

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDING

RECEIVED

EXAMINER HEARING

JUL 24 2003

BEFORE: DAVID R. CATANACH, Hearing Examiner *Oil Conservation Division*

July 10th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, July 10th, 2003, 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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I N D E X

July 10th, 2003
Examiner Hearing
CASE NO. 12,961

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APPLICANT'S WITNESSES:	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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 Assistant General Counsel
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 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:22 a.m.:

3 EXAMINER CATANACH: And at this time I will call
4 Case 12,961, which is the Application of Devon Energy
5 Production Company, L.P., to reopen Case Number 12,961 for
6 an exception to Division Order Number R-111-P, Eddy County,
7 New Mexico.

8 Call for appearances in this case.

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

11 EXAMINER CATANACH: Call for additional
12 appearances?

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

15 (Thereupon, the witnesses were sworn.)

16 RICHARD C. WINCHESTER,
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 name for the record?

22 A. Richard Winchester.

23 Q. And where do you reside?

24 A. In Norman, Oklahoma.

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

1 A. I work for Devon Energy Corporation as a
2 petroleum landman.

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

5 A. Yes, I have.

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

8 A. Yes, they were.

9 Q. And are you familiar with the land matters
10 involved in this Application?

11 A. Yes, I am.

12 Q. Does your area of responsibility at Devon include
13 this portion of New Mexico?

14 A. Yes, it does.

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

17 EXAMINER CATANACH: Mr. Winchester is so
18 qualified.

19 Q. (By Mr. Bruce) Mr. Winchester, let's open up
20 your Exhibit 1. And before we begin, this is a reopened
21 case, isn't it, Mr. Winchester?

22 A. Yes, it is.

23 Q. And Devon is asking for certain -- oh, how shall
24 I put it? -- certain relaxation of the Division Rule
25 R-111-P with respect to how the wells are drilled and

1 completed?

2 A. That's correct.

3 Q. In the middle of this map there's an area that
4 has a black outline. Is that the area that was originally
5 sought or applied for in Case 12,961?

6 A. That's correct, last November.

7 Q. And what area or what lease are we here for
8 today?

9 A. We're talking about the north half of Section 14,
10 and this is 23 South, Range 31 East in Eddy County.

11 Q. Okay. With that, could you go through this map?
12 And this is just a revision of the map that was originally
13 presented.

14 A. That's correct. Mr. Examiner, if you'll take a
15 look at the legend on the right-hand side, of course the
16 yellow is Devon leasehold. The red outline indicates the
17 area that's subject to Order R-111-P.

18 The hatched area is the area that we just
19 discussed that was the subject of the hearing last November
20 in which an order came out in February where the OCD
21 granted us an exception to the R-111-P.

22 The blue line indicates the potash enclave, and
23 then the stippled area are existing federal potash leases.
24 And then down at the bottom with the green outline, again,
25 is the north half of Section 14, which is Federal Lease

1 533177-A.

2 Q. Okay. Now today, this map also has production
3 data on it, does it not, Mr. Winchester?

4 A. That's correct, it does.

5 Q. And there is an engineer who can testify about
6 that if necessary?

7 A. Yes, Mr. Blount will testify.

8 Q. We do not have a geologist today to testify; is
9 that correct?

10 A. That's correct.

11 Q. Has there been any change in the geology that you
12 are aware of since the prior hearing?

13 A. No, sir.

14 Q. Okay. Now, the lease we're here for today is a
15 federal lease; is that correct?

16 A. That's correct.

17 Q. And is that marked as Exhibit 2?

18 A. Yes, it is. Yes, this Exhibit 2, it's actually
19 Lease 533177, and then A was segregated out effective May
20 1st, 1964, and it now covers the north half of Section 14,
21 over to the east, the southeast quarter of Section 13, and
22 then the east half of Section 24.

23 Q. Now, going back to the original case, the
24 original black-outlined area, except for the north half of
25 Section 14, was the subject of a settlement agreement

1 between the federal government and Devon Energy with
2 respect to drilling in the potash area, was it not?

