

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:)
)
 APPLICATION OF DEVON ENERGY PRODUCTION)
 COMPANY, L.P., FOR AN EXCEPTION TO)
 DIVISION ORDER NO. R-111-P, EDDY COUNTY,)
 NEW MEXICO)

CASE NO. 12,961

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 14th, 2002

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 14th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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November 14th, 2002
 Examiner Hearing
 CASE NO. 12,961

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* * *

A P P E A R A N C E S

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* * *

ALSO PRESENT:

WILLIAM V. JONES, JR.
Petroleum Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
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* * *

1 WHEREUPON, the following proceedings were had at
2 9:50 a.m.:

3 EXAMINER CATANACH: Okay, I'll call the hearing
4 back to order, and at this time I'll call Case 12,961,
5 Application of Devon Energy Production Company, L.P., for
6 an exception to Division Order Number R-111-P, Eddy County,
7 New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
10 representing the Applicant. I have three witnesses.

11 EXAMINER CATANACH: Call for additional
12 appearances.

13 Okay, will the three witnesses please stand to be
14 sworn in?

15 (Thereupon, the witnesses were sworn.)

16 KEN GRAY,
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. Will you please state your name and city of
22 residence?

23 A. Yes, my name is Ken Gray. I live in Oklahoma
24 City, Oklahoma.

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

1 A. I'm a landman for Devon Energy Production
2 Company.

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

5 A. Yes, I have.

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

8 A. Yes, they were.

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

11 A. Yes.

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

14 A. Yes, I am.

15 MR. BRUCE: Mr. Examiner, I tender Mr. Gray as an
16 expert petroleum landman.

17 EXAMINER CATANACH: Mr. Gray is so qualified.

18 Q. (By Mr. Bruce) Mr. Gray, let's first turn to
19 Exhibit 1. Now, we did try to fit some more info on here,
20 Mr. Examiner, but we were afraid it would cause epileptic
21 seizures if we looked at it too long.

22 Now, Mr. Examiner, there is some geologic data
23 and production on here, and our next witness will go into
24 that.

25 But Mr. Gray, just from a land standpoint, could

1 you describe for the Examiner what is depicted on this
2 plat?

3 A. Yeah, and I'll just start over here on the right
4 side in the legend, about halfway down. The yellow is
5 Devon acreage throughout, the bold red line is the boundary
6 of the State R-111-P, and the crosshatched acreage kind of
7 in the middle is the acreage that is subject to the
8 settlement agreement that we'll be talking about in a
9 minute, portions of which are the subject of this
10 Application.

11 The blue bold outline is the BLM outline of what
12 they would call the potash enclave. The lighter gray
13 sections are existing federal potash leases, and the darker
14 gray sections in Sections 2, 16 and 32 are existing state
15 potash leases, which according to state and federal records
16 are due to expire tomorrow.

17 Q. Okay. In looking at this, there are no potash
18 leases covering the lands in the sections that are the
19 subject of this Application; is that correct?

20 A. There aren't any current leases, and according to
21 the federal abstract, there haven't been any for anywhere
22 from 15 to 30 years.

23 Q. Okay. Why don't you pull out Exhibit 2 while
24 we're at it, and keep Exhibit 1 in front of you, Mr. Gray,
25 and what is Exhibit 2?

1 A. This is Exhibit 2?

2 Q. Yes.

3 A. That is the 1993 version of the BLM potash area
4 which reflects various deposits of potash from measured
5 potash to -- I think the least amount is -- obviously would
6 be no potash, but from measured potash to very minor and
7 barren areas.

8 Q. And this map also shows the mine workings, at
9 least as of 1993?

10 A. That's correct.

11 Q. Now, on this Exhibit 2, in what part of the map
12 are we on?

13 A. Well, it's right here, is where the subject of
14 this Application is. It would be just to the left of the
15 legend, Township 23 South, 31 East. And based on this
16 version of the map, the closest active mine is some six or
17 eight miles away to the west.

18 Q. And then comparing Exhibit 2 with Exhibit 1, what
19 is listed as the potash enclave on Exhibit 1 is essentially
20 the blue or the measured potash on Exhibit 2?

21 A. That's correct.

22 Q. Okay. Now, could you just give a little detail
23 about the leases involved covering Sections 10, 11, 13, 14,
24 15, 22 and 23? They are all federal leases, are they not,
25 the oil and gas leases?

1 A. That's right, they're all federal leases.

2 Q. And could you give the -- referring now to
3 Exhibit 3, which is a document entitled "Settlement
4 Agreement" --

5 A. Uh-huh.

6 Q. -- maybe just briefly -- I know there's a lot of
7 history behind it, but briefly tell the Examiner what
8 occurred that resulted in this settlement agreement.

9 A. Well, the settlement agreement was the result of
10 an action that Devon filed against the federal government,
11 I guess the inability of the government to issue permits on
12 leases that did not contain potash stipulations. All of
13 the leases in the crosshatched area that you see there were
14 issued, I'm guessing, 1967, late 1960s, and they were
15 issued without potash stipulations.

16 The BLM treated them as if they had potash
17 stipulations, and we weren't able to get drilling permits,
18 and the result of this settlement agreement was an action
19 in the Court of Federal Claims, and the result of the
20 settlement agreement was that the BLM agreed that we could
21 and did have the right to drill these wells.

22 Q. Okay. And on page 4 of Exhibit 3, paragraph 5 is
23 really the heart of what we're here for today?

24 A. That's right, and I'll just paraphrase it, but
25 the settlement agreement the BLM gave, at the time we

1 thought that the right to receive permits and drill wells
2 on these leases without potash restriction, in paragraph
3 (iii), at least as far as the BLM and Devon were concerned,
4 we assumed at the time that we were free of any potash
5 restrictions, including R-111-P.

6 Q. Okay. And then when Devon commenced drilling
7 wells, I believe they were -- the APDs are filed with and
8 approved by the BLM, are they not?

