

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: )

APPLICATION OF YATES PETROLEUM )  
CORPORATION FOR COMPULSORY POOLING, )  
CHAVES COUNTY, NEW MEXICO )

CASE NOS. 13,055

APPLICATION OF YATES PETROLEUM )  
CORPORATION FOR COMPULSORY POOLING, )  
CHAVES COUNTY, NEW MEXICO )

and 13,056

(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, JR., Hearing Examiner

**RECEIVED**

April 24th, 2003

MAY 8 2003

Santa Fe, New Mexico Oil Conservation Division

These matters came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, April 24th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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## I N D E X

April 24th, 2003  
Examiner Hearing  
CASE NOS. 13,055 and 13,056 (Consolidated)

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

FOR THE APPLICANT:

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

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 9:50 a.m.:

3           EXAMINER BROOKS: Okay, back on the record. At  
4 this time we'll call Case Number 13,055, Application of  
5 Yates Petroleum Corporation for compulsory pooling, Chaves  
6 County, New Mexico.

7           MR. CARR: May it please the Examiner, my name is  
8 William F. Carr with the Santa Fe office of Holland and  
9 Hart, L.L.P. We represent Yates Petroleum Corporation in  
10 this matter, and I have three witnesses.

11           EXAMINER BROOKS: And I don't see anybody here  
12 that's not from the Division or Yates, so is there any  
13 other appearances?

14           Very good, the witnesses may be sworn.

15           (Thereupon, the witnesses were sworn.)

16           MR. CARR: May it please the Examiner, at this  
17 time we would request that this case be consolidated with  
18 the next case on the docket, Case 13,056. Both of the  
19 cases involve Applications for compulsory pooling. The  
20 primary party subject to pooling at this time in both is  
21 ExxonMobil. The same issues are involved. Both involve  
22 the same negotiations and the same exhibits. There are a  
23 couple of small interest owners in one tract, but it's easy  
24 to separate that out in terms of our presentation, and we  
25 believe a consolidation of the cases for purposes of

1 testimony will facilitate the presentation of the evidence.

2 EXAMINER BROOKS: Very good, Cases 13,055 and  
3 13,056 will be consolidated for purposes of hearing.

4 MR. CARR: At this time, Mr. Examiner, we would  
5 call Chuck Moran.

6 EXAMINER BROOKS: You may proceed.

7 CHARLES E. MORAN,

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

10 DIRECT EXAMINATION

11 BY MR. CARR:

12 Q. Would you state your full name for the record,  
13 please?

14 A. Charles Moran.

15 Q. Mr. Moran, where do you reside?

16 A. In Artesia, New Mexico.

17 Q. By whom are you employed?

18 A. Yates Petroleum Corporation.

19 Q. And what is your position with Yates?

20 A. Landman.

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

23 A. Yes, I have.

24 Q. At the time of that testimony, were your  
25 credentials as an expert in petroleum land matters accepted

1 and made a matter of record?

2 A. Yes, they were.

3 Q. Are you familiar with the Applications filed in  
4 each of these consolidated cases?

5 A. Yes, I am.

6 Q. And are you familiar with the status of the lands  
7 and the area involved in this matter?

8 A. Yes, I am.

9 MR. CARR: Are the witness's qualifications  
10 acceptable?

11 EXAMINER BROOKS: They are accepted.

12 Q. (By Mr. Carr) Mr. Moran, would you briefly  
13 explain to the Examiner what it is that Yates seeks in each  
14 of these cases? And I think it might be helpful to break  
15 it down by case and to even refer to Exhibit Number 1,  
16 which is the orientation plat in this case.

17 A. In Case 13,055 we are seeking an order pooling  
18 the interests into a west-half spacing unit for Section 11  
19 in Township 6 South, Range 26 East, Chaves County, New  
20 Mexico, on a west-half basis for all formations that are to  
21 be developed on a 320-acre spacing unit, the southwest  
22 quarter for all formations being developed in 160-acre  
23 spacing, primarily the Pecos Slope Abo, and the southwest  
24 southwest quarter for all formations developed on a 40-acre  
25 spacing, that primarily being the Three Mile-San Andres

1 Pool.

2 The well would be dedicated, the Sterne "BCS" Com  
3 Well Number 1, to be drilled at a location of 660 feet from  
4 the south line and 660 feet from the west line, Unit M, of  
5 Section 11.

