

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:)
)
APPLICATION OF DEVON ENERGY PRODUCTION) CASE NO. 13,869
COMPANY, L.P., FOR LEASE COMMINGLING,)
EDDY COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Jr., Hearing Examiner

February 1st, 2007

Santa Fe, New Mexico

2007 FEB 15 AM 11

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, February 1st, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

February 1st, 2007
 Examiner Hearing
 CASE NO. 13,869

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>JAMES CROMER</u> (Engineer)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Jones	10
<u>KEN GRAY</u> (Landman)	
Direct Examination by Mr. Bruce	20
Examination by Examiner Jones	23
REPORTER'S CERTIFICATE	25

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	9
Exhibit 2	6	9
Exhibit 3	7	9
Exhibit 4	8	9
Exhibit 5	8	9
Exhibit 6	8	9
Exhibit 7	20	23
Exhibit 8	21	23

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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P.O. Box 1056
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* * *

1 WHEREUPON, the following proceedings were had at
2 10:40 a.m.:

3 EXAMINER JONES: Let's call Case 13,869,
4 Application of Devon Energy Production Company, L.P., for
5 lease commingling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
8 representing the Applicant. I have two witnesses, one of
9 whom is Mr. Gray who was previously sworn.

10 EXAMINER JONES: Will the extra witness please
11 stand to be sworn?

12 (Thereupon, Mr. Cromer was sworn.)

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

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

19 A. James Cromer.

20 Q. And where do you reside?

21 A. Oklahoma City.

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

23 A. Devon Energy. I'm a production/operations
24 engineer.

25 Q. Have you previously testified before the

1 Division?

2 A. No, I haven't.

3 Q. Would you please summarize your educational and
4 employment background for the Examiner?

5 A. I have an engineering degree from Texas Tech
6 University, and I've been employed in various engineering
7 capacities with exploration and production operations for
8 25 years.

9 Q. What companies have you worked for?

10 A. I worked for Exxon Company USA for 12 years, I've
11 worked for a company called Coastal Management, which was
12 later purchased by Schlumberger Oilfield Services, and
13 Devon Energy.

14 Q. How long have you been at Devon?

15 A. I've been at Devon since May of 2004.

16 Q. Does this area -- Are you responsible for this
17 area of New Mexico on behalf of Devon?

18 A. Yes, I am.

19 Q. And are you familiar with the production
20 engineering matters related to this Application?

21 A. Yes, sir, I am.

22 MR. BRUCE: Mr. Examiner, I tender the witness as
23 an expert production engineer.

24 EXAMINER JONES: Can you please spell your name
25 for me?

1 THE WITNESS: C-r-o-m-e-r.

2 EXAMINER JONES: Okay, Mr. Cramer is --

3 THE WITNESS: Cromer.

4 EXAMINER JONES: -- Cromer is qualified as an
5 expert production engineer.

6 Q. (By Mr. Bruce) Mr. Cromer, what is Exhibit 1?

7 A. Exhibit 1 is a land plat outlining the two
8 federal leases covering Section 26.

9 Q. And this is what, in 23 South --

10 A. In Township 23 South, 31 East.

11 Q. Does Devon seek to surface commingle Delaware
12 production from these two leases?

13 A. Yes, we do.

14 Q. What is Exhibit 2?

15 A. Exhibit 2 is just a list of the current wells on
16 the two leases for which we are seeking commingling
17 approval.

18 Q. Now, would the list, Exhibit 2, match the wells
19 which are shown on Exhibit 1?

20 A. Not exactly. Exhibit 1 also pictures -- or
21 contains a gas well and two saltwater disposal wells, which
22 are not producing to the battery that we're seeking to
23 commingle.

24 Q. Okay. Now is it possible that Devon might drill
25 additional wells in the future on this section?

1 A. Yes, it is.

2 Q. And would Devon request approval to
3 administratively add any additional Delaware wells to the
4 approval --

5 A. Yes, sir, we would.

6 Q. -- granted by this...

7 What is Exhibit 3?

8 A. Exhibit 3 is a representative schematic of the
9 tank battery facilities in Section 26.

10 Q. Could you just briefly describe for the Examiner
11 how the production will come in here and how the production
12 is going to be measured?