9 A. That's correct.

10 Q. But when they were sent over to the Artesia
11 District Office of the Division, some additional
12 requirements were made?

13 A. Yes, the Artesia District Office advised us that
14 we were still subject to R-111-P in its additional
15 cementing and casing restrictions.

16 Q. And we're here today asking that in this
17 Application area, that Devon need not cement the production
18 string to the surface; is that correct?

19 A. That's correct.

20 Q. And our engineer here, our third witness today,
21 will explain that in more detail?

22 A. Yes, he will.

23 Q. And the reason the request is being made is
24 because the additional cementing requirement adds a fair
25 amount of money to the cost of a well?

1 A. When you look at the number of wells that could
2 potentially be drilled, yeah, it's a significant amount of
3 money.

4 Q. Now, certain wells have already been drilled on
5 these leases, have they not?

6 A. Yes, since the date of the settlement agreement,
7 yes.

8 Q. Since the date of the settlement agreement?

9 A. Right.

10 Q. And I believe last summer the Division notified
11 you that they would not approve Devon's proposed casing and
12 cementing program and required you to come to hearing?

13 A. Correct.

14 Q. Okay. Now this land plat does identify some
15 potash leases in this area.

16 Who is the owner of those -- They're not on this
17 acreage, but nearby. Who is the owner of those potash
18 leases?

19 A. IMC.

20 Q. And they were given notice of the hearing?

21 A. Yes, they were.

22 Q. And was the Bureau of Land Management also given
23 notice of the hearing?

24 A. Yes, they were.

25 Q. And is that reflected on Exhibit 4?

1 A. Yes, it is.

2 Q. Were Exhibits 2 through 4 compiled from company
3 business records?

4 A. Yes, they were.

5 Q. Okay, and Exhibit 1 will also be discussed by
6 your next witness, will it not?

7 A. Yes, it will.

8 Q. Mr. Gray, in your opinion is the granting of
9 Devon's Application in the interests of conservation and
10 the prevention of waste?

11 A. Yes, it is.

12 MR. BRUCE: Mr. Examiner, I'd move the admission
13 of Devon Exhibits 2 through 4 at this time.

14 EXAMINER CATANACH: Exhibits 2 through 4 will be
15 admitted as evidence.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Okay, according to our map, Mr. Gray, Devon owns
19 all of the acreage in all of the sections except for
20 Section 10? Is that right?

21 It looks like there's some open acreage in
22 Section 10.

23 A. Well, I'm not representing that we own 100
24 percent of all those, but we do own an interest in all
25 those, yes.

1 Q. Okay, you own an interest in everything that's
2 colored in yellow?

3 A. Yes.

4 Q. Okay. And would you be the operator of that
5 acreage?

6 A. Not everything -- Of all the yellow? Well, let's
7 see, I'm trying to see if there's a lease on here that we
8 don't operate.

9 That might be a better question of our operations
10 engineer, but it looks like we do.

11 Q. Okay, so you're seeking to have this exception
12 for everything that Devon drills within these sections; is
13 that right?

14 A. The cross-hatched sections, yes.

15 Q. Within the cross-hatched sections --

16 A. I'm sorry, it would be --

17 Q. -- you've confused me.

18 A. Okay, all of Section 11 --

19 Q. Uh-huh.

20 A. -- the southeast southeast of 10, all of 15,
21 south half of 14, north half and southwest quarter of 13,
22 all of 22 and 23.

23 Q. Okay. Now, this is the settlement area that
24 you've reached an agreement with whom again?

25 A. BLM.

1 Q. With the BLM, and it's my understanding that
2 previous to this agreement they would not issue drilling
3 permits on this acreage?

4 A. That's correct.

5 Q. Okay, even though you had the oil and gas lease?

6 A. That's correct.

7 Q. Okay. So you went to court; is that --

8 A. That's correct, Court of Claims, Federal Court of
9 Claims.

10 Q. Okay, so at this point BLM will issue drilling
11 permits on the cross-hatched acreage?

12 A. And they have issued permits, and we've drilled a
13 number of wells since the date of that settlement
14 agreement, yes.

15 Q. Okay. Of the wells that have been drilled so
16 far, were those wells in compliance with R-111-P?

17 A. No.

18 Q. And how did that work out? Just -- You weren't
19 aware that they had to be in compliance?

20 A. Well, I think as of the date of our settlement
21 agreement with the BLM, which is May 1st, 2001, Devon --
22 and I'm presuming that the BLM thought the same thing, that
23 we would be free and clear of any and all potash
24 restrictions with regard to this area.

25 Q. Okay. So the production casing string on all

1 these wells was not circulated to surface; is that correct?

2 A. That's correct.

3 Q. How many wells are we talking about? Do you have
4 an estimate? Talk to the other --

5 MR. BRUCE: Our next witness.

6 EXAMINER CATANACH: -- other witness?

7 THE WITNESS: Yeah.

8 (Off the record)

9 (Mr. Brooks departed at this time.)

10 Q. (By Examiner Catanach) On your exhibit here,
11 you've shown circles -- I assume that those are wells that
12 have already been drilled -- and triangles. I assume that
13 those are proposed wells?

14 A. Those would be potential wells, yes.

15 Q. Okay. And the process to date has been that
16 you've been submitting these drilling permits to the BLM
17 and they've been approving them without any stipulations?

18 A. That's correct.

19 Q. Okay. Have you had any contact with IMC, Mr.
20 Gray?

21 A. No, we have not.

22 Q. They were notified of this Application?

23 A. Yes.

24 Q. Can you tell me where their potash lease is?

25 A. Yes, the lighter shade of gray on the west -- on

1 the left side of the map in Sections 7, 8, 18, 19, 20, 29,
2 30 and also in Sections 3 and 4 are all federal potash
3 leases.

