

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

ORIGINAL

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

APPLICATION OF DEVON ENERGY  
PRODUCTION COMPANY, LP, FOR  
APPROVAL OF A NONSTANDARD GAS  
SPACING AND PRORATION UNIT,  
UNORTHODOX WELL LOCATIONS AND  
COMPULSORY POOLING,  
CHAVES COUNTY, NEW MEXICO. CASE NO. 14534

APPLICATION OF DEVON ENERGY  
PRODUCTION COMPANY, LP, FOR  
COMPULSORY POOLING,  
CHAVES COUNTY, NEW MEXICO. CASE NO. 14535  
*Core 14305  
R-13114*

APPLICATION DEVON ENERGY  
PRODUCTION COMPANY, LP, FOR  
COMPULSORY POOLING,  
CHAVES COUNTY, NEW MEXICO. CASE NO. 14536

APPLICATION OF DEVON ENERGY  
PRODUCTION COMPANY, LP, FOR  
COMPULSORY, POOLING,  
CHAVES COUNTY, NEW MEXICO. CASE NO. 14537

APPLICATION OF DEVON ENERGY  
PRODUCTION COMPANY, LP, FOR  
NONSTANDARD GAS SPACING AND  
PRORATION UNIT IN UNORTHODOX  
WELL LOCATIONS, AND COMPULSORY  
POOLING, CHAVES COUNTY, NEW MEXICO. CASE NO. 14528

TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 2, 2010: 9:06 a.m.

Santa Fe, New Mexico

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1 BEFORE: TERRY WARNELL, Hearing Examiner  
 2 DAVID K. BROOKS, Legal Advisor

3 This matter came on for hearing before the New  
 4 Mexico Oil Conservation Division, TERRY WARNELL,  
 5 Hearing Examiner, and DAVID K. BROOKS, Legal  
 6 Advisor, on Thursday, September 2, 2010, at the New  
 7 Mexico Energy, Minerals and Natural resources  
 8 Department, 1220 South St. Francis drive, Room 102,  
 9 Santa Fe, New Mexico.

7 REPORTED BY: Paul Baca  
 Paul Baca Court Reporters  
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 9 Albuquerque, New Mexico 87102

10 APPEARANCES

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 19

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1           THE EXAMINER: Let's go ahead then and go  
2 back on the record. And Mr. Bruce, we're going to  
3 hear all of these? There are five cases?

4           MR. BRUCE: Correct.

5           THE EXAMINER: So then let's go ahead and  
6 call Case 14534. I think they all -- do they all  
7 read the same.

8           MR. BRUCE: Not quite.

9           THE EXAMINER: Not quite? Okay. So we're  
10 going to hear all five of these cases. Case 14534,  
11 application of Devon Energy Production Company, LP,  
12 for approval of a nonstandard gas spacing and  
13 proration unit, unorthodox well locations and  
14 compulsory pooling, Chaves County, New Mexico.

15           Case No. 14535, application of Devon  
16 Energy Production Company, LP, for compulsory  
17 pooling, Chaves County New Mexico.

18           Case No. 14536, application Devon Energy  
19 Production Company, LP, for compulsory pooling,  
20 Chaves County, New Mexico. That's three, I believe.

21           Case No. 14537, application of Devon  
22 Energy Production Company, LP, for compulsory,  
23 pooling, Chaves County, New Mexico.

24           And the fifth case, Case No. 14528,  
25 application of Devon Energy Production Company, LP,

1 for nonstandard gas spacing and proration unit in  
2 unorthodox well locations and compulsory pooling,  
3 Chaves County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce, of  
6 Santa Fe, representing the applicant. I have two  
7 witnesses.

8 THE EXAMINER: Any other appearances?

9 MR. KELLAHIN: Mr. Examiner, I'm Tom  
10 Kellahin, of the Santa Fe law firm of Kellahin &  
11 Kellahin, appearing this morning in all five cases  
12 for Chisos, LTD.

13 THE EXAMINER: Would the witnesses please  
14 stand and state your name and be sworn?

15 (William James Ball, Jr., and Curtis D.  
16 McKinney were duly sworn by the court reporter.)

17 WILLIAM JAMES BALL, JR.,  
18 having been previously duly sworn, testified as  
19 follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Ball, could you state your full name  
23 and where you reside?

24 A. William James Ball, Jr., Edmond, Oklahoma.

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

1           A.     Devon Energy Production Company, LP. Land  
2     advisor for New Mexico.

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

5           A.     Yes.

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

8           A.     Yes.

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

11          A.     Yes.

12                 MR. BRUCE: Mr. Examiner, I tender  
13    Mr. Ball as an expert petroleum land man.

14                 THE EXAMINER: Any objections,  
15    Mr. Kellahin, to him?

16                 MR. KELLAHIN: No.

17                 THE EXAMINER: So recognized.

18          Q.     (By Mr. Bruce) Mr. Ball, could you  
19    identify Exhibit 1 for the Examiner and discuss its  
20    contents briefly?

21          A.     It's an exhibit showing the first five  
22    wells that we plan on drilling on the LE Ranch. The  
23    LE Ranch is about 164 square miles or sections of  
24    land, approximately 104,000 acres. And again, these  
25    are the first five wells that we plan on drilling

1     there.

2                 You'll note on the bottom notation, below  
3     the listed five, the notation is for the Loving  
4     7 fee 1H. That notation is there just to indicate  
5     to you that that one will be a little bit of a  
6     directional down into a pilot hole formation.

7             Q.     And what is the approximate depths of  
8     these wells?

9             A.     The average of all five, as shown on this  
10    exhibit, is about 8,600 feet, approximately. And  
11    the total vertical depth is approximately  
12    11,600 feet.

13            Q.     And all of these wells will be drilled --  
14    the pilot hole will be drilled to test the Devonian  
15    formation?

16            A.     That's correct. Our plan is to go into  
17    the top of the ~~Devonian~~, because it's just a few  
18    hundred feet below the ~~Mississippi Limestone~~, which  
19    is our objective.

20            Q.     The primary objective?

21            A.     Yeah.

22            Q.     Mr. Ball, let's go through the plan plats  
23    next. What is Exhibit 2?

24            A.     They're C-102 forms. I believe you'll see  
25    that on this C-102 form, the top page. It shows the

1 proration units, the surface location, the bottom  
2 hole location, and other general descriptions.

3 If you note on the top two -- that should  
4 be the Loving Well and the Goodnight Well -- those  
5 are the proration units that will go across the  
6 section lines.

7 Q. Okay.

8 A. Do you want me to describe the second  
9 page? It's just the Midland Map Company maps  
10 showing the proration unit. Once again, the red dot  
11 is the surface location, the green is the bottom  
12 hole location.

13 Q. Okay. Now, with respect to the Exhibit 2,  
14 which is the Loving 7 No. 1 Well, the pilot hole is  
15 at an unorthodox oil well location in the southwest  
16 quarter, northeast quarter of the section, correct?

