

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 11693
ORDER NO. R-10759

**APPLICATION OF DEVON ENERGY CORPORATION (NEVADA) FOR LEASE
COMMINGLING, EDDY COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on January 9, 1997, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 3rd day of February, 1997 the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant in this matter, Devon Energy Corporation (Nevada), is the lessor of the following described Federal lands in Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico:

(a) the Eagle "33" Federal Lease in Section 33:

1. (Federal lease No. **NM-025528**) comprising the N/2 NE/4, SW/4 NE/4, and S/2 SE/4 (200 acres);
2. (Federal lease No. **NM-056122**) comprising the SE/4 NE/4 (40 acres);

3. (Federal lease No. LC-026874-B) comprising the SE/4 SW/4 (40 acres);

(b) the Eagle "34" Federal Lease in Section 34:

1. (Federal lease No. NM-0557370) comprising the NE/4 and NW/4 SE/4 (200 acres);

2. (Federal lease No. LC-067849) comprising the W/2 W/2 and E/2 SW/4 (240 acres);

3. (Federal lease No. LC-064050-A) comprising the E/2 NW/4 and NE/4 SE/4 (120 acres); and,

(c) the Eagle "35" Federal Lease in Section 35:

1. (Federal lease No. LC-064050-A) comprising the NW/4 SW/4 (40 acres).

(3) Royalty interest on all these leases comprises one-eighth and belongs to the United States of America. Working interests in all but one of the leases are split 50/50 between Amoco Production Company and Devon Energy Corporation (Nevada), with the exception of the Eagle "33" Federal Lease No. LC-026874-B in which Devon owns 100 percent of the working interest. The Eagle "34" Federal Lease No. NM-0557370, the Eagle "34" Federal Lease No. LC-067849, and the Eagle "34" and "35" Federal Leases (No. LC-064050-A) all have overriding royalty interest that vary between leases.

(4) The applicant's current plans for this 880-acre area covering the above-described federal leases are to drill and develop the designated and Undesignated Red Lake-Queen-Grayburg-San Andres Pool with 22 producing wells (one well per available 40-acre oil spacing and proration unit).

(5) The applicant at this time seeks to commingle production attributed to the Red Lake-Queen-Grayburg-San Andres Pool from said leases in a common tank battery to be located in the NE/4 SW/4 (Unit K) of said Section 34, allocating the production to each well and to each lease on the basis of monthly well tests.

(6) The Division's rules of oil and gas operations contain provisions (**Rules 309.A and 309.B**) that requires the separate metering of production from each lease when leases of varying ownership are to be commingled.

(7) Each mineral interest owner (working, royalty, and overriding royalty) within this 880-acre area were provided notice of this application and at the time of the hearing no interested party entered an appearance in this matter nor filed an objection to the subject application.

(8) Approval of this application will result in economic savings to the operator, is in the best interest of conservation, exhibits sound engineering principles, will serve to prevent waste and protect correlative rights, provided the installation of facilities for commingling production will permit the individual testing on a monthly basis of each of the wells on the subject leases.

(9) The commingling facilities should be installed and operated in accordance with the applicable provisions of General Rule 303 of the Division and the Division's "*Manual for the Installation and Operation of Commingling Facilities*";

(10) The operator should notify the supervisor of the Artesia District Office of the Division prior to implementation of the commingling process and at such time as wells are completed and production from said wells are included to the facility.

IT IS THEREFORE ORDERED THAT:

(1) The applicant, Devon Energy Corporation (Nevada), is hereby authorized to commingle designated and Undesignated Red Lake-Queen-Grayburg-San Andres Pool production from the following leases in Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico, in a common tank battery to be located in the NE/4 SW/4 (Unit K) of Section 34, Township 17 South, Range 27 East, NMPM, Eddy County, New Mexico, allocating the production to each well and to each lease on the basis of monthly well tests:

(a) its Eagle "33" Federal Lease in Section 33:

1. **(Federal lease No. NM-025528)** comprising the N/2 NE/4, SW/4 NE/4, and S/2 SE/4 (200 acres);
2. **(Federal lease No. NM-056122)** comprising the SE/4 NE/4 (40 acres);
3. **(Federal lease No. LC-026874-B)** comprising the SE/4 SW/4 (40 acres);

(b) its Eagle "34" Federal Lease in Section 34:

1. **(Federal lease No. NM-0557370)** comprising the NE/4 and NW/4 SE/4 (200 acres);
 2. **(Federal lease No. LC-067849)** comprising the W/2 W/2 and E/2 SW/4 (240 acres);
 3. **(Federal lease No. LC-064050-A)** comprising the E/2 NW/4 and NE/4 SE/4 (120 acres); and,
- (c) its Eagle "35" Federal Lease in Section 35:
1. **(Federal lease No. LC-064050-A)** comprising the NW/4 SW/4 (40 acres).

PROVIDED HOWEVER THAT, the facilities for said commingling of production shall be installed and maintained in a manner that will permit a determination of the production capacity of each of the wells on the subject leases at least once each month;

PROVIDED FURTHER THAT, the aforementioned facilities shall be installed and operated in accordance with the applicable provisions of General Rule 303 of the Division and the Division's "*Manual for the Installation and Operation of Commingling Facilities*";

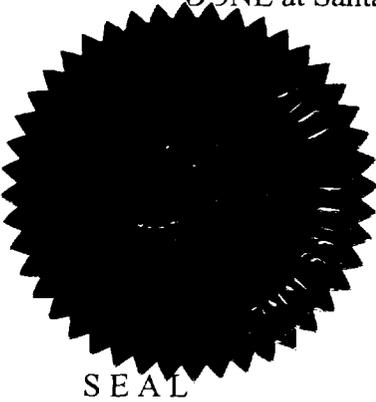
PROVIDED FURTHER THAT, the applicant shall conduct monthly productivity tests on each of the wells on the subject leases and shall file the results of said tests with the Division's District Office at Artesia, New Mexico on the Division's form C-115 each month.

(2) The operator shall notify the supervisor of the Artesia District Office of the Division prior to implementation of the commingling process and at such time as wells are completed and production from said wells are included to the facility.

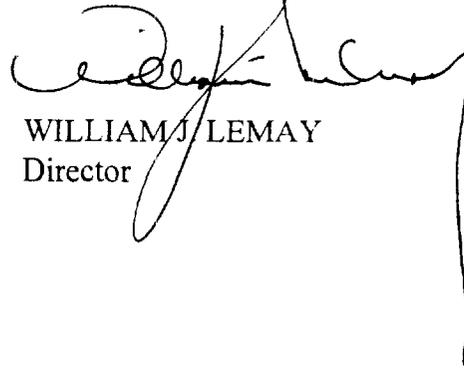
(3) It will be the responsibility of the producer to notify the transporter of this commingling authority.

(4) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



WILLIAM J. LEMAY
Director

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 CORPORATION)
(NEVADA) FOR SURFACE COMMINGLING, EDDY)
COUNTY, NEW MEXICO)

CASE NO. 11,693

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 9th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 9th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

January 9th, 1997
 Examiner Hearing
 CASE NO. 11,693

PAGE

APPLICANT'S WITNESSES:

<u>ERNEST D. BUTTROSS</u> (Engineer)	
Direct Examination by Mr. Bruce	3
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Examination by Mr. Carroll	12

REPORTER'S CERTIFICATE	15
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* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	7
Exhibit 2	5	7
Exhibit 3	5	7
Exhibit 4	6	7

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
 Attorney at Law
 Legal Counsel to the Division
 2040 South Pacheco
 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
 218 Montezuma
 P.O. Box 2068
 Santa Fe, New Mexico 87504-2068
 By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 11:35 a.m.:

3 EXAMINER STOGNER: At this time call Case Number
4 11,693.

5 MR. CARROLL: Application of Devon Energy
6 Corporation (Nevada) for surface commingling, Eddy County,
7 New Mexico.

8 EXAMINER STOGNER: Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce from the
10 Hinkle law firm, representing the Applicant. I have one
11 witness to be sworn.