13 A. Production from all the wells comes into this
14 header that you see in the lower right-hand corner. There
15 are facilities to divert the flow from a single --
16 production from a single well through a test separator and
17 heater and meter that single well individually for all
18 liquids, oil and water and gas, for a periodic well test,
19 which we do monthly on each individual well.

20 Q. Okay, so there will be monthly well tests on the
21 individual wells?

22 A. Yes, there will.

23 Q. And in your opinion will this procedure
24 accurately measure production from each well on each lease?

25 A. Yes.

1 Q. And in your opinion will correlative rights be
2 protected by this procedure?

3 A. Yes, they will.

4 Q. What is Exhibit 4?

5 A. Okay, Exhibit 4 is a normalized production curve
6 which is a composite of all the wells in Section 26
7 producing to that battery at the present time.

8 Q. Okay. And so this is just to show how production
9 has fared from each well over the years?

10 A. That's correct.

11 Q. Okay. What is Exhibit 5?

12 A. Exhibit 5 contains a production plot of
13 individual wells that are producing to the battery that
14 we're seeking to commingle.

15 Q. Now these plots generally show from June, 2006,
16 correct?

17 A. That's correct.

18 Q. And production is quite flat from these wells?

19 A. That's correct, as these Delaware wells mature
20 they tend to flatten out considerably in their production
21 rates.

22 Q. And there is one new well; is that correct?

23 A. That is correct.

24 Q. And is that reflected on Exhibit 7 [*sic*]?

25 A. That's correct, Exhibit 7.

1 Q. Do these -- It just came on in December. Does
2 production flatten out fairly quickly on these Delaware
3 wells?

4 A. Yes, it does.

5 Q. So it declines rapidly to --

6 A. Declines rapidly to start off with, and flattens
7 out after several months.

8 Q. Because of these flat production characteristics,
9 does that give you confidence that production can be
10 accurately measured by your proposal today?

11 A. Yes, it does.

12 Q. Will Devon's proposal, surface commingling
13 proposal, reduce the total value of production from the
14 leases?

15 A. No.

16 Q. And in your opinion is the granting of this
17 Application in the interests of conservation and the
18 prevention of waste?

19 A. Yes.

20 Q. Were Exhibits 1 through 6 prepared by you or
21 under your supervision?

22 A. Yes, they were.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of Devon's Exhibits 1 through 6.

25 EXAMINER JONES: Exhibits 1 through 6 will be

1 admitted.

2 EXAMINATION

3 BY EXAMINER JONES:

4 Q. Mr. Cromer, the average -- Let's look at the
5 lease that covers the majority of the section. Are you
6 proposing additional wells maybe in the future in that part
7 of the lease?

8 A. In which part are you --

9 Q. Pretty much the east half in the southwest
10 quarter and the south half of the northeast quarter --

11 A. South half of --

12 Q. -- of Section 26? In other words, are these all
13 the wells you're probably going to ever have there?

14 A. No, sir -- well, the Well Number 24 is not
15 drilled -- that's marked Well Number 24. That is an open
16 location that we will likely drill in the future.

17 Q. And that one -- Do you think that one will be a
18 good producer like 23?

19 A. Yes, we do. Yes, we do. And then there's a
20 possibility that additional wells in the west half of
21 Section 26, infills --

22 Q. Okay --

23 A. -- will be drilled in the future.

24 Q. -- okay. But as far as a project -- well, I hate
25 to say project area, but a commingle area, would that -- it

1 would include all of Section 26 and it would never be
2 extended, right? You don't ever want to administratively
3 extend it beyond Section 26?

4 A. Beyond Section 26 --

5 MR. BRUCE: I think if we did that, Mr. Examiner,
6 we'd have to come back to hearing. All we're seeking is
7 Section 26. There may be a couple of additional wells on
8 Section 26.

9 THE WITNESS: That's correct.

10 EXAMINER JONES: Okay.

11 MR. BRUCE: There are other commingled facilities
12 in this area --

13 THE WITNESS: In this area.

14 MR. BRUCE: -- but this will be a separate
15 commingling facility.

16 Q. (By Examiner Jones) Okay. So basically we can
17 have a defined area in the order that you can
18 administratively add more wells to?

19 A. I believe we --

20 Q. Okay. But it would not be extended without going
21 back to hearing --

22 A. Right.

23 Q. -- beyond Section 26.

24 Why is 23 such a better well if it's producing
25 from the same zone as these -- average on these other

1 wells?

