just as to Sections 1 and 6,
5 Mr. Ball, are the interest owners the same?

6 THE WITNESS: Yes, they are.

7 MR. BROOKS: And I'm inclined to think
8 that's all we would require, because the owners up
9 in Section 36 could form standard units.

10 The owners in Section 6 can only develop
11 their acreage -- if there's any desire to develop in
12 the Mississippian, the acreage in Section 6, then
13 there's going to have to be some more nonstandard
14 units created there.

15 But I do not see that the owners in
16 Section 36 are adversely affected.

17 MR. BRUCE: There's one other thing.

18 Mr. Ball, do the leases from the fee
19 owners in these two wells, have they executed
20 provisions of the lease form that allows you to form
21 a nonstandard unit for purposes of these horizontal
22 tests?

23 THE WITNESS: Yes. We obtained waivers or
24 have agreed to obtain waivers in the case of the
25 Pure and Chisos. We are wrapping up the paperwork.

1 But they are aware that we've done a waiver from the
2 lease form that allows us to go across section
3 lines. And of course, they're very much aware of
4 everything in this well here.

5 MR. BROOKS: Okay. Who are the working
6 interest owners in those units? Are those the same
7 ones, Chisos and Samedan?

8 THE WITNESS: The only working interest
9 owners will be Chisos, for part of their interest,
10 Chisos, Ltd. --

11 MR. BROOKS: Right.

12 THE WITNESS: -- Devon, and a person named
13 D.K. Boyd.

14 MR. BROOKS: And do you have a waiver from
15 Mr. Boyd?

16 THE WITNESS: Yes.

17 MR. BROOKS: Okay. Can you file copies of
18 those waivers in this case so we can be sure that
19 we're --

20 MR. BRUCE: Yes, sir.

21 MR. BROOKS: -- taken care of on the
22 notice requirements there?

23 Because in the case of compulsory pooling,
24 by rule, if the parties have joined by contract,
25 they don't have to be notified, so we don't have

1 that issue.

2 But we do have that issue as to the
3 nonstandard units. So if notice is not necessary
4 because of the waiver, then we need the waivers to
5 be filed.

6 I think I've taken care of all my
7 concerns. Sorry it took so long.

8 THE EXAMINER: I appreciate that. Thank
9 you.

10 Mr. Ball, on the Goodnight No. 1, that's
11 the second well that we're talking about on
12 Exhibit 3, page 2?

13 THE WITNESS: Yes, sir.

14 THE EXAMINER: I'm curious as to why
15 you're dipping down to the southeast with that well
16 and not just going --

17 THE WITNESS: I think, if it's all right,
18 if I let our geologist, who's going to testify in a
19 minute. But I think it's probably a science reason
20 that he will go over.

21 THE EXAMINER: Have you had enough fun for
22 the morning? It's times like this when I'm glad
23 Mr. Brooks is here, because I've got all these
24 questions for him when I go to write these up.

25 All right. I don't think there's any more

1 questions of this witness.

2 MR. BRUCE: Okay. I call Mr. McKinney to
3 the stand.

4 CURTIS D. MCKINNEY,
5 having been previously duly sworn, testified as
6 follows:

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

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

11 A. Curtis D. McKinney.

12 Q. Where do you reside?

13 A. Oklahoma City.

14 Q. And who do you work for?

15 A. Devon Energy Corporation.

16 Q. What is your job with Devon?

17 A. Petroleum geologist.

18 Q. Have you previously testified before the
19 Division?

20 A. I have.

21 Q. And were your credentials as an expert
22 petroleum geologist accepted as matter of record?

23 A. Yes.

24 Q. And are you familiar with the geology
25 involved in these applications?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I request that
3 Mr. McKinney be recognized as an expert petroleum
4 geologist.

5 THE EXAMINER: Mr. McKinney is so
6 recognized.

7 Q. (By Mr. Bruce) Mr. McKinney, you have two
8 exhibits. Would you just first explain why you
9 broke them up into two exhibits?

10 A. I'm trying to minimize the paperwork and,
11 you know, get them coordinated geographically so
12 that we could, you know, work through this
13 information, a lot of the information here, as
14 efficiently as possible.

15 Q. And for what wells does Exhibit 9 apply?

16 A. There's a label in the lower right-hand
17 corner. It's Case 14528, Loving 7 Fee No. 1; and
18 Case 14535, the Longhorn 28 Fee No. 1.

19 Q. And why don't you run through these
20 exhibits and discuss in particular what you are
21 seeking, first with respect to the Mississippian
22 development?