17 A. That's correct.

18 Q. And does Devon request unorthodox location  
19 approval for that well?

20 A. Yes.

21 Q. Now, this is the well you mentioned that  
22 the pilot hole will be directionally drilled a  
23 little bit. There are two unorthodox locations in  
24 this case; is that correct?

25 A. That is correct.



1           Q.     The initial pilot hole down to, say, the  
2     top of the Morrow. And where will the Devonian be  
3     located?

4           A.     The Devonian is just immediately directly  
5     below the Mississippi Limestone formation.

6           Q.     And what quarter section will be dedicated  
7     in the Devonian?

8           A.     That would be southwest of the -- excuse  
9     me, southeast of the northeast.

10          Q.     So the well will be drilled vertically  
11     down towards the Morrow-Mississippian and then  
12     deviated slightly over toward the southeast  
13     quarter/northeast quarter in the Devonian, correct?

14          A.     That's correct, half of Section 7.

15          Q.     Okay. So there will be unorthodox  
16     locations in the southwest/northeast and in the  
17     southeast/northeast?

18          A.     That's correct.

19          Q.     Devon also requests the highlighted  
20     nonstandard unit. And for the record, could you  
21     describe the acreage in the nonstandard unit for the  
22     Mississippian?

23          A.     It would be the south half of the  
24     northeast of 7, the north half of the southeast of  
25     7. In Section 8, it would be the south half of the

1 northwest and the north half of the southwest of 8.

2 Q. And do you seek forced pooling of both the  
3 nonstandard unit as to the Missippian?

4 A. Yes.

5 Q. And then you also seek forced pooling as  
6 to separately the southwest/northeast and the  
7 southeast/northeast?

8 A. That's correct.

9 Q. The southeast/northeast, as to the  
10 Devonian only? And the southwest/northeast as to  
11 any oil zone that may be discovered uphole?

12 A. That's correct.

13 Q. Now, turn to the second page of Exhibit 2,  
14 briefly. Could you describe a little bit the land  
15 holdings within the LE Ranch?

16 A. Devon has leased all these fee lands, with  
17 the exception of -- well, has leased or we've  
18 recently reached an agreement in the last few days  
19 with all the parties that own minerals,  
20 approximately 12 royalty owners, with the exception  
21 of one.

22 And as you can see, in most cases all the  
23 way around the proration unit Devon has these lands  
24 leased up.

25 Q. But as to mineral ownership in the

1 LE Ranch, are the 12 owners or so you've mentioned  
2 common throughout this area?

3 A. Yes, they are.

4 Q. Okay.

5 A. It's kind of on a checkerboard pattern for  
6 some. For example, as you can see, there are 320  
7 splits in most of the sections, and the ratios on  
8 some of the royalty owners are different on one side  
9 than they are on the other.

10 But in some cases, they're consistent.  
11 For example, if someone might have 6.25 on the east  
12 half, they'll have 6.25 on the west half percent.

13 Q. Okay. But with respect to -- and this  
14 goes back to notice purposes for the nonstandard  
15 unit portion or even the unorthodox location portion  
16 of the application.

17 The interest owners are all the same in  
18 Sections 7 and 8 and in most of the other sections,  
19 correct?

20 A. That's correct.

21 Q. Let's go to Exhibit 3. And what does that  
22 reflect?

23 A. Of course, it's a C-102. And it reflects  
24 the same type of information: Surface location,  
25 bottom hole, location proration unit or well unit

1 outline.

2 It's the same situation as far as the  
3 depth. We'll go down to the top of the Devonian.  
4 But our objective, as with each one, is again the  
5 horizontal and Mississippi Limestone.

6 Q. And in this instance, the well location,  
7 which is an unorthodox oil well location, will be  
8 vertically drilled from the surface down into the  
9 Devonian, correct?

10 A. That's correct.

11 Q. And you seek approval of the unorthodox  
12 locations for any oil zones that may be included in  
13 that vertical limit, correct?

14 A. That's correct.

15 Q. And you also seek approval of the  
16 nonstandard unit?

17 A. That's correct.

18 Q. And finally, you seek forced pooling of  
19 all the -- and we'll get to the company in a  
20 minute -- of mineral interests in the nonstandard  
21 unit and in the 40 acres where the vertical hole is  
22 located?

23 A. That's correct.

24 Q. Okay. The remaining three are a little  
25 simpler, Mr. Ball. Could you run through

1 Exhibits 4, 5 and 6 and just discuss what is being  
2 sought in these cases?

3 A. The same objectives as the other two.  
4 They're obviously just a regular well unit, not a  
5 nonstandard location and not a special well unit  
6 situation.

7 Q. So the Mississippian unit will be the  
8 north half of Section 28 in this matter?

9 A. That's correct.

10 Q. And the well locations are orthodox?

11 A. That's right.

12 Q. And the surface location, the pilot hole,  
13 will be vertically drilled to the Devonian?

14 A. That's correct.

15 Q. So you seek the forced pooling of the  
16 northeast/northwest quarter as to 40-acre zones and  
17 the north half as to 320-acre zones?

18 A. That's correct.

19 Q. And does the same hold true as to the  
20 Jinglebob 29 fee reflected on Exhibit 5?

21 A. Yes, it does.

22 Q. Again, it's a north half well unit for the  
23 Mississippian or any gas zone?

24 A. That's correct.

25 Q. And you would also seek to force pool the

1 northwest quarter/northwest quarter as to any  
2 40-acre oil zones?

3 A. That's correct.

4 Q. And again, the surface location, the pilot  
5 hole, will be drilled vertically into the Devonian?

6 A. That's correct.

7 Q. And finally, as to the Open Range Well in  
8 Section 34, the north half unit will be will be  
9 dedicated to any gas well zones?

10 A. That's correct.

11 Q. And the northwest/northwest will be  
12 dedicated as to any oil zones?

13 A. Correct.

14 Q. Who do you seek to force pool in these  
15 cases?

16 A. We've reached agreement with two other  
17 parties. But we're only force pooling Samedan  
18 Royalty Corporation.

19 Q. Two other parties were notified of these  
20 matters, I believe, Pure Energy Resources and  
21 Chisos?

22 A. That's correct.

23 Q. And you have reached voluntary agreement  
24 with those two interests, obviously?

25 A. Yes, we have.

1 Q. And you do not seek to force pool them?

2 A. That's correct.

3 Q. As to Samedan, what interest does it own  
4 in all of these well units?

5 A. In all of these well units, Samedan  
6 Royalty Corporation owns 6.25 percent.

7 Q. And that is of unleased mineral interest?

8 A. That's correct.

9 Q. What is Exhibit 7, Mr. Ball?

10 A. Exhibit 7, lower in your stack, of course,  
11 going from the bottom up, is the operating  
12 agreement, certain pages out of it.

13 Then just above that is the AFE which  
14 accompanied the well proposal. And that was made  
15 back on July 14th. There's proof of the facts, and  
16 then it was sent Certified Mail.

17 Just above that is -- basically after it  
18 was mailed out, we felt like there needed to be some  
19 clarification, a better clarification, as to the  
20 situation with the pilot hole.

21 So there's correspondence in there, e-mail  
22 and another Certified letter. The Certified letter  
23 is August 2nd.