3 A. That's correct.

4 Q. And so the first go-around only concerned the
5 area that was the subject of that settlement agreement?

6 A. That's correct.

7 Q. And today we're here for the north half of 14.
8 This lease was not the subject of that settlement
9 agreement?

10 A. That's correct.

11 Q. Does this lease contain a potash stipulation?

12 A. Yes, it does. If you will take a look on page 3
13 in the addendum under paragraph 1, of course it states that
14 drilling for oil and gas will not interfere with the mining
15 or recovery of potash. So it is subject to the potash
16 stipulation.

17 Q. Okay. In looking at Exhibit 1 again, there are
18 already two wells marked in the north half of Section 14;
19 is that correct?

20 A. That is correct.

21 Q. And Devon does have wells planned to the west and
22 to the south of the north half of Section -- well, actually
23 surrounding the north half of Section 14?

24 A. That's correct. If you'll take a look, Mr.
25 Examiner, in -- actually it's in proration unit B, the

1 northwest of the northeast quarter, we have actually
2 drilled the Todd 14 B Federal Number 3 well. It is
3 currently being completed. And then we have applied for a
4 permit for the A location, being the northeast of the
5 northeast of 14.

6 Q. Now, with respect to the casing program that
7 Devon is requesting, the BLM has indicated it will approve
8 the casing program that Devon is requesting here today?

9 A. That is correct.

10 Q. Now, when you look at this, even though it is
11 subject to the potash stipulations, Devon will be able to
12 drill and will drill Delaware wells surrounding the north
13 half of Section 14, will it not?

14 A. That is correct. If you'll take a look, Mr.
15 Examiner, at the location that's the northwest of the
16 southwest of 14, and then moving west to that next location
17 that's the northeast of the southeast of Section 15, and
18 then the two locations north of there, the BLM has
19 indicated to us on numerous occasions that once development
20 of that area takes place, then they will grant us the
21 locations in the remainder of the north half of Section 14.

22 Q. And the potash companies have consistently
23 maintained that when areas are developed like this, they
24 won't mine it anyway; is that correct?

25 A. That's correct.

1 Q. And so even though this particular half section
2 of land is not subject to the potash stipulations, because
3 it will be surrounded by Delaware wells it is essentially
4 the same status as the area outlined in black?

5 A. That's correct.

6 Q. Okay. Now, I think it came up in the last
7 hearing, Mr. Winchester. Where are the nearest mine
8 workings that you're aware of?

9 A. The nearest mine workings are in Section 11 of 23
10 South, 31 East, so they're approximately five miles to the
11 west.

12 Q. Okay. And those are -- the mines in this area
13 are IMC?

14 A. That's correct.

15 Q. And again, the minerals are federal?

16 A. Yes.

17 Q. And both IMC and the BLM were notified of this
18 Application?

19 A. Yes, they were, on June 19th a letter was
20 forwarded to both parties.

21 Q. Have you heard anything from either entity?

22 A. No, we have not.

23 Q. Okay. Were Exhibits 1, 2 and 3 prepared by you
24 or under your supervision or compiled from company business
25 records?

1 A. Yes, 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. Yes, it is.

6 MR. BRUCE: Mr. Examiner, I'd move the admission
7 of Devon's Exhibits 1 through 3.

8 EXAMINER CATANACH: Exhibits 1 through 3 will be
9 admitted.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. Winchester, according to your map the closest
13 federal potash lease is to the west --

14 A. Yes, that's --

15 Q. -- in that tier of Sections 8, 17, 20 and 29?

16 A. That's correct.

17 Q. And then there's some -- I believe up in Sections
18 3 and 4, were those state potash leases?

19 A. No, sir, those are federal potash leases.
20 Actually, the state potash leases are in Sections 2 to the
21 north, 16 to the west, and then in Section 32 to the south.
22 And that was on the original map that was prepared, that
23 was inadvertently omitted from this. And that was because
24 the lease was to expire -- I believe our last hearing was
25 on November 15th. The lease was to expire on November

1 16th. And when Mr. Bruce checked the records, IMC is still
2 paying the rental, and so I believe they still consider
3 that lease in effect.

