

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 COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO CASE NO. 14268

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Technical Examiner
TERRY WARNELL, Technical Examiner

January 22, 2009

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical Examiner, and TERRY WARNELL, Technical Examiner, on Thursday, January 22, 2009, 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

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WITNESS: Brett Hanson

Examination by:

MR. BRUCE

MR. WARNELL

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EXHIBITS 1 through 4 AND 6 through 9 ADMITTED

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REPORTER'S CERTIFICATE

31

1 MR. EZEANYIM: At this point, we call case 14268.
2 This is the Application of Devon Energy Production Company, LP,
3 for Compulsory Pooling, Eddy County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce representing the
6 applicant. I have one witness to be sworn.

7 MR. EZEANYIM: Any other appearances?

8 Okay. May the witness stand up, state your name and
9 be sworn?

10 BRETT AUSTIN HUDSON

11 after having been first duly sworn under oath,

12 was questioned and testified as follows:

13 MR. BRUCE: Again, I apologize to the Examiners. It
14 must reflect on me if I have one case, and I still can't get
15 ready for the hearing.

16 MR. EZEANYIM: That's okay.

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

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

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

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

24 A. Devon Energy Production Company, and I'm a
25 petroleum landman.

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

3 A. Yes, sir.

4 Q. And were your credentials as an expert landman
5 accepted as a matter of record?

6 A. Yes, sir.

7 Q. And are you familiar with the land matters
8 involved in this application?

9 A. Yes, sir.

10 MR. BRUCE: Mr. Examiner, I tender Mr. Hudson as an
11 expert petroleum landman.

12 MR. EZEANYIM: Are you a certified public landman?

13 THE WITNESS: I'm not certified. I've got a degree
14 in energy management from the University of Oklahoma, and
15 there's a certain amount of requirements of years of work, and
16 I haven't met the work requirements yet, but I will be once I
17 can meet those requirements.

18 MR. EZEANYIM: Very good. You have worked for Devon
19 for how many years?

20 THE WITNESS: Three years last week.

21 MR. EZEANYIM: Very good. Mr. Hudson is so
22 qualified.

23 Q. (By Mr. Bruce): Mr. Hudson, very briefly, would
24 you identify Exhibit 1 for the Examiner?

25 A. It's from Midland Map Company, and it's showing

1 the E/2 of Section 15, 19 South, 31 East. It's highlighted,
2 and that's going to be our location for our Acme 15 Federal Com
3 No. 1 well.

4 Q. And in which 4/4 section is the well located?

5 A. The well is going to be located in the NW/4 of
6 the SE/4.

7 Q. And what is the primarily target of the well?

8 A. Hopefully it will be the Morrow.

9 Q. Are there a number of interest owners in this
10 well?

11 A. Yes, there's a number of interest owners that own
12 in all formations up the Strawn, and then there are a number of
13 interest owners that just own in the Strawn formation.

14 Q. Has a pooling order previously been issued for
15 this well?

16 A. Yes. We had Order No. 13059, and we force-pooled
17 ConocoPhillips --

18 MR. EZEANYIM: 13059?

19 THE WITNESS: Yes, 13059. Yes, sir.

20 MR. EZEANYIM: For this particular well?

21 THE WITNESS: Yes, sir. And we force-pooled
22 everything from the surface to the base of the Morrow, just
23 ConocoPhillips' interests at that time.

24 MR. EZEANYIM: You pooled just ConocoPhillips?

25 THE WITNESS: Yes, sir.

1 MR. EZEANYIM: For that 13059?

2 THE WITNESS: Yes, sir.

3 MR. EZEANYIM: Okay.

4 Q. (By Mr. Bruce): And why are we here today,
5 Mr. Hudson?

6 A. We are here today -- there's several different
7 interest owners in the Strawn formation only, and we're seeking
8 a force-pooling against the people that just own in the Strawn
9 in case it's a dry hole in the Morrow and we need to
10 re-complete to the Strawn formation.

11 Q. And what is the Strawn -- well, all we're
12 concerned about is the Strawn formation, but really only in one
13 40-acres; is that correct?

