

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

ORIGINAL

5 APPLICATION OF DEVON ENERGY  
6 PRODUCTION COMPANY, L.P. FOR  
7 A NONSTANDARD OIL SPACING AND  
8 PRORATION UNIT AND COMPULSORY  
9 POOLING, EDDY COUNTY, NEW MEXICO.

CASE NOS. 14992 and  
14993

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12  
13 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER  
14 DAVID K. BROOKS, LEGAL EXAMINER

12 JUN 20 11:21 AM

15 June 13, 2013

16 Santa Fe, New Mexico

17  
18 This matter came on for hearing before the  
19 New Mexico Oil Conservation Division, Richard Ezeanyim,  
20 Chief Examiner, David K. Brooks, Legal Examiner, on  
21 Thursday, June 13, 2013, at the New Mexico Energy,  
22 Minerals and Natural Resources Department, 1220 South  
23 St. Francis Drive, Porter Hall, Room 102, Santa Fe,  
24 New Mexico.

23 REPORTED BY: Mary C. Hankins, CCR, RPR  
24 New Mexico CCR #20  
25 Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT DEVON ENERGY PRODUCTION COMPANY, L.P.:

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EXHIBITS OFFERED AND ADMITTED

Devon Energy Exhibit Numbers 1 through 9	13
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1 (9:21 a.m.)

2 EXAMINER EZEANYIM: And from counsel's  
3 understanding, these two cases will be combined or  
4 consolidated for purposes of testimony.

5 MR. BRUCE: That's correct.

6 EXAMINER EZEANYIM: I'm going to read them  
7 into the record. Call Case Number 14992. This is the  
8 application of Devon Energy Production Company, L.P. for  
9 a nonstandard oil spacing and proration unit and  
10 compulsory pooling, Eddy County, New Mexico,  
11 consolidated with Case Number 14993, the application of  
12 Devon Energy Production Company, L.P. for a nonstandard  
13 oil spacing and proration unit and compulsory pooling,  
14 Eddy County, New Mexico.

15 Call for appearances.

16 MR. BRUCE: Mr. Examiner, Jim Bruce of  
17 Santa Fe representing the Applicant. I have two  
18 witnesses.

19 EXAMINER EZEANYIM: Any other appearances?

20 Okay. At this time, will the witnesses  
21 stand up and state their name to be sworn?

22 MR. HARRAN: Craig Harran.

23 MR. GRAY: Ken Gray.

24 (Mr. Harran and Mr. Gray sworn.)

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KEN GRAY,

after having been first duly sworn under oath, was questioned and testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Yes. My name is Ken Gray. I live in Oklahoma City, Oklahoma.

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

A. I work for Devon Energy Production Company, L.P. as a landman.

Q. Have you previously testified before the Division?

A. Yes, I have.

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

A. Yes, they were.

Q. And are you familiar with the land matters involved in these applications?

A. I am.

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

EXAMINER EZEANYIM: Mr. Gray is so qualified.

1 Q. (BY MR. BRUCE) Mr. Gray, could you identify  
2 Exhibit 1 for the Examiners?

3 A. Exhibit 1 is a copy of a Midland map  
4 identifying the two project areas that we seek to pool  
5 today. The one in yellow is for the Harroun Trust 31  
6 #4H, and the blue outline is for the Harroun Trust 31  
7 #5H.

8 Q. And what are Exhibits 2A and 2B?

9 A. Those are the OCD Forms, C-102s, survey plats  
10 showing the project areas, the leaselines and the  
11 completion interval for each of these wells.

12 Q. And these wells are being drilled, more or  
13 less, from a common well site?

14 A. Yes, a common pad.

15 Q. And although the -- on each of these, the  
16 wellbore is drawn on a straight line. Is it your  
17 understanding that the producing interval of the  
18 wellbores will be orthodox?

19 A. Yes, they will.

20 Q. And what is the target formation of these  
21 wells?

22 A. Lower Brushy Canyon.

23 Q. And I believe they're in the Harroun  
24 Ranch-Delaware pool; is that correct?

25 A. That's correct.

1 Q. Who do you seek to pool in both cases? And I  
2 refer you to Exhibit 3.

3 A. Uh-huh. We have one -- one company to pool  
4 today, RKC, Incorporated, in Centennial, Colorado. They  
5 own a little more than three-and-a-half percent.

6 Q. And that's three-and-a-half percent in each  
7 wellbore?

8 A. Yes.

9 Q. And what is Exhibit 4A?

10 A. 4A is a copy of my letter dated January 24th,  
11 proposing both of these wells to, at that time, the  
12 current working interest owners in both wells. And you  
13 can see RKC is at the bottom of that list on the address  
14 list.

15 Q. The other parties have voluntarily joined their  
16 interests?

17 A. Yes, they have.

18 Q. And besides the proposal letter, have you had  
19 other contact with RKC?

20 A. Yeah. Exhibit 4B is a listing of various  
21 e-mails that I've had back and forth with a lady named  
22 Maria at RKC starting in -- I don't know. Let's see.  
23 Starting in February and regularly thereafter up until  
24 late May.

25 Q. And they've never given you a response you

1 could rely on?

2 A. No. They've never indicated one way or the  
3 other what their decision might be.

4 Q. In your opinion, has Devon made a good-faith  
5 effort to make a voluntary joinder of RKC in both wells?

6 A. Yes, we have.

7 Q. Could you identify Exhibits 5A and 5B, and  
8 briefly state the cost of the proposed wells?

9 A. 5A and 5B are cost estimates for the drilling  
10 and completion of each of these wells. 5A would be for  
11 the Harroun Trust 31 4H, and we've estimated a completed  
12 well cost of a little over \$6.16 million. 5B would  
13 be -- the cost estimate for the Harroun Trust 5H,  
14 similar completed well cost, a little over \$6.1 million.

15 Q. And are these costs in line with the costs of  
16 other wells drilled to this depth in this area of  
17 New Mexico?

18 A. Yes, they are.

19 Q. And do you request that Devon be appointed  
20 operator of the wells?

21 A. We do.

22 Q. Do you have a recommendation for the  
23 supervision and administrator of expenses?

24 A. Yeah. We would recommend 6,000 for the  
25 drilling well rates, and 600 for producing well rates.

1 Q. And are these amounts equivalent to those  
2 charged by Devon and other operators in this area of the  
3 wells at this depth?

4 A. Yes.

5 Q. Do you request that the rates be adjusted  
6 periodically as provided by the COPAS accounting  
7 procedure?

8 A. Yes, we do.

9 Q. And do you request the maximum cost plus  
10 200-percent risk charge if RKC goes nonconsent with  
11 these wells?

12 A. Yes, we do.

13 Q. Was RKC notified of this hearing?

14 A. Yes, they were.

15 Q. And is Exhibit 6 my Affidavit of Notice showing  
16 they received actual notice of the hearing?

17 A. Yes, it is.

18 Q. Are there any unlocatable interest owners in  
19 these well units?

20 A. No, none.

21 Q. And what is Exhibit 7?

22 A. Exhibit 7 is a listing of the offset leasehold  
23 owners and/or operators that we notified of this  
24 hearing.

25 Q. And were they given notice of the hearing --

1 A. Yes, they were.

2 Q. -- as reflected on Exhibit 8?

3 A. Yes, they were.

4 Q. Let's go back to Exhibit 1, Mr. Gray. There's  
5 the two well units. Does Devon also plan on drilling  
6 two 240-acre well units in the combined southwest  
7 quarter of Section 30 and the west half of Section 31?

8 A. Yes, we do. Those were the subject of a couple  
9 of prior cases that we had a few weeks ago, Cases 14968  
10 and 14969.

