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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. 14458

APPLICATION OF DEVON ENERGY
PRODUCTION COMPANY, LP, FOR A
NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

April 15, 2010
Santa Fe, New Mexico

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BEFORE: RICHARD EZEANYIM: Hearing Examiner
DAVID BROOKS: Legal Adviser

This matter came for hearing before the New Mexico
Oil Conservation Division, Richard Ezeanyim, Hearing
Examiner, on April 15, 2010, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Peggy A. Sedillo, NM CCR No. 88
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

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APPLICANT'S WITNESS:

KATIE McDONNELL
Direct Examination by Mr. Bruce 3

APPLICANT'S EXHIBITS:

Exhibits 1 - 9 14
Exhibit 10 19

COURT REPORTER'S CERTIFICATE 21

A P P E A R A N C E S

FOR THE APPLICANT: JAMES BRUCE, ESQ.
Attorney at Law
P. O. Box 1056
Santa Fe, NM 87504

FOR EOG RESOURCES: WILLIAM F. CARR, ESQ.
Holland and Hart
110 North Guadalupe, Suite 1
Santa Fe, NM 87504

1 HEARING EXAMINER: So we go on with the first
2 case on the docket on Page 1, Case No. 14458, Application
3 of Devon Energy Production Company, LP, for a Nonstandard
4 Oil Spacing and Proration Unit and Compulsory Pooling,
5 Eddy County, New Mexico. Call for appearances.

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

8 HEARING EXAMINER: Any other appearances?

9 MR. CARR: May it please the Examiner, William
10 F. Carr with the Santa Fe office of Holland and Hart,
11 representing EOG Resources. I do not have a witness.

12 HEARING EXAMINER: Any other appearances? Well
13 then, may all the witnesses stand up and state your name
14 for us and be sworn, please?

15 (Note: The witness was placed under oath
16 by the court reporter).

17 HEARING EXAMINER: Mr. Bruce, you may proceed.

18 KATIE MCDONNELL,
19 the witness herein, after first being duly sworn
20 upon her oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name and where you
24 reside, please?

25 A. My name is Katie McDonnell, and I live in

1 Oklahoma City.

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

3 A. Devon Energy as a landman.

4 Q. Have you previously testified before the
5 Division?

6 A. No.

7 Q. Would you please summarize your educational and
8 employment background for the Examiner?

9 A. I graduated from the University of Oklahoma in
10 May of 2008 with a degree in Energy Management, and I've
11 been employed with Devon for almost two years.

12 Q. And are you familiar with the land matters
13 involved in this application?

14 A. Yes.

15 Q. And does your area of responsibility at Devon
16 include this portion of southeast New Mexico?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I'd tender
19 Ms. McDonnell as an expert petroleum landman.

20 HEARING EXAMINER: I know you are a very young
21 professional, but that's no reason to be nervous. So
22 you're qualified to testify.

23 Q. Ms. McDonnell, could you identify Exhibit 1 for
24 the Examiner?

25 A. Exhibit 1 is a Midland map highlighting Lots 1

1 through 4 of the north half north half of Section 5,
2 Township 16 South, Range 28 East.

3 Q. Now, Page 2 is the acreage dedication plat,
4 correct?

5 A. Yes.

6 Q. And to get this out of the way right now, what
7 is -- state for the record the name of the subject well,
8 please.

9 A. It's the Mark Twain 5 Fed Com Well No. 4, the
10 horizontal well to be drilled at an unorthodox surface
11 location in Lot 4 with a terminus at an orthodox location
12 in Lot 1, Section 5.

13 Q. And what are the surface and terminus locations?

14 A. The footages are 330 feet from the north line,
15 and 50 feet from the west line.

16 HEARING EXAMINER: I need to get that
17 information. Just a moment. What is the entry point of
18 the location?

19 THE WITNESS: For the Wolf Camp.

20 HEARING EXAMINER: Yeah, you're going through
21 the Wolf Camp, right?

22 THE WITNESS: Yes.

23 HEARING EXAMINER: Yeah. What is the entry
24 point of the well?

25 THE WITNESS: The Wolf Camp formation at an

1 approximate location 330 feet from the north line and 330
2 feet from the west line of Section 5.