14 A. Yes, sir.

15 Q. And which 4/4 section is that?

16 A. That's in the NE/4 of the SE/4, and it's been
17 severed. There's no Lusk-Strawn unit out there, and it has
18 been severed like 40 years ago.

19 MR. EZEANYIM: If I may, Mr. Bruce, let me try to
20 understand what's going on here.

21 Our order No. 13059 pooled ConocoPhillips from the
22 surface to the Morrow, right?

23 THE WITNESS: Yes, sir.

24 MR. EZEANYIM: Now that's -- the primary target is
25 the Morrow. Now you are trying to see if there are prospects

1 in the Strawn?

2 THE WITNESS: Yes, sir.

3 MR. EZEANYIM: Okay. Now, when we pooled from the
4 surface to the Morrow --

5 THE WITNESS: Uh-huh.

6 MR. EZEANYIM: -- it's my understanding that the
7 people in the Strawn well were given notices too, weren't they?

8 THE WITNESS: Well --

9 MR. BRUCE: That is correct. And Mr. Examiner -- and
10 I'll have Mr. Hudson testify as to this. But the Strawn is
11 based on 160 acres out there. It's the Lusk-Strawn pool.

12 MR. EZEANYIM: Yeah, because it's shut in at the
13 Wolfcamp.

14 MR. BRUCE: Yeah.

15 MR. EZEANYIM: Okay. So it's straight to the --

16 MR. BRUCE: Well, no, it's an oil pool.

17 MR. EZEANYIM: Okay, oil pool.

18 MR. BRUCE: And it's an old -- I don't have it. I
19 probably have it somewhere, but it's an old oil pool that was
20 spaced on 160 acres, I think, back in the 1960s.

21 MR. EZEANYIM: Okay, good.

22 MR. BRUCE: And Devon is in the process of drilling
23 this well. And there was a couple of issues.

24 First of all, all the interest owners either joined
25 in -- all the other interest owners either joined in

1 voluntarily or got -- ConocoPhillips got force-pooled.

2 MR. EZEANYIM: Okay.

3 MR. BRUCE: And then in this one 40 acres, there's
4 people who own only in the Strawn formation.

5 MR. EZEANYIM: Okay.

6 MR. BRUCE: And I think Devon was going to leave it
7 alone for a while, but there are certain issues. Title is
8 really -- title issues are so bad in here. There are a couple
9 of interest owners that you'll see on the next exhibit, we're
10 not even sure who owns them. There are two or three possible
11 owners of certain undivided interests.

12 MR. EZEANYIM: Yeah.

13 MR. BRUCE: And so the decision was made -- well,
14 just in case number one -- because of the title issues, which
15 took a little while, actually.

16 I think Mr. Hudson and I didn't finally come to some
17 resolution on this until just shortly before we filed this
18 pooling application.

19 MR. EZEANYIM: Uh-huh.

20 MR. BRUCE: And because just in case the Morrow
21 doesn't work, they want to come back up-hole, you know,
22 relatively soon after that force-pooling, the decision is made
23 to force-pool.

24 Now, these are not -- Exhibit 2 reflects the NE/SE
25 Strawn interest owners. In the other acreage in the SE/4 there

1 are other Strawn interest owners who are already committed to
2 the well.

3 MR. EZEANYIM: Okay.

4 MR. BRUCE: So it's kind of a cleanup work in case
5 they don't make the Morrow zone.

6 MR. EZEANYIM: The well has not been drilled?

7 THE WITNESS: It's drilling right now. It has not
8 been completed.

9 MR. EZEANYIM: Okay.

10 MR. BRUCE: It has not been fully completed, but it
11 has been commenced.

12 MR. EZEANYIM: Okay.

13 THE WITNESS: We ought to have a test on it in the
14 next couple of weeks.

15 MR. BRUCE: Anyway, that's the situation.

16 MR. EZEANYIM: Okay.

17 Q. (By Mr. Bruce): And so let's go to --
18 Mr. Hudson, let's go to Exhibit 2. Does that accurately
19 reflect, as far as Devon knows, the interest owners in the
20 Strawn formation in the NE/4, SE/4 of Section 15?