4 Q. Three and 4 to the north?

5 A. Uh-huh.

6 Q. And that's also IMC?

7 A. Yes. And the three dark gray sections, being
8 Sections 2, 16 and 32, are state potash leases.

9 Q. State potash leases.

10 A. Right, which are due to expire tomorrow.

11 Q. Who's the potash lessee currently?

12 A. IMC.

13 Q. IMC. You don't know about the status of them
14 renewing the leases or --

15 A. No, I just -- All I can tell you is what the
16 federal abstract company showed us. But it would appear
17 that all three of those sections have been pretty much
18 drilled, so I'm not sure how they could or why they would
19 want to keep those leases.

20 Q. Now, all of the potash development to date has
21 been basically to the west northwest?

22 A. Right.

23 Q. And to the north?

24 A. That's correct.

25 Q. I guess it would be at least three or four miles

1 to the closest active mine workings; is that your
2 interpretation?

3 A. Well, based on this map it would be much more
4 than that. A township away, almost.

5 Q. What are you depicting as active mine workings on
6 this map, on your Exhibit 2?

7 A. It would be the yellow.

8 Q. Well then, that would be a portion of Township
9 23-30; is that correct?

10 A. Correct.

11 Q. Okay, so that's the township to the west of the
12 one we're talking about now?

13 A. Right.

14 Q. Okay. Do you know who the -- Is that IMC also?

15 A. I believe it is.

16 Q. Now, you were referring to a paragraph in this
17 agreement that -- I missed it.

18 A. Okay, it's on page 4 --

19 Q. Page 4.

20 A. -- paragraph 5, for "Development of the Oil and
21 Gas Leases", paragraph (iii).

22 Q. Okay.

23 A. It says the leases "may be developed
24 notwithstanding any provision of State of New Mexico Oil
25 Conservation...Rule R-111-P..."

1 Q. So is this what you were basing your opinion on,
2 that they were not subject to R-111-P?

3 A. At the time of this settlement agreement and
4 until last summer when the Artesia District Office gave us
5 the indication that we were still subject to it, yes, I
6 think Devon and I think the BLM thought that they had the
7 full authority to give us that right, since it was federal
8 land.

9 Q. When the Artesia Office first contacted you guys
10 about this do you know how many wells you had already
11 drilled at that point or --

12 A. I don't know, but I'm sure our --

13 Q. Okay.

14 A. -- engineering witness can tell you.

15 Q. Okay. It looks like from your Exhibit 2, this is
16 just south of the Waste Isolation Pilot Project as well; is
17 that correct?

18 A. Yes, it is.

19 Q. Okay. Now, the area outlined in blue on Exhibit
20 2, that represents what again? Is that --

21 A. That's what the BLM has determined to be measured
22 potash in one degree or another, as of 1993.

23 Q. What is the red; do you know?

24 A. Well, I'm having trouble reading.

25 Q. It's kind of hard to read.

1 A. Yeah, it's kind of small here. Let's see.

2 MR. JONES: I've got a larger map here, let me
3 get it out.

4 THE WITNESS: The red on that map is what they
5 call second mined areas.

6 Q. (By Examiner Catanach) Do you know what that is,
7 Mr. Gray?

8 A. No, I do not.

9 Q. Have you seen or do you have any knowledge of any
10 LMRs that IMC may have in this area?

11 A. No. I mean, that -- As far as I know, that type
12 of stuff is confidential.

13 Q. Okay, so you don't know if they have one, you
14 just haven't see it?

15 A. Well, no, that's correct. It would be hard for
16 me to see how they could have one if they don't own any
17 leases, and I'm talking about the leases that are subject
18 to this Application specifically.

19 Q. Okay. But they do have leases just to the west
20 of --

21 A. And they could very well have some LMRs
22 established over there, right.

23 Q. Okay, yeah. They have not expressed any concern
24 to you about this type of activity?

25 A. No.

1 EXAMINER CATANACH: Okay, I believe that's all I
2 have, Mr. Bruce.

3 MR. BRUCE: I just have one question of Mr. Gray.

4 EXAMINATION

5 BY MR. BRUCE:

6 Q. I mean, the wells that can be drilled under the
7 settlement agreement, they can be drilled, and the potash
8 company can't stop you --

9 A. That's correct.

10 Q. -- from drilling them; is that correct?

11 A. That's correct.

12 MR. BRUCE: Okay. Thank you, Mr. Gray.

13 FURTHER EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. We just had question, a quick question about the
16 settlement agreement. It appears that the exhibits are not
17 signed. Is that --

18 A. Right, this copy is not signed.

19 Q. Okay, but you do have one where everything is
20 signed; is that right?

21 A. Yeah, right.

22 MR. BRUCE: The attorneys were signing in
23 invisible ink.

24 Mr. Examiner, Exhibit 1 is going to be the first
25 exhibit discussed by the next witness.

1 EXAMINER CATANACH: Okay.

2 DAVE RITTERSBACHER,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

8 A. My name is Dave Rittersbacher.

9 Q. Could you spell that for the court reporter,
10 please?

11 A. R-i-t-t-e-r-s-b-a-c-h-e-r.

12 Q. Where do you reside?

13 A. I reside in Oklahoma City, Oklahoma.

14 Q. And who do you work for?

15 A. I work for Devon Energy.

16 Q. What's your job with Devon?

17 A. I'm a geologist working southeast New Mexico.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes, I have.

21 Q. Were your credentials as an expert geologist
22 accepted as a matter of record?

23 A. They were.

24 Q. And are you familiar with the geology involved in
25 the Application area?

1 A. Yes, I am.

2 MR. BRUCE: Mr. Examiner, I tender Mr.
3 Rittersbacher as an expert petroleum geologist.

4 EXAMINER CATANACH: Mr. Rittersbacher is so
5 qualified.

6 Q. (By Mr. Bruce) Mr. Rittersbacher, could you go
7 back to Exhibit 1 and from a geologic standpoint discuss
8 what's on that plat?