3 Q. Okay. So even though the surface location is
4 unorthodox, the entry point into the Wolf Camp will be
5 orthodox?

6 A. Correct.

7 Q. Okay.

8 HEARING EXAMINER: And then where is the
9 terminus?

10 THE WITNESS: At 330 feet from the north line
11 and 330 feet from the east line of Section 5.

12 HEARING EXAMINER: Okay.

13 Q. And what depths do you seek to pool?

14 A. Devon seeks to pool mineral interests from 3,000
15 feet to the base of the Wolfcamp formation underlying Lot
16 4 of Section 5 to form a standard 39.72 acre oil spacing
17 and proration unit in the Wolf Camp formation underlying
18 Lots 1 through 4 of Section 5 to form a nonstandard 159.08
19 acre oil spacing and proration unit.

20 Q. And you also seek to form a nonstandard unit for
21 the horizontal portion of the wellbore; is that correct?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, the application stated
24 seeking to pool surface to the base of the Wolfcamp, but
25 Ms. McDonnel informed me yesterday they're only seeking to

1 pool 3,000 feet on down.

2 HEARING EXAMINER: Okay. Let's clear that up.
3 Because I just wanted to resolve it after what all the
4 testimony was. Let's be clear about what you're asking in
5 terms of terms of pooling. I know you are asking to form
6 the project area. That's one. Then there are two other
7 issues. One is to pool from the surface to the base of
8 the Morrow in Lot 4. You said that is from 3,000 to the
9 base of the Morrow in Lot 4.

10 MR. BRUCE: That is correct.

11 HEARING EXAMINER: Okay. Then for the project
12 area, you're just pooling the Wolf Camp.

13 MR. BRUCE: Just the Wolf Camp.

14 HEARING EXAMINER: Just the Wolf Camp, not from
15 3,000 --

16 MR. BRUCE: Correct. And if you'll look at
17 Exhibit 1, Mr. Examiner, the first page, you can see that
18 Lot 4 is one federal lease, and then Lots 1 through 3 are
19 a separate federal lease.

20 HEARING EXAMINER: In other words, you are
21 including the Wolf Camp in the project area, not from the
22 3,000 feet?

23 MR. BRUCE: Correct.

24 HEARING EXAMINER: Okay.

25 MR. BRUCE: Correct.

1 HEARING EXAMINER: Okay. You may proceed.

2 Q. And what is the primary target of the well?

3 A. The Wolf Camp formation.

4 Q. And what is the working interest ownership in
5 the well units, and I'd refer you to Exhibits 2 and 3.

6 A. Exhibits 2 and 3 list the working interest
7 owners and their percentage interests in Lot 4, and also
8 Lots 1 through 4 of Section 5.

9 Q. Okay. Maybe it's easier to ask it this way.
10 Which parties from these two exhibits are you not seeking
11 to pool?

12 A. Yates Petroleum, Abo, Niko, and Yates Drilling.

13 HEARING EXAMINER: Okay, you have Lot 4 and Lots
14 1 through 4. Are the interests the same every where on --

15 MR. BRUCE: No, but if you look at them,
16 Mr. Examiner, you can see --

17 HEARING EXAMINER: What is the difference
18 between the ownership in Lot 4 and the ownership in Lots 1
19 through 4?

20 MR. BRUCE: Oh, are you saying --

21 HEARING EXAMINER: You have the vertical in the
22 project.

23 MR. BRUCE: Yeah.

24 Q. And let me ask this, Ms. McDonnell. In Lot 4 as
25 to 3,000 feet to the Wolfcamp, the interests are uniform,

1 are they not?

2 A. Yes.

3 HEARING EXAMINER: So the interests are uniform,
4 identical?

5 MR. BRUCE: Yes, in Lot 4.

6 HEARING EXAMINER: You mean identical in Lot 4,
7 right?

8 MR. BRUCE: Yes.

9 Q. So, other than Devon and the Yates Petroleum
10 entities, everybody else at this point you seek to force
11 pool?

12 A. Yes.

13 HEARING EXAMINER: Yates and who again?

14 MR. BRUCE: Yates, Abo and Yates Drilling.

15 HEARING EXAMINER: They're participating in the
16 well.

17 MR. BRUCE: Devon anticipates them joining in
18 the well.

19 HEARING EXAMINER: But the rest didn't want to?

20 MR. BRUCE: No.

21 HEARING EXAMINER: Okay. Go ahead.

22 MR. BRUCE: Okay.

23 Q. Let's discuss your efforts to obtain the
24 voluntary joinder of these interest owners in the well.
25 First, what is Exhibit 4?