12 EXAMINER STOGNER: Any other appearances?
13 Will the witness please stand to be sworn?
14 (Thereupon, the witness was sworn.)

15 EXAMINER STOGNER: Mr. Bruce?

16 ERNEST D. BUTTROSS, JR.,

17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your full name and city of
22 residence?

23 A. Okay, Ernest Dale Buttross, Jr., and I'm from
24 Oklahoma City, Oklahoma.

25 Q. And what is your occupation and who are you

1 employed by?

2 A. I'm a petroleum engineer for Devon Energy
3 Corporation.

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

6 A. Yes, I have.

7 Q. And were your credentials as an expert petroleum
8 engineer accepted as a matter of record?

9 A. Yes, yes, they were.

10 Q. And are you familiar with the engineering matters
11 related to this Application?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I would tender Mr.
14 Buttross as an expert petroleum engineer.

15 EXAMINER STOGNER: Mr. Buttross is so qualified.

16 Q. (By Mr. Bruce) Okay, let's move to the first --
17 First of all, just briefly, what is it that Devon seeks in
18 this Application?

19 A. Devon seeks authority to surface commingle
20 Grayburg San Andres production from its Eagle Federal
21 leases without having to separately meter production from
22 each well. The leases are located in Sections 33, 34 and
23 35, Township 17 South, Range 27 East.

24 Q. Would you please refer to Exhibit 1 and identify
25 that for the Examiner?

1 A. Exhibit 1 is a land plat of the area with the six
2 affected leases shaded. The lease numbers are shown on the
3 plat. The well is also marked on this plat.

4 Q. Has -- All the wells which are affected by this
5 Application, have they been drilled?

6 A. No, they haven't all been drilled. Five wells
7 have been drilled to date, and current plans are to drill
8 the other 17 wells this year.

9 Q. Okay. Now, the reason we're here today is
10 because of varying lease ownership. What is Exhibit 2, Mr.
11 Buttross?

12 A. Exhibit 2 is the interest owners of each lease.
13 Devon and Amoco are the only working interest owners. The
14 remaining people are override interest owners.

15 These leases are federal leases, so the royalty
16 owner is the USA.

17 Q. Okay, let's discuss your commingling plan. Would
18 you refer to your Exhibit 3 and discuss its contents for
19 the Examiner, together with your proposal and the
20 facilities involved?

21 A. Okay, Exhibit 3 lists the wells and leases and
22 shows a schematic of the proposed Eagle Federal Battery.
23 As you can see, the battery will have a test treater and a
24 header to allow individual wells to be tested separately.
25 The oil will be measured by means of a gauge in a test

1 tank. Gas will be measured utilizing an orifice meter.

2 And we plan on testing each well at least once a
3 month.

4 Q. In your opinion, will this testing procedure
5 allow you to accurately measure production from each well?

6 A. Yes, it will.

7 Q. And will this Application result in cost savings
8 to the interest owners?

9 A. Yes, it will.

10 Q. Was notice of the Application sent to the
11 interest owners as required by Division rules?

12 A. Yes, it was.

13 Q. And is Exhibit 4 simply my affidavit of notice,
14 with the notice letters, to all of the working, override
15 and royalty interest owners in these leases?

16 A. Yes.

17 Q. In your opinion, is the granting of this
18 Application in the interests of conservation and the
19 prevention of waste?

20 A. Yes, it is.

21 Q. And were Exhibits 1 through 3 prepared by you or
22 under your direction?

23 A. Yes, they were.

24 MR. BRUCE: Mr. Examiner, at this time I would
25 move the admission of Devon's Exhibits 1 through 4.

1 EXAMINER STOGNER: Exhibits 1 through 4 will be
2 admitted into evidence.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Mr. Buttross, how would you -- or how currently
6 are these wells metered and what kind of surface facilities
7 does each of these leases have on them currently?

8 A. Well, currently the -- Some of the wells haven't
9 been drilled. There are no producers on a lot of these
10 leases.