2 A. Well, these other wells -- the plots that you see
3 on the other wells are not -- Let's see, are you talking
4 about the normalized curve in Exhibit 4?

5 Q. Yeah. The average is pretty low, huh?

6 A. The average initial production, as you can see,
7 is around 90 barrels a day.

8 Q. Okay.

9 A. Okay. So this one was -- It's almost a
10 statistical play. I mean, this well produced very well to
11 start out with, I think. You can see the tests are
12 fluctuating, but it was somewhat better than these others.
13 But we consider it almost a statistical play that -- and
14 the formation varies quite a bit across the field.

15 Q. Okay.

16 A. We were pleasantly surprised with the results of
17 this well.

18 Q. Okay, it is declining pretty fast.

19 A. Yes, it is, it's declining.

20 Q. So you think monthly tests on that would be
21 sufficient?

22 A. We are -- actually, we're testing it almost daily
23 right now, because we're producing to frac tanks until we
24 get this approved. So at the time that this thing is
25 approved, I believe monthly tests will -- it will have

1 flattened out so that a monthly test should be sufficient,
2 but we do have daily tests from the inception up until
3 today.

4 Q. Okay, the -- You've got 17 or 18, 19 wells or so,
5 and you've got 30 days in a month, so -- and you're going
6 to test them for a day apiece; is that right?

7 A. Yes, sir --

8 Q. That's a whole day --

9 A. -- generally the way we do that.

10 Q. -- 24-hour period?

11 A. Yes, sir.

12 Q. What do you have internally, as far as your
13 company goes, to -- Let's talk about your manpower. You've
14 got a pumper out there; is that right?

15 A. Yes, sir.

16 Q. Or is this all automated stuff?

17 A. No, sir we do have a lease operator.

18 Q. So he has to go out there and switch these --
19 switch the well to test --

20 A. That's correct.

21 Q. -- and he has to read the meters, oil, water, gas
22 meter --

23 A. Right, for the well that's in test at a
24 particular day.

25 Q. He sent it to a head pumper or something?

1 A. He sends that -- that gets reported in to the
2 field office, and it's input into a software package that
3 does the daily allocation based on the daily battery
4 production and the monthly well test that -- the last
5 regular well test for each well.

6 Q. Yeah. Does that -- So you think that's reliable
7 enough to do it?

8 A. Yes, sir, we do. Like I say, as these wells do
9 tend to flatten out over time we believe that a monthly
10 well test is more than sufficient to adequately measure the
11 theoretical production for these.

12 Q. How about your meters on that test separator? Is
13 that a vertical separator, so you've got three phases in
14 it?

15 A. There's a free -- I believe there's a test
16 separator which is a free water knockout, and then that
17 4-by-20 heater -- that 4-by-20 heater, and then there's a
18 separate gas meter that comes off of that final phase
19 that's measured.

20 Q. Of the 4-by-20?

21 A. Yes, sir, I believe that's right.

22 Q. Okay, so your test separator knocks your water
23 out, and then your oil and your gas go on through the --

24 A. Right, to the -- right, to the heater. And then
25 I believe the gas comes off of there and is metered.

1 Q. Okay. And whatever else, water, I guess too,
2 would knock out there.

3 So what kind of meters do you have? You've got
4 -- on your oil? Let's talk about the oil meter and how you
5 keep it in good shape and everything. Is that -- What's
6 the oil gravity out there?

7 A. I'm not sure exactly what the gravity is. It's
8 pretty -- it's fairly high, lightweight crude. I would
9 have to guess it's around 40.

10 Q. Okay, so it's -- emulsion problems is not a real
11 big deal then?

12 A. Not that I know of, no, sir.

13 Q. So you wouldn't have much trouble with it
14 differentiating between -- In other words, your water and
15 your oil would be separated pretty reliably?

16 A. Pretty reliably, yes, sir.

17 Q. And then your -- is it a cumulative rolling
18 odometer meter? Is that how it keeps track of the oil?
19 Every barrel it clicks off, and the pumper just reads it
20 and sends it in?

21 A. I believe it's done with a gauge, but I'm not
22 exactly certain.

23 Q. You mean a gauge on a tank somewhere?

24 A. Let's see -- Right, a gauge on a tank. I believe
25 it's a -- I do believe it is a measurement, not through

1 some kind of a meter. I believe it's a tank -- a tank
2 level --

3 Q. Okay.

4 A. -- yes, sir.

5 Q. So you have a separate tank for that test meter?

6 A. Right, that's all -- it's one separate operation.

7 We've got tanks, measurement capacity for the liquids, and

8 I do believe that's a gauged measurement, and then there's

9 an orifice meter for the gas.