9 A. Yes, in addition to the land information that Ken
10 provided earlier, we also have some production information
11 on the map in terms of cumulative oil volumes produced to
12 date, and those are represented by green bubbles. And you
13 can see on the legend that they're graduated in 50,000-
14 barrel increments, getting bigger as the cumulative
15 production increases.

16 The Application area, as we've discussed earlier,
17 covers Sections 10, 11, 13, 14, 15, 22 and 23. If you look
18 to the east of the Application area, you can see there's an
19 area of significant cumulative production within -- I'll
20 draw your attention now to Sections 13, 14 and 23, where
21 the cumulative production is less, and that is because
22 those wells have been drilled recently, in the last two
23 years, so they have not achieved the same cumulative
24 production values.

25 We do feel that the production in this area is

1 quite economic. We are currently drilling in this area to
2 pursue development of these leases.

3 Now I'll move your attention to the production
4 that occurs to the west of the Application area, and you
5 can see there's an area of significant cumulative
6 production to the west covering Sections 8, 9, 16 and 17.
7 This is all Delaware production again. And there's
8 production also to the southwest of the Application area.

9 The point I'd like to make here is that we are
10 surrounded by economic Delaware production. We don't see
11 any reason why these leases within the Application area
12 cannot be fully developed, and we have posted in the dark
13 green triangles 52 potential locations related to this
14 production.

15 In addition to everything else on this map,
16 there's also structure contours drawn on the top of the
17 lower Brushy Canyon "B" zone, and you can see that we are
18 going to be moving updip from that area of good production
19 that's located just to the east of the Application area.

20 Q. Could you move on to your Exhibit 5 and discuss
21 the primary zone of interest in these wells, and could you
22 identify where this log was taken from?

23 A. Yes, I'll refer you briefly back to Exhibit 1
24 again. Unit Letter G of Section 23 has an orange circle
25 around it. That's the type log that we'll be referring to

1 in the next two exhibits.

2 Exhibit 5 shows the interval that we produce out
3 of primarily. It's within the Delaware Mountain Group,
4 primarily from the Brushy Canyon formation, at depths that
5 range generally from 6900 feet to 8200 feet. We drill the
6 wells to a TD of roughly 8500 feet and TD them in the Bone
7 Spring formation.

8 The type log that is Exhibit 5 shows the
9 perforations and is a good example of how we typically
10 complete a well in this area. You'll see that there are
11 five perforation zones between 7018 feet and 8179 feet. We
12 typically bring all those zones on at once, in order to
13 help control cost.

14 Q. Now moving on to Exhibit 6, again this is from
15 the same well?

16 A. It is. Now we're moving uphole into the
17 section -- the geologic section that's really at issue in
18 this hearing today, and this shows the Ochoan section of
19 the Permian, which is the uppermost Permian, and it shows
20 the interval which contains the potash beds.

21 Let me just take you through this part of the
22 section.

23 At the surface we have the Dewey Lake formation.
24 And as we move down on this log, at 757 feet we encounter
25 the Rustler formation. And it's within the Rustler

1 formation that we typically set our surface casing, shown
2 here at 850 feet.

3 Then we will typically drill down until we get
4 just to the top of the Delaware Mountain Group, so we drill
5 through the Rustler, Salado formation -- which is the
6 formation that contains the potash minerals -- the Castille
7 formation, and then we set the casing, as I just stated,
8 right above the top of the Delaware Mountain Group in order
9 to protect the potash-bearing and salt-bearing formations.
10 In this particular well we set 8-5/8 casing at 4400 feet,
11 just above the top of the Delaware.

12 Q. And the potash-bearing formations are what, about
13 3000 feet above the top of the Delaware?

14 A. The potash-bearing units are in the Salado
15 formation, which on this log runs between 1094 feet and
16 2952 feet. The potash beds typically start about 300 feet
17 below the top of the Salado formation and are 300 to 500
18 feet thick.

19 Q. And again, the wells are cased and cemented
20 through the potash-bearing formation?

21 A. That's right, the 8-5/8-inch casing that we run
22 to 4400 feet in this well is cemented back to surface, and
23 that's our typical strategy for the intermediate casing.

24 Q. Were Exhibits 1, 5 and 6 prepared by you or under
25 your supervision?

1 A. They were.

2 Q. And in your opinion, is the granting of Devon's
3 Application in the interests of conservation and the
4 prevention of waste?

5 A. It is.

6 MR. BRUCE: Mr. Examiner, I move the admission of
7 Devon's Exhibits 1, 5 and 6.

8 EXAMINER CATANACH: Exhibits 1, 5 and 6 will be
9 admitted.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Okay, so the actual potash-bearing zones are
13 about 300 -- did you say 300 feet below the top of the
14 Salado?

15 A. That's correct.

16 Q. And they typically extend approximately 300 to
17 500 feet?

18 A. Below that, yes.

19 Q. Is there anything in the Castille formation?
20 There isn't any potash reserves in there?

21 A. That's correct. There are salt beds, however,
22 but they are not potash-bearing.

23 Q. What about below the -- When you get into the
24 Delaware Mountain Group, that's typically all oil and gas
25 production; is that right?

1 A. That's correct.

2 Q. Where would the Reef be in this area?

3 A. We're Basinward from the development of the
4 Capitan Reef, so the Reef does not exist in this area. We
5 would have to move to the edges of the Basin to run into
6 Reef facies.

7 Q. Okay.

8 A. And that would be time-equivalent to the
9 Castille.

10 Q. Do you have any idea why that requirement was
11 initially put into R-111-P about cementing the production
12 string?

13 A. Well, my assumption was, it was to protect the
14 escape of hydrocarbon-bearing fluids into potash
15 mineralized zones, and that's why that intermediate casing
16 is cemented back to surface. That's my understanding.

