

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:

CASE NO. 14169

APPLICATION OF DEVON ENERGY PRODUCTION  
COMPANY, LP FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner  
TERRY G. WARNELL, Technical Examiner

August 21, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico  
Oil Conservation Division, DAVID K. BROOKS, Legal Examiner,  
TERRY G. WARNELL, Technical Examiner, on Thursday, August 21,  
2008, at the New Mexico Energy, Minerals and Natural Resources  
Department, 1220 South Saint Francis Drive, Room 102, Santa Fe,  
New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03  
Paul Baca Court Reporters  
500 Fourth Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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

## FOR THE APPLICANT:

James G. Bruce, Esq.  
ATTORNEY AT LAW  
P.O. Box 1056  
Santa Fe, New Mexico 87504

## ALSO PRESENT:

Ocean Munds-Dry, Esq.  
HOLLAND & HART, LLP  
110 North Guadalupe, Suite 1  
Santa Fe, New Mexico 87501

1 MR. BROOKS: Let's call Case No. 14169, the  
2 Application of Devon Production Company, LP, for Compulsory  
3 Pooling, Eddy County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
6 representing the applicant. I have one witness.

7 MS. MUNDS-DRY: Good morning, Mr. Examiner. Ocean  
8 Munds-Dry with the law firm of Holland and Hart. We entered an  
9 appearance for Marbob Energy Corporation, Lynx Petroleum  
10 Consultants, LLC, and Harvey E. Yates Company. I have no  
11 witnesses.

12 MR. BROOKS: Very good. Will the witness please  
13 stand and identify themselves to be sworn?

14 MR. HUDSON: Brett Hudson.

15 BRETT HUDSON

16 after having been first duly sworn under oath,  
17 was questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and city of  
21 residence for the record?

22 A. Yes. Brett Austin Hudson. I'm from Oklahoma  
23 City, Oklahoma.

24 Q. And who do you work for and in what capacity?

25 A. Devon Energy Production Company as a petroleum

1 landman.

2 Q. Have you previously testified before the  
3 Division?

4 A. Yes.

5 Q. And were your credentials as a petroleum landman  
6 accepted as a matter of record?

7 A. Yes, sir.

8 Q. Does your area of responsibility at Devon include  
9 this portion of southeast New Mexico?

10 A. Yes, it does.

11 Q. And are you familiar with the land matters  
12 involved in this case?

13 A. Yes, sir.

14 MR. BRUCE: Mr. Examiner, I tender Mr. Hudson as an  
15 expert petroleum landman.

16 MS. MUNDS-DRY: No objection.

17 MR. BROOKS: So qualified.

18 Q. (By Mr. Bruce): Mr. Hudson, could you identify  
19 Exhibit 1 for the Examiner and briefly describe what Devon  
20 seeks in this case.

21 A. Yes, sir. Exhibit 1 is a Midland Map Company  
22 map. It highlights the S/2 of Section 28 and 19 South, 31 East  
23 in Eddy County. That's our proposed spacing unit for the  
24 Cowpens 28 Fed Com #001. And Devon is seeking to pool the gas  
25 units there that are spaced on 320 acres, the Atoka and the

1 Morrow formations.

2 Q. You're seeking to force-pool any --

3 A. Anything spaced on 320 acres; the Wolfcamp, the  
4 Atoka/Morrow.

5 Q. And what is the name of the proposed well?

6 A. It's the Cowpens 28 Fed Com #001.

7 Q. And what quarter/quarter section will it be  
8 located in?

9 A. It will be in the NW/4 of the SE/4.

10 Q. And that's located on Devon's lease; is it not?

11 A. Yes, sir.

12 Q. What is the working interest ownership in the  
13 well unit? And I refer you to Exhibit 2.

14 A. Devon currently owns 50 percent of the deep  
15 rights with 100 percent of our lease, and then a consortium of  
16 about 17 individuals own the remaining 50 percent. And it's  
17 pretty well split up between these folks. If you look on the  
18 exhibit here, you can see the breakout, and we have a title  
19 opinion prepared on that that came from the opinions.

20 Q. So the other non-Devon interest owners are owned  
21 in the SW/4; is that correct?

22 A. Yeah. Their lease is -- they do not own on our  
23 lease.

24 Q. Looking at Exhibit 2, who do you seek to pool on  
25 this list other than Devon?

1           A. We seek to pool everybody on this list except for  
2 Yates Energy Corporation. They've elected to join. Jalapeno  
3 Corporation has elected to join. And Kent Gabel with Sudan,  
4 they've elected to join. So we are looking to force-pool  
5 Marbob, Lynx, Larry Scott, EGL, Fonay Oil and Gas, Harvey E.  
6 Yates, McVay Drilling, Moutray Properties, Powder Horn  
7 Investments, Watson Oil and Gas Properties, ABC Rentals, and  
8 Dasco Energy.