23 A. All right. There's three sheets attached
24 as part of Exhibit 9. The front sheet is a subsea
25 structure map on the Mississippian. These are all

1 in 10 South, 29 East.

2 In the upper left of the map, you see the
3 red rectangle. That's the proposed horizontal
4 proration unit for the Loving 7 Fee No. 1.

5 The well itself, the surface location, is
6 designated by the open black circle and the black
7 horizontal line. Heading off to the east is the
8 path of the horizontal proposed path.

9 And you can see there's a fault associated
10 with that proration unit. And we've located this
11 well, for purposes of the Mississippian, on the
12 upthrown side of that fault.

13 And we'll be drilling that well -- the
14 pilot hole will be drilled as has been discussed
15 previously. It will be slightly directionally
16 drilled to move it a little bit away from the fault
17 for the bottom hole objective, which would be the
18 Devonian oil, as previously discussed.

19 But our primary objective is the gas
20 potential in the Mississippian. That's what this
21 exhibit addresses.

22 And the wells are labeled with the subsea
23 structure value for the Mississippian top. And
24 beneath the wells, in blue, generally beneath it, if
25 there was an overspotting problem, it may shift a

1 little bit, but that's the overall isopach thickness
2 of the Mississippian.

3 So this exhibit is meant to demonstrate
4 that the Mississippian across this area, from the
5 northwest part of the map down to the southeast
6 part, is generally 500 feet or thicker. And so it's
7 present across the area, and that's one objective of
8 this exhibit.

9 The other would be just to show why we are
10 locating these wells and proposing these proration
11 units as we are. It has to do with the faults and
12 where the structure lies.

13 Let's see. Then also on that exhibit
14 you'll see that dashed line. That's just a line of
15 cross-section that I prepared just to demonstrate
16 what the zone actually looks like on logs.

17 This area has got a lot of older wells in
18 it, so the logs are stuff that you would find from
19 the '50s, generally. I hope this is not too small.
20 I heard your comment earlier.

21 This is a two-well section. But basically
22 the cross-section demonstrates in blue, I've
23 highlighted the Mississippian section. And you will
24 see there's 540-plus feet of it.

25 These two wells actually demonstrate that

1 the Missippian has been tested in the area and shown
2 to have some gas. It wasn't commercial. We're
3 hoping to greatly improve on that with horizontal
4 wells.

5 And I've also noted with red dashed lines
6 to indicate the upper part of the Mississippian.
7 That's actually our objective with our horizontal
8 wellbores.

9 And then overlying it would be the
10 Atoka/Morrow section. And underlying it, below that
11 blue line that you see, that's the Siluro/Devonian
12 section that we're going to test also with our pilot
13 hole.

14 And then the final part of Exhibit 9, the
15 last page, is very much a look-alike practically to
16 the Mississippian structure. This is all pretty
17 conformable stuff. This is a map of the top of the
18 Siluro/Devonian.

19 And again, the one oddity really is up
20 there in the northwest part of the map, associated
21 with our Loving 7 Fee Well location. You'll see
22 those two red squares. Those are those proration
23 units that were discussed previously.

24 And there's two of them because as our
25 counsel said, the surface hole will be assigned

1 to -- we're applying for assignment to a proration
2 unit. That would be the southwest of the northeast.
3 And then the Devonian, we're applying to be assigned
4 there to the southeast of the northeast.

5 And then the other well, as shown on this
6 exhibit to the southeast, is our Longhorn 28 Fee
7 No. 1 Well, which is Case No. 14535.

8 And that's quite a bit more standard
9 again, though we're staying on the upfront side of
10 the fault. And so the lateral is a little bit
11 shorter there because of trying to stay within
12 Section 28, you have a standard unit.

13 Q. And again, in the Loving Well, the
14 Devonian was directionally drilling it slightly to
15 the east, just to make sure you're away from that
16 fault?

17 A. That's correct.

18 Q. What is Exhibit 10?

19 A. Exhibit 10 is very similar to what we just
20 went through. I'll go through it also. It's again
21 to consolidate geographically and for efficiency.
22 I've got three case numbers represented on here.

23 In the south, the first page of this
24 three-page Exhibit No. 10 is the Mississippian
25 subsea structure. Again, you can see the fault

1 shown in blue, downthrown to the northwest.

2 And our Goodnight Fee No. 1, which is Case
3 No. 14534, will be located again, the same sort of
4 designation, with the open circle showing the
5 surface location. And the black line, moving off to
6 the to the east, will be the lateral.

7 And the proposed proration unit is being
8 shown by the red rectangle for that Mississippian
9 gas proposal.

10 And the same is true for the other.
11 That's the one that has the nonstandard related to
12 the Siluro/Devonian, which we'll get to in just one
13 moment.