11 Q. Now, overall, in the south half of Section 30  
12 and in Section 31, is Devon the majority working  
13 interest owner in those sections?

14 A. Yes, we are.

15 Q. And as a result of drilling these four 240-acre  
16 well units, is anybody being excluded from the wells  
17 offset that you know of?

18 A. No.

19 Q. And from a land standpoint, is any person  
20 adversely affected by Devon's proposed wells?

21 A. No.

22 Q. Mr. Gray, I'm going to hand the Examiners --

23 MR. BRUCE: And sorry, I only have one of  
24 these, Mr. Examiner.

25 Q. (BY MR. BRUCE) Mr. Gray, could you identify

1 Exhibit 9?

2 A. Exhibit 9 is a -- it's a rather large plat, but  
3 we thought we needed it just so we could show you the  
4 horizontal wells that have either been staked, permitted  
5 or drilled, and basically that covers Eddy County. And  
6 in the lower, left-hand corner is the legend. And I  
7 think it says there are a little over 2,300 wells that  
8 have either been staked, permitted or drilled in excess  
9 of a 4,000-foot lateral, and there are a little over 300  
10 with laterals in excess of 5,500 feet, and another 140  
11 wells with laterals in excess of 7,000 feet.

12 EXAMINER EZEANYIM: I ask that the witness  
13 approach. Would you approach the table?

14 THE WITNESS: Pardon me?

15 EXAMINER EZEANYIM: Approach the table.

16 MR. BRUCE: Go up there and point out some  
17 of the matters.

18 THE WITNESS: Oh, sure.

19 EXAMINER EZEANYIM: It's tiny. I can't  
20 see.

21 THE WITNESS: You can see all the  
22 horizontals.

23 EXAMINER EZEANYIM: Which wells are you --  
24 the two wells today, where are they, the two wells --

25 THE WITNESS: They are right here

1 (indicating). The two wells are these two (indicating).  
2 These other two are the ones we previously had a hearing  
3 on.

4 EXAMINER EZEANYIM: Okay. Very good.  
5 And then all these are wells to be  
6 drilled --

7 THE WITNESS: They've either been staked,  
8 permitted or drilled.

9 EXAMINER EZEANYIM: And these ones  
10 (indicating), too?

11 THE WITNESS: Uh-huh. Yeah.

12 EXAMINER EZEANYIM: And that's all we have  
13 around this area right now?

14 THE WITNESS: Uh-huh. Yes. All we were  
15 trying to do was to point out the frequency of the  
16 number of laterals and the length of the laterals.  
17 There's in excess of 2,300 wells greater than a  
18 4,000-foot lateral.

19 EXAMINER EZEANYIM: Did you do this map?  
20 Did you do this map?

21 THE WITNESS: I personally did not do it,  
22 no. I had one of our geologists do it.

23 EXAMINER EZEANYIM: The geologist here?

24 THE WITNESS: The one that did it is not  
25 here, no.

1 EXAMINER EZEANYIM: Could you tell me, what  
2 are these (indicating)?

3 THE WITNESS: Those are laterals. Those  
4 are horizontal wells.

5 Q. (BY MR. BRUCE) Mr. Gray, does the purple -- are  
6 the longer laterals indicated in purple?

7 A. I'm sorry. The purple with the magenta, those  
8 are the ones with laterals greater than 7,000 feet.

9 EXAMINER EZEANYIM: Okay. What is magenta?  
10 You know, I'm color-blind.

11 THE WITNESS: It's these dark circles right  
12 here (indicating).

13 EXAMINER EZEANYIM: It's not shown very  
14 well.

15 THE WITNESS: No, it's not. It's  
16 magenta-highlighted. It would be these dark circles  
17 here (indicating).

18 EXAMINER EZEANYIM: And what did you say  
19 they are?

20 THE WITNESS: Greater than 7,000 feet.

21 Q. (BY MR. BRUCE) You mean greater than 4,000?

22 A. No. Greater than 7,000.

23 EXAMINER EZEANYIM: That is on 240-acre?

24 THE WITNESS: Yeah.

25 EXAMINER EZEANYIM: Okay. Thank you. You

1 may take your seat.

2 A. (Witness Complies.)

3 Q. (BY MR. BRUCE) And maybe this is a question for  
4 Devon's geologist, but has Devon been staking and  
5 permitting longer horizontals more recently?

6 A. We try to when it's convenient for us, yes.

7 Q. And I've got a question I'll save for the  
8 geologist.

9 But were Exhibits 1 through 9 either  
10 prepared by you or under your supervision or compiled  
11 from company business records?

12 A. Yes, they were.

13 Q. In your opinion, is the granting of these  
14 applications in the interest of conservation and in the  
15 prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move the  
18 admission of Exhibits 1 through 9.

19 EXAMINER EZEANYIM: Exhibits 1 through 9  
20 will be admitted.

21 (Devon Exhibit Numbers 1 through 9 were  
22 offered and admitted into evidence.)

23 MR. BRUCE: I have no further questions of  
24 the witness.

25 EXAMINER EZEANYIM: Mr. Brooks?

## CROSS-EXAMINATION

1

2 BY EXAMINER BROOKS:

3 Q. What is the significance of the green and  
4 yellow colors?

5 A. That's our acreage.

6 Q. I assumed that's probably true.

7 A. Yeah.

8 EXAMINER EZEANYIM: Which one is -- the  
9 yellow?

10 THE WITNESS: The yellow supposedly means  
11 we own 100 percent of it, and the green means we own  
12 less than 100 percent.

13 EXAMINER EZEANYIM: It's all indicated in  
14 your -- is it indicated on that --

15 THE WITNESS: I don't know that the  
16 color -- that the acreage is noted on the color key. I  
17 didn't know that the acreage was really important. We  
18 were just trying to reflect the level of activity and  
19 the number of laterals in excess of 7,000 feet that have  
20 already been stake, permitted or drilled.

21 Q. (BY EXAMINER BROOKS) I think the way you're  
22 approaching these longer laterals -- but you do have the  
23 acreage shown on here, and that's the significance of  
24 that coloration. And I notice that -- of course, the  
25 ones that are at issue here are in the east half of 30

1 and 31, right?

2 A. Uh-huh.

3 Q. But the one that was over in the west half-west  
4 half, you did not extend that up into the north -- up  
5 into the southwest-northwest even though you apparently  
6 have an interest there?

7 A. The two in the west half are identical to  
8 these.

9 Q. Okay. Well, we will talk to the geologist  
10 later. Thank you. That's all I have.

11 CROSS-EXAMINATION

12 BY EXAMINER EZEANYIM:

13 Q. Mr. Gray, we're addressing the spacing, too. I  
14 know that you are not -- you are presenting how many or  
15 what type of -- you are interested in, but development  
16 and acreage, you know?

17 A. Uh-huh.

18 Q. From where you are sitting, it's different from  
19 where I am sitting, so that is the point.

20 Now, this is what I think you are going to  
21 indicate on this map. This map that you brought today  
22 is very important. Now you are showing me what you are  
23 doing, the level of activity and the level of  
24 development and everything. We want to understand the  
25 ownership interest --

1 EXAMINER BROOKS: Right.

2 Q. (BY EXAMINER EZEANYIM) -- in the vicinity of  
3 the area and see how we can begin to develop those  
4 areas.

5 So we need two things, which I think you  
6 have provided, but I might request more things. One is  
7 development in the area, the nature of the development  
8 in the area, and then who has ownership -- I mean the  
9 acreage and who owns what. And that's why all these  
10 yellow and green are very important. I know you  
11 indicated what you own 100 percent or less than 100  
12 percent, but I'm also interested in what other people  
13 own in these -- in these -- in these lands. So I don't  
14 know whether you'll be able to do that or not. If you  
15 are -- I mean, you know who owns what, because when you  
16 are preparing for this hearing, you notified the offset  
17 operators. So you should be able to know who owns what  
18 and where, so we can get the ownership in the area,  
19 whether they are affected or not in these proceedings.