17 Q. But is there also a requirement that the
18 production casing has to be cemented back to surface?
19 Isn't that what you guys are asking?

20 A. That's the gist of this particular hearing, is,
21 are we going to be required, in addition to cementing the
22 intermediate pipe back to surface, as a double layer of
23 cement, have to cement the production string to surface as
24 well?

25 Q. Well, in your opinion was there a good reason why

1 both strings have to be cemented?

2 A. I personally don't see the reason why both of
3 them have to be cemented.

4 Q. Do you believe there's adequate production from
5 the intermediate casing and the cement behind that?

6 A. Adequate protection?

7 Q. Of the potash reserves?

8 A. I would believe so, yes.

9 Q. Do you have an opinion as to whether there may be
10 potash mining that may encroach on this area?

11 A. Well, since we have authority to drill throughout
12 the Application area, and our intent is to continue
13 drilling out there, it seems unlikely that there would be
14 any potash mining, with 40-acre development that's going to
15 occur in that area.

16 EXAMINATION

17 BY MR. JONES:

18 Q. Okay, Mr. Rittersbacher, the Salado is mostly
19 salt, but then you've got some potash interbedded in the
20 salt; is that right?

21 A. Potash is actually a type of salt.

22 Q. Okay, and then some saltbeds in the Castille.
23 And this business about right below the Castille, I
24 remember some -- over to the east of where you're at now,
25 some actual -- I think it was Yates gas zones, right below

1 the salt.

2 Do you guys hit any gas zones --

3 A. We don't have the Yates formation present in this
4 area.

5 However, the first sandstone at the top of the
6 Delaware Mountain Group, in what's called the Bell Canyon
7 formation, can be oil- and gas-productive.

8 Q. Okay. When you drill your -- what is it, 12-1/2
9 inch? -- do you do any recording of gas, or do you have a
10 gas --

11 A. We typically put mudloggers on right after we set
12 intermediate casing.

13 Q. Right. Okay, so you don't have any mudloggers or
14 anything but your geolograph going through this interval
15 right here?

16 A. The salt section?

17 Q. Salt section.

18 A. Yes, sir, that's correct.

19 Q. Okay. What about -- Your decision exactly where
20 to set your 8-5/8, you go down till you quit seeing salt,
21 and then you go just a little bit further. How much
22 further do you go?

23 A. Well, we try to -- It's difficult to pick out on
24 this log, but if you look at the blue curve, which is a
25 neutron porosity, where I have the base salt picked there's

1 a distinct break between the anhydrite and the salt.

2 Q. Oh, so you're --

3 A. What we try to do is, we map the top of the
4 Delaware, try to set the pipe as close as we can to the top
5 of the Delaware.

6 Q. Okay, is there some anhydrite there? Did you
7 drill any anhydrite, then, and set your pipe into some --

8 A. Yes, we try to drill all the way through the
9 anhydrite till we just get to the top of the shales that
10 occur right at the top of the Delaware Mountain Group.

11 Q. Okay. And as far as your cementing job on your
12 8-5/8, do you ever have a lot of washouts when you drill
13 through this salt well?

14 A. We typically don't do too badly because we're
15 using a saturated mud system when we drill this section.
16 We wouldn't drill this section with fresh water, or we
17 would get severe washouts that would compromise the cement
18 job.

19 Q. Is it a one-stage cement job?

20 A. I'd have to refer you to our engineering witness
21 for actually how we go about cementing it.

22 Q. Okay, will there be one?

23 A. Yes, there will.

24 MR. JONES: Okay, that's all I have.

25 EXAMINER CATANACH: Okay, I think that's all we

1 have of this witness, Mr. Bruce.

2 JAMES BLOUNT,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

9 A. James Blount in Oklahoma City, Oklahoma.

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

11 A. Devon Energy as an operations engineer.

12 Q. Have you previously testified before the
13 Division?

14 A. Yes, I have.

15 Q. And were your credentials as an operations
16 engineer accepted as a matter of record?

17 A. Yes.

18 Q. And does your area of responsibility at Devon
19 include southeast New Mexico?

20 A. Yes, it does.

21 Q. And are you familiar with the drilling and
22 operating engineering applicable to today's case?

23 A. Yes, I am.

24 MR. BRUCE: Mr. Examiner, I tender Mr. Blount as
25 an expert operations engineer.

1 EXAMINER CATANACH: He is so qualified.

2 Q. (By Mr. Bruce) Mr. Blount, let's move to your
3 first exhibit, Exhibit Number 7, and before you discuss it,
4 the reason we're here today is because Devon would like to
5 avoid incurring an increased cost for these wells; is that
6 correct?

7 A. That's correct.

8 Q. And up front, what is the approximate savings per
9 well if Devon's Application is granted?

10 A. We're looking at about \$30,000 per well for the
11 additional cement in the -- doing a two-stage job to get
12 the cement to surface.

13 Q. Okay. So Mr. Rittersbacher said there's 52
14 additional wells that Devon could drill in this area, so
15 what you're looking at is, over time, a savings of what,
16 over a million and a half dollars?

17 A. That's correct.

18 Q. Okay, let's go into your Exhibit 7, and describe
19 that in more detail for the Examiner.

20 A. Okay, basically what this is is a cost
21 differential between the different methods that we complete
22 these wells.

23 The first one would be cementing the long string
24 just up into the intermediate. What we typically do is, we
25 frac our first zone downcasing, before the pulling unit

1 comes out there, so we have the savings of not having to
2 drill out a DV tool, we have the savings of not having the
3 pulling unit out there while we're doing the frac job, and
4 also the savings of the fact that you have additional
5 cement to add to get that second stage to surface.

6 Scenario 2 is basically an after-the-fact repair
7 job where you could come in there and squeeze and bring
8 that cement to surface at a later date, and that would be
9 basically doing the same completion down the casing on the
10 first job, and then after completing all the Delaware
11 zones, come in, set a retainer and squeeze cement to
12 surface via retainer, and that's a comparison cost of those
13 two type of jobs.