21 A. Yes, sir.

22 Q. Now, do you seek to force-pool the people
23 highlighted in yellow?

24 A. Yes.

25 Q. Now, the first two people -- actually, the first

1 four people, those interests are not in doubt, if I recall.

2 A. Yeah. We talked to Conoco. Marbob has
3 voluntarily joined. Badger we're seeking to force-pool, and
4 Amity we've sent several letters and gotten no response. But
5 they do own the interest.

6 Q. But there's no question as to what those first
7 four interest owners own?

8 A. Correct.

9 Q. But then we have -- next, there's Anadarko
10 Exploration and Production, which owns over 14 1/2 percent.
11 And then Pioneer Natural owns 14 1/2 percent.

12 But let's go into that a little bit. This is a
13 federal lease, is it not?

14 A. Yes. We had a title opinion prepared and got it
15 and received it in October. But our first title opinion came
16 back showing a couple of people owning it. There had never
17 been anything filed in the record in both the federal abstracts
18 or the county abstracts to transfer title out of a couple of
19 older companies that are really no longer in existence.

20 So by certificates of merger and stuff, we were able
21 to come to the fact that what could be Anadarko or, you know.
22 Then there was some stuff that had been filed in other sections
23 around that township that were reflecting transfers of other
24 interest to some of these other companies.

25 But we had two different title opinions prepared,

1 both of which showed different interest owners -- is why you
2 see these people listed. And when we contacted these people,
3 they didn't know if they for sure owned it or not. You know,
4 they couldn't find in their records, you know, anything that
5 had transferred title to them or they could claim it or -- we
6 couldn't get it resolved, you know.

7 It's just kind of hanging out there, and it is 28
8 percent, 29 percent of this formation. So, you know, you don't
9 want to carry that.

10 MR. EZEANYIM: So highlighted here they don't want to
11 participate in the well?

12 THE WITNESS: They don't know if they own it or not,
13 you know. We talked to them before. I talked to Anadarko
14 before I came out here, and I talked to some people at Pioneer,
15 and we've talked to Brad Bassore and all these folks, and they
16 just don't know if they own it, you know. It's undeterminable,
17 the current owner of this formation.

18 MR. EZEANYIM: For interests of clarity, some of
19 these interest owners in the Strawn, do some of them own
20 interest in the Morrow too?

21 THE WITNESS: Currently only Marbob and
22 ConocoPhillips, and Marbob has voluntarily joined in the well,
23 and they're partners with us.

24 MR. EZEANYIM: In the Strawn or the Morrow?

25 THE WITNESS: They've joined in everything. And then

1 ConocoPhillips we force-pooled. And the rest of these people
2 you see on this list are just in the 40-acre Strawn.

3 MR. EZEANYIM: Okay.

4 Q. (By Mr. Bruce): And, Mr. Hudson, for instance,
5 you talked about these title issues. This first one, Anadarko
6 title ended about what, about 18, 20 years ago in Amax,
7 correct?

8 A. Yes, sir.

9 Q. And there's no instruments since then?

10 A. Yeah, it just stopped at Amax Gas.

11 Q. So you rely on merger certificates to come up
12 with these things?

13 A. Uh-huh.

14 Q. And then same thing under the 14 1/2 percent
15 owned by, we think -- owned by Pioneer that dead-ended about
16 the same time, 18 or 20 years ago, in Dorchester; correct?

17 A. Yes, Damson Oil, Dorchester Minerals.

18 Q. And Damson went bankrupt, if I recall.

19 A. Yes, sir.

20 Q. So nobody really knows what happened to that
21 interest either, although we think it went into Pioneer,
22 correct?

23 A. Correct. And even after contacting Pioneer, they
24 didn't show any records of them even being --

25 MR. EZEANYIM: Yeah.

1 MR. BRUCE: So it's messed up.

2 MR. EZEANYIM: I'm trying to understand it. On that
3 Exhibit No. 2, you are saying that these interests, they don't
4 even know whether they own it or not?

5 THE WITNESS: Yes, sir.

6 MR. EZEANYIM: How do you come up with those
7 percentages if you don't know who owns it?

8 THE WITNESS: The title was -- like Mr. Bruce was
9 saying -- was less than Amax Oil and Gas for the Anadarko, and
10 they had 14 percent at that time. Well, Amax has been bankrupt
11 or sold since the late 1980s, but with nothing ever filed.

