

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. 13,501  
 APPLICATION OF DEVON ENERGY CORPORATION )  
 FOR APPROVAL OF A UNIT AGREEMENT, )  
 LEA COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

June 2nd, 2005

Santa Fe, New Mexico

2005 JUN 16 AM 9 59

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, June 2nd, 2005, 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.

\* \* \*

## I N D E X

June 2nd, 2005  
 Examiner Hearing  
 CASE NO. 13,501

	PAGE
APPEARANCES	3
REPORTER'S CERTIFICATE	11

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	4	8
Exhibit 1-A	5	8
Exhibit 1-B	-	8
Exhibit 1-C	-	8
Exhibit 1-D	-	8
Exhibit 1-E	-	8
Exhibit 1-F	-	8
Exhibit 1-G	-	8
Exhibit 1-H	6	8
Exhibit 1-I	-	8
Exhibit 2	5	8

\* \* \*

## A P P E A R A N C E S

## FOR THE DIVISION:

GAIL MacQUESTEN  
Deputy General Counsel  
Energy, Minerals and Natural Resources Department  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

KELLAHIN & KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:56 a.m.:

3           EXAMINER EZEANYIM: At this point I call Case  
4 Number 501. This is the Application of Devon Energy  
5 Corporation for approval of a unit agreement, Lea County,  
6 New Mexico.

7           Call for appearances.

8           MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
9 the Santa Fe law firm of Kellahin and Kellahin, appearing  
10 on behalf of the Applicant. We are presenting this case  
11 this morning, Mr. Examiner, by an affidavit.

12           EXAMINER EZEANYIM: You may proceed.

13           MR. KELLAHIN: Let me tell you how the exhibits  
14 are arranged, Mr. Examiner, if I may please do that for  
15 you?

16           EXAMINER EZEANYIM: Go ahead.

17           MR. KELLAHIN: Exhibit 1 is the affidavit of  
18 Richard Winchester and Steve Hulke. Mr. Hulke is a  
19 petroleum geologist, Mr. Winchester is a landman.

20           Behind Exhibit Tab 1 are a bunch of lettered  
21 exhibits, and they're lettered A through I. This  
22 represents all the submittals associated with the  
23 affidavit, and as you go through the affidavit you can  
24 collate the references in the affidavit to the exhibits.

25           EXAMINER EZEANYIM: Okay.

1 MR. KELLAHIN: Mr. Hülke as a geologist does have  
2 a written summary of the geology.

3 The final exhibit is an Exhibit Number 2, and  
4 that is the letter from the Commissioner of Public Lands  
5 providing preliminary approval for the exploratory unit.

6 EXAMINER EZEANYIM: Okay.

7 MR. KELLAHIN: When we started this, we used a  
8 name that's been changed. It's correctly shown on the  
9 advertisement. The application was originally submitted to  
10 the Land Office as the North Custer Mountain Federal State  
11 Unit. The Land Office, Mr. Martinez, advised me that we  
12 needed to move "North" later in the caption because there  
13 was already a North Custer Mountain. So you can see that  
14 when you look at the exhibits, I don't want to confuse you.  
15 The correct name to use for this case is on your docket,  
16 it's the Custer Mountain North Federal State Unit.

17 EXAMINER EZEANYIM: Okay, Custer Mountain North,  
18 not North Custer.

19 MR. KELLAHIN: Right.

20 EXAMINER EZEANYIM: Okay.

21 MR. KELLAHIN: Yeah.

22 EXAMINER EZEANYIM: That makes a whole lot of  
23 difference. Okay, go ahead.

24 MR. KELLAHIN: And if you'll turn with me for a  
25 moment to Exhibit A, which is the plat of the unit --

1 EXAMINER EZEANYIM: Yeah.

2 MR. KELLAHIN: -- you can see that there is only  
3 one federal tract. It's Tract Number 1.

4 EXAMINER EZEANYIM: Tract Number 1, okay.

5 MR. KELLAHIN: It's 120-plus acres. The rest of  
6 this are state tracts. And so pursuant to the state and  
7 federal process, we have utilized their state-approved unit  
8 agreements, and the unit operating agreement is one that's  
9 commonly accepted by both agencies.

10 The well is going to be drilled at a standard  
11 location in Section 4, and the best way to visualize this  
12 that I have found is to flip through the package of  
13 exhibits and go to the end and find the isopach that's  
14 marked as Exhibit H. I think Exhibit H near the end of the  
15 package gives you a quick visual reference. It's captioned  
16 as Exhibit H, and it's coded as an isopach for the Atoka  
17 clastics.

18 EXAMINER EZEANYIM: Exhibit H. Okay, thanks.  
19 Okay.

20 MR. KELLAHIN: You can see superimposed on the  
21 isopach is a green outline that shows you the configuration  
22 of the exploratory unit. The well will be drilled through  
23 the base of the Morrow. The primary objective of the  
24 science, though, is the Atoka. When you get this low,  
25 they're going to drill all the way down through the Morrow,

1 but they're anticipating that the primary zone is going to  
2 be this Atoka clastic.