24 And then again, not knowing what Samedan  
25 was going to do, on August 5th, regardless of not

1 knowing what they did, I just decided to mail them  
2 the JOA, which is the bottom part of this exhibit.

3 Q. Okay. And Exhibit 7 contains all of the  
4 proposal letters as to all five wells, correct?

5 A. That is correct.

6 Q. Now, these proposals were sent out in July  
7 and August, not that long ago. Did Devon have prior  
8 contacts with Samedan?

9 A. Our contacts started with Samedan on  
10 October 17, 2008, so almost two years.

11 It's been quite an experience from my end  
12 to have dealt with five different land men within  
13 the organization. And we did not get an inclination  
14 or a response as to what they were going to do  
15 until, I think, a week ago today, when they finally  
16 did respond to what they considered was a lease  
17 form, that they wanted to lease interest.

18 But the conditions in the lease were not  
19 acceptable to Devon nor the terms that they put with  
20 this.

21 During that time, just to show how much  
22 time, it was almost 19 months that I had been  
23 getting the reason that they didn't have an answer  
24 out of their business unit.

25 So basically, we are still in



1 negotiations. I am hopeful that we will come to an  
2 agreement. Devon wants to make an agreement with  
3 them, and I think we'll get there.

4 Q. And if Samedan does sign a lease or reach  
5 other voluntary agreement, will you notify the  
6 Division?

7 A. Yes.

8 Q. Now, you mentioned the first contact was  
9 October 2008. It wasn't just then, and then these  
10 letters? There were a number of contacts and  
11 negotiations in the interim, correct?

12 A. Many dozens, yes.

13 Q. In your opinion, has Devon Energy made a  
14 good-faith effort to obtain the voluntary joinder of  
15 Samedan in these well units?

16 A. Yes, we have.

17 Q. Now, each well proposal to Samedan  
18 contained in AFE. What are the approximate costs of  
19 these wells?

20 A. They're in the approximate range of  
21 3,100,000.

22 Q. And is this cost reasonable and comparable  
23 to the cost of other wells drilled at this depth in  
24 this area of New Mexico?

25 A. Yes, they are.

1 Q. And what overhead rates does Devon  
2 propose?

3 A. Monthly drilling -- excuse me. Daily  
4 drilling overhead rates, 5,500. Monthly is \$550.

5 Q. Are these rates reasonable and comparable  
6 to what you're charging in your operating agreement?

7 A. Yes, they are.

8 Q. Do you request a 200 percent risk charge  
9 if Samedan goes nonconsent?

10 A. Yes.

11 Q. And do you request that Devon Energy be  
12 appointed operator of the well?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I've handed you  
15 Exhibits 8A through 8E. And these are the  
16 individual well notifications for each of the cases.  
17 You will see that Pure and Chisos were notified, as  
18 well as Samedan.

19 Of course, Pure and Chisos are dismissed  
20 from the case, but Samedan did receive actual notice  
21 of all of the pool of applications.

22 Q. (By Mr. Bruce) Mr. Ball, in your opinion,  
23 is the granting of these applications in the  
24 interest of conservation and the prevention of  
25 waste?

1 A. Yes, they are.

2 Q. And were Exhibits 1 through 7 prepared by  
3 you or under your supervision or compiled from  
4 company business records?

5 A. Yes, they were.

6 MR. BRUCE: Mr. Examiner, I move the  
7 admission of Devon Exhibits 1 through 7 and 8A  
8 through 8E.

9 MR. KELLAHIN: No objection, Mr. Examiner.

10 THE EXAMINER: Exhibits 1 through 7 and 8A  
11 through 8E are admitted.

12 (Devon Exhibits 1 through 7 and 8A through  
13 8E inclusive were admitted.)

14 MR. BRUCE: I have no further questions of  
15 the witness.

16 MR. KELLAHIN: Mr. Examiner, because  
17 Mr. Ball has testified that Devon and my client have  
18 reached a voluntarily agreement, I have no  
19 questions. And dismissal of my client from these  
20 cases causes us not to engage Mr. Ball in any  
21 questions.

22 THE EXAMINER: Thank you.

23 Mr. Brooks.

24 MR. BROOKS: Well, I think the Examiner  
25 having experienced some difficulty in keeping this

1 all sorted out, I'm having a little trouble keeping  
2 it sorted out in my mind. I want to ask you a few  
3 questions, just to clarify.

4 We're dealing with five different wells  
5 here, correct?

6 THE WITNESS: Yes, sir.

7 MR. BROOKS: And there's a different unit  
8 for each one?

9 THE WITNESS: Yes, sir.

10 MR. BROOKS: You know, it looked to me  
11 like only, from what I saw, two of them, 14528 and  
12 14534, involve an unorthodox unit for the purpose  
13 of, I assume, a horizontal well; is that correct?

14 THE WITNESS: Yes, sir. Those two cases  
15 have three things going on with it: Nonstandard  
16 location, the pooling, and the nonstandard gas  
17 spacing.

18 MR. BROOKS: Are the other three vertical  
19 wells?

20 THE WITNESS: Yes, sir, down to the  
21 Devonian. But in all cases, they're all going to be  
22 horizontal. That's our objective.

23 MR. BROOKS: Okay. Well, what is the  
24 spacing unit in these cases?

25 THE WITNESS: For Mississippi, horizontal

1 limestone is 320; and the Devonian oil would be 40.

2 MR. BROOKS: Okay. But you're not  
3 applying for a nonstandard unit. So what is the  
4 situation there?

5 THE WITNESS: I think the difference is  
6 the two that we are doing the nonstandard versus the  
7 others is they cross the section lines.

8 MR. BROOKS: I'm not sure I understand why  
9 it would not be necessary, if you're doing a  
10 horizontal in a 40 acre spacing, to have a  
11 nonstandard unit, even if they didn't cross the  
12 section lines.

13 MR. BRUCE: The Mississippian would be  
14 320 acres of gas.

15 MR. BROOKS: Okay. You're doing the  
16 horizontal in the Mississippian and in the Devonian?

17 MR. BRUCE: That is correct.

18 MR. BROOKS: Okay. So the horizontal is  
19 only in the Mississippian?

20 MR. BRUCE: But the pilot holes go down to  
21 the Devonian. But then they come back and kick off  
22 in the Mississippian.

23 MR. BROOKS: Okay. So the only horizontal  
24 wells are in the Mississippian?

25 MR. BRUCE: That is correct.

1 MR. BROOKS: Which is some 320-acre  
2 spacing. Okay, that helps.

3 Samedan is the only party to be approved,  
4 correct?

5 THE WITNESS: Yes, sir.

6 MR. BROOKS: And that is true of all  
7 cases?

8 THE WITNESS: Yes, sir.

9 MR. BROOKS: All five cases?

10 THE WITNESS: Yes, sir.

11 MR. BROOKS: And do I understand that  
12 Samedan's interest is uniform in all the lines  
13 involved?

14 THE WITNESS: Yes, sir.

15 MR. BROOKS: And that would apply to all  
16 formations?

17 THE WITNESS: Yes, sir.

18 MR. BROOKS: Okay. That also simplifies  
19 things.

20 Now, what about the unorthodox well  
21 location aspects in Cases 28 and 34? Have you given  
22 notice to the owners?