14 Q. Okay. So if there was a well that the Division
15 deemed out of compliance, it is possible to go in at a
16 later date and remedy the situation?

17 A. That's correct.

18 Q. Okay. Moving to Exhibit 8, could you describe
19 how Devon has been completing the wells --

20 A. Okay.

21 Q. -- and describe what they propose to do in the
22 future on this acreage?

23 A. Okay, this is a typical wellbore diagram of
24 almost every Delaware -- or, I'm sorry, almost every Devon
25 well in this area. Typically the 13-3/8 is set at

1 approximately 850 feet, cemented to surface. The
2 intermediate string is set at 4350 and also cemented to
3 surface.

4 The long string is set at approximately 8600 foot
5 and cemented up into the intermediate. We usually attempt
6 an overlap of anywhere from 500 to 1000 feet in the
7 intermediate.

8 Q. In your opinion, does this adequately prevent the
9 movement of any fluids between the zones, or --

10 A. Yes, I believe it does.

11 Q. Okay, so you don't see any safety issues here?

12 A. No, I don't.

13 Q. Okay. So if the Division -- the Artesia District
14 Office is upheld, then you would need to bring that cement
15 all the way up to the surface in the production string; is
16 that correct?

17 A. That's correct.

18 Q. And that would cost about an additional \$30,000
19 per well?

20 A. Right.

21 Q. That's assuming no problems or no difficulties
22 involved?

23 A. Right.

24 Q. Have you seen wells out there where the cost can
25 even be higher?

1 A. Yes, there's been attempts made in the past. The
2 first well that we drilled in this last program, we
3 attempted to bring to surface on the cement, we did a two-
4 stage job, and we still didn't get the cement to the
5 surface.

6 So you know, we're still looking at having them
7 do a remedial cement job to get it to surface, to be in
8 compliance.

9 Q. Okay. Finally, what does your Exhibit 9 show?

10 A. Exhibit 9 is basically a pictorial interpretation
11 of the way R-111-P is being interpreted at present. And
12 basically, it states -- in the first two wellbores, they
13 show you can set a surface string, and you can either set a
14 long string to TD and cement it back to surface to protect
15 your salt string -- or to protect your salt area, or you
16 can set a salt-protection string, cement it to surface, and
17 then all you have to do is cover the oil-bearing zones with
18 cement on the completion string. That's any well that is
19 to the base of the Delaware or 5000 feet, whichever is
20 less.

21 And the two on the right, the way it's currently
22 been interpreted to us is that you can set a surface casing
23 and a salt-protection string and cement it to the surface,
24 and then a long string and cement it to the surface, or,
25 the farthest right one is surface pipe, a salt-protection

1 string cemented to the surface, an intermediate string
2 cemented to the surface, and then the long string can just
3 be covered on oil- and gas-bearing zones.

4 Now, this interpretation of the R-111-P is
5 different from what they've required in the past from
6 basically every well that's been drilled out here in the
7 1990s.

8 Q. So if I'm comparing Exhibits 8 and 9 right, what
9 you're essentially doing is taking on Exhibit 9 the second
10 well from the left, and what you are doing is then
11 cementing up to connect with that other -- with the long
12 string?

13 A. Yes, that's correct, with the intermediate.

14 Q. Okay. And you'd be connecting with the
15 intermediate, but not cementing all the way to the surface?

16 A. That's correct.

17 Q. Were Exhibits 7, 8 and 9 prepared by you?

18 A. Yes, they were.

19 Q. In your opinion, is the granting of Devon's
20 Application in the interests of conservation and the
21 prevention of waste?

22 A. Yes, it is.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of Devon's Exhibits 7, 8 and 9.

25 EXAMINER CATANACH: Exhibits 7, 8 and 9 will be

1 admitted.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Blount, on the intermediate cement jobs, are
5 you getting good cement jobs and good bond and everything
6 else?

7 A. We actually do not run a bond log across the
8 intermediate zones. We have circulated cement to the
9 surface on every one of these wells, but as far as the
10 qualitative evaluation of a bond log, no, we have not
11 looked at those zones.

12 Q. Now, I don't remember that much about R-111-P,
13 but there's two different -- Is it two different depths,
14 there's shallow and there's deep wells that we're talking
15 about?

16 A. That's correct.

17 Q. And so you'd be classified as a deep well here?

18 A. That's correct.

19 Q. And I'm going to have to go back and read what
20 the requirements are, but you say this is the way that the
21 Artesia District Office of the Division is interpreting
22 R-111-P?

23 A. That's correct.

24 Q. In the first picture on Exhibit -- I'm sorry, the
25 third diagram on Exhibit 9, which would be typically the

1 way you do it, they would require you to circulate the
2 production string?

3 A. That's correct.

4 Q. Okay. Or you could set four casing strings and
5 cement to surface three of them and --

6 A. Right.

7 Q. -- the fourth one you wouldn't have to?

8 A. Right.

9 Q. That's their interpretation?

10 A. (Nods)

11 Q. Now, do you have any knowledge about how --
12 There's a lot of wells that have been drilled in this area,
13 a considerable number of wells. Do you know how those
14 typically have been drilled?

15 A. Yes. Almost every one of those wells, I've
16 looked at the completion reports on all of the wells that
17 Devon has operated, which would be every well in the yellow
18 on this particular -- on that map number 1, Exhibit Number
19 1.

20 Q. Uh-huh.

21 A. Also in yellow, Sections 9, 8 and 17 were all
22 drilled by Santa Fe, which is part of Devon now. Those
23 were all drilled just like the wellbore diagram on Exhibit
24 Number 8, they're all cemented into the intermediate. This
25 was the method of approval by the BLM and I was assuming

1 the State at that particular time due to the fact that, you
2 know, they approved every one of these in the early 1990s.

