

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

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: ) CASE NOS. 11,845  
) 11,846  
APPLICATIONS OF DEVON ENERGY ) and 11,847  
CORPORATION (NEVADA) FOR LEASE ) (Consolidated)  
COMMINGLING, EDDY COUNTY, NEW MEXICO )  
\_\_\_\_\_ )

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

September 4th, 1997

SEP 18 1997

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, September 4th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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## I N D E X

September 4th, 1997  
Examiner Hearing  
CASE NOS. 11,845, 11,846 and 11,847 (Consolidated)

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## A P P E A R A N C E S

## FOR THE DIVISION:

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## FOR THE APPLICANT:

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\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 11:05 a.m.:

3           EXAMINER CATANACH: At this time we'll call Case  
4 11,845.

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

8           EXAMINER CATANACH: Call for appearances in this  
9 case.

10          MR. BRUCE: Mr. Examiner, Jim Bruce from Santa  
11 Fe, representing the Applicant. I have one witness.

12           And at this time I'd request that the next two  
13 cases be consolidated with this for purposes of hearing.

14          EXAMINER CATANACH: Okay, we'll call Case 11,846  
15 and 11,847.

16          MR. CARROLL: Both those cases are captioned  
17 Application of Devon Energy Corporation (Nevada) for lease  
18 commingling, Eddy County, New Mexico.

19          EXAMINER CATANACH: I'll call for additional  
20 appearances in any of these cases.

21           Will the witness please stand to be sworn in?

22           (Thereupon, the witness was sworn.)

23          MR. BRUCE: Mr. Examiner, when you're looking at  
24 the exhibits, there's four exhibits, 1A, B and C; 2A, B and  
25 C; et cetera. The A exhibits pertain to Case 11,845; the B

1 exhibits, 11,846; and the C exhibits, Case 11,847.

2 ERNEST L. BUTTROSS, JR.,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

8 A. My name is Ernest L. Buttross, Jr.

9 Q. And where do you reside?

10 A. I reside in Edmond, Oklahoma.

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

12 A. I'm a petroleum engineer for Devon Energy

13 Corporation.

14 Q. Have you previously testified before the Division  
15 as a petroleum engineer?

16 A. Yes, I have.

17 Q. And were your credentials accepted as a matter of  
18 record?

19 A. Yes.

20 Q. And are you familiar with these three  
21 Applications here today?

22 A. Yes, I am.

23 Q. And does your area of responsibility include  
24 production operations on these leases?

25 A. Yes, it does.

1 MR. BRUCE: Mr. Examiner, I tender Mr. Buttross  
2 as an expert petroleum engineer.

3 EXAMINER CATANACH: He is so qualified.

4 Q. (By Mr. Bruce) Briefly, what is that Devon seeks  
5 in these Applications?

6 A. Devon seeks authority to commingle Red Lake  
7 Queen-Grayburg-San Andres production from certain leases  
8 without having to separately meter production from each  
9 well.

10 Q. Would you refer to the exhibits marked 1A, 1B and  
11 1C and briefly identify those for the Examiner?

12 A. Yes. Exhibits 1A, 1B and 1C are land plats of  
13 the area, with the affected leases shaded. The lease  
14 numbers are set forth on the plats. The wells that are  
15 affected are also marked on these plats.

16 Q. Okay. On Exhibits 1A and 1B the tracts are  
17 outlined, and then on Exhibit 1C the leases that are of  
18 interest are the ones that are colored in; is that correct?

19 A. That's correct.

20 Q. Has Devon drilled all of these wells which are  
21 affected by these Applications?

22 A. All but three of the wells have been drilled.

23 Q. Let's move on. Briefly, what are Exhibits 2A, 2B  
24 and 2C?

25 A. Exhibits 2A, 2B and 2C consist of copies of

1 Devon's Division Order sheets listing the interest owners  
2 in each lease.

3 Devon is the only working interest owner in each  
4 lease except for leases LC-065478-B and NM-025604, where  
5 Devon and Altura Energy each own one-half of the working  
6 interest. The remaining people are override owners.

7 These are all federal leases, so the only royalty  
8 owner is the USA.

9 Q. And the reason we're here today is because of  
10 these differences in overriding royalty ownership which  
11 require this hearing; is that correct, Mr. Buttross?

12 A. Yes, that's correct.

13 Q. Let's discuss your commingling plan.

14 If I could refer you to Exhibits 3A, 3B and 3C,  
15 could you just identify what those are and discuss how you  
16 plan to measure production from each of the leases?

17 A. Right. Exhibits 3A, 3B and 3C list the wells and  
18 leases and shows each proposed battery. The battery will  
19 have a test treater to allow individual wells to be tested.

20 The oil will be tested by measuring the oil in a  
21 test tank. Gas will be measured by means of an orifice  
22 meter. Plans are to test each well at least once a month.

23 Q. Okay. And these exhibits, Exhibits 3A, 3B and  
24 3C, were submitted to and approved by the Bureau of Land  
25 Management?

1 A. Yes, they were.

2 Q. The procedure that you just mentioned -- And  
3 there is a flow sheet attached to each of these exhibits,  
4 is there not?

5 A. That's correct.

6 Q. In your opinion will this procedure accurately  
7 measure production from each well?

8 A. Yes, it will.

9 Q. And will the granting of this Application result  
10 in substantial cost savings to the interest owners in these  
11 wells?

12 A. Yes.

13 Q. Was notice of these Applications sent to the  
14 interest owners as required by Division rules?

15 A. Yes.

16 Q. And Exhibits 4A, 4B and 4C are copies of your  
17 affidavits of notice?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, the certified return  
20 receipts are all just attached to Exhibit 4C. There are  
21 quite a few of them. And those certified return receipts  
22 apply to all the Applications. I didn't sort them out by  
23 lease.