23 I don't recall any that I heard the  
24 explanation of the compliance with the notice  
25 requirements for the nonstandard location.

1                   Are there any, or are they all common  
2 ownership?

3                   THE WITNESS: It's all the same parties.  
4 And Devon, our working interest is the same all the  
5 way around.

6                   MR. BROOKS: Are all the working interests  
7 identical in the offsetting units versus the units  
8 where the nonstandard locations will be?

9                   THE WITNESS: Yes, sir.

10                  MR. BROOKS: Okay. So then there are no  
11 discrepant working interests between any of the  
12 units adjoining the nonstandard units?

13                  THE WITNESS: Say that again, sir.

14                  MR. BROOKS: Well, I think I was just  
15 repeating myself. I think I've already got your  
16 answer.

17                  But just to be sure: In every instance  
18 where, in both of the two nonstandard locations, ~~the~~  
19 ~~offsetting units have identical working interest~~  
20 ownership to the unit in which the nonstandard  
21 location is located; is that correct?

22                  THE WITNESS: I'm looking, sir. Just a  
23 second. The royalty ownership for the offsetting  
24 nonstandard proration units --

25                  MR. BRUCE: For the unorthodox locations,

1 Mr. Ball. That's what he asked.

2 THE WITNESS: Yes, they're the same.

3 MR. BROOKS: Okay. So I'm looking at  
4 Exhibit 2, which is 14528.

5 THE WITNESS: Yes, sir.

6 MR. BROOKS: And in Exhibit 2, the project  
7 area consists of -- I'm not clear on this. What is  
8 the project area for the well in Exhibit 2?

9 THE WITNESS: For the horizontal  
10 Mississippi Limestone, the project area is outlined  
11 on the second page.

12 MR. BROOKS: Okay. That's what I was  
13 thinking. Because it's the same as is outlined on  
14 the first page by the hashmarks, right?

15 THE WITNESS: Yes, sir.

16 MR. BROOKS: So that the project area  
17 consists of Units G, H, I and J in Section 7 and  
18 Units E, F, K and L in Section 8?

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19 THE WITNESS: That's correct, sir.

20 MR. BROOKS: Okay. And it's a 320-acre  
21 unit. So what's nonstandard about the location?

22 MR. BRUCE: Mr. Examiner, that would be  
23 the oil well location.

24 MR. BROOKS: Okay. So the horizontal  
25 well, it's not nonstandard in the Mississippian?



1 It's only nonstandard in the Devonian?

2 MR. BRUCE: It is standard in the  
3 Mississippian. It would be nonstandard as to any  
4 oil zone.

5 MR. BROOKS: Forty-acre unit?

6 MR. BRUCE: Yes.

7 MR. BROOKS: That's because it's 2,500  
8 from the north, which puts it 140. From the south  
9 edge of the unit, it's 1,400 from the east line of  
10 the section, which puts it 80 feet from the east  
11 line of the unit?

12 MR. BRUCE: That is correct, Mr. Examiner,  
13 for everything but one thing. And I think  
14 Mr. McKinney will go into this a little bit.

15 As to the Devonian --

16 MR. BROOKS: Yeah.

17 MR. BRUCE: -- the unorthodox location is  
18 actually in the southeast/northwest in Unit H.

19 MR. BROOKS: So the bottom hole location  
20 will be in H, rather than G, for the Devonian?

21 MR. BRUCE: For the Devonian. And it will  
22 be approximately 2,500 feet from the north line and  
23 I think about 1,280 from the east line.

24 MR. BROOKS: So the offsetting units to  
25 the nonstandard location are going to be Units F, I

1 and J in Section 7?

2 MR. BRUCE: Well, I and J, not F.

3 MR. BROOKS: Why not F?

4 MR. BRUCE: It doesn't encroach on Unit F.  
5 It's only 1,400 feet from the east line.

6 MR. BROOKS: Well, I thought you said that  
7 the bottom hole location was going to be in Unit G?

8 MR. BRUCE: Mr. Examiner, for this well --

9 MR. BROOKS: Or Unit H? Where is the  
10 bottom hole location going to be?

11 MR. BRUCE: The bottom hole location in  
12 the Devonian only will be in Unit H. But you said,  
13 "Unit F." So it should be G, I and J; not F.

14 MR. BROOKS: Okay, I understand that. I'm  
15 sorry. I said "F," and I should have said "G."  
16 It's G, I and J are the offsetting units?

17 MR. BRUCE: In the Devonian.

18 MR. BROOKS: In the Devonian.

19 MR. BRUCE: As to other uphole zones that  
20 are oil, the offsetting units will be H, I and J.

21 MR. BROOKS: Okay. Now, is the ownership  
22 of the working interest uniform as to Units G, H, I  
23 and J in Section 7?

24 THE WITNESS: Yes, they are.

25 MR. BROOKS: And is that true in all

1 formations?

2 THE WITNESS: Yes, sir.

3 MR. BROOKS: Thank you. That's what I  
4 needed to know.

5 Now, let me go to Case No. 14534. That  
6 will be what exhibit number?

7 MR. BRUCE: Exhibit 3, Mr. Examiner.

8 MR. BROOKS: Exhibit 3? Okay. Yeah, it  
9 looks like 145311, but I realize that's probably  
10 something you didn't get copied. Something didn't  
11 come out on the copy. Okay.

12 This well is located in Unit G of  
13 Section 1, correct?

14 THE WITNESS: Correct.

15 MR. BROOKS: And the drilling pattern is  
16 the same, i.e., it's going to be a horizontal in the  
17 Mississippian and a vertical in other formations in  
18 which it might be completed?

19 THE WITNESS: Yes, sir.

20 MR. BROOKS: Okay. And the project area  
21 for the horizontal is in Section 1 of 12 South, 28  
22 East? It's Units G, H, I and J?

23 And in Section 6 of 12 South, 29 East,  
24 it's Units E, F, K and L; is that correct?

25 THE WITNESS: That's correct.

1                   MR. BROOKS: And that's a 320-acre  
2 nonstandard unit. But it's nonstandard in  
3 configuration, not in size, correct? So it's  
4 320-acre spacing?

5                   THE WITNESS: That's correct.

6                   MR. BROOKS: Okay. Now, as to then the  
7 nonstandard unit aspects, the surface location is in  
8 Unit G of Section 1, correct?

9                   THE WITNESS: Yes, sir.

10                  MR. BROOKS: And it's nonstandard to the  
11 south, but it's not nonstandard to the east or west,  
12 correct?

13                  THE WITNESS: That's correct.

14                  MR. BROOKS: Now, that surface location,  
15 is the same thing going to be true of the bottom  
16 hole locations in the units that might be completed  
17 on 40 acres?

18                  THE WITNESS: I believe the bottom hole  
19 location is standard, which is 1,980 on the south  
20 and the west.