10 Q. Okay, and it's one of these Barton meters?

11 A. I believe that's right, yes, sir.

12 Q. Got a chart and everything, and --

13 A. Right.

14 Q. -- he just reads the average of the chart reading
15 and sends it in?

16 A. Yes, sir.

17 Q. That Power Tools looks like it's coming up --
18 doing a pretty good job with these decline curves.

19 A. Yeah.

20 Q. Do you use it all the time, or --

21 A. Yes, sir, we do, we sure do.

22 EXAMINER JONES: Are you going to have Mr. Gray
23 get up and talk about the interests on these, different
24 interests on these --

25 MR. BRUCE: Yeah.

1 EXAMINER JONES: -- Mr. Bruce? Okay.

2 Q. (By Examiner Jones) Well, I probably haven't
3 asked the questions I should on this testing procedure, but
4 what troubles do you have with this? In other words, what
5 tanks did you have before to keep -- you didn't have -- it
6 looks like you just added that separate interest up in the
7 northeast quarter recently with drilling Number 23; is that
8 correct?

9 A. That's correct. That particular lease, or piece
10 of that lease, would normally go to a battery in Section
11 27 --

12 Q. Okay.

13 A. -- because that's part of the Section 27 lease.
14 That battery is set up identically to Section 26. There's
15 no difference in the way that the production is allocated
16 on either lease. We do have a -- we have a constraint
17 here. The reason we're requesting this is because the
18 battery for Section 27 is way down here, and it's across
19 the state highway --

20 Q. Oh.

21 A. -- and we're out of room to take production
22 underneath a road bore beneath the state highway --

23 Q. Okay.

24 A. -- and so that's the reason for this request.
25 It's just going to be much more economic and cost effective

1 to take this to the Section 26 battery. They're both set
2 up identically.

3 Q. Okay. So right now there's -- what kind of
4 equipment, surface equipment, do you have on that north
5 half of the northeast --

6 A. That well right now is producing -- we're
7 producing the oil to frac tanks and actually hauling it --

8 Q. Oh.

9 A. -- we're actually selling it out of frac tanks --

10 Q. Okay.

11 A. -- until we get approval to take it to the
12 battery in Section 26.

13 Q. And it will be taken as a three-phase --

14 A. Yes, sir, it'll be taken as a three-phase -- all
15 three phases, to this 26 battery, right.

16 Q. And how much pressure does your separators
17 operate under, do you think?

18 A. I'm not sure right now. I couldn't tell you
19 that.

20 Q. The lower the better, right?

21 A. Right, the lower the better, that's correct.

22 Q. So these are pumped with considerable -- Let's
23 see here, your water is less than -- your water is about
24 twice what your gas is, it looks like, or your oil is.

25 A. Which one are you -- which one are you referring

1 to?

2 Q. That normalized --

3 A. Oh, the gas -- you're talking about the gas --

4 Q. Actually the --

5 A. The water is not on that -- the water is not on
6 that plot, since that's out of -- that's out of Power
7 Tools, water is not recorded in that, so -- Yeah, your GOR
8 is about -- Yeah, it's pretty consistent on these.

9 Q. Okay. So it's an oil reservoir that's down --

10 A. That's --

11 Q. -- probably below its bubble point?

12 A. (Nods)

13 Q. So you're knocking out a little more. But your
14 gas is real consistent, so --

15 A. Right, it is.

16 Q. -- doesn't seem like it's acting too much like
17 it's having problems there.

18 A. No, this -- we don't have much problem with this
19 lease metering and doing that. It presents very few
20 problems.

21 Q. Okay. And if you go work on one of these wells,
22 you -- and as far as the cleanout after a workover or
23 something, you'd do it to a frac tank for a while or
24 something and produce it through some kind of a settling
25 system to get rid of your --

1 A. Right.

2 Q. -- frac fluid or whatever?

3 A. Right.

4 EXAMINER JONES: Okay. Well, I don't have any
5 more questions.

6 MR. BROOKS: I don't have any questions.

7 EXAMINER JONES: Thanks a lot, Mr. Cromer.

8 THE WITNESS: Yes, sir.

9 MR. BRUCE: Mr. Examiner, calling Mr. Gray to the
10 stand again, if the record could reflect he was previously
11 sworn and qualified.