12 So by certificates of merger, we were able to figure
13 out, you know, Amax merged into this corporation, which was
14 UPR. Then UPR merged into Parkland Parsley out there. So we
15 were able to follow certificates of merger, but nothing that
16 reflected title in this section.

17 And, likewise, on the Pioneer Natural Resources,
18 interests was originally -- it was the Dorchester Master
19 Limited Partnership care of Damson Oil Trust, and Damson Oil
20 Trust went bankrupt in the late 1980s and had sold a bunch of
21 its assets and merged, but with nothing clearly transferring
22 title to this 40-acre tract.

23 And we couldn't determine -- it was undeterminable at
24 that point. So we just, by following the mergers in the
25 successor companies, we were able to determine that it could be

1 these potential people.

2 MR. EZEANYIM: Why is this much listed on top of here
3 and also listed here? Why is that?

4 MR. BRUCE: And, Mr. Examiner, I could answer that.

5 Pioneer gained title to certain interests, as
6 Mr. Hudson said. There's a bunch of conveyances in this
7 general area in several townships whereby Pioneer acquired
8 some, but not all, interests from its predecessor, and then
9 Pioneer assigned some, but not all, interests to Prize Energy.

10 And, actually, Mr. Hudson and I have both spoken with
11 Cimarex, which owns Prize. They don't think they own it, but
12 they don't know.

13 So it's really one of the screwy deals in title which
14 you don't -- usually you're able to find someone.

15 MR. EZEANYIM: So this is one of those cases where
16 the title is such that we're going to have to do some escrow
17 here.

18 MR. BRUCE: Yes, sir.

19 THE WITNESS: Yes, sir.

20 MR. EZEANYIM: Okay. Go ahead.

21 Q. (By Mr. Bruce): And, again, you seek to pool all
22 of the parties highlighted in yellow on the exhibit?

23 A. Yes, sir.

24 Q. And what is Exhibit 3?

25 A. Exhibit 3 is our proposal letter we sent out

1 to -- we originally proposed the well, like you said, as a
2 Morrow well. And then, subsequently, we proposed the well to
3 the Strawn owners to give them to voluntarily join. And that's
4 a copy of our offer letter we had sent. It's a proposal
5 letter/offer to either term assign or join the well.

6 Q. And have you had followup conversations with some
7 of these interest owners?

8 A. Yes. We did talk with, like I say, Marbob. They
9 went ahead and joined voluntarily. And then we have received a
10 letter back from Badger Energy requesting a term assignment.
11 And then we've also received a letter back from Dorchester
12 Master Limited Partnership, and they just sent a letter saying
13 they weren't for sure if they owned it for not.

14 Q. And, in your opinion, has Devon made a good-faith
15 effort to obtain the voluntarily joinder of the interest
16 owners?

17 A. Yes, sir.

18 Q. What is Exhibit 4?

19 A. Exhibit 4 is a copy of the AFE for the drilling
20 complete through the Morrow, and it reflects drilling costs of
21 around 2.5 million with a completed well cost of about 4
22 million.

23 Q. And is this cost currently in line with the costs
24 of other wells drilled to this depth in this area of Eddy
25 County?

1 A. Unfortunately, yes.

2 Q. Do you request that Devon be appointed operator
3 of the well?

4 A. Yes, sir.

5 Q. And do you have a recommendation for the amounts
6 which Devon should be paid for supervision and administrative
7 expenses?

8 A. Yes. We're requesting \$6,600 while drilling the
9 well per month, and then as operating expenses for \$660 a month
10 of overhead.

11 MR. EZEANYIM: What is that overhead rate?

12 THE WITNESS: \$6,600 while drilling and \$660 while
13 operating.

14 MR. EZEANYIM: Why do you use the word -- that's very
15 interesting to me. You know, when we were talking about AFE,
16 you said 4.5 million was -- you used the kind of word I can't
17 remember. I forgot what you used -- as if to say it's not
18 really correct.