3 There's some state leases in Section 16 that are
4 operated by Yates. Those wells, especially the two in the
5 south, were drilled and completed with that exact same
6 method. And I looked at the cement records on that, and no
7 well out there that I've looked at in any of those sections
8 had a long string cemented to surface.

9 Q. Now, not all of this acreage is federal. Is
10 there some state acreage in here?

11 A. That's correct, Section 16 is state acreage,
12 which is in the potash enclave. The permits were clearly
13 stamped, Secretary's -- R-111-P's potash.

14 Section 2 to the north is also state acreage,
15 although it's outside of the boundary.

16 And Section 32 to the southwest is state acreage,
17 and I didn't pull the completion reports on all those
18 wells, so I'm not positive it they're the same story as in
19 Section 16.

20 Q. Now, the R-111-P area would be -- You've got a
21 red line depicted here, so it would be everything to the
22 southwest, would be R-111-P?

23 A. Everything to the southwest and everything up
24 into Section 15, 22, 14, 13, 23 and 26, all in that -- in
25 the center of the map, basically.

1 A. I don't think I would say that, although they are
2 tight economics. But you know, there are some better than
3 others. Typical wells over on the east side, you know, if
4 I knew what those reserves were before I drilled, I
5 wouldn't have drilled them. But you know, I can't say that
6 blanketly across the board, saying that, you know, \$30,000
7 will shut down my program, but it is definitely an economic
8 impact.

9 Q. Uh-huh. Well, in your opinion does that serve
10 any additional purpose, to -- Would it give any additional
11 protection to the potash reserves?

12 A. I don't believe it would. And the other part is,
13 you know, if there's no chance that it'll be mined, you
14 know, I don't see the additional benefit.

15 Q. What do you base that opinion on, that it may not
16 be mined?

17 A. The fact that they've commented before that they
18 probably wouldn't mine areas that have been drilled on 40-
19 acre spacing, the potash companies.

20 Q. I'm sorry, who has made that comment?

21 A. I'm been told IMC. I haven't heard that
22 directly, but...

23 Q. They would not mine the potash in areas that have
24 been drilled on 40 acres; is that right?

25 A. That's what I've heard.

1 EXAMINER CATANACH: What have you got, Will?

2 MR. JONES: I've got a few questions.

3 EXAMINATION

4 BY MR. JONES:

5 Q. Mr. Blount, the wells that you've already
6 drilled, have you experienced any pressure or problems with
7 the Bradenheads on those or the 8-5/8 to 5-1/2 annulus?

8 A. No, sir, we haven't.

9 Q. Okay. On the 5-1/2-inch cement job that you're
10 doing to go 500 feet up above the casing shoe, do you a
11 bond log on those?

12 A. Yes, we do. And we locate the top of cement with
13 that bond log.

14 Q. Okay. And are you pretty consistent with getting
15 it up to a certain depth? Have you got any zones that are
16 breaking down, down below?

17 A. There are some zones that break down, but
18 typically -- and this is one reason why we would rather
19 bring it up into the intermediate, is, when we try to get
20 it up any higher than 1000 feet inside the intermediate,
21 there's a significant amount of breakdown, and that's --

22 Q. Okay, where does that breakdown occur?

23 A. We believe it's in the Bell Canyon zone, about
24 5600 feet or so, between there and 6000 feet.

25 Q. Okay.

1 A. We have not particularly identified it, because
2 it's hard to say where it happens on the bond log. All you
3 can do is guess, based on the fact of where it drops back
4 to, and also on losses that we've incurred during drilling.

5 Q. Okay.

6 A. So we're making some assumptions on that.

7 Q. Okay. But you are running a DV tool, even to get
8 500 feet up?

9 A. We're not currently. There were several wells
10 that were done in the past, in the mid-1990s that were
11 done. And like I say, this is a cost-saving mechanism
12 we've developed to try to avoid having to spend that money
13 for the DV tool. Our completion techniques are a little
14 different than what we did back then.

15 Q. Okay. What is the -- Without a DV tool, what's
16 the weight of your -- what's the pounds per gallon of your
17 cement that you -- or the type cement that you -- your lead
18 cement and your tail cement on your 5-1/2-inch?

19 A. I'm not sure I have that information available,
20 but typically our tail is about a 14-pound-per-gallon
21 system and our lead is about a 12-pound-per-gallon.

22 Q. Okay.

23 A. Now, I will say, the ones we drilled last year
24 that were under the requirements of R-111-P, we were
25 actually trying to comply. We may have made a comment

1 earlier that, you know, we didn't comply on any of that.
2 We actually pumped some ultralight cements that were 9-1/2-
3 pound cements and attempted to get those, and they turned
4 out to be an extremely expensive alternative. It was
5 running us \$50,000 to \$60,000 to attempt a long string
6 cement job, as opposed to \$20,000 that it would cost to do
7 just conventional cements bringing it up into the
8 intermediate.

9 But we tried to do that in lieu of the stage
10 cement, and we had minimal success. We got one of them up
11 within 500 feet of the surface, and that was our best
12 attempt. Most of them were typically 2000 feet or so.

13 Q. Okay. What about the 8-5/8? The casing itself
14 on 8-5/8, you're using standard threads on your casing?

15 A. Yes, long thread.

16 Q. That's 8-round --

17 A. Yes.

18 Q. -- threads?

19 A. Right.

20 Q. And what about if you did use any better threads,
21 how much would that drive the cost up from your 8-5/8?
22 Just an estimate?

23 A. I haven't run numbers on that, but I'm assuming
24 it would be fairly significant because the buttress is
25 going to run your prices up considerably, and when you're

1 looking at 4500 foot of pipe, that would be a -- I'm just
2 venturing a guess -- somewhere in the \$40,000 to \$50,000
3 range.