9           Q. Now, we'll get into your discussions with the  
10 interest owners in a minute, but are you continuing discussion  
11 with these parties?

12          A. Yes. I spoke to one this morning before we came  
13 in here and spoke as recently as Tuesday to a couple of the  
14 other folks.

15          Q. And if any of the other parties subsequently join  
16 in the well, will you notify the Division?

17          A. Yes, sir.

18          Q. Now, let's discuss Devon's efforts to get this  
19 drill. What is Exhibit 3?

20          MS. MUNDS-DRY: Mr. Bruce, do you have an extra copy?

21          THE WITNESS: Exhibit 3 is the original oil and gas  
22 lease we had here.

23          Q. (By Mr. Bruce): And this was issued to whom?

24          A. This was issued to Santa Fe Energy Resources.

25          Q. And is Devon Energy successor in interest to

1 Santa Fe Energy Resources?

2 A. Yes, sir.

3 Q. Is there currently any production from this  
4 lease?

5 A. No, sir.

6 Q. And when does this lease expire?

7 A. September 1st of 2008.

8 Q. Okay. So had there been previous attempts or  
9 efforts to develop this lease?

10 A. Yeah. Several years ago, there was a farmout  
11 given to Lynx and these other parties. They drilled the N/2 of  
12 this section. The farmout subsequently expired and we had, you  
13 know, a new geologist come in and he liked the area, so we  
14 decided to pursue it.

15 Q. Okay. So based on the new geologist coming in,  
16 you relatively recently proposed to drill this?

17 A. Yeah. Around the 1st of June.

18 Q. Okay. What is Exhibit 4-A?

19 A. Exhibit 4-A is our original proposal letter that  
20 kind of sets forth everything; a copy of all the working  
21 interest owners on the second page there. And it's got a copy  
22 of our AFE attached to it, which has actually been revised.  
23 It's a revised AFE for a little bit more cost due to tubular  
24 increases, and that's in a subsequent exhibit.

25 Q. And then what are Exhibits 4-B and 4-C?



1           A. Let's see here. 4-B is another letter that we  
2       had sent to all the parties on August 13th who had not  
3       responded to our original proposal. We sent out an operating  
4       agreement on the 17th and revised that JOA on the 25th of July.  
5       And we were seeking to get some kind of response from them.  
6       And also in it was our new AFE to the people we hadn't heard  
7       back from which shows the revised cost there for increase of  
8       pipe.

9           Q. Now, have you had any telephone discussions with  
10      any of the interest --

11          A. Yeah. We spoke with several individuals and --

12          Q. For instance, have you discussed this with Harvey  
13      E. Yates Company?

14          A. Yeah. I spoke with them on Tuesday, actually.  
15      They contacted me and indicated they were having Ocean put in  
16      an appearance for them and that they were interested in  
17      negotiating some kind of terms once we had this hearing.

18          Q. Have you had discussions with Mr. Larry Scott at  
19      Lynx Petroleum Consultants?

20          A. Several times, starting around the 15th of June  
21      and all the way to -- as recent as to the end of July.

22          Q. Are a lot of these interest owners in the SW/4  
23      tied in with Lynx Petroleum Consultants?

24          A. Yes. It's my understanding, from talking to  
25      Larry, that there are individual investors that he makes lease

1 assignments out to and assigns the operating rights or  
2 whatever, so they actually have record of title. But they are  
3 the investors that work with Lynx all the time.

4 Q. So most of your discussions have been with  
5 Mr. Scott on behalf of all of those interest owners?

6 A. Yes. But we did send letters to everybody. So  
7 everybody is aware of what's going on. But we did not  
8 individually contact everyone on the phone. Mr. Scott  
9 indicated that he did represent the remaining parties.

10 Q. Have you had -- excuse me. In your opinion,  
11 based on these contacts, have you made a good-faith effort to  
12 obtain the voluntary joinder of the interest owners in the  
13 well?

14 A. Yes, sir.

15 Q. And referring back to Exhibit 4-A, that was the  
16 original AFE for this well? There was -- in Exhibit 4-A, there  
17 is the original AFE attached to this well, correct?