19 THE WITNESS: No. I said "unfortunately," because
20 the price of commodities has gone down, but the drilling costs
21 are still extremely high.

22 MR. EZEANYIM: I wondered what you meant.

23 THE WITNESS: But, unfortunately, that is the correct
24 cost, but the gas prices are \$2.00 out there. It makes it
25 hard.

1 MR. BRUCE: I try to tell my witnesses not to lie to
2 the examiners, Mr. Examiner.

3 MR. EZEANYIM: Yeah, I know.

4 What is the depth of this well?

5 THE WITNESS: It's going to be 12,700 feet, roughly.

6 MR. EZEANYIM: To the Morrow?

7 THE WITNESS: Yes, sir.

8 Q. (By Mr. Bruce): Is the footage location set
9 forth in the AFE that Devon calculated?

10 A. Yes, it is. We're going to be 1650 feet from the
11 south and 1650 feet from the east.

12 MR. EZEANYIM: Okay. I see that. Because I need to
13 get out the -- is that the location for the oil well?

14 THE WITNESS: It's a legal location for an oil and
15 gas well, 1650 feet from the south and 1650 feet from the east.

16 MR. EZEANYIM: Okay. 1650 both ways.

17 THE WITNESS: Uh-huh.

18 MR. EZEANYIM: South and east.

19 MR. BRUCE: And I don't have the pool rules,
20 Mr. Examiner, but for a Strawn well, 160 acres, I know they
21 have to be 1650 feet from the quarter section, and it should be
22 orthodox for that also.

23 MR. EZEANYIM: Okay. So that's 660?

24 MR. BRUCE: 660 from the quarter line.

25 MR. EZEANYIM: 660. Okay.

1 MR. BRUCE: Yes.

2 Q. (By Mr. Bruce): Do you request that the overhead
3 rates be adjusted periodically as provided by the COPAS
4 accounting procedure?

5 A. Yes, sir.

6 Q. And does Devon request the maximum cost plus 200
7 percent risk charge if the consenting -- if anyone non-consents
8 the well?

9 A. Yes, sir.

10 Q. And were Strawn interest owners notified of this
11 hearing?

12 A. Yes, sir.

13 Q. And is the mailing -- certified mailing reflected
14 in the Exhibit 6 of my Affidavit of Notice?

15 A. Yes, sir.

16 MR. BRUCE: Mr. Examiner, everyone received notice
17 except Amax Oil and Gas, and that's the very last page of
18 Exhibit 6, so you can see it was returned.

19 And we did publish notice against everyone,
20 Mr. Examiner, and that's the Affidavit of Publication, and it's
21 Exhibit 7.

22 And, again, as Mr. Hudson testified, Amax Oil and Gas
23 has merged into another company. But, nonetheless, we did
24 notify them.

25 MR. EZEANYIM: Okay.

1 Q. (By Mr. Bruce): Now, Mr. Hudson, has Devon
2 proposed a cost allocation between zones in the event the well
3 is completed in the Strawn formation?

4 A. Yes, sir.

5 Q. And is that marked Exhibit 8?

6 A. Yes, it is. It's Exhibit 8 there. The drilling
7 costs there, it's an attachment to the Joint Operating
8 Agreement.

9 Q. Okay.

10 MR. EZEANYIM: Yes, please. Let's go back to this
11 Exhibit No. 8. What is that document?

12 THE WITNESS: If you're here at the very bottom of
13 the page, under "R," it says drilling costs, and that's a
14 formula that we actually acquired from Yates. And it sets
15 forth, you know, if we were to drill this well to the Morrow,
16 and then at such time if we were to go back up to the Strawn
17 formation, how the Strawn owners, if they were to voluntarily
18 join, how they would pay the owners if we had drilled all the
19 way to the Morrow, how we would reimburse the costs for the
20 Strawn completion.

21 MR. EZEANYIM: Okay.

22 THE WITNESS: And it's set forth there. There's a
23 little formula there at the bottom that kind of sets forth how
24 we would request that be done.

25 Q. (By Mr. Bruce): So the Strawn formation owners

1 would not be assessed the full cost of the drilling down to the
2 Morrow?