20 EXAMINER BROOKS: Well, I think it's  
21 reasonable -- when you say "in this area," Richard, I  
22 think it's reasonable to ask them to identify the  
23 offsets because they have to do that anyway, but you can  
24 hardly expect them to run the title to a whole lot of  
25 additional --

1 EXAMINER EZEANYIM: No, that's not what I'm  
2 saying.

3 EXAMINER BROOKS: If you have the offsets,  
4 I think that's -- my concern that I've articulated about  
5 ownership has been primarily about the Applicant's  
6 ownership, because what I'm interested in seeing is if  
7 the configuration of the unit requested appears to be  
8 influenced by the Applicant's ownership. Anyway,  
9 they've already got -- they obviously already got the  
10 list. I don't know whether the offset owners -- I don't  
11 know whether they're -- I mean, Jim's affidavit is by  
12 tract. Usually, I think you do put them by tract. A  
13 lot of attorneys don't.

14 MR. BRUCE: Yeah, I do have them by tract.

15 EXAMINER BROOKS: Good. So we've got that  
16 information. We just don't have --

17 EXAMINER EZEANYIM: What exhibit is that?

18 MR. BRUCE: Exhibit 7, Mr. Examiner.

19 EXAMINER EZEANYIM: Okay. That will have  
20 the offset ownership?

21 EXAMINER BROOKS: Correct.

22 EXAMINER EZEANYIM: And then we have the  
23 development in colors. This is very important for our  
24 purposes.

25 Let me see if I have any more questions

1 before you step down.

2 THE WITNESS: Okay.

3 Q. (BY EXAMINER EZEANYIM) Okay. Now, I always ask  
4 this question, you know, for somebody to define for me  
5 what they mean by a good-faith estimate -- I mean  
6 good-faith effort, because I see a series of e-mails you  
7 did with RKC. I mean, RKC, they have employees. Is  
8 there a way Devon can, you know, approach the employees  
9 or whatever and sit down and talk this over? Because if  
10 you talk this over with RKC, that would alleviate  
11 everything here now. You shouldn't be here if you have  
12 done that. I know that -- I know you have done it, but  
13 if they have agreed to drill this well, then there is no  
14 need for you to be here.

15 A. No.

16 Q. Okay. Now, what is a good-faith effort? Have  
17 you made a good-faith effort? What does that mean?

18 EXAMINER BROOKS: Well, that's really for  
19 us to decide.

20 EXAMINER EZEANYIM: Yeah, but I'm -- I just  
21 want --

22 EXAMINER BROOKS: You can ask them what  
23 they've done and whether it constitutes a good-faith  
24 effort.

25 EXAMINER EZEANYIM: Well, that's the point

1 I'm trying to make here, and that's really where I am  
2 going. I know we have to determine that, but am I  
3 convinced that a good-faith effort has been made? I  
4 don't know. Maybe you can --

5 EXAMINER BROOKS: Okay. Well, I'll ask a  
6 few questions of the witness.

7 RECROSS-EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. What did you do to attempt to contact  
10 these people? Only one company, right?

11 A. Right.

12 Q. One company being pooled?

13 A. Right.

14 Q. What have you done to establish negotiations  
15 with them?

16 A. Well, in addition to the original proposal  
17 letter, which was January or six months down the road, I  
18 gave them about 30 days to respond and then started  
19 e-mailing them regularly. And I have talked to them on  
20 the phone several times. Not lately. They quit  
21 receiving and returning phone calls after a few months.  
22 They did ask for -- and you can see that in the e-mails,  
23 that they did ask for a copy of a term assignment. I  
24 suggested to them that we had taken several term  
25 assignments under these wells and that we had bought

1 some interest under these wells, and I told them what we  
2 would pay them and how much we paid other people and  
3 things of that nature. And they were always going to --  
4 they were always going to get back to me.

5 They had a contract landman, that I think  
6 you'll see in the e-mails, that they were going to  
7 consult with, but just never -- never came across.

8 RE CROSS EXAMINATION

9 BY EXAMINER EZEANYIM:

10 Q. And in the two wells, the -- 5572 [sic], you  
11 did both wells, right?

12 A. Their interest? Yes. Yes, a little over  
13 three-and-a-half percent in --

14 Q. In both wells?

15 A. -- both wells, yes.

16 RE CROSS EXAMINATION

17 BY EXAMINER BROOKS:

18 Q. Well, do the e-mails and the step that you put  
19 in evidence, does it disclose the terms that you offered  
20 them?

21 A. It should.

22 EXAMINER EZEANYIM: We have the e-mails?

23 THE WITNESS: Let me make sure.

24 MR. BRUCE: Last page.

25 THE WITNESS: Yes.

1 EXAMINER BROOKS: Good. We can look at  
2 what's in evidence, and we can see exactly what you've  
3 done. So I think we're in good shape to make that  
4 determination, as good a shape as ever.

5 EXAMINER EZEANYIM: So we're going to  
6 see --

7 EXAMINER BROOKS: Right.

8 EXAMINER EZEANYIM: Anyway, you guys know  
9 my point with regard to this land and the interest. You  
10 could have saved us a lot of problem -- but they are  
11 not, so we have to do what we have to do.

12 Since you are there, are we satisfied with  
13 the offset operator they listed, because I don't -- I  
14 wanted to know the acreage that is owned there. It's  
15 not indicated. The only acreage indicated was Devon's  
16 interest. I wanted to see the offset acreage.

17 THE WITNESS: The notice, I think, had --

18 EXAMINER EZEANYIM: Where they are  
19 offsetting and -- let me get the list. Is it Exhibit  
20 Number 7, because we want to get --

21 EXAMINER BROOKS: I don't have 7. Yeah,  
22 here's 7. Yeah, it tells you what acreage they own.  
23 Here's 7, and it gives you -- it gives you the  
24 particular offsetting interest and what interest they  
25 own, what areas they own an interest in, as far as

1 offsets are concerned.

2 EXAMINER EZEANYIM: Okay. Offsets. They  
3 show acreage?

4 EXAMINER BROOKS: Yeah. See, they showed  
5 that's where they own. Of course, they may own  
6 additional acreage. It's not offsets. I'm concerned  
7 about asking for a whole lot more title work because I'm  
8 not sure that the -- I know we're very concerned with  
9 the interest of Devon.

10 EXAMINER EZEANYIM: Yeah.

11 EXAMINER BROOKS: I don't think we're that  
12 concerned with specifically who owns, if it's Devon or  
13 non-Devon. I'm not sure we're totally concerned with  
14 who owns that beyond the offsets. And, of course --

15 EXAMINER EZEANYIM: That's correct.

16 EXAMINER BROOKS: -- title work is fairly  
17 labor intensive.

18 EXAMINER EZEANYIM: So the acreage -- this  
19 is on top -- is owned by those companies, and you are  
20 below it. Is that what you are saying?

