

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

IN THE MATTER OF THE APPLICATION OF
EGL RESOURCES, INC.
FOR COMPULSORY POOLING
LEA COUNTY, NEW MEXICO

RECEIVED

APR 22 2004

CASE NO. 13049

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

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

CASE NO. 13048

ORDER NO. R-11962 *De Novo*

REPLY

EGL RESOURCES, INC., (“EGL”), and ROBERT LANDRETH, (“Landreth”),
for their Reply pursuant to their Motion To Dismiss state:

SUMMARY

The scope and substance of Devon’s Application for Hearing De Novo¹ is limited to those issues and the requests for relief that were specifically set forth in the competing compulsory pooling applications and their attendant notices and advertisements. Case No. 13085 is not at issue in this de novo proceeding as neither Devon nor Southwestern filed applications for a hearing de novo in that case following the issuance of Order No. R-12106. From its original Application, and based on Devon’s Response to the motion to dismiss, it is clear that the hearing de novo must be limited to a single issue: “...*the designation of applicant as operator of the well...*”. Devon may not attempt to expand

¹ Southwestern Energy Production Company did not file an Application for Hearing De Novo within the statutorily prescribed period.

the scope of this de novo proceeding to include new issues and subject matter beyond what it originally pleaded and what is clearly outside of the notice given in its case. In addition, the extraordinary relief Devon seeks would adversely affect the interests of other interest owners who are not a party to these proceedings and whom Devon has not notified. Devon's attempt to have the Commission adjudicate new issues violates due process.

POINTS AND AUTHORITIES

I. The New Issues Raised By Devon Are Beyond The Scope Of The Original Proceeding.

An early issue in these competing compulsory pooling applications was whether the spacing unit to be dedicated to the well should be comprised of 320 or 640 acres. At the Division level, both Applicants filed motions to dismiss the other's application² based largely on their respective interpretations of the well location and acreage dedication provisions of Rule 104A. At the Division Examiner hearing on the consolidated applications, in addition to addressing the compulsory pooling aspects of its Application, EGL introduced geologic and engineering evidence relating to the appropriate density of development in the targeted Devonian reservoir based on the anticipated drainage radius of the well. On May 13, 2003, the Division entered Order No. R-11962 pooling the subject lands and designating EGL as operator of the Rio Blanco "4" Federal Well No. 1. In the Order, the Division also took specific notice of the scope of the issues pending before it pursuant to the applications filed, the notice given, and the advertisement for the case. Order No. R-11962 noted as follows:

² EGL's Application sought the creation of a 640-acre unit based on the advice of the Division's Engineering Bureau.

- “(15) In effect, EGL’s application for a 640-acre unit in Case No. 13049 seeks to expand the North Bell Lake Devonian Pool. Case No. 13049 was not filed nor advertised as an application to expand pool boundaries, nor does the evidence establish that notice of the application or the hearing thereof was given to all Division-designated operators in the pool as would be required for an application for a special pool order pursuant to Rule 1207.A(4) [19 .15.N.1207.A(4) NMAC].*
- (16) The geologic and engineering testimony concerning the potential drainage radius of the well in the Devonian formation raises matters of which the Division cannot take cognizance in the context of these applications.*
- (17) Accordingly, EGL’s application, to the extent that it asks for creation of a 640-acre unit comprised of all of Section 4 should be dismissed, without prejudice to any subsequent application to expand the Unit in the context of an application to expand the limits of the North Bell Lake Devonian Gas Pool.”³*

Just as the Division was cognizant of the problems with expanding the scope of the proceeding to additional issues beyond those pleaded, noticed and advertised, so should be the Commission.