3 A. Yes, sir.

4 MR. EZEANYIM: You just answered one of my important
5 questions. Because there's the Morrow and then the Strawn, and
6 I wanted to see how you allocated the costs.

7 As you know, some of the owners in the Strawn may not
8 own anything in the Morrow.

9 THE WITNESS: Yes, sir.

10 MR. EZEANYIM: In that case, you have to have a
11 reasonable and equitable way of sharing those costs so you
12 don't impair some correlative rights.

13 THE WITNESS: Right.

14 MR. EZEANYIM: So that's what is set forth in this
15 document?

16 THE WITNESS: Yes, sir.

17 MR. EZEANYIM: Okay. Good.

18 THE WITNESS: And that's what Marbob has agreed. You
19 know, they have different ownership, and they've already agreed
20 to that. And, you know, we did require that from Yates who is
21 another partner in this well.

22 MR. EZEANYIM: Okay.

23 MR. BRUCE: And, Mr. Examiner, submitted as Exhibit 9
24 is Order R-12283, which was a case, a pooling case by Morrow.
25 The reason I submitted that is because that was a case where

1 there were different ownership between some shallow zones and
2 the Morrow.

3 Just to show that the Division did -- I don't know
4 that you need to go into the same detail in this order as in
5 the Devon case here, as in the Mewbourne order, but there was a
6 big presentation on allocation of costs. And also the record
7 will reflect that was an allocation that was kind of based on
8 something that Yates had done in the past.

9 And what happened in this case -- and this is what
10 I'm getting to, mainly -- is that in this case, the well was
11 drilled to the Morrow, and this order provided that if it
12 wasn't completed in the Morrow, or if it was completed and
13 quickly abandoned and came up-hole, then this pooling order
14 would apply. And it gave maybe 120 days or something like that
15 for that to occur.

16 And I think -- Mr. Hudson, if you would like to
17 comment? Would you like as much time as possible for that
18 Strawn re-completion to take effect?

19 THE WITNESS: Yes, sir.

20 MR. BRUCE: In other words, Mr. Examiner, even though
21 they're drilling and completing, as you well know, between
22 testing wells and everything, it might not be completed in a
23 quick time frame. And they would like as much time to complete
24 up-hole in the Strawn as necessary after testing the Morrow.

25 MR. EZEANYIM: Okay. How much time do you want?

1 THE WITNESS: We request 180 days, if that's
2 possible. The reason I say that is we have an Acme 10 well,
3 which was just in the section to the north of here, and we
4 drilled it, and it came on really strong rates. But 60 days
5 out it was completely depleted.

6 So, you know, it would be unfortunate if we were to
7 have that happen here, and then, you know, this order had
8 already been expired. So we would request 180 days or six
9 months, if possible.

10 MR. EZEANYIM: Yeah, it's possible. What's wrong
11 with that? I can give you 240 if you want to, but the point is
12 to get something out of that Strawn, right?

13 THE WITNESS: Right.

14 MR. BRUCE: We just don't want to have to come back
15 and re-pool them again.

16 MR. EZEANYIM: Yeah. That's why I want -- I want to
17 make sure you don't have to come back here.

18 THE WITNESS: We request the maximum you'll allow us.

19 MR. EZEANYIM: I will give you one year. Because I
20 don't want anybody to come here with those pooling cases again,
21 and as long as, you know, we divide all the costs in the Morrow
22 and Strawn, you know.

23 THE WITNESS: Of course.

24 MR. EZEANYIM: Okay. Suppose you find something in
25 the Morrow and also the Strawn. I mean, this allocation

1 formula still holds.

2 THE WITNESS: Yes, sir.

3 MR. EZEANYIM: Because I'm very happy you gave me
4 something. I'm not going to look at it, but you have some
5 calculations.

6 As you know, Mr. Bruce, we are trying to streamline
7 what we are trying to do here. But I'm happy you gave me this
8 that shows, you know, how to do it.

9 But my question is: If you complete in the Morrow,
10 and there's still a prospect in the Strawn -- because I think
11 the order you gave me is if the Morrow is not prospective, then
12 you had permission to complete in the Strawn? Is that what it
13 says?