21 THE WITNESS: Yes.

22 EXAMINER EZEANYIM: And then the next  
23 acreage -- okay. Very good.

24 What is the pool that these wells are going  
25 to be producing from?

1 THE WITNESS: Harroun Ranch-Delaware.

2 EXAMINER EZEANYIM: Not northeast Harroun  
3 Ranch, but the Harroun Ranch, right?

4 THE WITNESS: Yes.

5 EXAMINER EZEANYIM: Okay. I looked at the  
6 pool. The Harroun Ranch is only a quarter section, a  
7 quarter section in Section 31. Is that -- that's what  
8 it is. You are drilling from, you know -- this is the  
9 Harroun Ranch (indicating), according to the map.  
10 That's all we have.

11 EXAMINER BROOKS: We have Paul's [sic]  
12 maps. He's probably expanded.

13 EXAMINER EZEANYIM: Well, maybe he has, but  
14 that's all I have.

15 MR. BRUCE: It's not -- officially it's not  
16 on the Division's maps.

17 EXAMINER BROOKS: Well, it's not on Paul's  
18 maps. It's really hard to get ahold of Paul's maps.  
19 He's very proprietary about them (laughter).

20 EXAMINER EZEANYIM: We are talking about  
21 Harroun Ranch drill a well. Then we step out  
22 one-and-a-half or two miles away -- the well that you  
23 are drilling is one-and-a-half or two miles away, but  
24 you are not -- it is not in the northeast quarter of  
25 Harroun Ranch, assuming Harroun Ranch is a real quarter

1 section. And I -- I also -- I didn't see, even with  
2 Paul's or Kayser [sic], I haven't seen -- so I'm  
3 wondering, when you drill one-and-a-half mile, of  
4 course, you know, Harroun, you can produce a half mile  
5 or one mile from the pool.

6 MR. BRUCE: But that would -- you know,  
7 undesignated wells within a mile of that pool would also  
8 be in the Harroun Ranch-Delaware pool.

9 EXAMINER EZEANYIM: Yeah.

10 EXAMINER BROOKS: This is in Eddy County,  
11 correct?

12 MR. BRUCE: That's correct.

13 EXAMINER EZEANYIM: Yeah.

14 EXAMINER BROOKS: And the Artesia District  
15 Office has classified it as being in the Harroun  
16 Ranch-Delaware?

17 MR. BRUCE: Yes.

18 EXAMINER EZEANYIM: Did you get that  
19 information from them, or you assume?

20 MR. BRUCE: Well, I looked it up, but I  
21 believe Devon's regulatory personnel looked up the ranch  
22 pool.

23 EXAMINER EZEANYIM: I wanted to -- I mean,  
24 produced forward -- I wanted you to find whether -- and  
25 then look at the pools, because, you know, I can't --

1 right now, you're showing me the north boundaries of the  
2 quarter section. And that's something to consider.

3 And these pools are statewide pools  
4 correct, 40-acre [sic], right?

5 THE WITNESS: Yes.

6 EXAMINER EZEANYIM: Okay. You may step  
7 down.

8 THE WITNESS: Thank you.

9 CRAIG HARRAN,  
10 after having been previously sworn under oath, was  
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

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

16 A. Craig Harran, Oklahoma City, Oklahoma.

17 Q. And who do you work for?

18 A. Devon Energy Producing Company, L.P.

19 Q. What is your job with Devon?

20 A. A geologist.

21 Q. Have you previously testified before the  
22 Division?

23 A. Yes.

24 Q. Were your credentials as an expert petroleum  
25 geologist accepted as a matter of record?

1 A. Yes.

2 Q. And are you familiar with the geology involved  
3 in these applications?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I'd tender  
6 Mr. Harran as an expert petroleum geologist.

7 EXAMINER EZEANYIM: So qualified.

8 Q. (BY MR. BRUCE) Mr. Harran, would you identify  
9 Exhibit 10 for the Examiner?

10 A. Yes. Exhibit 10 is a structure map on the top  
11 of lower Brushy Canyon. And you can see that the  
12 formation -- the contour lines are given at mean sea  
13 level, and there is a dip -- a pretty gradual dip going  
14 from west to east.

15 Q. Now, before we get off this plat, I want to --  
16 again, the green and yellow, what does that indicate?

17 A. So the green and yellow indicates Devon's  
18 acreage position. So yellow is 100 percent Devon  
19 acreage, and green is something less than 100 percent.

20 Q. And there are a number of other horizontal  
21 wells on this plat. What formation is going to be  
22 tested?

23 A. In our -- what formation is going to be tested  
24 in ours?

25 Q. In those other wells.

1           A.    In those other wells, a lot of those other  
2 wells are Bone Spring wells, which are deeper than  
3 their -- than the formation we're targeting.

4           Q.    So there really isn't any well orientation, or  
5 whatever, developed in the Delaware in this area?

6           A.    Correct.

7           Q.    And then I think this came up briefly. You  
8 know, Devon does own an interest in the southwest  
9 quarter-northwest quarter of Section 30, you see,  
10 correct?

11          A.    Correct, a small one.

12          Q.    But if, for instance, that well had been  
13 extended up the -- I forget the name of that well, but  
14 in the west half-west half of 31, heading northward, if  
15 Devon had tried to extend that well up, could that  
16 potentially adversely affect or complicate development  
17 in the north half of Section 30?

18          A.    Yes, potentially it could.

19          Q.    So -- so, for instance, if the north -- people  
20 in the north half of 31 do 160-acre lay-downs, they  
21 could do that in a couple of wells?

22          A.    Correct. Correct.

23                   EXAMINER EZEANYIM: Excuse me. Go back and  
24 ask those questions. I'm looking at this. I want to  
25 see what the answers to those questions. It's very

1 important.

2 MR. BRUCE: Okay.

3 Q. (BY MR. BRUCE) Once again, Mr. Harran, you  
4 didn't -- the wells in the west half -- west half-west  
5 half of 31 and the west half-southwest quarter of 30,  
6 Devon is not extending that well up to its acreage in  
7 the southwest quarter-northwest quarter of Section 30?

8 A. That is correct, and our interest changes a bit  
9 going up in that southwest of the northwest.

10 Q. But if that well extended another 40, that  
11 could -- I have to use -- for lack of a better word, it  
12 could complicate development in the north half of  
13 Section 30?

14 A. Correct.

15 Q. And so -- but you do not see that happening  
16 with the way these four Devon wells are set out right  
17 now?

18 A. Correct.

19 EXAMINER EZEANYIM: Okay. I understand  
20 what you're saying. Okay. Now, explain what you mean  
21 by complicate if you extend to that southwest quarter.  
22 What do you mean?

23 THE WITNESS: So like what Mr. Bruce was  
24 saying, if you did two lay-down horizontals, 160-acre  
25 spacing, going from the north half of Section 30, one of

1     them could not be a full single-section lateral.  If we  
2     extended our well, which is the Harroun Trust 31 Fed Com  
3     2H, up to the southwest quarter of the northwest, then  
4     you couldn't do a full single-section lay-down on the  
5     south half of Section 30.

6           Q.     (BY MR. BRUCE) You mean the south half-north  
7     half of Section 30?

8           A.     Sorry.  The south half-north half of Section  
9     30; that is correct.

10                  EXAMINER EZEANYIM:  Yes.  In the color by  
11     that green, what do you call that color?

12                  THE WITNESS:  Green.  Yeah, that is green.  
13     Yup.

14                  EXAMINER EZEANYIM:  But you don't own the  
15     north half of Section 30.

16                  THE WITNESS:  No.  The only -- the only  
17     part of the north half of Section 30 that we have an  
18     interest in is that quarter section, and it is less than  
19     our interest in the other areas of Sections 30 and 31.  
20     So our interest changes when you go up into that quarter  
21     section, that quarter-quarter section.