12 KEN GRAY,

13 the witness herein, having been previously duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Gray, what does Exhibit 7 contain?

18 A. Exhibit 7 contains all of the working interest
19 owners, overriding royalty interest owners, the royalty
20 owners for the two separate leases that are the subject of
21 this Application.

22 Q. And these are both federal leases, correct?

23 A. Both federal leases.

24 Q. And is the federal royalty the same under both
25 leases?

1 A. Yes, it is.

2 Q. And are the working interest owners the same
3 under both leases?

4 A. The working interest owners are the same, the
5 overriding royalty interest owners are slightly different.

6 Q. Okay, they're generally the same people but there
7 are a couple of differences?

8 A. Right.

9 Q. And was notice of this Application given to all
10 of these interest owners?

11 A. Yes, it was.

12 Q. And is that reflected on Exhibit 8?

13 A. Yes, it is.

14 Q. Now is Exhibit 7 taken from Devon's current
15 Division order file?

16 A. Yes, and straight out of these are the way
17 they're getting paid currently.

18 Q. Okay. So Devon sends out checks to these people
19 based on the addresses reflected on Exhibit 7?

20 A. Right.

21 MR. BRUCE: Mr. Examiner and Mr. Brooks, I did
22 mail notice to all of these people, some 50 people or so.

23 If you'd turn to the very end of that exhibit,
24 maybe the last four or five pages, everyone received
25 notice. If you'll turn to -- let me see, the fifth page

1 from the end, Mr. Cowles, that was refused.

2 The next two pages, the Figure 4 Investment Trust
3 and the Mabee Flynt Least Trust, notices were left and they
4 have never picked it up, and I have never gotten back the
5 green card.

6 And on the last two people, Marathon and L.E.
7 Opperman, there's nothing on them. If you would like, I
8 could probably try to re-notify Marathon and publish a
9 notice as against these other four people. But as Mr. Gray
10 testified, these are the addresses that are being paid. So
11 if you need it to be continued, I could publish a notice
12 probably by -- in time for the hearing on the 15th.

13 MR. BROOKS: Well, as I recall the Rule -- I
14 should have had my rule book. But as I recall the Rule, it
15 only requires publication. If you do not have a valid
16 address, which doesn't necessarily require that you have a
17 return receipt, and that if -- You've been mailing the
18 checks to these people at these addresses; is that correct?

19 THE WITNESS: (Nods)

20 MR. BROOKS: And you haven't been getting the
21 checks back?

22 THE WITNESS: No.

23 EXAMINER JONES: Why would something be refused
24 at a P.O. Box?

25 MR. BRUCE: Well, a lot of people -- I was told

1 once by a postal desk clerk that when you get certified
2 mail it's bad, when you get registered mail it's good. So
3 some people get certified mail and they turn it down.

4 EXAMINER JONES: Can't blame them for that. If
5 it's a check they can see that, I guess, and they grab
6 that. But it's not the post office, the post office don't
7 refuse anything?

8 MR. BRUCE: They don't refuse it, it's the
9 addressee who has the right to refuse a certified -- They
10 just won't either pick it up or they -- at the post office
11 you'll see the people show it to them and they'll say, No,
12 don't want it.

13 MR. BROOKS: Well, based on the testimony that
14 the checks are being regularly mailed to these addresses, I
15 would be prepared to find that they're good addresses, and
16 therefore the notice requirements have been complied with.

17 EXAMINER JONES: Sounds good to me.

18 MR. BRUCE: And I would move the admission of
19 Exhibits 7 and 8.

20 EXAMINER JONES: Exhibits 7 and 8 will be
21 admitted as evidence.

22 EXAMINATION

23 BY EXAMINER JONES:

24 Q. Mr. Gray, so the only difference is some
25 overrides?

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A. Uh-huh.

EXAMINER JONES: Okay, those are all my questions.

MR. BROOKS: I don't have any questions.

EXAMINER JONES: Thank you guys for coming, Mr. Bruce.

With that, let's take Case 13,869 under advisement.

And that being the last case on this docket, Docket 04-07 is concluded.

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

* * *

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 _____.

_____, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL February 4th, 2007.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2010