

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

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,778
) (Reopened)
APPLICATION OF DEVON ENERGY PRODUCTION)
COMPANY, L.P., TO REOPEN CASE NO. 12,778)
TO ABOLISH THE SPECIAL RULES AND)
REGULATIONS FOR THE BUFFALO VALLEY-)
PENNSYLVANIAN GAS POOL AND TO TERMINATE)
GAS PRORATIONING IN THE POOL, CHAVES)
COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 2nd, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 2nd, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

OIL CONSERVATION DIV
MAY 16 11:08:15

I N D E X

May 2nd, 2002
 Examiner Hearing
 CASE NO. 12,778

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| APPLICANT'S WITNESSES: | |
| <u>MEG MUHLINGHAUSE</u> (Landman) | |
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| Examination by Examiner Catanach | 8 |
| <u>JAN GLASGOW</u> (Engineer) | |
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* * *

E X H I B I T S

| Applicant's | Identified | Admitted |
|-------------|------------|----------|
| Exhibit 1 | 6 | 8 |
| Exhibit 2 | 6 | 8 |
| Exhibit 3 | 7 | 8 |
| Exhibit 4 | 7 | 8 |
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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Energy, Minerals and Natural Resources Department
Assistant General Counsel
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FOR THE APPLICANT:

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FOR YATES PETROLEUM CORPORATION:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

ALSO PRESENT:

WILL JONES
Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 10:54 a.m.:

3 EXAMINER CATANACH: All right, at this time I
4 will call Case 12,778, which is the reopened Application of
5 Devon Energy Production Company, L.P., to reopen Case No.
6 12,778 to abolish the Special Rules and Regulations for the
7 Buffalo Valley-Pennsylvanian Gas Pool and to terminate gas
8 prorationing in the pool, Chaves County, New Mexico.

9 Call for appearances in this case.

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

12 EXAMINER CATANACH: Any additional appearances?

13 MR. CARR: May it please the Examiner, William F.
14 Carr with the Santa Fe office of Holland and Hart, L.L.P.
15 We represent Yates Petroleum Corporation. I do not have a
16 witness. We're appearing in support of the Application.

17 EXAMINER CATANACH: Okay, will the witnesses
18 please stand to be sworn in?

19 (Thereupon, the witnesses were sworn.)

20 MEG MUHLINGHAUSE,
21 the witness herein, after having been first duly sworn upon
22 her oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and city of

1 residence for the record?

2 A. Meg Muhlinghouse, Edmond, Oklahoma.

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

4 A. Devon Energy Corporation, as a senior landman.

5 Q. Have you previously testified before the
6 Division?

7 A. Yes.

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

10 A. Yes.

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

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I tender Ms.
15 Muhlinghouse as an expert petroleum landman.

16 EXAMINER CATANACH: She is so qualified.

17 Q. (By Mr. Bruce) Briefly, what does Devon seek in
18 this case?

19 A. Devon filed an Application to abolish the special
20 rules for the Buffalo Valley Pennsylvanian Gas Pool. That
21 case was heard on January 10th, 2002. After the hearing,
22 we were informed that the pool was still prorated, so we
23 filed an application to reopen the case to also terminate
24 gas prorationing.

25 Q. What is Exhibit 1?

1 A. Exhibit 1 is a land plat outlining the Buffalo
2 Valley Pool. Also outlined on the map is the Morrow Gas
3 Pool, which is the Diamond Mound-Morrow Gas Pool.

4 Q. That's the only other Morrow Pool near the
5 Buffalo Valley Pool, is it not?

6 A. Yes.

7 Q. Okay. What are the rules in the Buffalo Valley
8 Pool?

9 A. Spacing is 320 acres with wells to be in either
10 the northwest quarter or the southeast quarter of the
11 section, with one well per 320 acres. Also, wells can be
12 no closer than 990 feet to a quarter-section line.