22                  EXAMINER EZEANYIM:  Okay.  Go ahead;  
23     proceed.

24           Q.     (BY MR. BRUCE) Move on to Exhibit 11, please.

25           A.     So this is a gross isopach thickness map of

1 what I call the B Sand, and so that is our target --  
2 that's our landing interval, which you can see  
3 highlighted in cross section on Exhibit Number 13, and  
4 that's the yellow interval. So if you go a couple more  
5 pages down to Exhibit 13, that's the zone that we'll  
6 be -- that we're proposing to land all four Harroun  
7 Trust wells.

8 Q. When you say "the yellow interval," you are  
9 talking about the upper highlighted interval, correct,  
10 as opposed to the lower, which is a pinkish color on  
11 Exhibit 13?

12 A. On Exhibit 13 -- so do you have yours upside  
13 down?

14 Q. No, no.

15 EXAMINER BROOKS: Yeah, it looks like it's  
16 the other way around.

17 MR. BRUCE: Oh, the other way around.

18 A. So the yellow is the lower, which you can see  
19 on the left hand, and the margins are B Sand, yeah.

20 EXAMINER EZEANYIM: The yellow -- the  
21 yellow is at the top?

22 THE WITNESS: The yellow is at the bottom.

23 EXAMINER EZEANYIM: Okay. It's upside  
24 down.

25 EXAMINER BROOKS: You've got it upside

1 down. It's upside down.

2 THE WITNESS: So the title on the top, and  
3 then the yellow -- what I have labeled the "B Sand" in  
4 the left-hand margin is what we're landing in. That's  
5 what we're landing in.

6 EXAMINER BROOKS: The problem is, the  
7 exhibit sticker is upside down.

8 MR. BRUCE: Operator error, Mr. Examiner.

9 THE WITNESS: But there is thought that our  
10 completion will also reach the other sand interval above  
11 that.

12 EXAMINER EZEANYIM: Okay. The magenta is  
13 on top. The yellow is --

14 THE WITNESS: Correct.

15 EXAMINER EZEANYIM: Okay. See, I know  
16 color.

17 THE WITNESS: There you go.

18 MR. BRUCE: (Laughter.)

19 Q. (BY MR. BRUCE) And then what does Exhibit 12  
20 reflect, Mr. Harran?

21 A. And so Exhibit 12 is that same interval, that  
22 B Sand interval, with a cutoff ten-percent porosity and  
23 less than 85 API gamma units. And so this is a net  
24 isopach map of that B Sand that we're landing these  
25 horizontal -- that we're proposing to land these

1 horizontal wells in.

2 Q. So when you're looking at the net -- net  
3 thickness, it appears that the sand is pretty uniform in  
4 thickness, 30 to 40 feet or something like that?

5 A. Uh-huh. Yes.

6 Q. And based on that, would you anticipate each  
7 quarter-quarter section in each well unit contributing  
8 more or less equally to production?

9 A. More or less.

10 Q. And then let's move on to your --

11 EXAMINER EZEANYIM: "More or less." Is  
12 that definite?

13 MR. BRUCE: I don't know if we can be  
14 scientifically precise.

15 THE WITNESS: Right. We're --

16 EXAMINER EZEANYIM: That's the point I want  
17 to bring up, "more or less," and that's a good point.

18 MR. BRUCE: I think there is a Supreme  
19 Court -- New Mexico Supreme Court case that says the  
20 Court will not speculate on what is happening 10,000  
21 feet below the earth.

22 EXAMINER EZEANYIM: You can just infer  
23 (laughter).

24 MR. BRUCE: Right.

25 EXAMINER BROOKS: Especially when

1 speculation comes from the lips of counsel.

2 (Laughter.)

3 EXAMINER BROOKS: That's what the Supreme  
4 Court said (laughter).

5 MR. BRUCE: And I think they were making  
6 fun of Mr. Carr at the time.

7 EXAMINER BROOKS: Mr. Carr was counsel in  
8 that case, as he's often reminded.

9 (Laughter.)

10 Q. (BY MR. BRUCE) Mr. Harran, you've already  
11 discussed it briefly, but could you identify Exhibit 13,  
12 and discuss the continuity of the reservoir you're  
13 attempting to test?

14 A. Yes. So Section 13 is a cross section of three  
15 of the control wells in Section 31, and one of the wells  
16 is in the south half of Section 30, pretty much in the  
17 general vicinity or the exact vicinity of these Harroun  
18 Trust 31 4H and 5H wells. And highlighted, again, is  
19 the B Sand in the yellow, and there's also a secondary  
20 target, D Sand, in pinkish, that we feel would be  
21 reached with our completion technique.

22 Q. Now, Exhibits 14A and 14B, are those  
23 directional drilling plans for the two wells?

24 A. Yes.

25 Q. And does it give not only a vertical well, but

1 a -- a vertical plan, but -- overhead looking -- what  
2 you might want to call a horizontal --

3 A. Yes. It gives a cross section and the map view  
4 of the wells.

5 Q. And what -- how many completion stages and what  
6 volumes of fluids are used by Devon in its completion?

7 A. Oh, it varies a little bit. I would say -- and  
8 I'm not a completions engineer, but I'm -- I'm -- I'm  
9 speculating. The orientation would be standard with  
10 other horizontal wells we've done in the lower Brushy  
11 Canyon and elsewhere in the Basin. And, again, I'm just  
12 speculating, but a section-and-a-half lateral might be  
13 upwards of 12 stages, 12 or 14 stages, maybe 12. I'm  
14 guessing. I'm not a completions engineer, but the  
15 technique would be similar with any of the lower Brush  
16 Canyons we've done in the Basin. And this area is  
17 actually shallower. We've done long laterals in other  
18 parts of the Basin and our landing depths sheerer [sic],  
19 are shallower than other laterals we've done in the  
20 Basin. So industry's confidence in doing long laterals  
21 seems to be increasing with time.

22 Q. Not just Devon but other operators in the  
23 industry?

24 A. Correct, industrywide.

25 Q. And finally, what is Exhibit 15?

1           A.     Exhibit 15 is a production plot.  Let's see  
2     here.  So the Cotton Draw 32 Fed Com 1H is a  
3     section-and-a-half lateral that we did in Eddy County as  
4     well, except this is a production plot of that showing  
5     oil, gas and water.  That was an economic well for  
6     Devon.  We have offset permits -- long lateral permits.  
7     These are federal permits offsetting that well that  
8     we'll be drilling in the second half of 2013.  So we  
9     were happy in the performance of that well, and we are  
10    offsetting that with extended laterals.

11                   MR. BRUCE:  One thing, Mr. Examiner.  This  
12    well is actually in Lea County, and we can get that  
13    location data for you.

14                   EXAMINER EZEANYIM:  Okay.

15           Q.     (BY MR. BRUCE)  Were Exhibits 10 through 15  
16    compiled by you or compiled from company business  
17    records?

18           A.     Yes.

19           Q.     And is the granting of these applications in  
20    the interest of conservation and the prevention of  
21    waste?

22           A.     Yes, very much so.

23                   MR. BRUCE:  Mr. Examiner, I'd move the  
24    admission of Exhibits 10 through 15.

25                   EXAMINER EZEANYIM:  Exhibits 10 through 15

1 will be admitted.

2 (Devon Exhibit Numbers 10 through 15 were  
3 offered and admitted into evidence.)

4 MR. BRUCE: And I have no further questions  
5 of the witness.

6 EXAMINER EZEANYIM: Mr. Brooks?

7 EXAMINER BROOKS: Yeah.

8 CROSS-EXAMINATION

9 BY EXAMINER BROOKS:

10 Q. Did I understand you to say that -- where is  
11 the map that had the other wells shown on it?

12 MR. BRUCE: Exhibit 10, Mr. Examiner.

13 EXAMINER BROOKS: Exhibit 10? Oh, yeah.

14 Q. (BY EXAMINER BROOKS) You said -- did I  
15 understand you to say that none of the wells -- none of  
16 the other wells identified on this map are completed in  
17 the Delaware?