1 A. Exhibit 4 is a summary of contacts that I made
2 with the working interest owners.

3 Q. And what is Exhibit 5?

4 A. Exhibit 5 is a copy of all the proposals that
5 were sent to the OCD.

6 Q. Okay. And without running through it in too
7 much detail, in December you made offers apparently to
8 farm out or buy assignments from these interest owners?

9 A. Yes.

10 Q. And then in very early February, you sent a
11 letter to all of the interest owners with an AFE asking
12 them to participate in the well?

13 A. Yes.

14 Q. And then there is subsequent correspondence with
15 the interest owners regarding your proposal; is that
16 correct?

17 A. Yes.

18 Q. Have you also had telephone conversations or
19 e-mail correspondences with any of these interest owners?

20 A. Yes, I've had those.

21 Q. And maybe just for the Examiner, Yates has
22 verbally committed and -- with EOG, no JOA is assigned
23 yet, but you have been in discussions with them about
24 joining the well?

25 A. Yes.

1 Q. Have any of the other parties indicated one way
2 or the other whether they will assign or join in a JOA?

3 A. No.

4 Q. Okay. In your opinion, has Devon made a
5 good-faith effort to obtain the voluntary joinder of the
6 interest owners in the well unit?

7 A. Yes.

8 Q. Would you identify Exhibit 6?

9 A. Exhibit 6 is the AFE for the wells. It has an
10 estimated dry hole cost of \$2,037,000, and a completed
11 well cost of \$3,367,000.

12 Q. And is this cost in line with the cost of other
13 wells drilled in to this depth in this area of New Mexico?

14 A. Yes.

15 Q. Do you request that Devon be appointed operator
16 of the well?

17 A. Yes.

18 Q. And what is your recommendation for the amounts
19 which Devon should be paid for supervision and
20 administrative expenses?

21 A. We request that \$6,000 a month be allowed for a
22 drilling well, and \$600 a month to be allowed for a
23 producing well.

24 Q. And are these amounts equivalent to those
25 normally charged by Devon and other operators for wells of

1 this depth in this area?

2 A. Yes.

3 Q. And do you request that the overhead rates be
4 periodically adjusted under the COPAS accounting
5 procedure?

6 A. Yes.

7 Q. Does Devon request the maximum cost plus 200
8 percent risk charge in the event a working interest owner
9 goes nonconsent in the well?

10 A. Yes.

11 Q. And were the interest owners being pooled
12 notified of this hearing?

13 A. Yes.

14 Q. And is that reflected in my affidavit of notice
15 submitted as Exhibit 7?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, on Exhibit 7, you'll
18 see that everybody received official notice -- actual
19 notice, I mean, and all the green cards were signed,
20 except at this point, Mr. Todd Houston who resides in
21 Thailand -- Correct, Ms. McDonnell?

22 A. Yes.

23 MR. BRUCE: And you have to mail those
24 registered, which I did, but I haven't gotten to that back
25 yet, surprise, surprise. So at the end of this hearing, I

1 would ask that the matter be continued for two weeks so I
2 can get that registered return card and submit it at the
3 next hearing.

4 HEARING EXAMINER: Okay.

5 Q. But Ms. McDonnell, with respect to Mr. Houston,
6 all of the interest owners are locatable, correct?

7 A. Yes.

8 Q. And you have had correspondence with
9 Mr. Houston?

10 A. Yes.

11 Q. That has been received by him?

12 A. Yes.

13 Q. Does Exhibit 8 list the offset operators or
14 working interest owners to the well unit?

15 A. Yes.

16 Q. And was notice given to these interest owners?

17 A. Yes. That's shown on Exhibit 9.

18 MR. BRUCE: And Mr. Examiner, all of the offset
19 operators or working interest owners did receive actual
20 notice.

21 Q. Were Exhibits 1 through 9 prepared by you or
22 under your supervision or compiled from company business
23 records?