Devon originally invoked the jurisdiction of the Division under Section 70-2-17.C, and the scope of the issues now brought before the Commission should remain unchanged. The issues presently before the Commission are those outlined on the face of Devon’s original Application (Exhibit A, attached.) They comprise Devon’s stated request for the entry of an order:

- (1) Pooling the mineral interests in the Devonian formation;
- (2) Designating Devon Energy Production Company, L.P. as operator;
- (3) Providing for the allocation and recovery of well costs, including supervision charges, among the working interest owners;

³ This was the subject matter of Case No. 13085. Devon did not file an application for hearing de novo in that case and the matter has been dismissed in full.

(4) Providing for the recovery of a risk penalty.

Of the six issues identified in Devon's Response To EGL-Landreth's Motion To Dismiss, there is only one having any commonality at all with the issues and requests for relief expressed in Devon's original Application: Devon's challenge to the designation of EGL as operator under Order No. R-11962. If there is to be a hearing at all, the scope of the hearing, by virtue of the pleadings and notice, must be limited to this single issue. It may then be explained to the Commission why Devon, as the controlling owner of 25% of the working interest, should replace EGL, the controlling owner of 75% of the working interest, as operator of the Rio Blanco "4" Federal Well No. 1 which was drilled by EGL and has been on production since October of last year.⁴ All other issues are new and have not been properly raised in accordance with the agency's Part 14 procedural rules. (See 19 NMAC 15.N.1203 – 1205, 1207A.1.)

II. Devon's Notice Is Deficient.

In its last-minute rush to change horses in mid-stream and bring in new theories and claims for relief, Devon has completely neglected the inadequacy of its notice. As a result, due process is violated. There are seventeen interest owners in the N/2 of Section 4, T-23-S, R-34-E. (See Exhibit B, attached.) Yet, Devon has provided notice to only two of those interest owners. (See Exhibit C.)

Without question, the new and extraordinary relief being sought by Devon would affect the interests of those owners to whom Devon has provided no notice. With respect to Devon's radical suggestion that the Commission remove EGL as operator, all the

⁴ Based on a recently issued supplemental Division Order Title Opinion for the N/2 of Section 4, EGL has addressed the re-allocation of expenses and has established new revenue pay-decks for the interest owners in a 320 ± acre proration unit dedicated to the Rio Blanco well.

interest owners have an interest in the designated operator of the well, including the overriding royalty and royalty interest owners. (See, for example, 43 CFR Subpart 3162.) The same is true of Devon's request to modify the compulsory pooling order to include "gas balancing" provisions. Devon does not bother to explain what effect gas balancing will have on one working interest owner's proceeds while another working interest owner becomes "overproduced" for any given period. The same question would also apply to the overriding royalty interest owners whose interests do not burden all the oil and gas lease interests equally. And, how would Devon's proposal affect the royalty interest owner's right to take its share of production in-kind? This is not to say that Devon may not attempt to have the agency consider such matters, assuming it has the jurisdiction to do so, pursuant to a properly filed, noticed and advertised application with the Division under Rule 1203. But it has not done so here.

It is axiomatic that the right to fundamental due process requires that respondents to an administrative proceeding be afforded adequate notice. The notice must adequately apprise them of the claims with regard to both facts and law that will be at issue in the proceeding sufficient to allow them to adequately prepare evidence and argument essential to their defense. See, e.g., Wirtz v. State Educational Retirement Board, 122 N.M. 292, 923 P.2d 1177 (Ct.App. 1996); Dente v. State Taxation and Revenue Dept., 1997 – NMCA 99, 124 N.M. 93 (Ct.App. 1997); Mills v. State Board of Psychologist Examiners, 1997 – NMSC – 28, 123 N.M. 421 (1997); see also, Koch, Administrative Law and Practice at § 5.33 [1] (West 1997) (while technical pleading requirements are not required in administrative proceedings, "the test is whether the private party understood the issues and the pleadings were sufficient to afford a full opportunity to

meet the charges”) (citing Citizens State Bank v. FDIC, 751 F.2d 209, 213 (8th Cir. 1984)) and at § 5.33 [3] (the party bringing the administrative action must give a clear statement of the theory upon which they base their claim for relief. The party cannot “introduce a new theory after the hearing has begun without advising the parties in time to develop an adequate defense. There must be a fair opportunity to participate.”); NLRB v. United Aircraft Corp., 490 F.2d 1105 (2d Cir. 1973) (order entered by agency is invalid where party not informed of issues to be decided at hearing).