18 A. Most all of them are Bone Spring, my  
19 understanding.

20 Q. Do you, at this point, have any opinion as to  
21 whether it's better to go north-south or east-west with  
22 the horizontals with the formation in this area?

23 A. In my experience in the Basin, I prefer going  
24 along the strike. So a lot -- operators -- others will  
25 say it doesn't make all that much of a difference, but

1 with everything being equal, drilling along strike with  
2 the formation is more flat as opposed to an up -- a  
3 strong up or down gradient. I think it may be a little  
4 hard to -- harder to stay in the zone if you're going up  
5 or down gradient versus if you're drilling along strike.

6 Q. So that actually would -- that would cancel  
7 north-south --

8 A. Correct. Correct, stand-up.

9 Q. -- east-west?

10 A. Correct.

11 Q. Well, it would seem to me, then, looking at  
12 your isopach, which is Exhibit 11, that that does  
13 present something of a problem for the north half of  
14 Section 30 because --

15 A. The south half or the north half?

16 Q. North half.

17 EXAMINER EZEANYIM: North half.

18 Q. (BY EXAMINER BROOKS) Because it looks like, if  
19 your isopach is accurate -- and I understand that  
20 they're based on limited information.

21 A. Correct.

22 Q. But if your isopach is accurate, Section 19 is  
23 probably not very prospective in this formation, because  
24 it's thinning out.

25 A. It is thinning to the north.

1 Q. And so to get -- if you owned this whole area  
2 on a unitized basis, to get your wells concentrated in  
3 the -- in the good part and you wanted to get -- you  
4 wanted to avoid -- and you weren't prepared to deal with  
5 the costs and risks of drilling two-mile laterals,  
6 assuming -- making all those assumptions, then it would  
7 seem to me you would be likely to drill 160 laterals in  
8 31 and 160 laterals in 30, both of which are fairly good  
9 prospects, rather than trying to get on up into 19, if  
10 you wanted to keep going north-south. I understand you  
11 can drill the north half of 30 east-west.

12 A. Correct.

13 Q. Do you have any comments on my long, rambling  
14 discussion?

15 A. Well, since we don't own the north half -- have  
16 a lease in the north half of 30, obviously --

17 Q. Obviously you're not concerned with the north  
18 half of 30?

19 A. Right.

20 So -- and kind of like I said, you can see  
21 from the Bone Spring level that there are some lay-downs  
22 in the area, so each position obviously would have a  
23 huge influence on if it's stand-ups or lay-downs.

24 Q. Well, clearly, you're going --

25 A. Drill away your leases. So if you had the

1 north half of 30, you'd be doing --

2 Q. You can drill --

3 A. -- lay-downs.

4 Q. -- and you can drill where you think the  
5 prospect is.

6 A. That's right.

7 Q. But you're probably not going to drill into  
8 inferior acreage if you can avoid it.

9 A. If you can avoid it, but there is --

10 Q. Sometimes you can't avoid it.

11 A. That's right. There's a whole myriad of  
12 controlling factors, so --

13 Q. I understand that.

14 Okay. Thank you. That's all I have.

15 EXAMINER EZEANYIM: That's a very good  
16 question. That's a very good question that we have to  
17 explore.

18 CROSS-EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. Well, anyway, I've got some -- we are talking  
21 here about a one-and-a-half mile, you know, the  
22 horizontal crossing that section Blinebry [sic], and you  
23 can see the geology now. Suppose that geology -- just a  
24 hypothetical. Nobody -- it's not exact science to get  
25 those lines the way that you are -- if you construct it

1 that way, we are going to say Section 9 is not  
2 productive. Well, who -- I mean, until you test an  
3 offset before you can conclude that.

4 But that aside, I wanted to address what  
5 Mr. Brooks just said before I go back to ask a very good  
6 question here.

7 A. Even though -- even though your thickness thins  
8 to the north, there is no -- it may still very well be  
9 economic. I think it's --

10 Q. That's what I'm saying.

11 A. Right. So, absolutely.

12 Q. We don't know.

13 A. That's right.

14 Q. Okay. Now, you already talked, Mr. Harran,  
15 about drilling along strikes. I mean, I know you want  
16 to drill along strike because it's easy. You don't want  
17 to drill downdip or updip. What are the difficulties  
18 you encounter when you drill updip, if you drill updip  
19 or downdip, because that might be -- I asked you this  
20 question before. You can minimize the technical  
21 difficulties of drilling. So I don't blame you for  
22 going along the strike.

23 A. Right.

24 Q. But now, is drilling along the strike the best  
25 way to, you know, strike those productive zones? I

1 always ask this question. You can drill through -- you  
2 know, downdip or updip to try to target --

3 A. Right.

4 Q. -- the hydrocarbons, you know. If you drill,  
5 you know, along the strike, you might miss some of them.  
6 So I'm asking: What are the technical difficulties that  
7 you might encounter when you drill updip or downdip?

8 A. Well, I'm not a drilling engineer, so I'm  
9 not -- I can't answer that precisely. But in my  
10 experience, as you're -- the more angles you're adding  
11 to your wellbore -- let's say you're going up, and then  
12 let's say you start angling up a little bit or down; you  
13 start angling down. The more kinks you put in your  
14 wellbore, you're adding problem when you're tripping in  
15 and out of the hole, when you're setting your plugs for  
16 completions, when you're drilling out those plugs.

17 So from what I understand and hear from my  
18 completion engineers, they want as straight of a  
19 wellbore as possible without kinks and jogs or  
20 porpoising within the wellbore. So if we can set our  
21 drill along strike and kind of set a flat target, to me,  
22 that would lend itself to less likely having a lot of  
23 jogs and alterations in the wellbore, versus if we  
24 needed to make some turns going down or going up  
25 depending on the dip.

1 Q. Right. So that's why Devon should have brought  
2 a production engineer to tell me that, to tell me what  
3 you just told me. You're telling me what he told you.  
4 So I think common sense says that you bring the person  
5 who did this to answer the question.

6 A. Right.

7 Q. It might be important that, you know, it would  
8 be a completion technique. You might drill that very  
9 easy to -- you know, so that you can have your pumps  
10 work efficiently, but my problem is still whether you  
11 are going to strike the -- you know, the higher  
12 production zones, if you drill, you know, along the  
13 strikes. That's the point. I know you are trying to  
14 avoid maybe, you know, designing your pump, you know,  
15 for the completion system.

16 I think it would have been better if a  
17 production engineer is there. Then I can haggle with  
18 him on what he wants to do, to drill along the strike or  
19 downdip or updip. But if he told you to come and tell  
20 me -- and I don't know which is which. But that's a  
21 fact, you know, if they are not here, we aren't going to  
22 complete the case today.

23 A. I mean --

24 Q. Go ahead.

25 A. Based on our lease position, as well as what

1 we've done in other parts of the Basin, doing the  
2 stand-up orientation seems to be the best way and most  
3 efficient way to develop this acreage here, with less  
4 environmental footprint, for doing long laterals, et  
5 cetera. Just looking at our lease position here,  
6 including the east half of Section 6 to the south, which  
7 we also have, just looking at the north-south  
8 orientation of our lease position, doing stand-ups seems  
9 to be the more reasonable approach, everything else  
10 being equal.

11 Q. I may be asking for more information. I want  
12 the information to come from the production engineer or  
13 whoever is doing this.