14 Again, I've got a little dotted line to
15 show a three-well cross-section. And also
16 designated on this in this particular area -- and
17 now we're down to, I believe, 11 South and 12 South,
18 29 East. So we've moved a bit south.

19 There is some production down here, and
20 that's indicated by the color coding. It's either
21 Devonian oil or Mississippian gas. So there is some
22 Mississippian gas production in the area of these
23 wells, actual sales.

24 And then the three-well cross-section,
25 similar to the one I described before, again with

1 the Mississippian shown in blue. Here again the
2 Mississippian is present across the area from just
3 about 500 feet thick to over 600 feet thick.

4 Again, this Siluro/Devonian section is
5 shown at the base of the cross-section, highlighted
6 in green. And we're overlaying by the Atoka/Morrow
7 section above the Mississippian.

8 Also, similar to the last cross-section,
9 the upper part of the Mississippian, highlighted by
10 the red dashed horizontal lines, that's where we'll
11 try to land our horizontal.

12 And then the last exhibit or the last page
13 of this Exhibit 10 is a map on the Siluro/Devonian.
14 Again, the fault shown is in blue. Everything is
15 the same as the previous one, except that now we've
16 got a 40-acre proposed proration unit.

17 And you can see, at this scale, it looks
18 like we're right on the line. We're actually -- I
19 think we're about 40 or 80 feet inside the line, but
20 certainly nonstandard. That will be the proration
21 unit we're trying to assign to this proposed well
22 for the Devonian.

23 Q. And again, for the Goodnight No. 1 in
24 Section 1, you moved the well to the south to avoid
25 that fault in the Devonian?

1 A. That's correct.

2 Q. In your opinion, will each quarter section
3 attributed to the Mississippian horizontal be
4 productive in the Mississippian?

5 A. That's our thesis, yes.

6 Q. And could you describe just briefly -- you
7 did arrange to e-mail the directional drilling plans
8 to the Examiner last night. But could you explain
9 briefly how the horizontal portion of the wellbore
10 will be drilled and completed?

11 A. In each case, with the slight exception of
12 this on Exhibit 9, the Loving Well, which was
13 previously described, we're directionally drilling
14 that pilot hole slightly.

15 But in each case, every well will have a
16 pilot hole. We'll drill down on top of the San
17 Andres in each case roughly 2,200 feet, set our
18 intermediate. And then drill down, tag into the
19 Siluro/Devonian 25 or 40 feet, depending upon what
20 the well tells us, and then we'll log that portion.

21 Then we will plug back and kick off
22 somewhere around 5,700 feet or so near the base of
23 the Abo section and directionally drill these
24 wells -- I think it's 10 degrees per 100 build --
25 and land these in this upper portion of the

1 Mississippi, and then take them out to a legal
2 location at the edge of the proposed proration unit.

3 Roughly, you know, measured depth, that's
4 going to vary with each well from 11,100 to -- I
5 think in one case, it may be over 13,000 feet. And
6 that will be the end of that well.

7 And then we will set 7-inch casing to the
8 base of the curve. And after we drill the lateral,
9 we'll attempt an open-hole acid frac completion in
10 the Mississippian for gas. Hopefully, we'll
11 encounter a fractured section.

12 Q. Were Exhibits 9 and 10 prepared by you or
13 under your supervision?

14 A. They were prepared by me.

15 Q. And in your opinion, is the granting of
16 these applications in the interest of conservation
17 and the prevention of waste?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I'd move the
20 admission of Exhibits 9 and 10.

21 THE EXAMINER: Exhibits 9 and 10 are
22 admitted.

23 (Devon Exhibits 9 and 10 were admitted.)

24 MR. BRUCE: I have no further questions of
25 the witness.

1 THE EXAMINER: Thank you.

2 Mr. Brooks.

3 MR. BROOKS: Are you going to have an
4 engineering witness, Mr. Bruce?

5 MR. BRUCE: No, sir, we're not.

6 MR. BROOKS: So any technical questions
7 will be addressed to this witness.

8 As I understood you describe your drilling
9 plan, the kickoff point is not going to be in the
10 Mississippian formation? It will be in the Abo
11 formation; is that correct?

12 THE WITNESS: I think that's where we will
13 start the build, yes.

14 MR. BROOKS: And you know, first off,
15 these pilot hole -- and this question arose because
16 when we were discussing the first case, I believe
17 that it's 14528, Mr. Bruce indicated that the bottom
18 hole location of the pilot hole in the Devonian was
19 going to be different from the surface location.