18 A. Yes, sir.

19 Q. And then by Exhibit 4-B there were certain  
20 modifications?

21 A. Yeah, cost provisions, increased costs.

22 Q. And what is the final proposed well cost?

23 A. It looks like it's going to be -- for a dry hole  
24 cost, it's going to be \$2.4 million and completed costs \$4.1  
25 million. And that was increased about half a million bucks

1 because of pipe costs that have gone up in the past 30,  
2 60 days.

3 Q. And is this cost in line with the cost of other  
4 wells drilled at this depth in this area of New Mexico?

5 A. Yes, sir.

6 Q. Do you request that Devon energy be appointed  
7 operator of the well?

8 A. Yes, sir.

9 Q. And do you have a recommendation for the overhead  
10 rates?

11 A. Yeah. We'd like to have \$6,600 while drilling  
12 and \$660 a month while producing the well.

13 Q. And are these amounts equivalents to those  
14 amounts normally charged by Devon and other operators in this  
15 area for wells of this depth?

16 A. Yes, sir.

17 Q. Do you request that the overhead rates be  
18 adjusted periodically as provided by the COPUS accounting  
19 procedure?

20 A. Yes, we do.

21 Q. And does Devon request the maximum cost plus 200  
22 percent risk charge if any party non-consents the well?

23 A. Yes, we do.

24 Q. And were all interest owners notified of this  
25 hearing?

1 A. Yes, sir.

2 Q. And is Exhibit 5 my affidavit of notice?

3 A. Yes, it is.

4 Q. Were Exhibits 1 through 5 prepared by you or  
5 under your supervision and compiled from company business  
6 records?

7 A. Yes, they were.

8 Q. And in your opinion, is the granting of this  
9 application in the interest of conservation and the prevention  
10 of waste?

11 A. Yes, it is.

12 MR. BRUCE: Mr. Examiner, at this time, I move the  
13 admission of Exhibits 1 through 5.

14 MS. MUNDS-DRY: No objection.

15 MR. BROOKS: Exhibits 1 through 5 are admitted.

16 [Applicant's Exhibits 1 through 5 admitted into  
17 evidence.]

18 MR. BRUCE: I have no further questions of the  
19 witness.

20 MR. BROOKS: Ms. Munds-Dry?

21 MS. MUNDS-DRY: Mr. Examiner, I just have a few  
22 questions.

23 MR. BROOKS: Go ahead.  
24  
25

## CROSS-EXAMINATION

BY MS. MUNDS-DRY:

Q. Mr. Hudson, I just want to make sure I understand your application. In your application, it states you are pooling from the surface to the base of the Morrow formation. I believe I just understood your testimony that you are only pooling --

A. Yeah. We were actually talking to Jim about this before we walked in. The intent was only to pool the 320-acre space gas units. If we go back up hole, we own 100 percent of our lease. There would be no reason to pool our lease, you know. Everything from 160 spaced on up is owned 100 percent by Devon, so --

Q. You anticipated my next question, then. You say you own 100 percent of the deep rights.

A. We own 100 percent of all surface to basin -- everything is on our lease.

Q. You do?

A. Yes, we do. We have no split ownership in our lease. And so, yeah, when we filed it, I guess, Jim says it's common to file for surface to the base of the Morrow. But the intent was just to pool what everybody owned in. I mean, we're not going to force-pool them into something that don't own.

Q. Okay. That's all the questions I have -- actually, I take that back. I have one more question.

1 Do you have any secondary targets for this well?

2 A. I mean, you know, when we drill it, we evaluate  
3 it when we drill, but the initial target is going to be the  
4 Atoka/Morrow, and that's where we're going to be, where we'll  
5 probably complete it. That's -- who knows? You drill out in  
6 this area and you see a lot of stuff on the logs. You may --  
7 but we're not drilling it for any secondary objectives, no.

8 Q. Have you thought about if you have any shallower  
9 targets, have you decided how you're going to allocate costs?

10 A. That's never really been discussed. You know, we  
11 will be open to doing something. We're not going to hard-trade  
12 these folks.

13 Q. Okay.

14 MS. MUNDS-DRY: That's all I have, Mr. Examiner.

15 EXAMINATION

16 BY MR. BROOKS:

17 Q. Mr. Hudson, what are you asking to pool, exactly?

18 A. Everything spaced on 320 acres.

19 Q. From the surface to the base of the Morrow?

20 A. No, just the Wolfcamp --

21 MR. BRUCE: I think that would probably be the top of  
22 the Wolfcamp to the base of the Morrow.

23 MR. BROOKS: Yeah. Unless there's some special  
24 pools, it would be the same thing.

25 MR. BRUCE: And I haven't looked at any, so if the

1 order just said top of the Wolfcamp to the base of the Morrow,  
2 that would be fine.