14 We're looking at some of the production  
15 here and you say that -- you have to assume that  
16 quarter-quarter section in those areas contributes  
17 equally. That's an assumption we're not sure. What is  
18 the average porosity that you are seeing in this area?

19 A. If you go to Exhibit Number 13 and you look at  
20 some of our control wells, the -- it's the third track  
21 on the right-hand side, and you can see porosity, let's  
22 say an example on that middle well, upwards of 20  
23 percent. So that's a 0 to 20 percent range on the  
24 porosity. The porosity on that yellow interval there  
25 for our control wells is, for the most part, well above

1 ten percent and often gets in the 15 to 20 percent  
2 range. So these show some of the best porosity for the  
3 lower Brushy Canyon that I've seen in the Basin.

4 Q. Okay. Since we're on that, Exhibit Number 10,  
5 your target here is in the Basin, right?

6 A. Correct.

7 Q. And then the one on top, the magenta-colored  
8 line, you can see your --

9 A. I do. I do. You can see the porosity --

10 Q. There is 100 [sic] feet?

11 A. Correct. And the porosity there, also, is over  
12 ten percent. If you draw a line down the middle of that  
13 track, most all of the porosity in that zone, too, would  
14 be to the left of that line.

15 Q. I probably can't ask you this question. Do you  
16 know what type of completion techniques you're going to  
17 use? Do you have an idea?

18 A. At a previous hearing -- it may have been for  
19 the 2H and 3H -- I may have mentioned some of the --  
20 the -- the fee size standard, some gross numbers. I  
21 don't have those with me, but they may be on record from  
22 a previous testimony.

23 Q. They're not on record. I looked at the record.

24 A. Okay. We can get that information to you; no  
25 problem at all.

1 Q. I need it.

2 A. Yup. We can get that to you; no problem at  
3 all.

4 Q. Let's go back to Exhibit Number 15. Okay. You  
5 know, we talked about this briefly. Which well is this,  
6 and where is it located?

7 A. So 15. That's the Cotton Draw 32 Fed Com 1H  
8 that I drilled last fall. It's right on the border of  
9 Eddy County and Lea County.

10 Q. And you drilled the well where?

11 A. Lower Brushy Canyon, the same -- landing in the  
12 same exact zone.

13 Q. Oh, Brushy Canyon, but progressing from the --  
14 I mean Harroun Ranch-Delaware, right?

15 A. This is in Lea County, right along the Eddy  
16 County border, so this is in a deeper part of the Basin  
17 to the east.

18 Q. Well, on this plat --

19 MR. BRUCE: Mr. Examiner, Mr. Gray informed  
20 me that that well -- the surface location is in 25 South  
21 32 East.

22 EXAMINER EZEANYIM: Let me see, so I have  
23 time to write it.

24 MR. BRUCE: It's Township 25 South, Range  
25 32 East, and the surface location is in Section 35.

1 MR. GRAY: 32.

2 MR. BRUCE: 32.

3 A. If I have permission to approach the bench, I  
4 can point that out.

5 Q. (BY EXAMINER EZEANYIM) It's in Lea County?

6 A. It's right on the border of Eddie and Lea  
7 County, yes.

8 Q. What are we doing with this well, then?

9 A. It's a -- it's a reference well for a single --  
10 excuse me -- for a section-and-a-half lateral that has  
11 good economics, that was a successful well, to kind of  
12 demonstrate our confidence in our ability to drill  
13 section-and-a-half laterals in the lower Brushy Canyon,  
14 B Sand. So it's an analog.

15 Q. You say a one-and-a-half mile well?

16 A. One-and-a-half mile well, yes. It went across  
17 a quarter -- it went across some state lands as well, so  
18 it was a commingled Fed and State.

19 Q. Do you know who drilled this well?

20 A. We did. I did. It's my well.

21 Q. Okay. So did you drill it under a voluntary  
22 agreement?

23 A. I'm sorry?

24 MR. BRUCE: Yeah. It's part of the Cotton  
25 Draw unit, which is a voluntary agreement.

1           A.     And, actually, it's just east of the unit.  
2     It's not in a federal unit, but it's just east of that  
3     and in the Cotton Draw area.

4           Q.     (BY EXAMINER EZEANYIM) I want to understand.  
5     This well is in Lea County, and it's one-and-a-half  
6     miles. It's under a voluntary agreement. Why did you  
7     want to show me these wells?

8           A.     And, once again, from an ability to drill  
9     section-and-a-half laterals. It's the same lateral  
10    length as these Harroun Trust wells, and it's actually  
11    in a deeper part of the Basin.

12          Q.     Yeah, I know, Brushy Canyon.

13          A.     So it's a longer -- a longer measured depth.  
14    So it's just to demonstrate our confidence and ability  
15    in section-and-a-half laterals. We're doing it in other  
16    parts of the Basin, and that seems to be the trend that  
17    industry -- the direction that industry is going in.

18          Q.     No question. I don't -- I don't disagree with  
19    you. There is no question that one-and-a-half miles  
20    is -- but, you know, you can't use that well -- you can  
21    drill two miles; Devon can drill three miles, five  
22    miles. It's not a question of whether you have the  
23    ability to do it or not. That's not the question here.  
24    You can drill anything. Devon is a big company. I  
25    mean, I think you are trying -- oh, we can do

1 one-and-a-half. I'm not arguing whether you can do  
2 one-and-a-half. You can do it.

3 A. Right. Right. But, again, showing the ability  
4 to do that in a deeper part of the Basin. As an analog  
5 drilling in this Harroun Trust area, we're shallower.  
6 We're over 1,000 feet shallower landing depth. And so  
7 from a mechanical complication or confidence in drilling  
8 a section-and-a-half lateral, I would be as, if not more  
9 confident drilling in the Harroun Trust area than in  
10 other deeper parts of the Basin that we've drilled in  
11 the lower Brushy Canyon, was just the point. It was  
12 just to give a little flavor for our ability to do these  
13 types of -- targeting this formation in the Basin.

14 Q. Okay. When was this well drilled?

15 A. Last fall, so fall of --

16 Q. Just on line now?

17 A. Yeah. It came on line in December. I have to  
18 look at the production file here.

19 Q. You can see it from your production.

20 A. Yeah. It's -- oh, okay. We completed it in  
21 the fall. It's been a little while. So it came on line  
22 October, November. It's still over 200 oil.

23 Q. What did you say?

24 A. And it's still producing over 200 barrels of  
25 oil a day.

1 Q. But it's one-and-a-half miles, isn't it?

2 A. Uh-huh.

3 Q. It's producing -- it's not doing well.

4 A. This is -- this is a good well.

5 Q. But you say you have six units. I mean, only  
6 200 -- I want you to produce thousands.

7 A. Well, I'd love it to produce tens of thousands.

8 Q. Then you begin to question whether it is really  
9 economic. I mean, you have six units, and the depth  
10 here is about 6,400. And we're talking about one well  
11 is seven [sic] per unit or more, and I'm expecting to  
12 get thousands. I want -- I want the oil to produce,  
13 because there is nothing really like oil production.

14 EXAMINER BROOKS: I'm sure Devon would like  
15 that, also.

16 A. Yeah. For our economic -- for our internal  
17 economics, this well was a successful well, and we've  
18 got permits, and we will be drilling the offsets.

19 Q. (BY EXAMINER EZEANYIM) I'm going to ask you a  
20 question. Maybe you are -- we were talking about the  
21 formation of voluntary units in Lea County. You are --  
22 you are -- constant [sic] quality is one kind of a  
23 voluntary. I can see a lot of wells you have drilled  
24 there on that voluntary agreements. Can you tell me  
25 what's happening in Lea County where you drilled a well

1 in South 32 East? It's on the voluntary agreement.