24 A. Yes.

25 Q. And in your opinion, is the granting of this

1 application in the interest of conservation and the
2 prevention of waste?

3 A. Yes.

4 Q. One final thing, Ms. McDonnell, although we do
5 need it continued to present the final evidence, would you
6 thereafter request an expedited order?

7 A. Yes, we would request an expedited order as
8 we're intending to spud this well on June 1st.

9 Q. And you would like to get the election notices
10 out well in advance of the spud date?

11 A. Right.

12 MR. BRUCE: Mr. Examiner, with that, I'd move
13 the admission of Exhibits 1 through 9 into the record.

14 HEARING EXAMINER: Any objections?

15 MR. CARR: No objections.

16 HEARING EXAMINER: Exhibits 1 through 9 will be
17 admitted. Mr. Carr?

18 MR. CARR: I have no questions of this witness.

19 MR. BROOKS: I believe Mr. Bruce covered
20 everything that I could have asked about. So I have no
21 questions either.

22 HEARING EXAMINER: Okay. We're trying to set
23 the record here straight in terms of what you are asking
24 for. Let's clear that on Lot 4, you are pooling all
25 interest owners from 3,000 feet subsurface to the base of

1 the Wolf Camp. And then in the project area, Lots 1
2 through 4 is in the Wolf Camp, right?

3 MR. BRUCE: That's the Wolf Camp, that is
4 correct.

5 HEARING EXAMINER: That's what I have here.
6 Okay. In what unit -- everybody was located and noticed?

7 MR. BRUCE: That is correct. Simply because of
8 that foreign address, we haven't gotten the return green
9 card yet.

10 HEARING EXAMINER: Okay. So there will be no
11 need to establish any escrow in this case?

12 MR. BRUCE: That is correct.

13 HEARING EXAMINER: So this well is in a
14 standard -- supposed to be in a standard location. Do you
15 guys return any APEs so API numbers for this well?

16 MR. BRUCE: Yes, Mr. Examiner. If you'll look
17 at Page 2 of Exhibit 1, it does have an API number on it.

18 HEARING EXAMINER: Okay.

19 MR. BRUCE: It is within a mile of the Dodd
20 Canyon and Wolf Camp pool which is spaced on 40 acres.

21 HEARING EXAMINER: Okay. Again, why do you need
22 this order very urgently, what are your reasons?

23 MR. BRUCE: Ms. McDonnell said they plan to spud
24 around June 1.

25 HEARING EXAMINER: Because?

1 MR. BRUCE: It's rig availability, I believe.
2 And they would like to get the election letters out at
3 least a few weeks before the June 1 date so that they
4 don't have too much of an overlap.

5 HEARING EXAMINER: So the urgency is because of
6 rig availability on June 1?

7 THE WITNESS: Yes.

8 HEARING EXAMINER: You are afraid you might lose
9 the rig if the order is late?

10 THE WITNESS: Yes.

11 HEARING EXAMINER: Okay. Why do you want to
12 continue for two weeks then?

13 MR. BRUCE: Mr. Examiner, you might want to
14 confer with Mr. Brooks. I mean, I don't mind if the case
15 is taken under advisement, but I do not have the green
16 card -- or it's actually a pink card from Mr. Todd Houston
17 from the Thailand mailing.

18 MR. BROOKS: Let me ask the witness one question
19 here. Was the address that Mr. Bruce sent that to, was
20 that an address -- did I correctly understand that address
21 in Thailand, is that the same address to which you have
22 previously sent correspondence which the gentleman has
23 received?

24 THE WITNESS: Yes.

25 MR. BROOKS: I think in view of that we can go

1 ahead and take the case under advisement, Mr. Bruce. If
2 you subsequently receive the return receipt card before
3 the order is issued, you can go ahead and furnish it for
4 the record.

5 HEARING EXAMINER: Yes. That's why I ask that
6 last question, because there is no reason for us to
7 continue this case, and the worst maybe five minutes at
8 the next hearing. We would prefer that that is done,
9 since it's cleared up now, I think it's best to take it
10 under advisement in view of the fact that you guys said
11 you want this order on time. According to the legal
12 adviser, you have to supply the -- whatever you're asking
13 for. It appears to me that your case is not contested.
14 Is that correct?