11 The ones that have been drilled are tested after
12 completion into frac tanks and gauged just into a rental
13 frac tank.

14 Q. Under the current rules, how would this field be
15 developed in these leases if all these wells were in
16 existence now?

17 A. Without the -- Without our commingling
18 Application, we'd have to have a battery on each lease,
19 which would -- A typical battery out there costs about
20 \$80,000.

21 So we're trying to eliminate -- you know, improve
22 the economics and eliminate waste by putting them all
23 together.

24 Q. Okay, so currently you would have to have six
25 batteries under the current rules?

1 A. Six batteries, yes, sir.

2 Q. Okay. Now, in your Exhibit Number 2, this shows
3 the different federal leases, correct? Or represents the
4 six different federal leases?

5 A. Right, the six federal leases and the interest
6 holders.

7 Q. Okay. Now, the first one there, if I understood
8 right, Devon and Amoco are the working interest, and the
9 rest are overrides; is that right?

10 A. Yes, sir, that's correct. And that's the way
11 they are in each one of these, Devon and Amoco, except for
12 one lease, which Devon is the sole owner.

13 Q. Okay. In those where Amoco and Devon are --
14 share the working interest, what is -- is the percentage
15 common throughout those, between Amoco and Devon?

16 A. Yes, sir.

17 Q. And what percent would that be?

18 A. 50-50.

19 Q. Now, go down to that fourth one there, and
20 there's a Trigg family trust. Does that represent an
21 override?

22 A. Yes, sir.

23 Q. Okay. How are these monthly tests going to be
24 conducted, the monthly well tests that you alluded to --

25 A. Okay, they --

1 Q. -- in Exhibit Number 3?

2 A. Right. If you look at Exhibit 3, the schematic,
3 we'll bring all the wells into a header, and the well that
4 we put on test -- we'll put a -- we'll have a well on test
5 basically each day of the month, and we'll be able to
6 switch it there at that header where the production will go
7 to the test treater, and then from the test treater it goes
8 into the test tank, and we just -- so we can gauge it by
9 itself.

10 And we have the production, oil production,
11 gauged that way, water will be gauged with a water meter,
12 and the gas with a gas meter.

13 Q. And the length of each test?

14 A. Typically they'll be 24 hours. There may be
15 cases where we need to run them for shorter periods, but we
16 like to run 24-hour tests if possible.

17 Q. And then the allocation of the fluids, gas, oil
18 or water, would be allocated once a month back from those
19 tests?

20 A. Back from the tests, yes, sir.

21 Q. Have you been in contact with the BLM on this
22 matter?

23 A. Yes, we have.

24 Q. And what has their response been?

25 A. Well, we notified them with a sundry and this

1 attachment, which is Exhibit 3. And I don't believe we've
2 heard specifically back from them, but in previous cases
3 they haven't -- they've approved these applications.

4 Q. Okay. As far as other operations that Devon has
5 out there, are there other instances in which Devon has a
6 surface commingling authority on one or more leases?

7 A. Yes, there are a couple other -- well, actually
8 three other facilities out there we're commingling, leases.

9 Q. Doesn't this type of application usually -- can
10 be done administratively?

11 A. Well, typically --

12 MR. BRUCE: Mr. Examiner, actually, Devon applied
13 administratively by a letter dated October 31, 1996, and
14 notified all of these same parties at that time, but it was
15 kicked back by Mr. Stone because of the varying override
16 ownership, basically, in each lease.

17 EXAMINER STOGNER: Okay, so it was the diversity
18 of the overrides --

19 MR. BRUCE: Yes, sir.

20 EXAMINER STOGNER: -- which didn't allow for this
21 matter to be considered administratively?

22 MR. BRUCE: Correct.

23 Q. (By Examiner Stogner) And there again, Amoco and
24 Devon are the only cost-bearing interests in this matter;
25 is that right?

1 A. That is correct.

2 Q. Do you have a cost estimate for the tank facility
3 that you're proposing for these commingled leases?

4 A. Right, the facility will be about \$80,000.

5 Q. About \$80,000.

6 A. That includes materials and labor.

7 Q. And how about the water production in this area?
8 How is that usually handled?

9 A. Okay, the produced water will be piped
10 approximately two miles to our West Red Lake unit, which is
11 to the southwest of these leases.