24 Q. (By Mr. Bruce) Mr. Buttross, in your opinion  
25 will the granting of this Application be in the interests

1 of conservation and the prevention of waste?

2 A. Yes, it will.

3 Q. And were Exhibits 1 through 4 prepared by you,  
4 under your direction, or compiled from company business  
5 records?

6 A. Yes, they were.

7 MR. BRUCE: Mr. Examiner, I would tender for  
8 admission Exhibits 1A through 4C.

9 EXAMINER CATANACH: Exhibits 1A through 4C will  
10 be admitted as evidence.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Buttross, the leases that we're talking about  
14 on Exhibit 1A are the ones outlined in black marker?

15 A. That's correct.

16 Q. Okay.

17 A. Each one -- On each exhibit, these are the  
18 separate batteries that we're talking about.

19 Q. Now, some of these leases extend beyond the  
20 boundaries of the black marker. Is it not your intent to  
21 commingle the wells outside that area?

22 A. Well, these are the only wells at the moment that  
23 we plan to drill on those leases.

24 There could be some future wells, if the lease  
25 extends outside this area, that may be commingled in the

1 future, but we haven't got any others drilled at this time.

2 Q. Well, for instance, on Exhibit A in the green  
3 portion, there's Well Numbers 78, 72, 46. What are those  
4 wells?

5 A. Those wells are inside the West Red Lake Unit.  
6 There's a waterflood unit just to the north that those  
7 wells are part of. So that's --

8 Q. So they're unaffected by this --

9 A. Right, that would be unaffected.

10 Q. All of these are federal leases?

11 A. Yes, sir, they're all federal leases.

12 Q. On Exhibit 1B we're talking about the -- again,  
13 the area outlined --

14 A. Outlined in black, yes, sir.

15 Q. And on 1C, the area we're talking about are the  
16 actual colored leases?

17 A. Right the colored leases only.

18 Q. Okay, that doesn't include the area that's  
19 outlined with a red border?

20 A. No, that red border is part of that West Red Lake  
21 Unit that I referenced earlier.

22 Q. Okay, Devon is the working interest owner of all  
23 of these leases, with the exception of the two you cited --

24 A. Right.

25 Q. -- in which you're a partner with Altura?

1 A. Yes, sir.

2 Q. Okay. Now, within each of these areas to be  
3 commingled did you testify that there are differences in  
4 overriding royalty interest owners?

5 A. That's correct, there are some differences in  
6 overriding royalty owners.

7 Q. In each of these Applications?

8 A. Yes, sir.

9 Q. Okay. That's why we had to come to hearing  
10 today?

11 A. That's correct.

12 Q. What kind of production do these wells typically  
13 make?

14 A. They -- After initial potential, some of them  
15 will potential around 80 to 100 barrels a day, but  
16 stabilized producing rates are on the order of about 20, 25  
17 barrels a day.

18 Q. Commingling will result in, did you testify,  
19 substantial savings?

20 A. That's correct.

21 Q. Operating costs?

22 A. Right. Separate tank batteries -- If we had to  
23 build a separate tank battery for each lease, we'd be  
24 looking at an additional \$80,000.

25 Q. Are you satisfied that a monthly test provides

1 enough accuracy to allocate production to these leases?

2 A. Yes, sir. We'll test them more often if we can,  
3 it's just -- We rotate the wells through the tester, and we  
4 should be able to get more than one month of tests, or one  
5 well a month, but we're -- our goal is to get at least one  
6 well tested each month, on each well.

7 Q. Is your production pretty much stable in these  
8 wells?

9 A. Somewhat. It's typical. It will decline at --  
10 You know, there's a natural decline out here, after --  
11 Initial decline is fairly steep, and then after about a  
12 four- or five-month period it levels out at a fairly flat  
13 decline rate.

14 Q. Would you take that into account when you're  
15 testing these wells, maybe test the newer wells in a more  
16 frequent time period?

17 A. Right, we do. The newer ones, we test them quite  
18 regularly right at first, until they stabilize.

19 Q. Has the BLM consented to this?

20 A. Yes, sir, we have their approval.

21 Q. And you've notified Altura and all of the other  
22 overriding royalty interest owners in these leases?

23 A. That's correct, we've notified all of them, and  
24 nobody's had any objection or problem with it.

25 EXAMINER CATANACH: Okay, I have nothing further

1 of this witness.

2 MR. BRUCE: I have nothing further in this  
3 matter.

4 EXAMINER CATANACH: There being nothing further,  
5 Case Numbers 11,845, 11,846 and 11,847 will be taken under  
6 advisement.

7 (Thereupon, these proceedings were concluded at  
8 11:20 a.m.)

9 \* \* \*

10  
11  
12  
13  
14 I do hereby certify that the foregoing is  
15 a complete record of the proceedings in  
the Examiner hearing of Case No. 11845-847  
16 heard by me on September 1997.

17 David R. Catanch, Examiner  
Oil Conservation Division

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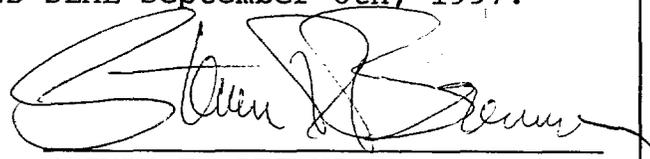
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
COUNTY OF SANTA FE )

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL September 6th, 1997.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 1998