21                  MR. BRUCE: Mr. Ball, the surface  
22 location.

23                  THE WITNESS: Oh. I thought he said,  
24 "bottom hole."

25                  MR. BROOKS: Yeah. I was asking about the

1 bottom hole location because, you know, a  
2 nonstandard surface location does not require an  
3 exception. So unless you're trying to complete in a  
4 formation in which it will be nonstandard, then you  
5 don't need a nonstandard location.

6 Well, if you plan to complete a formation  
7 and any part of the hole and that formation is a  
8 nonstandard, then you need a nonstandard location  
9 approval.

10 But only the surface location or location  
11 in formations in which you're not going to have the  
12 hole opened or completed then doesn't require  
13 nonstandard location approval. That's why I'm  
14 asking the question the way I am.

15 MR. BRUCE: Well, the surface location,  
16 that is the pilot hole location --

17 MR. BROOKS: Right.

18 MR. BRUCE: -- is unorthodox as to any oil  
19 zone.

20 MR. BROOKS: Right. And it may be  
21 completed as to oil zones as to which it's  
22 unorthodox?

23 MR. BRUCE: That is correct.

24 MR. BROOKS: Okay. But the only  
25 encroachments as from the surface location, at least

1 the only encroachment, is toward Unit I in  
2 Section 1, correct?

3 MR. BRUCE: J.

4 THE WITNESS: J.

5 MR. BROOKS: Okay, J. I stand corrected.

6 The only encroachment is toward Unit J in  
7 Section 1?

8 THE WITNESS: That's correct.

9 MR. BROOKS: And so here comes my question  
10 then: Is ownership of the working interest  
11 identical as between Units G and J in Section 1,  
12 12 South, 28 East?

13 THE WITNESS: Yes, sir, it is.

14 MR. BROOKS: And is that true for all  
15 formations?

16 THE WITNESS: Yes, sir.

17 MR. BROOKS: Okay. Now, let's talk about  
18 the unorthodox spacing units or proration units that  
19 you are requesting. And once again, that only  
20 applies in Cases No. 14528 and 14534; is that  
21 correct?

22 THE WITNESS: That's correct, sir.

23 MR. BROOKS: And this is in the  
24 Mississippian?

25 THE WITNESS: Yes, sir.

1           MR. BROOKS: Okay. Now, I foresee that  
2 these are problem situations. Because if you cut  
3 out four units in this way out of the middle of two  
4 sections, then it's going to be very difficult for  
5 anybody to form standard spacing units in that  
6 pattern.

7           So it's important that we have  
8 notification all the way around. Do you have  
9 notification all the way around to the extent that  
10 there's not other ownership?

11           MR. BRUCE: I think I asked Mr. Ball this  
12 question. But Mr. Ball confirmed that if you just  
13 look at the Loving Well, that the interest owners in  
14 Sections 7 and 8 surrounding the nonstandard unit  
15 are also all the same interest owners within the  
16 nonstandard unit.

17           THE WITNESS: Yes.

18           MR. BROOKS: Okay. And is the same thing  
19 true of Section 1 of 12 South, 28 East, and  
20 Section 6 of 12 South, 29 East, in Case No. 14534?

21           THE WITNESS: If what you're saying is,  
22 you take the 320 project area of this well, the  
23 Goodnight, and if I was to take exact 320s all the  
24 way around, it's not the same leasehold owners.

25           Because you can see there in Section 36 we

1 have plantation. And going around, it looks like  
2 it's all Devon until another area to the south,  
3 where it says "Crystal" and "Chase."

4 MR. BRUCE: Just as to Sections 1 and 6,  
5 Mr. Ball, are the interest owners the same?

6 THE WITNESS: Yes, they are.

7 MR. BROOKS: And I'm inclined to think  
8 that's all we would require, because the owners up  
9 in Section 36 could form standard units.

10 The owners in Section 6 can only develop  
11 their acreage -- if there's any desire to develop in  
12 the Mississippian, the acreage in Section 6, then  
13 there's going to have to be some more nonstandard  
14 units created there.

15 But I do not see that the owners in  
16 Section 36 are adversely affected.

17 MR. BRUCE: There's one other thing.

18 Mr. Ball, do the leases from the fee  
19 owners in these two wells, have they executed  
20 provisions of the lease form that allows you to form  
21 a nonstandard unit for purposes of these horizontal  
22 tests?

23 THE WITNESS: Yes. We obtained waivers or  
24 have agreed to obtain waivers in the case of the  
25 Pure and Chisos. We are wrapping up the paperwork.



1 But they are aware that we've done a waiver from the  
2 lease form that allows us to go across section  
3 lines. And of course, they're very much aware of  
4 everything in this well here.

5 MR. BROOKS: Okay. Who are the working  
6 interest owners in those units? Are those the same  
7 ones, Chisos and Samedan?

8 THE WITNESS: The only working interest  
9 owners will be Chisos, for part of their interest,  
10 Chisos, Ltd. --

11 MR. BROOKS: Right.

12 THE WITNESS: -- Devon, and a person named  
13 D.K. Boyd.

14 MR. BROOKS: And do you have a waiver from  
15 Mr. Boyd?

16 THE WITNESS: Yes.

17 MR. BROOKS: Okay. Can you file copies of  
18 those waivers in this case so we can be sure that  
19 we're --

20 MR. BRUCE: Yes, sir.

21 MR. BROOKS: -- taken care of on the  
22 notice requirements there?

23 Because in the case of compulsory pooling,  
24 by rule, if the parties have joined by contract,  
25 they don't have to be notified, so we don't have

1     that issue.

2                   But we do have that issue as to the  
3     nonstandard units. So if notice is not necessary  
4     because of the waiver, then we need the waivers to  
5     be filed.

6                   I think I've taken care of all my  
7     concerns. Sorry it took so long.

8                   THE EXAMINER: I appreciate that. Thank  
9     you.

10                  Mr. Ball, on the Goodnight No. 1, that's  
11     the second well that we're talking about on  
12     Exhibit 3, page 2?

13                  THE WITNESS: Yes, sir.

14                  THE EXAMINER: I'm curious as to why  
15     you're dipping down to the southeast with that well  
16     and not just going --

17                  THE WITNESS: I think, if it's all right,  
18     if I let our geologist, who's going to testify in a  
19     minute. But I think it's probably a science reason  
20     that he will go over.

21                  THE EXAMINER: Have you had enough fun for  
22     the morning? It's times like this when I'm glad  
23     Mr. Brooks is here, because I've got all these  
24     questions for him when I go to write these up.

25                  All right. I don't think there's any more

1 questions of this witness.

2 MR. BRUCE: Okay. I call Mr. McKinney to  
3 the stand.

4 CURTIS D. MCKINNEY,  
5 having been previously duly sworn, testified as  
6 follows:

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

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

11 A. Curtis D. McKinney.

12 Q. Where do you reside?

13 A. Oklahoma City.

14 Q. And who do you work for?

15 A. Devon Energy Corporation.

16 Q. What is your job with Devon?

17 A. Petroleum geologist.

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

20 A. I have.

21 Q. And were your credentials as an expert  
22 petroleum geologist accepted as matter of record?

23 A. Yes.

24 Q. And are you familiar with the geology  
25 involved in these applications?

1           A.     Yes.

2                   MR. BRUCE:  Mr. Examiner, I request that  
3   Mr. McKinney be recognized as an expert petroleum  
4   geologist.