12 Q. And that Red Lake area is a waterflood project?

13 A. Yes, sir, it is a waterflood project.

14 Q. Is this facility going to be built initially to
15 be able to handle all the wells, or is it going to be in
16 different phases that you're going to bring the different
17 storage tanks in to the battery and so on?

18 A. Well, originally this is what we're proposing for
19 the facility. It may be -- Depending on the productivity
20 of the wells, we may need to add additional tankage,
21 storage tankage.

22 Q. Okay, but as far as the other facilities, your
23 testing facilities and your header, that will be able to
24 accommodate?

25 A. Right.

1 EXAMINER STOGNER: Does anybody else have
2 anything further for Mr. Buttross?

3 MR. CARROLL: Yeah, I have a couple questions.

4 EXAMINATION

5 BY MR. CARROLL:

6 Q. I was just curious. The federal leases, some of
7 them are marked with an LC rather than an NM. What does
8 the LC stand for?

9 MR. BRUCE: Las Cruces. Those are old leases
10 that were originally issued out of the Las Cruces office of
11 the BLM.

12 EXAMINER STOGNER: Well, I didn't know that. Are
13 those the old ones? How old are they?

14 MR. BRUCE: Oh, I mean, some of them date back to
15 the 1920s. Now, those I don't know about. The LC stopped
16 being designated that probably in the 1940s at the latest,
17 maybe in the 1930s.

18 EXAMINER STOGNER: No, I did not know. He asked
19 me that and I did not know that.

20 MR. BRUCE: Same thing in the northwest part of
21 the state. When you see the SF, those were issued out of
22 the Santa Fe office, and they stopped issuing those, and
23 the --

24 EXAMINER STOGNER: Are there any other federal
25 lease designations besides NM, SF and LC?

1 MR. BRUCE: You'll see some of the old LC ones
2 that had an R that were issued out of the Roswell office,
3 but they were later given LC numbers.

4 Q. (By Mr. Carroll) And then Devon, where is that
5 located?

6 A. Where is Devon located?

7 Q. Yeah, is it Oklahoma City?

8 A. Oklahoma City.

9 Q. Why is Nevada included after the name?

10 MR. BRUCE: I've asked that too.

11 THE WITNESS: It's corporate, something to do
12 with corporate. Something to do with --

13 MR. CARROLL: Isn't Nevada afterwards for quite a
14 while, though?

15 MR. BRUCE: It's been that for a number of years.
16 I know there were -- You know, I think at one point there
17 were a couple of different Devon entities and, you know,
18 I'm sure there were tax reasons, business reasons for it.
19 That's the current entity that all of the Devon --

20 MR. CARROLL: Is it a Nevada corporation?

21 MR. BRUCE: I think it's a Delaware corporation.

22 THE WITNESS: Yeah, I think so.

23 MR. CARROLL: All right.

24 THE WITNESS: They don't tell us.

25 MR. CARROLL: We have the answer to the first

1 question.

2 EXAMINER STOGNER: Thanks for clarifying that. I
3 did not know that.

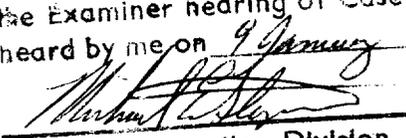
4 MR. BRUCE: Yeah, you look at some of those old
5 lease files, those LC, they might be that high. I mean,
6 they are huge, you know, some of these, especially out in
7 this area where people have bought separate rights and
8 they're severed by depth. So...

9 EXAMINER STOGNER: Well, if there's nothing
10 further in Case 11,693, this case will be taken under
11 advisement.

12 And we're adjourned until one o'clock for lunch.

13 (Thereupon, these proceedings were concluded at
14 11:51 a.m.)

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18
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20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 11693,
24 heard by me on 9 January 1997.
25 , 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 January 15th, 1997.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998