4 Q. So IMC does have those state potash leases, as
5 well as all of the federal potash leases in this unit?

6 A. That's correct.

7 Q. Okay. Now, the first time around when you guys
8 came in, we did the area outlined in black?

9 A. That's correct.

10 Q. And we excluded the north half of 14 at that
11 time?

12 A. That's correct.

13 Q. And the reason for that was what?

14 A. Well, the area that's hatched, again, that would
15 show us the settlement area, that was the leases that did
16 not -- that were granted by the BLM, that did not contain
17 potash stipulations. And under the settlement, there was
18 some conflict, we believe, between Devon and the OCD on
19 exactly what we were able to -- or how we were able to
20 conduct our operations out here.

1 A. That's correct.

2 Q. Now, it's my understanding you have already
3 drilled a well in the north half of Section 14?

4 A. Yes, we have.

5 Q. And that was approved by the BLM?

6 A. That's correct.

7 Q. And that was approved -- I presume that that well
8 was not drilled with the extra string of casing in it; is
9 that correct?

10 A. That's correct.

11 Q. Have you had any occasion, Mr. Winchester, to
12 look at any maps that show any LMRs, life of mine reserves,
13 in this area?

14 A. I have, but I can't recall to mind how all of
15 that fits within this, Mr. Examiner.

16 Q. Do you recall whether or not there were any LMRs
17 in this area, in the area that you're seeking today?

18 A. No, not in the area that we're seeking today. In
19 fact, I think in the last testimony Mr. Gray testified that
20 this area had not been under potash lease for at least 15
21 years.

22 Q. You don't anticipate that this will be mined by
23 the potash company?

24 A. That's correct, certainly after we develop the
25 east half of Section 15 and then the remainder of the south

1 of 14.

2 Q. And is this -- The north half of Section 14,
3 that's going to be operated by Devon?

4 A. That's correct.

5 Q. So do you know how many wells you guys are
6 planning to drill in that area?

7 A. Well, under current plans we would like to see
8 eight wells drilled in the north half of Section 14. I
9 mean, certainly everything that you see that has a triangle
10 is a well that we either have a permit on now or we have
11 applied for a permit on.

12 Q. Okay, and you mentioned something about a
13 stipulation by the BLM in that once you drill the wells in
14 Section 15 --

15 A. That's correct.

16 Q. -- then they will authorize the additional wells
17 in Section 14; is that right?

18 A. That's correct.

19 Q. How were you able to get that one, the existing
20 well in Section 14, permitted?

21 A. Because they lie outside of the potash enclave,
22 the blue line.

23 EXAMINER CATANACH: I see. Okay, that's all I
24 have, Mr. Bruce.

25 MR. BRUCE: I have nothing further.

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JAMES BLOUNT,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Will you please state your name for the record?

A. James Blount.

Q. Where do you reside?

A. I reside in Oklahoma City, Oklahoma.

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

A. For Devon Energy, as a production -- or operations engineer.

Q. Have you previously testified before the Division as an operations engineer?

A. Yes, I have.

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

A. Yes, they were.

Q. And does this area of New Mexico -- Does your area of responsibility include this part of New Mexico?

A. Yes, it does.

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

EXAMINER CATANACH: Mr. Blount is so qualified.

Q. (By Mr. Bruce) Mr. Blount, what I've handed you

1 are Exhibits 8 and 9 from the original hearing, which is
2 why there's a gap in the numbering, Mr. Examiner.

3 What is Exhibit 8, Mr. Blount?

4 A. Exhibit 8 is a typical wellbore diagram of the
5 wells that have been drilled in this area. Basically, all
6 wells that were drilled by Devon all through the 1990s were
7 drilled with this program, and the wells that have been
8 drilled since the last hearing that we had, with the
9 exception, are also drilled to this program with basically
10 the cement on the 5-1/2-inch brought up into the
11 intermediate, but not to the surface.