4 Q. Okay. What about the cement job on the 8-5/8?
5 What do you typically lead and tail with there?

6 A. Once again, I can't tell you the exact, but I
7 know it's a light cement and it's about a 13-pound on our
8 lead and it's about a 14.5, approximately, on the tail.

9 Q. And you usually circulate it just fine?

10 A. We've circulated every string on the long string.
11 Any that we have not we've one-inched to the surface, but
12 that's been very rare.

13 MR. JONES: Okay, that's all I have.

14 FURTHER EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Blount, what method are you guys using to
17 produce these wells in this area?

18 A. They're on rod pump.

19 Q. So generally do you keep the wells pumped off?

20 A. After the first year, typically. You know, early
21 on they maintain a fairly high fluid level until we get to
22 an equilibrium state where they're pumped down enough to
23 where you're pumping basically what your pump capacity is.

24 Q. You say a fairly high fluid level. Do you know
25 what that might be in the wells?

1 A. It varies anywhere from all the way to the
2 surface down to about 5000 feet. Like I say, and it's -- I
3 mean, we shoot fluid levels or very gassy wells early on,
4 you know, so it's real hard to get an accurate number on
5 the fluid levels.

6 EXAMINER CATANACH: Did you have anything else?

7 MR. JONES: One more question.

8 FURTHER EXAMINATION

9 BY MR. JONES:

10 Q. Mr. Blount, the treatments you use -- I notice
11 you're perforating a big long section on your Delaware in
12 your fracture.

13 A. Yes, sir.

14 Q. Are you frac'ing downcasing?

15 A. The first job, we frac'd downcasing. That would
16 be the lower Brushy from approximately 8100 to 8300. The
17 typical upper zones, we're typically frac'ing downcasing,
18 the zones of 7000 foot. I mean, I'm sorry, downtubing.

19 Q. Okay, on the upper zones. Okay. So your
20 pressures are higher on the upper zones? Is that why
21 you're going downtubing?

22 A. Not necessarily, we typically try to limit our
23 frac growth on the upper zones, and they've been very low
24 rate fracs. So it's just mechanically an easier frac to
25 pull off when you're watching it downtubing.

1 Q. What about the pressures on your lower frac
2 downcasing?

3 A. The pressures typically are running about 1000
4 pounds during our frac job, and they may get as high as
5 1500 but not much higher than that, typically.

6 Q. So you don't use a casing wellhead isolation tool
7 or --

8 A. No.

9 Q. You don't need one then --

10 A. No.

11 Q. -- just to --

12 A. We just rig up a, you know, BOP and fracture
13 straight down the casing.

14 MR. JONES: All right, thank you.

15 FURTHER EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. A couple more. Mr. Blount, currently there are
18 no waterflood operations in this area; is that correct?

19 A. That's correct.

20 Q. Do you anticipate that there may be at some time?

21 A. There's a possibility that the Cherry Canyon out
22 there could be attempted a flood.

23 Q. Okay. Do you guys monitor the casing annulus in
24 these wells at all, for any pressure or any --

25 A. Which casing annulus in particular? I mean --

1 Q. Production casing.

2 A. Between the 5-1/8 and 8-5/8?

3 Q. (Nods)

4 A. Not that I'm aware of, I don't remember putting
5 any gauges on those.

6 Q. So you don't know if you've had any problems with
7 any kind of pressure buildup or anything on that annulus?

8 A. That's correct.

9 EXAMINER CATANACH: I think that's all I have.

10 MR. BRUCE: Mr. Examiner, just a couple of
11 observations. With respect to your question about potash
12 mining, I think if you look at Exhibit 1, the main area of
13 the potash enclave, the potash company has always resisted
14 having any wells drilled in those areas. I think at
15 hearings before the Division they've always said that even
16 one or two wells in an area may make it unsafe for mining.
17 In this particular Application area, at least a good number
18 of these wells are going to be drilled. Therefore, I don't
19 think -- I think it's reasonable to say this area will
20 never be mined, based on what the potash companies have
21 said in the past. And therefore I don't think there's any
22 issue regarding safety or waste of potash.

23 The second thing is, if you look at Exhibit 2,
24 Mr. Examiner, you asked about waterfloods. I think the
25 only one I -- the closest one I know of in the Delaware at

1 this time is just to the east of the WIPP site. Pogo
2 Producing -- It's not a waterflood, it's a pressure-
3 maintenance project that Pogo Producing has.

4 EXAMINER CATANACH: Okay.

5 MR. BRUCE: That's it, Mr. Examiner.

6 EXAMINER CATANACH: For the record, Mr. Bruce, my
7 attorney, Mr. Brooks, has advised me that he was involved
8 early on with some -- with this issue between the Division
9 and Devon. I guess this has been discussed previously to
10 the hearing, and he felt compelled to withdraw himself from
11 the case, so that's not why he's in attendance.

12 MR. BRUCE: Mr. Examiner, when this issue reached
13 a head, starting in June of this year, Mr. Gray and another
14 representative of Devon and I met with the Division
15 Director and Mr. Brooks to discuss how to resolve this
16 issue, so that's probably what he's referring to.

17 EXAMINER CATANACH: He will probably stay out of
18 this process then. Anything further in this case?

19 MR. BRUCE: No, sir.

20 EXAMINER CATANACH: Okay, there being nothing
21 further in this case, Case 12,961 will be taken under
22 advisement.

23 (Thereupon, these proceedings were concluded at
24 10:52 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 12961
heard by me on November 14, 1982

25 * * *

David Catanach, Examiner

Oil Conservation Division

STEVEN T. BRENNER, CCR
(505) 989-9317

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 November 22nd, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006

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. 12,961
)
 APPLICATION OF DEVON ENERGY PRODUCTION)
 COMPANY, L.P., FOR AN EXCEPTION TO)
 DIVISION ORDER NO. R-111-P, EDDY COUNTY,)
 NEW MEXICO)

OFFICIAL EXHIBIT FILE

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 14th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 14th, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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