Moreover, “[i]t is well-settled that [an applicant] may not change theories in midstream without giving respondents reasonable notice of the change.” The respondents must be supplied with “the opportunity to present arguments under the new theory of violation...” Rodale Press, Inc. v. FTC, 407 F.2d 1252, 1256-7 (D.C. Cir. 1968); accord, Jaffee & Co. v. SEC, 446 F.2d 389, (2d Cir. 1971); see also Modjeska, Administrative Law, Practice and Procedure at § 4.11 (Law. Co-Op. 1982) (citations omitted) (“[a]djudication of issues not raised in the notice or pleadings violates timely notice requirements, as do prejudicial shifts in legal theories during the course of the proceedings”).

Devon is in direct violation of Rule 1207 of the Division’s rules. The notice provided by Devon in its Applications, its Pre-Hearing Statement as well as in the advertisements for the NMOCD Docket for Cases 13048 and 13049 provided notice for and contemplated a hearing based solely upon Devon’s claims under § 70-2-17(C). Devon now seeks a radically different order from the Commission, although it provided the parties and interest owners with absolutely no notice that it would be seeking such extraordinary relief.

III. Devon's Implied Amendment Of The Applications Violates Due Process.

Devon's late-stage effort to insinuate new issues and new claims for relief into this proceeding is tantamount to an amendment of the pleadings. EGL and Landreth do not consent to such an amendment, whether by implication or otherwise.

Devon's last-minute effort to amend its claims for relief constitutes unfair surprise to the prejudice of the Section 4 interest owners' ability to meet the pleadings and present an adequate defense. If a party is allowed to amend after an administrative proceeding *has already begun*, serious prejudice to the nonmoving party can result, prejudice that rises to a level of a violation of the party's due process rights. See Dole v. Arco Chemical Co., 921 F.2d 484, 488 (3rd Cir. 1990).

The New Mexico courts have consistently condemned amendment of pleadings that cause surprise or prejudice or which are sought after a proceeding has already begun. "Even under a rule allowing liberality in pleadings and liberality in the amendment of pleadings, an amendment should not be allowed if the effect is one of undue surprise or prejudice to the opposing party. The purpose of pleadings is to give the party opponent notice of the claims being made. In New Mexico, the allowance of amendment of pleadings is discretionary with the court, and the key factor in the exercise of discretion is prejudice to the opposing party." Beyale v. Arizona Public Service Co., 105 N.M. 112, 729 P.2d 1366 (Ct.App. 1986) (citations omitted).

"Where a motion to amend comes late in the proceedings and seeks to materially change the [applicant's] theories of recovery, the court may deny such motion....'[I]f the [proposed] amendment substantially changes the theory on which the case has been proceeding and is proposed late enough so that the opponent would be required to engage

in significant new preparation, the court may deem it prejudicial.’ See also Panis v. Mission Hills Bank, N.A., 60 F.3d 1486, 1494 (10th Cir.1995) (untimeliness may constitute valid basis for denying leave to amend complaint).” Dominguez v. Dairyland Ins. Co., 1997 – NMCA – 65 ¶ 17, 123 N.M. 448, 453 (Ct.App. 1997) (citations omitted); accord, Wirtz v. State Educational Retirement Board, 122 N.M. 292, 923 P.2d 1177 (Ct.App. 1996) (grant of motion to amend pleadings is abuse of discretion if it results in prejudice to other party); Lunn v. Time Ins. Co., 110 N.M. 73, 792 P.2d 405 (1990) (trial court did not abuse discretion by denying motion to amend, when request was first made orally at hearing on motion for summary judgment); Aetna Finance Co. v. Gaither, 118 N.M. 246, 880 P.2d 857 (1994) (refusal to allow motion to amend pleadings at close of trial not an abuse of discretion); Cantrell v. Dendahl, 83 N.M. 583, 494 P.2d 1400 (Ct.App. 1972) (denial of motion to amend pleadings not abuse of discretion where proceeding already begun and only one witness remained to be heard); see also Oceanair of Florida, Inc. v. NTSB, 888 F.2d 767 (11th Cir. 1989) (a motion to amend should not be granted where the amendment would state a new cause of action); 2 Am.Jur.2d, Administrative Law, at § 292 (“if an administrative complaint is amended to include new counts after the close of hearings, additional hearings must be held to address the new violations.”)