13 Q. What is Exhibit 2?

14 A. Exhibit 2 is a copy of Order Number R-1670-H, the
15 order instituting prorationing for the Buffalo Valley Pool.
16 It also sets forth the spacing requirements for the pool.

17 Q. Now, the order states that wells in the pool are
18 capable of producing in excess of the market demand, and
19 this order was back in 1969. Is that currently a problem
20 in this pool?

21 A. No, we believe that all operators can sell all
22 the gas that they can produce at this time.

23 Q. The order also states that gas was not being
24 taken ratably from wells in the pool. Again, is that a
25 problem today?

1 A. No.

2 Q. What are the spacing rules in the offsetting
3 Diamond Mound-Morrow Pool?

4 A. That pool is on statewide spacing, which allows
5 one well in each quarter section with wells no closer than
6 660 feet to the quarter-section line. The Buffalo Valley
7 rules are more restrictive than the Diamond Mound rules.

8 Q. Is the Diamond Mound Pool prorated?

9 A. No.

10 Q. Is there any reason to have -- From a land
11 standpoint, is there any reason to have different rules for
12 these two pools?

13 A. No.

14 Q. Does Exhibit 1 also identify the operators in the
15 Buffalo Valley Pool?

16 A. Yes, and a listing of the operators is submitted
17 as Exhibit 3, and this list was obtained from the
18 Division's records.

19 Q. Were the operators notified of this hearing?

20 A. Yes.

21 Q. And is Exhibit 4 my affidavit of notice?

22 A. Yes.

23 Q. Have you heard from any of the operators
24 regarding the termination of prorationing?

25 A. Yes, Yates is here today in support of the

1 Application. We also received a call from Snow Oil and
2 Gas, and they have not objected.

3 Q. Were Exhibits 1 through 4 prepared by you or
4 under your supervision or compiled from company business
5 records?

6 A. Yes.

7 Q. And in your opinion is the granting of this
8 Application in the interests of conservation and the
9 prevention of waste?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I'd move the admission
12 of Exhibits 1 through 4.

13 EXAMINER CATANACH: Exhibits 1 through 4 will be
14 admitted as evidence.

15 MR. BRUCE: And I pass the witness.

16 EXAMINATION

17 BY EXAMINER CATANACH:

18 Q. Ms. Muhlinghouse, do you know how many wells
19 there are in this pool?

20 A. In the whole pool? I believe Jan has a listing
21 of --

22 Q. She can provide that list?

23 A. She can provide that information.

24 Q. Now, you've notified all the operators in the
25 pool, and what about those proration units where there was

1 no operator? You didn't notify anybody in those cases?

2 A. No.

3 Q. It looks like the majority of that pool, or a
4 good part of it, is operated by Read and Stevens. Have you
5 talked to them at all?

6 A. No, I have not. They have not objected. I don't
7 remember --

8 MR. BRUCE: I did speak with them briefly on
9 another matter, Mr. Examiner, and they expressed no
10 objection to this.

11 Q. (By Examiner Catanach) Now Ms. Muhlinghouse, you
12 testified that all operators in the pool can sell all their
13 gas. How do you know that to be correct, factual? I mean,
14 is it just the market situation? Is that what you're
15 facing?

16 A. I believe earlier on there was not as much market
17 demand, and now there is more demand, and from what we've
18 looked at, we have not been able to see that anybody's
19 being cut back. They're producing what they can produce.
20 Most of these wells in the Buffalo Valley field have been
21 producing for quite a while.

22 Q. Do you know how many different transporters or
23 purchasers of gas there are in this pool?

24 A. I don't.

25 MR. BRUCE: Our next witness may have some of

1 that information, Mr. Examiner.