3 And Mr. Hulke, then, has prepared these exhibits  
4 to show you that the well will be at a standard location  
5 dedicated to the west half of Section 4 as the initial unit  
6 qualifying well.

7 There's no other producing wells in this area.  
8 There's a line of cross-section that will show you the well  
9 in Section 9, which is a dry hole.

10 The concept is to position the unit in such a way  
11 that the unit operator will have effective and efficient  
12 control of the Atoka clastic. In doing so, they've  
13 organized the unit in such a way as to provide that  
14 opportunity and have satisfied the Commissioner of Public  
15 Lands that this is an appropriate thing to do.

16 We have also included, for your information, the  
17 AFE on the initial qualifying well. It's \$2-million-plus.

18 Devon is the unit operator on the basis of the  
19 fact that not only have they done the science and done the  
20 work, they do have more than 73 percent of the unit working  
21 interest. This is an entirely voluntary unit, and the  
22 other interest owners are other companies that have agreed  
23 to participate.

24 With your permission, Mr. Examiner, we would ask  
25 that you admit Exhibit 1 with all its subdivisions of A

1 through I, plus Exhibit Number 2.

2 EXAMINER EZEANYIM: Exhibit 1 with the  
3 attachments A through I and Exhibit 2 will be admitted into  
4 evidence.

5 MR. KELLAHIN: That's our presentation, Mr.  
6 Examiner. I'll attempt to answer any questions that you  
7 may have.

8 EXAMINER EZEANYIM: I don't have much, but I  
9 wanted to see -- When I look at this case, I -- Okay, I'm  
10 going to change here, it's Custer Mountain North Unit,  
11 right?

12 MR. KELLAHIN: You're looking at Exhibit H?

13 EXAMINER EZEANYIM: Yes.

14 MR. KELLAHIN: Yeah, if you'll strike the  
15 "North" --

16 EXAMINER EZEANYIM: Yeah.

17 MR. KELLAHIN: -- and put the "North" after  
18 "Custer Mountain", insert the "North" there.

19 EXAMINER EZEANYIM: Yeah, okay. Okay, that's one  
20 point.

21 It's all five acres. If I multiply by 640, I get  
22 2200 -- I -- Are some of them irregular sections? What do  
23 we have? 2888 -- -881? If I look at that, I don't know,  
24 maybe when I read all the acreage, I will find out how the  
25 five sections is --

1 MR. KELLAHIN: When you look at the unit  
2 operating agreement, there will be an Exhibit "D" [sic]  
3 attached to that --

4 EXAMINER EZEANYIM: Okay.

5 MR. KELLAHIN: -- and it breaks out all the tract  
6 components, and I think as a result of governmental surveys  
7 there is -- I've lost track of which section it is. It's  
8 likely to be Section 4 that is slightly unorthodox, because  
9 it's the boundary of a township.

10 EXAMINER EZEANYIM: It's off by actually half a  
11 section, about 320 acres. Because of some of these might  
12 be -- some of these sections be irregular, you know,  
13 irregular sections. Maybe when I read through the exhibits  
14 I will find out which ones are irregular and how it is  
15 shown by 320 acres.

16 MR. KELLAHIN: Well, as I just said, if you look  
17 at the operating agreement and go back to the Exhibit "A"  
18 attachments --

19 EXAMINER EZEANYIM: Yeah.

20 MR. KELLAHIN: -- and it's also shown in other  
21 exhibits, but if you start with Exhibit "A" to the  
22 operating agreement, flip back, you can see that in Section  
23 4 --

24 EXAMINER EZEANYIM: Yeah.

25 MR. KELLAHIN: -- Section 4 has tracts that are

STEVEN T. BRENNER, CCR  
(505) 989-9317

23

24

25

STEVEN T. BRENNER, CCR  
(505) 989-9317

1 lot numbers, and therefore you're assuming that they're  
2 different than 40-acre --

3 EXAMINER EZEANYIM: Okay, thank you very much, I  
4 think that answers my question.

5 Anything further?

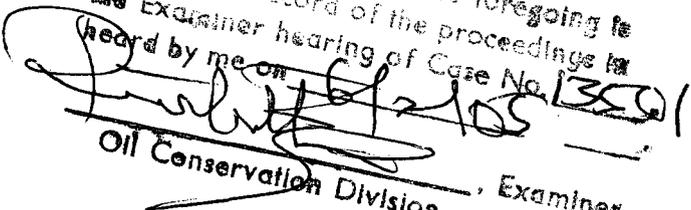
6 MR. KELLAHIN: No, sir. Thank you.

7 EXAMINER EZEANYIM: At this point, Case Number  
8 13,501 will be taken under advisement.

9 That concludes the hearing today.

10 (Thereupon, these proceedings were concluded at  
11 9:05 a.m.)

12 \* \* \*

13  
14  
15  
16 I do hereby certify that the foregoing is  
17 a complete record of the proceedings at  
18 the Examiner hearing of Case No. 13501  
19 heard by me on 6/2/05  
20   
21 Oil Conservation Division, Examiner  
22  
23  
24  
25

## CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL June 3rd, 2005.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006