When leave to amend is sought after the commencement of an administrative hearing, the burden is on the party seeking to amend to show that 1) the new allegations involve the same legal theory; 2) the allegations arise from the same factual situation or sequence; and 3) the respondent would raise the same or similar defenses to the allegations. But not only has Devon failed to seek leave to amend its Application, there

is no way it could make the required showing here. See FPC Holdings, Inc. v. NLRB, 64 F.3d 935, 941-42 (4th Cir. 1995); accord Usery v. Marquette Cement Mfg. Co., 568 F.2d 902 (2d Cir. 1977) (where party seeks leave to amend pleadings during an administrative hearing in order to proceed under a different theory, the non-moving party suffers prejudice).

CONCLUSION

The only appropriate course of action for the Commission is to limit this de novo proceeding to the single issue that has been properly pleaded, noticed, advertised and perfected: "*...the designation of applicant as operator of the well...*" The EGL/Landreth Motion to Dismiss should be granted as to all other issues, and the scope of this de novo proceeding should be narrowed accordingly.

Respectfully submitted,

MILLER STRATVERT P.A.

By: _____



J. Scott Hall
Attorneys for EGL Resources, Inc. and
Robert Landreth
Post Office Box 1986
Santa Fe, New Mexico 87504-1986
(505) 989-9614

Certificate of Mailing

I hereby certify that a true and correct copy of the foregoing was faxed to counsel of record on the 21 day of April, as follows:

Thomas Kellahin, Esq.
Post Office Box 2265
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Attorney for Devon Energy Production Company, LP

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J. Scott Hall

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

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

CASE NO. _____

APPLICATION

DEVON ENERGY PRODUCTION COMPANY, L.P. ("Devon") by its attorneys, Kellahin & Kellahin, and in accordance with NMSA 1979, Section 70-2-17.C, seeks an order pooling all mineral interests from the based of the Morrow formation to the base on the Devonian formation underlying the N/2 of Section 4, T23S, R34E, NMPM, Lea County, New Mexico, forming a standard 320-acre gas spacing and proration unit for any and all formations and/or pools spaced on 320-acre spacing, including but not limited to the Antelope Ridge-Devonian Gas Pool. This unit is to be dedicated to its Rio Blanco "4" Federal Well No. 1 to be reentered and deepened to the base of the Devonian formation at a standard well location in Unit F of this section. Also to be considered will be the costs of drilling and completing said well and the allocation of the costs thereof as well as actual operating costs and charges for supervision, designation of applicant as the operator of the well and a charge for risk involved in this well.

In support of its application Devon states:

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

2. This well is currently dedication to a standard 320-acre gas spacing unit Morrow Gas consisting of the N/2 of this section dedicated for gas production from the Morrow Formation.
3. Robert E. Landreth ("Landreth") and EGL Resources, Inc. ("EGL"), each own working interests in the Devonian formation. Devon has been unable to reach an agreement with Landreth and EGL on terms to reenter and deepen the well to the base of the Devonian formation and test for Devonian gas production. Devon and Southwestern Energy Production Company, the other working interest owner in the well, are subject to an Operating Agreement governing Devonian formation operations in the proration unit.
4. Devon has been in negotiations with Landreth since September 20, 2002, having exchanged approximately 18 detailed letters with the last being February 28, 2003. All of these proposals are based upon Devon being the operator and Landreth being a working interest owner who either participates with a portion of his interest or farms-out all or a portion of his interest to Devon.
5. Devon's latest proposed farmout terms included carrying a disproportionate share of the well costs, through completion of the well, to earn a percentage of Landreth's interest. Landreth has not responded to Devon's letter dated February 25, 2003, setting forth Devon's position on certain farmout agreement terms. Due to Landreth's lack of response, Devon believes that it has concluded its efforts to reach a voluntary agreement with Landreth.
6. Therefore, Devon, as the designated operator of record for the Rio Blanco "4" Federal Com #1 Well, formally proposed reentry and drilling operations to test the Devonian formation in said well on February 28, 2003. Landreth has not responded to this proposal.

7. Devon made its first formal proposal to EGL on December 17, 2002, although there have been numerous telephone conversations concerning the proposed operations prior to such date. Devon's proposal letter to EGL incorporated terms identical to those offered to Landreth under a proposal letter of the same date. Despite its efforts, Devon has not be able to reach a voluntary agreement with EGL.
8. Therefore, Devon, as the designated operator of record for the Rio Blanco "4" Federal Com #1 Well, formally proposed reentry and drilling operations to test the Devonian formation in said well on February 28, 2003. EGL has not responded to this proposal.
9. Pursuant to Section 70-2-17.C NMSA (1978) and in order to obtain its just and equitable share of potential production underlying this spacing unit, Devon needs an order of the Division pooling the identified and described mineral interests involved in order to protect correlative rights and prevent waste.
10. In accordance with the Division's notice requirements, a copy of this application has been sent to the parties whose interest is to be pooled as listed on Exhibit "A" notifying each of this case and of the applicant's request for a hearing of this matter before the Division on the next available Examiner's docket now scheduled for April 10, 2003.

WHEREFORE, Devon, as applicant, requests that this application be set for hearing on April 10, 2003 before the Division's duly appointed examiner, and that after notice and hearing as required by law, the Division enter its order pooling the mineral interest described in the appropriate spacing unit for this well at a standard well location upon terms and conditions which include:

- (1) Devon Energy Production Company, L.P. be named operator;
- (2) Provisions for applicant and all working interest owners to participate in the costs of drilling, completing, equipping and operating the well;

(3) In the event a mineral interest or working interest owner fails to elect to participate, then provision be made to recover out of production, the costs of the drilling, completing, equipping and operating the well, including a risk factor penalty of 200%;

(4) Provision for overhead rates per month drilling and per month operating and a provision providing for an adjustment method of the overhead rates as provided by COPAS;

(5) For such other and further relief as may be proper.

RESPECTFULLY SUBMITTED:



W. THOMAS KELLAHIN
KELLAHIN & KELLAHIN
P. O. Box 2265
Santa Fe, New Mexico 87501
(505) 982-4285

EXHIBIT "A"
PARTIES TO BE POOLED

Robert E. Landreth
505 N. Big Springs, Suite 507
Midland, Texas 79701

EGL Resources, Inc.
P. O. Box 10886
Midland, Texas 79701
Attn: Wes Perry

INTEREST OWNERS

T-23-S, R-34-E

Section 4

N/2:

Royalty Interest:

United States of America .1250000

Overriding Royalty Interests:

Owner

Yates Petroleum Corporation .0049971

Mark S. Martin .0049971

Evans Resources Company .0049971

G. W. Allen .0099945

New-Tex Oil Company .0124930

Scott W. Tanberg .0100047

James L. Brezina Roth IRA and the .0074958

Frances A. Brezina Roth IRA, equally

The Blanco Company .0093715

First Roswell Company .0131201

Total Overriding Royalty Interests .0774709

Total Lease Burdens .2024709

Working Interests:

Owner

Robert E. Landreth .3647207

Scott W. Tanberg .0077956

W. Kurt Finkbeiner .0077956

J. David Mims .0042877

E.G.L. Resources, Inc. .2167531

Devon Energy Production Company, L.P. .0980882

Southwestern Energy Production Company .0980882

Total Working Interests .7975291

Exhibit B

KELLAHIN & KELLAHIN
Attorney at Law

W. Thomas Kellahin
New Mexico Board of Legal
Specialization Recognized Specialist
in the area of Natural resources-
oil and gas law

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Facsimile 505-982-2047
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March 7, 2003

TO: NOTICE OF THE HEARING OF THE FOLLOWING NEW
MEXICO OIL CONSERVATION DIVISION CASE:

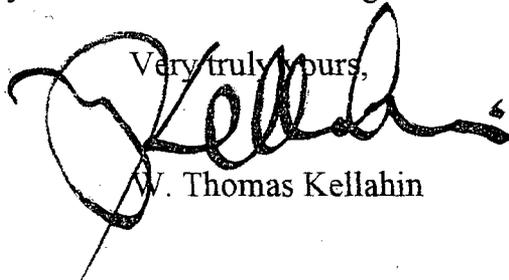
Re: Application of Devon Energy Production Company, L.P.
for Compulsory Pooling, Lea County, New Mexico

On behalf of Devon Energy Production Company, L.P. ("Devon"), please find enclosed our application for an compulsory pooling for its Rio Blanco "4" Federal Well No. 1 which has been set for hearing on the New Mexico Oil Conservation Division Examiner's docket now scheduled for April 10, 2003. The hearing will be held at the Division hearing room located at 1220 South Saint Francis Drive, Santa Fe, New Mexico.

As an interest owner who may be affected by this application, we are notifying you of your right to appear at the hearing and participate in this case, including the right to present evidence either in support of or in opposition to the application. Failure to appear at the hearing may preclude you from any involvement in this case at a later date.

Pursuant to the Division's Memorandum 2-90, you are further notified that if you desire to appear in this case, then you are requested to file a Pre-Hearing Statement with the Division not later than 4:00 PM on Friday, April 4, 2003, with a copy delivered to the undersigned.

Very truly yours,



W. Thomas Kellahin

cc: BY CERTIFIED MAIL-RETURN RECEIPT REQUESTED
to all parties listed in application

SENDER: COMPLETE THIS SECTION

■ Complete items 1, 2, and 3. Also complete item 4 if Restricted Delivery is desired.
■ Print your name and address on the reverse so the addressee can return the item.
■ Attach this label to the back of the item.
1. Article Number (Transfer from service label)
Devon
Rio Blanco
April 4, 2003
3/10/03

COMPLETE THIS SECTION ON DELIVERY

A. Signature
J. Kennedy
 Agent
 Addressee
Received by (Printed Name)
C. Date of Delivery
3-18-03
Delivery address different from item 1? Yes
If 'ES', enter delivery address below: No

Robert E. Landreth
505 N. Big Springs, Suite 507
Midland, TX 79701

Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

7002 0510 0003 4614 9639

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-083

SENDER: COMPLETE THIS SECTION

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■ Print your name and address on the reverse so the addressee can return the item.
■ Attach this label to the back of the item.
1. Article Number (Transfer from service label)
Devon
Rio Blanco
April 4, 2003
3/10/03

COMPLETE THIS SECTION ON DELIVERY

A. Signature
J. Warwick
 Agent
 Addressee
Received by (Printed Name)
J. WARWICK
C. Date of Delivery
Delivery address different from item 1? Yes
If 'ES', enter delivery address below: No



EGL Resources, Inc.
PO Box 10886
Midland, TX 79701
Attn: Wes Perry

Service Type
 Certified Mail Express Mail
 Registered Return Receipt for Merchandise
 Insured Mail C.O.D.

4. Restricted Delivery? (Extra Fee) Yes

7002 0510 0003 4614 9646

2. Article Number (Transfer from service label)

PS Form 3811, August 2001

Domestic Return Receipt

102595-02-M-0835