5                   THE EXAMINER:  Mr. McKinney is so  
6   recognized.

7           Q.     (By Mr. Bruce)  Mr. McKinney, you have two  
8   exhibits.  Would you just first explain why you  
9   broke them up into two exhibits?

10          A.     I'm trying to minimize the paperwork and,  
11   you know, get them coordinated geographically so  
12   that we could, you know, work through this  
13   information, a lot of the information here, as  
14   efficiently as possible.

15          Q.     And for what wells does Exhibit 9 apply?

16          A.     There's a label in the lower right-hand  
17   corner.  It's Case 14528, Loving 7 Fee No. 1; and  
18   Case 14535, the Longhorn 28 Fee No. 1.

19          Q.     And why don't you run through these  
20   exhibits and discuss in particular what you are  
21   seeking, first with respect to the Mississippian  
22   development?

23          A.     All right.  There's three sheets attached  
24   as part of Exhibit 9.  The front sheet is a subsea  
25   structure map on the Mississippian.  These are all

1 in 10 South, 29 East.

2 In the upper left of the map, you see the  
3 red rectangle. That's the proposed horizontal  
4 proration unit for the Loving 7 Fee No. 1.

5 The well itself, the surface location, is  
6 designated by the open black circle and the black  
7 horizontal line. Heading off to the east is the  
8 path of the horizontal proposed path.

9 And you can see there's a fault associated  
10 with that proration unit. And we've located this  
11 well, for purposes of the Mississippian, on the  
12 upthrown side of that fault.

13 And we'll be drilling that well -- the  
14 pilot hole will be drilled as has been discussed  
15 previously. It will be slightly directionally  
16 drilled to move it a little bit away from the fault  
17 for the bottom hole objective, which would be the  
18 Devonian oil, as previously discussed.

19 But our primary objective is the gas  
20 potential in the Mississippian. That's what this  
21 exhibit addresses.

22 And the wells are labeled with the subsea  
23 structure value for the Mississippian top. And  
24 beneath the wells, in blue, generally beneath it, if  
25 there was an overspotting problem, it may shift a

1 little bit, but that's the overall isopach thickness  
2 of the Mississippian.

3 So this exhibit is meant to demonstrate  
4 that the Mississippian across this area, from the  
5 northwest part of the map down to the southeast  
6 part, is generally 500 feet or thicker. And so it's  
7 present across the area, and that's one objective of  
8 this exhibit.

9 The other would be just to show why we are  
10 locating these wells and proposing these proration  
11 units as we are. It has to do with the faults and  
12 where the structure lies.

13 Let's see. Then also on that exhibit  
14 you'll see that dashed line. That's just a line of  
15 cross-section that I prepared just to demonstrate  
16 what the zone actually looks like on logs.

17 This area has got a lot of older wells in  
18 it, so the logs are stuff that you would find from  
19 the '50s, generally. I hope this is not too small.  
20 I heard your comment earlier.

21 This is a two-well section. But basically  
22 the cross-section demonstrates in blue, I've  
23 highlighted the Mississippian section. And you will  
24 see there's 540-plus feet of it.

25 These two wells actually demonstrate that

1 the Mississippian has been tested in the area and shown  
2 to have some gas. It wasn't commercial. We're  
3 hoping to greatly improve on that with horizontal  
4 wells.

5 And I've also noted with red dashed lines  
6 to indicate the upper part of the Mississippian.  
7 That's actually our objective with our horizontal  
8 wellbores.

9 And then overlying it would be the  
10 Atoka/Morrow section. And underlying it, below that  
11 blue line that you see, that's the Siluro/Devonian  
12 section that we're going to test also with our pilot  
13 hole.

14 And then the final part of Exhibit 9, the  
15 last page, is very much a look-alike practically to  
16 the Mississippian structure. This is all pretty  
17 conformable stuff. This is a map of the top of the  
18 Siluro/Devonian.

19 And again, the one oddity really is up  
20 there in the northwest part of the map, associated  
21 with our Loving 7 Fee Well location. You'll see  
22 those two red squares. Those are those proration  
23 units that were discussed previously.

24 And there's two of them because as our  
25 counsel said, the surface hole will be assigned

1 to -- we're applying for assignment to a proration  
2 unit. That would be the southwest of the northeast.  
3 And then the Devonian, we're applying to be assigned  
4 there to the southeast of the northeast.

5 And then the other well, as shown on this  
6 exhibit to the southeast, is our Longhorn 28 Fee  
7 No. 1 Well, which is Case No. 14535.

8 And that's quite a bit more standard  
9 again, though we're staying on the upfront side of  
10 the fault. And so the lateral is a little bit  
11 shorter there because of trying to stay within  
12 Section 28, you have a standard unit.

13 Q. And again, in the Loving Well, the  
14 Devonian was directionally drilling it slightly to  
15 the east, just to make sure you're away from that  
16 fault?

17 A. That's correct.

18 Q. What is Exhibit 10?

19 A. Exhibit 10 is very similar to what we just  
20 went through. I'll go through it also. It's again  
21 to consolidate geographically and for efficiency.  
22 I've got three case numbers represented on here.

23 In the south, the first page of this  
24 three-page Exhibit No. 10 is the Mississippian  
25 subsea structure. Again, you can see the fault



1 shown in blue, downthrown to the northwest.

2 And our Goodnight Fee No. 1, which is Case  
3 No. 14534, will be located again, the same sort of  
4 designation, with the open circle showing the  
5 surface location. And the black line, moving off to  
6 the to the east, will be the lateral.

7 And the proposed proration unit is being  
8 shown by the red rectangle for that Mississippian  
9 gas proposal.

10 And the same is true for the other.  
11 That's the one that has the nonstandard related to  
12 the Siluro/Devonian, which we'll get to in just one  
13 moment.

14 Again, I've got a little dotted line to  
15 show a three-well cross-section. And also  
16 designated on this in this particular area -- and  
17 now we're down to, I believe, 11 South and 12 South,  
18 29 East. So we've moved a bit south.

19 There is some production down here, and  
20 that's indicated by the color coding. It's either  
21 Devonian oil or Mississippian gas. So there is some  
22 Mississippian gas production in the area of these  
23 wells, actual sales.

24 And then the three-well cross-section,  
25 similar to the one I described before, again with

1 the Mississippian shown in blue. Here again the  
2 Mississippian is present across the area from just  
3 about 500 feet thick to over 600 feet thick.

4 Again, this Siluro/Devonian section is  
5 shown at the base of the cross-section, highlighted  
6 in green. And we're overlaying by the Atoka/Morrow  
7 section above the Mississippian.

8 Also, similar to the last cross-section,  
9 the upper part of the Mississippian, highlighted by  
10 the red dashed horizontal lines, that's where we'll  
11 try to land our horizontal.