14 Suppose both of them are prospective?

15 MR. BRUCE: Yeah. And at that point, I think Devon
16 would probably make the decision to --

17 THE WITNESS: -- dual complete. We could commingle
18 this as soon as possible with the engineers, you know.

19 MR. EZEANYIM: What was that? What did you say?

20 THE WITNESS: Maybe commingle the two if it's
21 feasible by our engineers.

22 MR. EZEANYIM: Well --

23 THE WITNESS: And this would -- this allocation
24 formula would still apply to that.

25 MR. EZEANYIM: Is that what you think you might do?

1 MR. BRUCE: Mr. Hudson can testify, but I think if
2 something showed up in the Lusk-Strawn, they would probably go
3 ahead and do it. I don't know what this pool is like now, but
4 this is a very large Strawn pool, and way back when, it was
5 quite prolific -- I mean, 5 to 600,000 barrels.

6 MR. EZEANYIM: That's what I'm saying. You might be
7 completing in both secondary and primary targets.

8 THE WITNESS: We would request the pooling to cover
9 that as well. But, originally, it was just kind of an
10 insurance policy. If the Morrow didn't work out, we knew we
11 would go to the Strawn.

12 But if both of them work out well, we would request
13 that this would cover for a dual completion or a commingling or
14 anything we would do there.

15 MR. EZEANYIM: That's where I was going, you know, of
16 both of them. You never know. And I would like them to be
17 prospective. I don't want the Morrow to be dry.

18 THE WITNESS: Right.

19 MR. EZEANYIM: So you can complete both of them.

20 THE WITNESS: Right.

21 MR. EZEANYIM: So how do we handle that? Because the
22 last thing you need within the Morrow is to suspend the Morrow
23 and it not be prospective.

24 THE WITNESS: Right.

25 MR. EZEANYIM: You plug back and go up-hole to the

1 Strawn. But suppose by chance both of them are prospective,
2 you do a completion and then you measure downhole commingling.
3 I mean, downhole commingling is a whole new issue.

4 THE WITNESS: Right.

5 MR. EZEANYIM: If both of them are not prolific, you
6 don't want to downhole commingle.

7 MR. BRUCE: Right. And that's why, I think, if we
8 have leeway in the order, not only to -- insofar as the time
9 frame to complete in the Strawn, but if they do complete both
10 zones, then the allocation formula would still apply, and then
11 they could also send out their election notices under the
12 pooling order, and whether it's dual completion or downhole
13 commingling, if they do that within a set time frame, then we
14 would have to come back.

15 MR. EZEANYIM: Okay. I'm not try to scare you away
16 from doing downhole commingling. I mean, you can do a
17 completion. Of course, you can do dual completion in both
18 zones.

19 THE WITNESS: Right.

20 MR. EZEANYIM: But it's okay. Anyway, I just wanted
21 to clear that up. Go ahead.

22 MR. BRUCE: One thing, Mr. Examiner, in marking my
23 exhibits, I made a mistake, and there is no Exhibit 5.

24 MR. EZEANYIM: Okay.

25 Q. (By Mr. Bruce): Mr. Hudson, were Exhibits 1

1 through 4 and 6 through 9 prepared by you or under your
2 supervision or compiled from company business records?

3 A. Yes, sir.

4 Q. And, in your opinion, is the granting of this
5 application in the interests of conservation and the prevention
6 of waste?

7 A. Yes, sir.

8 MR. BRUCE: Mr. Examiner, I move the admission of
9 Exhibits 1 through 4 and 6 through 9.

10 MR. EZEANYIM: Exhibits 1 through 4 and 6 through 9
11 are admitted.

12 [Applicant's Exhibits 1 through 4 and 6 through 9
13 admitted into evidence.]

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

16 MR. EZEANYIM: Thank you, Mr. Bruce.

17 Mr. Warnell?

18 EXAMINATION

19 BY MR. WARNELL:

20 Q. A couple of questions, Mr. Hudson. You mentioned
21 something about Yates is a partner on this.

22 A. Yes, sir.

23 Q. Is that just in the Morrow?

24 A. No. They own in the S/2, S/2 of this section,
25 and their interest is uniform, and they voluntarily joined

1 through, you know, the surface to the base of the Morrow on the
2 original JOA that was sent out back in September.