12 Q. Yates is another big operator in this township,
13 is it not?

14 A. Yes, they are.

15 Q. And to the best of your knowledge, are Yates
16 wells similarly completed?

17 A. That's correct, they are.

18 Q. Basically all the Delaware wells in this township
19 are drilled and completed in an equivalent manner?

20 A. Yes, sir.

21 Q. Okay. Now, one well has already been drilled in
22 the north half of Section 14, and I think you testified
23 about this in the prior hearing, but if the Division did
24 not grant Devon's Application you could re-enter that well
25 and recomplete it in the manner specified by Rule 111,

1 could you not?

2 A. That's correct, we could do a squeeze and bring
3 the cement on up. We have the cement currently at the base
4 of the intermediate, right now, and if this Application is
5 denied we can go in there and squeeze that to the surface.

6 Q. Okay. What is Exhibit 9, then, Mr. Blount?

7 A. Exhibit 9 is just a visual interpretation of the
8 R-111-P as interpreted by Tim Gum, actually. Basically it
9 shows that these are the different requirements based on,
10 you know, wells that you could drill in the potash. If you
11 drill a well 5000 feet or shallower, they only require a
12 single string across the salt, a single cemented string.
13 But if you drill deeper than 5000 their interpretation is,
14 you have two cemented strings across the salt. And you can
15 achieve that by cementing the long string to the surface or
16 by setting a secondary, intermediate string beyond the salt
17 protection string.

18 Q. What is the approximate depth of the Delaware
19 wells in this area?

20 A. These are approximately 8300 foot.

21 Q. Okay, so the two wellbore sketches on the right-
22 hand side would apply if the relief is not granted?

23 A. That's correct.

24 Q. And were Exhibits 8 and 9 from the prior hearing
25 prepared by you?

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

25 Q. Mr. Blount, I believe you testified the well in

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

1 A. Yes, they were.

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

5 A. Yes, it is.

6 Q. One final question, Mr. Blount. I think you
7 testified about the approximate cost to complete them in
8 the manner that Devon desires, as opposed to the way the
9 Artesia OCD office requires them to be completed. What is
10 the approximate cost difference per well?

11 A. It would add a minimum of \$30,000 per well.

12 Q. Okay, so over eight wells in this section you're
13 talking what, a quarter million dollars or so?

14 A. That's correct.

15 MR. BRUCE: Thank you. That's all I have, Mr.
16 Examiner.

17 EXAMINER CATANACH: Let's see, do you want to
18 enter these exhibits?

19 MR. BRUCE: Yes, I'd like to move the admission
20 of Exhibits 8 and 9.

21 EXAMINER CATANACH: Exhibits 8 and 9 will be
22 admitted.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Blount, I believe you testified the well in

1 Section 14 currently has cement to the base of the
2 intermediate?

3 A. That's correct. I believe 4300 foot was where we
4 found the top of cement.

5 Q. And where's the intermediate set at?

6 A. Intermediates are roughly 4500.

7 Q. So you've got a couple of hundred feet --

8 A. Right.

9 Q. -- inside the intermediate?

10 A. Right.

11 Q. I don't recall, in the last order did we have a
12 stipulation on how far up the cement needed to be?

13 A. It requested 500 feet.

14 Q. So this is not in compliance with that?

15 A. That's correct.

16 Q. How many wells were drilled, do you know, since
17 the order was issued in the last case?

18 A. We're currently drilling the fourth.

19 Q. Now, do you know if those wells were in
20 compliance with the minimum cement height?

21 A. Yes, they were. Yeah, for whatever reason they
22 fell back a little bit on this 14 B.

23 Q. I don't think I have anything else.

24 What would be the procedure to bring that well
25 into compliance, Mr. Blount?

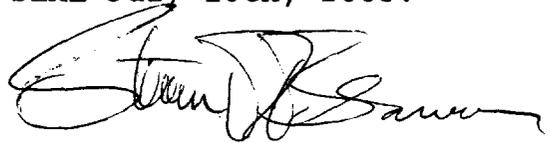
CERTIFICATE OF REPORTER

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 July 10th, 2003.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006