12 And then the last exhibit or the last page  
13 of this Exhibit 10 is a map on the Siluro/Devonian.  
14 Again, the fault shown is in blue. Everything is  
15 the same as the previous one, except that now we've  
16 got a 40-acre proposed proration unit.

17 And you can see, at this scale, it looks  
18 like we're right on the line. We're actually -- I  
19 think we're about 40 or 80 feet inside the line, but  
20 certainly nonstandard. That will be the proration  
21 unit we're trying to assign to this proposed well  
22 for the Devonian.

23 Q. And again, for the Goodnight No. 1 in  
24 Section 1, you moved the well to the south to avoid  
25 that fault in the Devonian?

1 A. That's correct.

2 Q. In your opinion, will each quarter section  
3 attributed to the Mississippian horizontal be  
4 productive in the Mississippian?

5 A. That's our thesis, yes.

6 Q. And could you describe just briefly -- you  
7 did arrange to e-mail the directional drilling plans  
8 to the Examiner last night. But could you explain  
9 briefly how the horizontal portion of the wellbore  
10 will be drilled and completed?

11 A. In each case, with the slight exception of  
12 this on Exhibit 9, the Loving Well, which was  
13 previously described, we're directionally drilling  
14 that pilot hole slightly.

15 But in each case, every well will have a  
16 pilot hole. We'll drill down on top of the San  
17 Andres in each case roughly 2,200 feet, set our  
18 intermediate. And then drill down, tag into the  
19 Siluro/Devonian 25 or 40 feet, depending upon what  
20 the well tells us, and then we'll log that portion.

21 Then we will plug back and kick off  
22 somewhere around 5,700 feet or so near the base of  
23 the Abo section and directionally drill these  
24 wells -- I think it's 10 degrees per 100 build --  
25 and land these in this upper portion of the

1     Mississippian, and then take them out to a legal  
2     location at the edge of the proposed proration unit.

3             Roughly, you know, measured depth, that's  
4     going to vary with each well from 11,100 to -- I  
5     think in one case, it may be over 13,000 feet. And  
6     that will be the end of that well.

7             And then we will set 7-inch casing to the  
8     base of the curve. And after we drill the lateral,  
9     we'll attempt an open-hole acid frac completion in  
10    the Mississippian for gas. Hopefully, we'll  
11    encounter a fractured section.

12            Q.     Were Exhibits 9 and 10 prepared by you or  
13    under your supervision?

14            A.     They were prepared by me.

15            Q.     And in your opinion, is the granting of  
16    these applications in the interest of conservation  
17    and the prevention of waste?

18            A.     Yes.

19            MR. BRUCE: Mr. Examiner, I'd move the  
20    admission of Exhibits 9 and 10.

21            THE EXAMINER: Exhibits 9 and 10 are  
22    admitted.

23            (Devon Exhibits 9 and 10 were admitted.)

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

1 THE EXAMINER: Thank you.

2 Mr. Brooks.

3 MR. BROOKS: Are you going to have an  
4 engineering witness, Mr. Bruce?

5 MR. BRUCE: No, sir, we're not.

6 MR. BROOKS: So any technical questions  
7 will be addressed to this witness.

8 As I understood you describe your drilling  
9 plan, the kickoff point is not going to be in the  
10 Mississippian formation? It will be in the Abo  
11 formation; is that correct?

12 THE WITNESS: I think that's where we will  
13 start the build, yes.

14 MR. BROOKS: And you know, first off,  
15 these pilot hole -- and this question arose because  
16 when we were discussing the first case, I believe  
17 that it's 14528, Mr. Bruce indicated that the bottom  
18 hole location of the pilot hole in the Devonian was  
19 going to be different from the surface location.

20 THE WITNESS: Yes, sir.

21 MR. BROOKS: And is that going to be true  
22 in the other wells?

23 THE WITNESS: No.

24 MR. BROOKS: All the other wells will be  
25 vertical?

location of 150 feet from the North line and 1980 feet from the West line and bottomhole location of 330 feet from the South line and 1980 feet from the West line of said Section 35. Applicant seeks to dedicate the E/2 W/2 of Section 35 to the well to form a non-standard 160-acre spacing and proration unit for any formations and/or pools developed on 160 acres or less within the vertical extent, including the Wolfcamp formation. The subject lands are located approximately 7 miles Northwest of Loco Hills, New Mexico.

10.

CASE 14528: (Continued and Readvertised)

*Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, unorthodox oil well locations, and compulsory pooling, Chaves County, New Mexico.* Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, Township 10 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests underlying the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, and in the following manner: (i) the SW/4 NE/4 of Section 7, from the surface to the base of the Morrow formation, to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; (ii) the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, from the surface to the base of the Mississippian formation, to form a non-standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent; and (iii) the Siluro-Devonian formation underlying the SE/4 NE/4 of Section 7 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent. The units are to be dedicated to the Loving 7 Fee Well No. 1, to be drilled vertically at an unorthodox surface location 2500 feet from the North line and 1400 feet from the East line of Section 7, to test the Siluro-Devonian formation at a bottomhole location approximately 2500 feet from the North line and 1280 feet from the East line of Section 7, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2500 feet from the North line and 1100 feet from the East line of Section 7, and a terminus 2500 feet from the North line and 1980 feet from the West line of Section 8. Applicant also seeks approval of the unorthodox oil well locations in the SW/4 NE/4 and SE/4 NE/4 of Section 7. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 18 miles West-Northwest of Caprock, New Mexico.

11.

CASE 14534: (Readvertised)

*Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, an unorthodox oil well location, and compulsory pooling, Chaves County, New Mexico.* Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 of Section 6, Township 12 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests from the surface to the base of the Siluro-Devonian formation underlying the above described lands, and in the following manner: (i) the SW/4 NE/4 of Section 1 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; and (ii) the S/2 NE/4 and N/2 SE/4 of Section 1 and the S/2 NW/4 and N/2 SW/4 of Section 6 to form a non-standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent. The units are to be dedicated to the Goodnight 1 Fee Well No. 1, to be drilled vertically at an unorthodox location 2585 feet from the North line and 1980 feet from the East line of Section 1, to test the Siluro-Devonian formation, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2585 feet from the North line and 1680 feet from the East line of Section 1 and a terminus 1980 feet from the South line and 1980 feet from the West line of Section 6. Applicant also seeks approval of an unorthodox oil well location in the SW/4 NE/4 of Section 1. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 19 miles east-northeast of Dexter, New Mexico.

location of 150 feet from the North line and 1980 feet from the West line and bottomhole location of 330 feet from the South line and 1980 feet from the West line of said Section 35. Applicant seeks to dedicate the E/2 W/2 of Section 35 to the well to form a non-standard 160-acre spacing and proration unit for any formations and/or pools developed on 160 acres or less within the vertical extent, including the Wolfcamp formation. The subject lands are located approximately 7 miles Northwest of Loco Hills, New Mexico.

10.