20 THE WITNESS: Yes, sir.

21 MR. BROOKS: And is that going to be true
22 in the other wells?

23 THE WITNESS: No.

24 MR. BROOKS: All the other wells will be
25 vertical?

location of 150 feet from the North line and 1980 feet from the West line and bottomhole location of 330 feet from the South line and 1980 feet from the West line of said Section 35. Applicant seeks to dedicate the E/2 W/2 of Section 35 to the well to form a non-standard 160-acre spacing and proration unit for any formations and/or pools developed on 160 acres or less within the vertical extent, including the Wolfcamp formation. The subject lands are located approximately 7 miles Northwest of Loco Hills, New Mexico.

10.

CASE 14528: (Continued and Readvertised) *Jim Bue*

Tony Hough
Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, unorthodox oil well locations, and compulsory pooling, Chaves County, New Mexico. Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, Township 10 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests underlying the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, and in the following manner: (i) the SW/4 NE/4 of Section 7, from the surface to the base of the Morrow formation, to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; (ii) the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, from the surface to the base of the Mississippian formation, to form a non-standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent; and (iii) the Siluro-Devonian formation underlying the SE/4 NE/4 of Section 7 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent. The units are to be dedicated to the Loving 7 Fee Well No. 1, to be drilled vertically at an unorthodox surface location 2500 feet from the North line and 1400 feet from the East line of Section 7, to test the Siluro-Devonian formation at a bottomhole location approximately 2500 feet from the North line and 1280 feet from the East line of Section 7, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2500 feet from the North line and 1100 feet from the East line of Section 7, and a terminus 2500 feet from the North line and 1980 feet from the West line of Section 8. Applicant also seeks approval of the unorthodox oil well locations in the SW/4 NE/4 and SE/4 NE/4 of Section 7. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 18 miles West-Northwest of Caprock, New Mexico.

11.

CASE 14534: (Readvertised) *Jim Bue*

Tony Hough
Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, an unorthodox oil well location, and compulsory pooling, Chaves County, New Mexico. Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 of Section 6, Township 12 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests from the surface to the base of the Siluro-Devonian formation underlying the above described lands, and in the following manner: (i) the SW/4 NE/4 of Section 1 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; and (ii) the S/2 NE/4 and N/2 SE/4 of Section 1 and the S/2 NW/4 and N/2 SW/4 of Section 6 to form a non-standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent. The units are to be dedicated to the Goodnight 1 Fee Well No. 1, to be drilled vertically at an unorthodox location 2585 feet from the North line and 1980 feet from the East line of Section 1, to test the Siluro-Devonian formation, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2585 feet from the North line and 1680 feet from the East line of Section 1 and a terminus 1980 feet from the South line and 1980 feet from the West line of Section 6. Applicant also seeks approval of an unorthodox oil well location in the SW/4 NE/4 of Section 1. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 19 miles east-northeast of Dexter, New Mexico.

location of 150 feet from the North line and 1980 feet from the West line and bottomhole location of 330 feet from the South line and 1980 feet from the West line of said Section 35. Applicant seeks to dedicate the E/2 W/2 of Section 35 to the well to form a non-standard 160-acre spacing and proration unit for any formations and/or pools developed on 160 acres or less within the vertical extent, including the Wolfcamp formation. The subject lands are located approximately 7 miles Northwest of Loco Hills, New Mexico.

10.

CASE 14528: (Continued and Readvertised)

Jim Bue

Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, unorthodox oil well locations, and compulsory pooling, Chaves County, New Mexico. Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, Township 10 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests underlying the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, and in the following manner: (i) the SW/4 NE/4 of Section 7, from the surface to the base of the Morrow formation, to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; (ii) the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, from the surface to the base of the Mississippian formation, to form a non-standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent; and (iii) the Siluro-Devonian formation underlying the SE/4 NE/4 of Section 7 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent. The units are to be dedicated to the Loving 7 Fee Well No. 1, to be drilled vertically at an unorthodox surface location 2500 feet from the North line and 1400 feet from the East line of Section 7, to test the Siluro-Devonian formation at a bottomhole location approximately 2500 feet from the North line and 1280 feet from the East line of Section 7, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2500 feet from the North line and 1100 feet from the East line of Section 7, and a terminus 2500 feet from the North line and 1980 feet from the West line of Section 8. Applicant also seeks approval of the unorthodox oil well locations in the SW/4 NE/4, and SE/4 NE/4 of Section 7. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 18 miles West-Northwest of Caprock, New Mexico.

Tony Hough

11.