3 But then when we ran across this deal, I was talking
4 with Chuck Moran over there, and he was talking about, "Hey, I
5 have this formula that I've used in the past to address, you
6 know, these different zones."

7 That's how we were able to acquire this formula is
8 from Mr. Moran over at Yates.

9 Q. Okay. And the Morrow was based on 320 spacing?

10 A. Yes, sir.

11 Q. And is that all federal lease?

12 A. It is all federal leases.

13 Q. Do you know how many federal leases?

14 A. It is -- let's see, we've got a lease that covers
15 the N/2, N/2 -- one, two, three, four federal leases. And
16 they're being communitized right now. I'm actually going to go
17 over and see the BLM when we leave here and follow up on the
18 communitization agreement.

19 MR. WARNELL: Okay. That's all the questions I have.

20 THE WITNESS: There could be four or five federal
21 leases. Let me look on here.

22 There's going to be one, two, three, four, five
23 federal leases. I'm sorry.

24 MR. WARNELL: Okay.

25 MR. EZEANYIM: Right now, we know that the well is

1 drilling, right?

2 THE WITNESS: Uh-huh.

3 MR. EZEANYIM: Okay.

4 THE WITNESS: And we're pretty much almost done with
5 the well.

6 MR. EZEANYIM: And you've done all your notice
7 requirements and got -- since my attorney is not here, I have
8 to do some legal work too.

9 I mean, I'm not an attorney, but I've got to do it.
10 Okay. Yeah, I think you've got it.

11 MR. BRUCE: Exhibit 6 and 7, Mr. Examiner.

12 MR. EZEANYIM: I see that.

13 MR. BRUCE: And the only company that didn't receive
14 actual written notice is Amax.

15 MR. EZEANYIM: And that's why you did the affidavit.

16 MR. BRUCE: Yes.

17 MR. EZEANYIM: So we're going to do escrow here
18 because this is not clarified.

19 THE WITNESS: Right. There's no way to know.

20 MR. EZEANYIM: Okay. And so now you want the
21 Division to rectify your allocation costs between the Strawn
22 and the Morrow?

23 THE WITNESS: Yes, sir.

24 MR. EZEANYIM: Because that would be part of the
25 pooling so that if you are pooled, you pay a cost based on

1 those?

2 THE WITNESS: Yes, sir.

3 MR. EZEANYIM: Okay. Now, for us not coming here
4 again, and you coming here, I know you want to make it easy.
5 Let me go out of my way and say I'll make it one year. Within
6 that one year you may come up to the Strawn and do it, so you
7 don't have to bug your attorney or come back here, and you can
8 do that.

9 THE WITNESS: Thank you.

10 MR. EZEANYIM: Because I don't see anything in the
11 statute to prevent me from doing that.

12 MR. BRUCE: No, I don't see anything.

13 MR. EZEANYIM: With that, why don't we do that and
14 give you one year. I don't want you to go back and be lazy.

15 THE WITNESS: We've got to do it. The lease is
16 expiring in this drilling unit, so if anything happens, we're
17 going to have to establish production somewhere.

18 There's leases that are going to -- the Yates lease
19 expires in March, and we've got a lease in the N/2 of this
20 section that expired. It expired in December right when we
21 spud the well. So we need to establish production or these
22 leases are going to be gone.

23 MR. EZEANYIM: Well, I'm sorry it took a long time,
24 but because of the complexity of the issues -- that's why we
25 don't have much time.

1 But we don't have any other cases to do, so
2 Case No. 14268 is taken under advisement.

3 And that concludes the hearing today. Thank you,
4 everybody.

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15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 192.68
18 heard by me on 05/22/97.
19 [Signature], Examiner
20 Oil Conservation Division
21
22
23
24
25

1

2 **REPORTER'S CERTIFICATE**

3

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

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

14 DATED this 22nd day of January, 2009.

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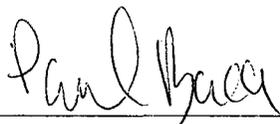
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