2 EXAMINER CATANACH: Okay, I don't have any
3 further questions of Ms. Muhlinghouse. She may be excused.

4 JAN GLASGOW,

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

7 DIRECT EXAMINATION

8 BY MR. BRUCE:

9 Q. Would you please state your name and city of
10 residence?

11 A. Jan Glasgow, Guthrie, Oklahoma.

12 Q. What is your job?

13 A. I'm a senior reservoir engineer for Devon Energy.

14 Q. Have you previously testified before the
15 Division?

16 A. Yes.

17 Q. And were your credentials as an expert reservoir
18 engineer accepted as a matter of record?

19 A. Yes, they were.

20 Q. And are you familiar with the engineering and
21 reservoir matters involved in this Application?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I'd tender Ms. Glasgow
24 as an expert reservoir engineer.

25 EXAMINER CATANACH: She is so qualified.

1 Q. (By Mr. Bruce) Is it also your opinion that the
2 special rules for the Buffalo Valley Pool should be
3 abolished?

4 A. Yes.

5 Q. And why is that?

6 A. From an engineering standpoint, there's no
7 difference between the Buffalo Valley Pool and the
8 adjoining Diamond Mound Pool, which is spaced on statewide
9 rules. They should both be subject to the same rules.

10 Q. And do you also believe that prorationing in the
11 Buffalo Valley Pool should be terminated?

12 A. Yes.

13 Q. Now, at the first hearing did you present
14 drainage calculations from wells in both pools?

15 A. Yes.

16 Q. And was your conclusion that wells in the Buffalo
17 Valley and the Diamond Mound Pools have similar producing
18 characteristics?

19 A. Yes, as was presented in Exhibits 7 and 8
20 previously.

21 Q. What is Exhibit 5 in this matter?

22 A. Exhibit 5 is the last proration schedule issued
23 by the Commission, February, 2000. It shows that the
24 allowable for the Buffalo Valley Pool is about 1100 MCF per
25 day.

1 Q. Are there any wells in the pool at this time
2 capable of producing at or above the allowable?

3 A. No. I've also submitted Exhibit 6 for just this
4 hearing, and it's a list of the wells in the Buffalo Valley
5 field, and it's sorted in descending order of the current
6 production volumes. Therefore, the first well on the list
7 is the well producing the highest volume, and it's 700 MCF
8 per day, approximately.

9 Q. So that would be about two-thirds of the top
10 allowable?

11 A. Correct.

12 Q. Okay. And so they're in descending order, and
13 that Read and Stevens Harris Federal Number 9 is the best
14 producer in the pool at this point?

15 A. Yes.

16 Q. And there are also a number of inactive wells at
17 this time?

18 A. Yes, there is.

19 Q. Okay.

20 A. They show up on the second page.

21 Q. Based on this data, is there any need to maintain
22 prorationing in the Buffalo Valley Pool?

23 A. No.

24 Q. Were Exhibits 5 and 6 prepared by you or under
25 your supervision or compiled from company business records?

1 A. Yes, they were.

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

5 A. Yes.

6 Q. One final question. The Examiner asked the last
7 witness about the pipelines in this area. Who are the
8 transporters or purchasers in this area?

9 A. Duke has two lines in this area and Agave has one
10 line, and Transwestern also has a main trunk line that's
11 passing through this area.

12 Q. Okay, so there's four pipelines, basically, at
13 this time?

14 A. Right.

15 MR. BRUCE: Thank you. Pass the witness, Mr.
16 Examiner.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Okay, and who does Devon sell their gas to, Ms.
20 Glasgow?

21 A. Well, we do not have a current well that we
22 operate, although we do have interest in the Yates
23 Windmills, and I believe that it goes to Agave. I believe,
24 I'm not certain. Obviously Duke or Agave, one or the
25 other.

1 Q. Okay. I don't recall -- Not having any wells in
2 the pool, I don't recall what your interest in changing the
3 pool rules was.

4 A. We do have a lease acreage that we would like to
5 develop, and therefore that has prompted us to change the
6 spacing and allowable proration units.