2 What's happening there?

3 A. And I'm -- I just don't know what a voluntary  
4 agreement is. I'm sorry, I'm not a landman, so I  
5 don't -- if you just --

6 MR. BRUCE: You can ask Mr. Gray,  
7 Mr. Examiner, but that well was not force pooled.

8 EXAMINER EZEANYIM: Yeah, I know, but I  
9 don't want to ask you a question because you are not a  
10 witness.

11 MR. BRUCE: You can ask Mr. Gray.

12 A. So we have full partner approval on that well,  
13 and we have indication from the partners for the offset  
14 wells that they will all be participating in that as  
15 well.

16 Q. (BY EXAMINER EZEANYIM) You have a lot of wells  
17 there.

18 EXAMINER EZEANYIM: Yeah, I would like to  
19 recall Mr. Gray. I want to find out what's going on  
20 with those voluntary agreements.

21 Q. (BY EXAMINER EZEANYIM) Okay. But let me finish  
22 with you. I don't think I'm done. Let me look at my  
23 notes here.

24 You look like you're having a lot of water  
25 production on these wells.



RECROSS EXAMINATION

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BY EXAMINER EZEANYIM:

Q. Mr. Gray, we know you want compulsory pooling of these, and we have been dealing with the nitty-gritty, but I didn't ask you what's happening with the wells. Have you applied for any APD on any of these wells?

A. Which wells are you talking about?

Q. The wells in that --

MR. BRUCE: Harroun Trust.

A. Applied for APD?

Q. (BY EXAMINER EZEANYIM) Yes.

A. Yes. We have permits on the two that are the subject of this case -- these cases today.

Q. Where did you get that APD? You got it from the Artesia District Office, right?

A. Yes.

Q. Do you know when you got that APD?

A. I don't know the exact date, no.

Q. For the last case, right? The APD was for those two, right?

A. The two for today? Yes.

Q. The two today have an APD already?

A. Yes.

Q. So all four have an APD?

1           A.    No.  I'm sorry.  You're talking about the two  
2 wells that previously --

3           Q.    The two wells -- yeah.

4           A.    The two wells for today, we have permits.

5                        The two previous wells that are located to  
6 the west of those, that's a federal permit, we don't  
7 have those permits yet.

8           Q.    But for this one --

9           A.    Yes.

10          Q.    -- for these two wells we're talking about  
11 today?

12          A.    We have permits for those today.

13          Q.    Okay.  And then I think earlier in your  
14 testimony, you said that you were able to locate  
15 everybody.  You know, I didn't even go there because of  
16 the composite [sic] questions that I need to ask.  But  
17 there was no need to publish any public notices, right?  
18 I'm talking about today.

19          A.    Except for -- except for the one person we're  
20 pooling, yes.

21          Q.    So everybody was located?

22          A.    Yes.

23          Q.    So there is no need for an escrow requirement?

24          A.    No.

25          Q.    And the locations of these wells -- I know

1 you're going to drill on a single pad. The locations of  
2 these wells, the entry point into the -- the terminus  
3 would be standard. I'm going to look at that, and  
4 they're going to be all standard. No -- they are not  
5 offsetting anybody?

6 A. No. They will be standard locations, yes.

7 Q. Now, let's go back to the map. This is a very  
8 informative map. What we were talking about in Lea  
9 County, where this well -- I don't know. The name is  
10 Cotton Draw 32 Federal Com 1H, which was approved by you  
11 (indicating). It's in Lea County, one of the wells.  
12 But any well that is in magenta is a well, right?

13 A. The ones in magenta are the laterals in excess  
14 of 7,000 feet.

15 Q. Okay. Okay. Any one with the magenta is in  
16 excess of 7,000 feet?

17 A. Yes.

18 Q. By that, you mean you have 240-acre, right?

19 A. Or more, yeah.

20 Q. Or more. Okay. Good.

21 Now, if you go back to this and where the  
22 well is drilled, what is the voluntary -- I mean, there  
23 is voluntary agreement in that area that, you know,  
24 maybe you drill all those wells any way you want because  
25 it's a voluntary agreement. Can you tell me more about

1 it if you know?

2 A. More about?

3 Q. About these wells in Lea County and Eddy  
4 County, you know, Eddy and Lea. They are all in the --  
5 this is Eddy; this is Lea.

6 A. Uh-huh. For the most part, the wells that you  
7 see there in Eddy County are in the Cotton Draw Unit,  
8 Federal Exploratory Unit that we think we're the  
9 operator of.

10 Q. So all these are Federal Exploratory Units?

11 A. Not -- just on -- for the most part, just on  
12 this side -- in Eddy County is where the unit is  
13 located, for the most part.

14 Q. Around here (indicating)?

15 A. Uh-huh.

16 And then we have another acreage block on  
17 east side, in Lea County. It's not part of the unit,  
18 but we still have a joint operating agreement with  
19 Chevron on that acreage that we propose wells to one  
20 another, and we drill wells.

21 Q. Well, what I'm trying to get at is, all those  
22 wells are drilled under the voluntary agreement?

23 A. Yes.

24 Q. That's really what I'm interested in.

25 EXAMINER BROOKS: What you have there is a

1 working interest unit, right?

2 THE WITNESS: We have a joint operating  
3 agreement that covers a large area, yes.

4 Q. (BY EXAMINER EZEANYIM) So in that case, you  
5 have no reason to come in here. That's good.

6 EXAMINER EZEANYIM: Okay. Do you have  
7 anything else to ask him?

8 EXAMINER BROOKS: No, I have nothing else.

9 EXAMINER EZEANYIM: Okay. Thank you.

10 MR. BRUCE: And, Mr. Examiner, you've asked  
11 for some additional data.

12 EXAMINER EZEANYIM: Yeah. I needed to -- I  
13 wanted Mr. Harran to send me the completion he uses,  
14 especially the -- the completion technique, whatever.  
15 And as I said, if you think -- continue information, you  
16 can go through the due process, or we can keep it, but I  
17 don't think it's going -- but I would really like to  
18 know what's going on with that completion technique.

19 MR. BRUCE: We will get that data to you.

20 EXAMINER EZEANYIM: And then I thought I  
21 asked about this. Oh, to check on the ownership  
22 interest. We have them, right?

23 EXAMINER BROOKS: For the immediate  
24 offsets, yes.

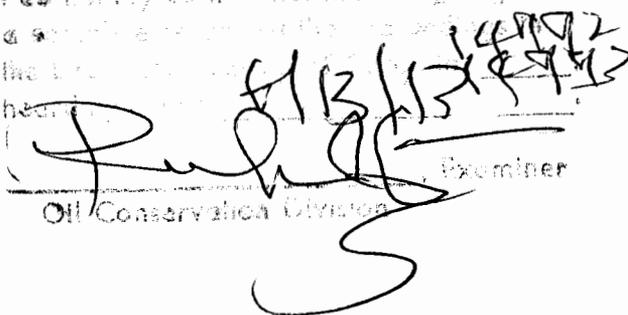
25 EXAMINER EZEANYIM: Anything further?

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MR. BRUCE: Nothing further in the matter.

EXAMINER EZEANYIM: At this point, Case Number 14992 and Case Number 14993 will be taken under advisement, and that concludes the hearing today. Thank you very much.

(Case Numbers 14992 and 14993 conclude, 9:28 a.m.)

I do hereby certify that the foregoing is a true and correct transcript of the hearing held on this date.  
  
Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

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

*Mary C. Hankins*  
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