CASE 14534: (Readvertised)

Jim Bue

Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, an unorthodox oil well location, and compulsory pooling, Chaves County, New Mexico. Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 of Section 6, Township 12 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests from the surface to the base of the Siluro-Devonian formation underlying the above described lands, and in the following manner: (i) the SW/4 NE/4 of Section 1 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; and (ii) the S/2 NE/4 and N/2 SE/4 of Section 1 and the S/2 NW/4 and N/2 SW/4 of Section 6 to form a non-standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent. The units are to be dedicated to the Goodnight 1 Fee Well No. 1, to be drilled vertically at an unorthodox location 2585 feet from the North line and 1980 feet from the East line of Section 1, to test the Siluro-Devonian formation, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2585 feet from the North line and 1680 feet from the East line of Section 1 and a terminus 1980 feet from the South line and 1980 feet from the West line of Section 6. Applicant also seeks approval of an unorthodox oil well location in the SW/4 NE/4 of Section 1. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 19 miles east-northeast of Dexter, New Mexico.

1 THE WITNESS: Yes, that's right.

2 MR. BROOKS: All right. As close as --
3 and I understand there's no such thing as a vertical
4 well.

5 THE WITNESS: As we all understand
6 vertical, right.

7 MR. BROOKS: Okay. Now, what we need, and
8 we probably need this only because we state these
9 things and keep account of them. But we will need
10 you to supply us with an estimate of the footage
11 locations of the point of penetration into the
12 Mississippian for each of these wells.

13 Now, I don't think that anything would
14 have to be done, so far as changing the order, if
15 you miss the estimate, which probably will happen to
16 some extent, as long as both the estimated and the
17 actual point of penetration are within the producing
18 area. So it's not an outstanding --

19 THE WITNESS: I believe we submitted that
20 as part of our ATD --

21 MR. BROOKS: Now, do you have that
22 information in the materials --

23 THE WITNESS: It's in the ATD. I'm not
24 sure it's in the materials. But we have it, and I
25 can get them to you probably today.

1 MR. BROOKS: Okay. I think that's all I
2 have, Mr. Warnell.

3 THE EXAMINER: Okay, all right.
4 Mr. McKinney, let's talk a little bit more. You
5 said you're going to start in the Abo?

6 THE WITNESS: More or less, yes. That's
7 the plan.

8 THE EXAMINER: And make your bend into the
9 Mississippian. You're going to be setting 7-inch?

10 THE WITNESS: At the base of the curve,
11 that is correct.

12 THE EXAMINER: At the base of the curve.
13 And then it will be open hole completion beyond
14 that?

15 THE WITNESS: Yes, sir. Well, it's
16 uncemented, I should say. We won't cement. We'll
17 put a slotted liner down there.

18 THE EXAMINER: I don't believe I have any
19 more questions at this time.

20 MR. BRUCE: Mr. Examiner, I'd ask you to
21 take these matters under advisement, except for
22 Case 14528, which needs to be continued to
23 September 16th, in order to take care of an error in
24 the advertisement which was corrected a couple of
25 weeks ago. So it doesn't need to be continued

1 longer than that.

2 THE EXAMINER: Okay. We're going to
3 supplement the record with the point of penetration.

4 And you asked for something else, didn't
5 you?

6 MR. BROOKS: I don't recall. Did I ask
7 for anything else? I mean the record will reflect
8 if I did. I don't remember. I think I was just
9 clarifying most of the stuff, and it seems to be in
10 there.

11 THE WITNESS: Mr. Examiner, we'll submit
12 those to you in an explicit form. But I believe
13 that yesterday we e-mailed you our directional plan,
14 and it's written in there.

15 THE EXAMINER: It's in there?

16 THE WITNESS: It's kind of buried in
17 there. So we may just submit another simple written
18 to make it very clear. But it's in there. You just
19 have to dig.

20 THE EXAMINER: Okay, good. So we'll
21 continue Case 14528 to September 16th. And we will
22 take under advisement Case Nos. 14534, 14535, 14536,
23 and 14537.

24 (The hearing concluded at 10:06 a.m.)

25

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 _____

1 STATE OF NEW MEXICO

2 COUNTY OF SANTA FE

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5 REPORTER'S CERTIFICATE

6 I, Paul Baca, New Mexico Certified Court
7 Reporter No. 112, do hereby certify that I reported
8 the foregoing proceedings in stenographic shorthand,
9 that I did administer the oath to the witness, and
10 that the foregoing pages are a true and correct
11 transcript of those proceedings and was reduced to
12 printed form under my direct supervision.

13 I FURTHER CERTIFY that I am neither
14 employed by nor related to any of the parties or
15 attorneys in this case and that I have no interest
16 in the final disposition of this case.

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PAUL BACA
Certified Court Reporter No. 112
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