3 MR. BROOKS: Okay.

4 THE WITNESS: Anything spaced on 320 acres.

5 Q. (By Mr. Brooks): Top of the WC to the base of  
6 the Morrow?

7 A. Yes, sir.

8 Q. Yeah. Anything above the Wolfcamp would be on  
9 160s unless it's under special pool rules.

10 A. Yes.

11 Q. Okay. Now, the entity is Devon Energy Production  
12 Company, LP?

13 A. Yes, sir.

14 Q. It's the S/2 of 28. And what is the township and  
15 range?

16 A. 19 South, 31 East.

17 Q. 19 South, 31 East?

18 A. Yes, sir.

19 Q. And the name of the well is Cowpens Federal  
20 Com #001?

21 A. 28 Fed Com #001.

22 Q. Cowpens 28 Fed Com #001?

23 A. Yes, sir.

24 Q. And overhead rates you're asking?

25 A. \$6,600 while drilling and 660 while producing the

1 well.

2 Q. 6,600 while drilling and 660 while producing.

3 A. Yes, sir.

4 Q. Did you get return receipts from all interest  
5 owners you mailed to?

6 A. Yeah. I don't have a copy of it here, but,  
7 yes --

8 Q. I believe it's all attached to --

9 MR. BRUCE: Yeah. They are all there.

10 MR. BROOKS: There's no one you did not get a return  
11 receipt for?

12 MR. BRUCE: For once in my life, I got returns back  
13 from everybody.

14 MR. BROOKS: So you won't have any unlocatable owners  
15 when it comes to distribution, right?

16 THE WITNESS: No, sir.

17 MR. BROOKS: Okay. I think that's all my questions.  
18 Mr. Warnell?

19 MR. WARNELL: I have one question for Mr. Hudson.

20 EXAMINATION

21 BY MR. WARNELL:

22 Q. A little clarification -- probably just for me --  
23 but on your Exhibit No. 2, you talked about Yates and Jalapeno  
24 Corporation: They will participate?

25 A. Yes. They've elected to join. They've signed



1 the JOA and we actually talked to them before we came out here  
2 on Tuesday to verify that and they are joining the well. And  
3 along with that, Kent Gabel, Sudan Feed Yard, he's also --

4 Q. Where is that one at?

5 A. He's down there on the bottom above Watson --  
6 between Watson Oil and Gas Properties and Powder Horn  
7 Investments.

8 Q. So go through the list one more time for me. Who  
9 will participate?

10 A. Right now, Yates Energy Corporation, Jalapeno  
11 Corporation, and Kent Gabel, which is care of Sudan Feed Yard.

12 Q. Okay. But not Lynx Petroleum Corporation?

13 A. They have not. And we did have other people who  
14 joined and withdraw their ballots. Who knows? That could  
15 change, you know.

16 Q. Okay.

17 MR. WARNELL: That's all I've got. Thank you.

18 MR. BROOKS: If there's nothing further, then Case  
19 No. 14169 will be taken under advisement.

20 \* \* \*  
21 I hereby certify that the foregoing is  
22 a true and correct report of the proceedings in  
23 the hearing of Case No. 14169,  
24 held by me on 8-21-08  
25 David K. B. Smith, Examiner  
Oil Conservation Division

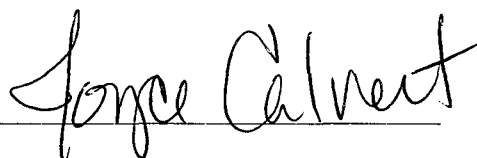
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**REPORTER'S CERTIFICATE**

I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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

DATED this 21st of August, 2008.

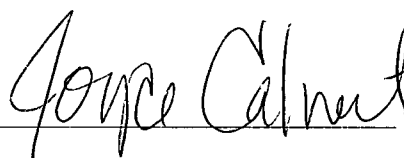


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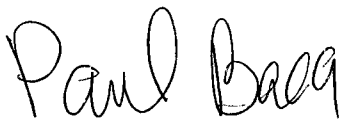
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3  
4 I, JOYCE D. CALVERT, a New Mexico Provisional  
Reporter, working under the direction and direct supervision of  
5 Paul Baca, New Mexico CCR License Number 112, hereby certify  
6 that I reported the attached proceedings; that pages numbered  
1-17 inclusive, are a true and correct transcript of my  
stenographic notes. On the date I reported these proceedings,  
I was the holder of Provisional License Number P-03.

7 Dated at Albuquerque, New Mexico, 21st day of  
8 August, 2008.

9  
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