7 Q. And where would your lease position be? Do you
8 know?

9 A. It's offsetting the Windmill acreage.

10 MR. BRUCE: Mr. Examiner, if you'd look on the
11 east side of the pool, actually within a mile of the pool,
12 like Section 15 in -- yeah, 10, 22, those are under Santa
13 Fe Snyder, which is now part of Devon, merged into.

14 MS. MUHLINGHAUSE: There's also acreage off the
15 map to the east, further to the east, that we just recently
16 picked up from Concho, when Concho merged with us.

17 EXAMINER CATANACH: Thank you.

18 Q. (By Examiner Catanach) So it's going to be
19 Devon's intent to drill some additional wells that are not
20 located currently within the pool boundaries?

21 A. Right, but just adjacent to it.

22 Q. Okay. Do you know if any of the other operators
23 in the pool have any intent of -- was your Application --
24 I'm sorry I didn't review it before I came in here, but we
25 heard this in January and I don't recall exactly. Is your

1 Application for an increased density on these units,
2 increased well density?

3 A. No, they'll be the first wells in those section
4 Morrow tests, I believe.

5 MR. BRUCE: Well, the Application is requesting,
6 yeah, to change it to statewide rules. So instead of one
7 well per 320 you can have two wells.

8 Q. (By Examiner Catanach) Okay. Now, do you know
9 if any of the other operators in the pool have intentions
10 of drilling additional wells on acreage that currently has
11 producing wells?

12 A. I do not know.

13 Q. Yeah, I guess that leads to my next question.
14 You know, you submitted this daily production report which
15 shows the top producer at 714 MCF per day. I was just
16 wondering if an additional well is drilled on that
17 proration unit, couldn't that take that production over the
18 1100 MCF allowable, conceivably?

19 A. Conceivably.

20 Q. And that's operated by Read and Stevens.

21 It looks like the last well that was drilled in
22 this pool was drilled probably in 1999, which is a couple
23 of years ago. I guess your intent is to just initially
24 drill one well per 320 on your acreage, or do you know what
25 -- do you guys know where you're going to drill, how many

1 wells?

2 A. Right, we have a location staked, I believe, and
3 permitted. And we would initially drill that, and if
4 successful, then we would have plans to offset it to 160.

5 EXAMINER CATANACH: Okay. Mr. Bruce, I believe
6 there was a report that was done a couple of years ago by a
7 consultant for the Division, Mr. Jim Morrow, and I can't
8 recall what his recommendations was as to the Buffalo
9 Valley Penn, but I think I will take administrative notice
10 of that and see if there was a recommendation contained in
11 that report for this pool. That's quite an extensive study
12 he did, so it might be helpful to make a decision in this
13 case.

14 I have nothing further of this witness. Do you
15 have anything further, Mr. Bruce?

16 MR. BRUCE: The only thing, on Exhibit 6, Mr.
17 Examiner, I think the only infill situation I know of, that
18 I have personal knowledge of is, if you look at the Read
19 and Stevens toward the top of this list, the Harris Federal
20 Number 8 and the Harris Federal Number 11.

21 Those two wells are in the same spacing unit, and
22 if you'll look, their total production is less than the
23 daily allowable.

24 EXAMINER CATANACH: I guess -- Was that a special
25 exception that they got to do that?

1 MR. BRUCE: Yeah, they got an unorthodox location
2 and infill drilling.

3 EXAMINER CATANACH: Okay, thank you, Mr. Bruce.
4 Anything further?

5 MR. BRUCE: No, sir.

6 EXAMINER CATANACH: There being nothing further
7 in this case, Case 12,778 will be taken under advisement.

8 (Thereupon, these proceedings were concluded at
9 11:12 a.m.)

10 * * *

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15
16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
the hearing of Case No. _____,
heard by me on _____, 19____.

18 _____, Examiner
19 Oil Conservation Division
20
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24
25

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 May 6th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002