CASE 14528: (Continued and Readvertised)

*Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, unorthodox oil well locations, and compulsory pooling, Chaves County, New Mexico.* Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, Township 10 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests underlying the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, and in the following manner: (i) the SW/4 NE/4 of Section 7, from the surface to the base of the Morrow formation, to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; (ii) the S/2 NE/4 and N/2 SE/4 of Section 7 and the S/2 NW/4 and N/2 SW/4 of Section 8, from the surface to the base of the Mississippian formation, to form a non-standard 320-acre gas spacing and proration unit for any formations and/or pools developed on 320-acre spacing within that vertical extent; and (iii) the Siluro-Devonian formation underlying the SE/4 NE/4 of Section 7 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent. The units are to be dedicated to the Loving 7 Fee Well No. 1, to be drilled vertically at an unorthodox surface location 2500 feet from the North line and 1400 feet from the East line of Section 7, to test the Siluro-Devonian formation at a bottomhole location approximately 2500 feet from the North line and 1280 feet from the East line of Section 7, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2500 feet from the North line and 1100 feet from the East line of Section 7, and a terminus 2500 feet from the North line and 1980 feet from the West line of Section 8. Applicant also seeks approval of the unorthodox oil well locations in the SW/4 NE/4, and SE/4 NE/4 of Section 7. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 18 miles West-Northwest of Caprock, New Mexico.

11.

CASE 14534: (Readvertised)

*Application of Devon Energy Production Company, L.P. for a non-standard gas spacing and proration unit, an unorthodox oil well location, and compulsory pooling, Chaves County, New Mexico.* Devon Energy Production Company, L.P. seeks an order approving a 320-acre non-standard gas spacing and proration unit (project area) in the Mississippian formation comprised of the S/2 NE/4 and N/2 SE/4 of Section 1, Township 12 South, Range 28 East, NMPM, and the S/2 NW/4 and N/2 SW/4 of Section 6, Township 12 South, Range 29 East, NMPM. Applicant further seeks the pooling of all mineral interests from the surface to the base of the Siluro-Devonian formation underlying the above described lands, and in the following manner: (i) the SW/4 NE/4 of Section 1 to form a standard 40-acre oil spacing and proration unit for any formations and/or pools developed on 40-acre spacing within that vertical extent; and (ii) the S/2 NE/4 and N/2 SE/4 of Section 1 and the S/2 NW/4 and N/2 SW/4 of Section 6 to form a non-standard 320-acre gas spacing and proration unit for all formations and/or pools developed on 320-acre spacing within that vertical extent. The units are to be dedicated to the Goodnight 1 Fee Well No. 1, to be drilled vertically at an unorthodox location 2585 feet from the North line and 1980 feet from the East line of Section 1, to test the Siluro-Devonian formation, and then drilled horizontally in the Mississippian formation with an entry point in the Mississippian formation approximately 2585 feet from the North line and 1680 feet from the East line of Section 1 and a terminus 1980 feet from the South line and 1980 feet from the West line of Section 6. Applicant also seeks approval of an unorthodox oil well location in the SW/4 NE/4 of Section 1. Also to be considered will be the cost of drilling and completing the well and the allocation of the cost thereof, as well as actual operating costs and charges for supervision, designation of applicant as operator of the well, and a 200% charge for the risk involved in drilling and completing the well. The units are located approximately 19 miles east-northeast of Dexter, New Mexico.

1 THE WITNESS: Yes, that's right.

2 MR. BROOKS: All right. As close as --  
3 and I understand there's no such thing as a vertical  
4 well.

5 THE WITNESS: As we all understand  
6 vertical, right.

7 MR. BROOKS: Okay. Now, what we need, and  
8 we probably need this only because we state these  
9 things and keep account of them. But we will need  
10 you to supply us with an estimate of the footage  
11 locations of the point of penetration into the  
12 Mississippian for each of these wells.

13 Now, I don't think that anything would  
14 have to be done, so far as changing the order, if  
15 you miss the estimate, which probably will happen to  
16 some extent, as long as both the estimated and the  
17 actual point of penetration are within the producing  
18 area. So it's not an outstanding --

19 THE WITNESS: I believe we submitted that  
20 as part of our ATD --

21 MR. BROOKS: Now, do you have that  
22 information in the materials --

23 THE WITNESS: It's in the ATD. I'm not  
24 sure it's in the materials. But we have it, and I  
25 can get them to you probably today.



1 MR. BROOKS: Okay. I think that's all I  
2 have, Mr. Warnell.

3 THE EXAMINER: Okay, all right.  
4 Mr. McKinney, let's talk a little bit more. You  
5 said you're going to start in the Abo?

6 THE WITNESS: More or less, yes. That's  
7 the plan.

8 THE EXAMINER: And make your bend into the  
9 Mississippian. You're going to be setting 7-inch?

10 THE WITNESS: At the base of the curve,  
11 that is correct.

12 THE EXAMINER: At the base of the curve.  
13 And then it will be open hole completion beyond  
14 that?

15 THE WITNESS: Yes, sir. Well, it's  
16 uncemented, I should say. We won't cement. We'll  
17 put a slotted liner down there.

18 THE EXAMINER: I don't believe I have any  
19 more questions at this time.

20 MR. BRUCE: Mr. Examiner, I'd ask you to  
21 take these matters under advisement, except for  
22 Case 14528, which needs to be continued to  
23 September 16th, in order to take care of an error in  
24 the advertisement which was corrected a couple of  
25 weeks ago. So it doesn't need to be continued

1 longer than that.

2 THE EXAMINER: Okay. We're going to  
3 supplement the record with the point of penetration.

4 And you asked for something else, didn't  
5 you?

6 MR. BROOKS: I don't recall. Did I ask  
7 for anything else? I mean the record will reflect  
8 if I did. I don't remember. I think I was just  
9 clarifying most of the stuff, and it seems to be in  
10 there.

11 THE WITNESS: Mr. Examiner, we'll submit  
12 those to you in an explicit form. But I believe  
13 that yesterday we e-mailed you our directional plan,  
14 and it's written in there.

15 THE EXAMINER: It's in there?

16 THE WITNESS: It's kind of buried in  
17 there. So we may just submit another simple written  
18 to make it very clear. But it's in there. You just  
19 have to dig.

20 THE EXAMINER: Okay, good. So we'll  
21 continue Case 14528 to September 16th. And we will  
22 take under advisement Case Nos. 14534, 14535, 14536,  
23 and 14537.

24 (The hearing concluded at 10:06 a.m.)

25 I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. \_\_\_\_\_  
heard by me on \_\_\_\_\_

1 STATE OF NEW MEXICO

2 COUNTY OF SANTA FE

3

4

5 REPORTER'S CERTIFICATE

6 I, Paul Baca, New Mexico Certified Court  
7 Reporter No. 112, do hereby certify that I reported  
8 the foregoing proceedings in stenographic shorthand,  
9 that I did administer the oath to the witness, and  
10 that the foregoing pages are a true and correct  
11 transcript of those proceedings and was reduced to  
12 printed form under my direct supervision.

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

17

18

19



PAUL BACA

20 Certified Court Reporter No. 112

21 License Expires: 12/31/2010

22

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