15 MR. BROOKS: It's not contested. Mr. Carr
16 entered an appearance, but he has not indicated that his
17 client opposes the granting of the application.

18 HEARING EXAMINER: Yeah.

19 MR. CARR: May it please the Examiner, we're
20 working on a joint operating agreement with Devon, and
21 anticipate signing it and participating.

22 HEARING EXAMINER: Excellent. You guys
23 understand me at this point I don't want all these --
24 continue this case and cluttering my docket. I don't want
25 to do that. If I can take it under advisement today, I'll

1 take it under advisement. And if you guys can work
2 together without coming here to fight for something, that
3 would be better than coming here. If you settle, there's
4 no point in coming here. Do you have anything else?

5 MR. BRUCE: I have a geologist affidavit to
6 submit, Mr. Examiner.

7 HEARING EXAMINER: Okay.

8 MR. BRUCE: Mr. Examiner submitted as Exhibit 10
9 is the affidavit of Jeff Kelly, the geologist for Devon.
10 And he has attached a structure map, a cross-section, and
11 a directional drilling plan. And the purpose of which is
12 to show that basically the zone is continuous, the Wolf
13 Camp zone is continuous across Lots 1 through 4, and that
14 they are drilling a horizontal well because the well will
15 test a greater reservoir length and increase the chances
16 for an economic completion.

17 I would note that if you look at Attachment A,
18 which is the structure map, there are -- This is an area
19 that is being heavily developed by Wolfcamp horizontal
20 wells. Sections 30, 31, 29 and 32 are all being -- either
21 they are existing wells or they are proposed wells in this
22 area.

23 And with that, I would move the admission of
24 Exhibit 10.

25 HEARING EXAMINER: Mr. Carr, do you have any

1 objection?

2 MR. CARR: No objection.

3 HEARING EXAMINER: Exhibit 10 is admitted into
4 the record. Well, it appears, Mr. Bruce, that your
5 geologist doesn't have time to come to this hearing today
6 because -- Do you answer the majority of the questions?
7 That's okay.

8 As I said, if this case uncontested, you filed
9 the questions of the geologist according to all --

10 HEARING EXAMINER: But we really appreciate it
11 if somebody wants to present something like engineering or
12 geology testimony, we would like the person to be present.
13 You know, the land -- the land could be -- well land is
14 okay too, but, you know, I think we weight heavily on
15 geology and engineering to determine what recommendations
16 we make. So, I appreciate it if witnesses could show up.

17 MR. BRUCE: Okay. I would note, Mr. Examiner,
18 there was extensive geologic testimony presented on wells
19 in Section 30 which were some of the initial wells in this
20 area before the Division by geologists and engineers.

21 HEARING EXAMINER: Okay. Very good.

22 MR. BRUCE: That was the one, Mr. Examiner,
23 involving the horizontal well on one of the well units.

24 MR. BROOKS: Yes, I think we all remember that
25 case. Is that the one with the wellbore interest?

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MR. BRUCE: Yes.

MR. BROOKS: That's a very memorable case.

HEARING EXAMINER: Do you have any questions?

MR. BROOKS: No.

HEARING EXAMINER: Anything further?

MR. BRUCE: Nothing further.

HEARING EXAMINER: Okay. At this point Case No. 14458 will be taken under advisement.

(Whereupon, the proceedings concluded.)

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 14458 read by me on June 11, 1960
[Signature]
Oil Conservation Division Examiner

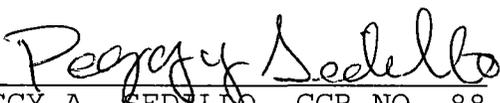
1 STATE OF NEW MEXICO)
) ss.
2 COUNTY OF BERNALILLO)

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REPORTER'S CERTIFICATE

I, PEGGY A. SEDILLO, Certified Court Reporter of the firm Paul Baca Professional Court Reporters do hereby certify that the foregoing transcript is a complete and accurate record of said proceedings as the same were recorded by me or under my supervision.

Dated at Albuquerque, New Mexico this 26th day of April, 2010.


PEGGY A. SEDILLO, CCR NO. 88
License Expires 12/31/10