6 Q. All right, that's Case 13,055.

7 A. Right.

8 Q. Let's go to 13,056.

9 A. 13,056 is the second page of Exhibit 1, and it is  
10 a west-half spacing unit, or a proposed west-half spacing  
11 unit of Section 13 in Township 6 South, Range 26 East.  
12 Again, we seek a force-pooling order for all formations to  
13 be developed on 320-acre spacing unit and the southwest  
14 quarter for all formations that are developed on a 160-acre  
15 spacing unit, and the southwest southwest quarter for all  
16 formations developed on a 40-acre proration unit, that  
17 primarily again being the Three Mile-San Andres Pool.

18 The well will be dedicated the Sterne "BCS" Com  
19 Number 2, located at 660 feet from the south line, 660 feet  
20 from the west line in said Section 13, and that would be  
21 Unit M.

22 Q. And as to 320-acre-spaced units, this spacing  
23 unit would be within the Undesignated Haystack-Cisco Gas  
24 Pool; is that right?

25 A. That's what I would understand.

1 Q. All right, you've been referring to Exhibit 1.  
2 Just briefly summarize what Exhibit 1 shows.

3 A. Exhibit 1 is a land plat representing the  
4 ownership surrounding, on page 1, the west half of Section  
5 11. The dark blue outline exemplifies what the 320-acre  
6 spacing unit would look like. And page 2 represents the  
7 ownership surrounding the west half of Section 13, with the  
8 blue outline representing the compulsory 320-acre spacing  
9 unit.

10 As you will note, inside -- referring back to  
11 page 1, there is two types of ownership in Section 11,  
12 primarily being the south half of the southwest quarter,  
13 which is fee acreage, and the balance of Section 11, being  
14 Federal Lease 90861, which is due to expire 6-1 of 2003.

15 On page 2, the Section 13, you see that it is  
16 also composed of the west half, west half, being fee lands,  
17 and the balance of Section 13 being federal lands, that  
18 being lease 90862, also having an expiration date of 6-1-  
19 2002.

20 Q. What is the primary objective in the proposed  
21 wells?

22 A. The primary objective is the Silurian-Devonian  
23 formation.

24 Q. And are these wildcat wells?

25 A. Yes, they are.

1 Q. What is Exhibit 2?

2 A. Exhibit 2 is the breakdown of the ownership that  
3 is unleased as of today, with regards to the lands in page  
4 1 being Section 11, and page 2 being Section 13. In  
5 Section 11 you will note that the only unleased mineral  
6 owner is Mobil Producing Texas and New Mexico, Inc., who I  
7 believe to be ExxonMobil Corporation, that we just cannot  
8 find anything in the records where they have updated the  
9 name.

10 As you'll see on the plat down 40 net acres in  
11 the south half, southwest, which would give them on a west-  
12 half spacing unit a 12-1/2-percent interest, and on a  
13 southwest-quarter spacing unit it would give them a 25  
14 percent interest, and if it was to go to 40-acre spacing  
15 unit, they would have a 50-percent interest.

16 Q. All right, that's Section 11. Let's go to the  
17 next page and review the ownership in Section 13.

18 A. Section 13 is -- again, page 2 represents the  
19 unleased owners. Again, there are three unleased owners in  
20 this area at this time. Again, it's Mobil Producing Texas  
21 and New Mexico, Inc., the Lacy Shortridge Revocable Living  
22 Trust and the Richard H. and Syble W. Corn Trust. And the  
23 exhibit sets out what ownership they would have in a 320-  
24 acre spacing unit and a 160-acre spacing unit.

25 Q. All other interests are voluntarily committed to

1 the well?

2 A. All other interests are voluntarily committed and  
3 are controlled by Yates.

4 Q. Let's ask you now to summarize the efforts you've  
5 made to obtain a voluntary participation of ExxonMobil and  
6 these two trusts.

7 A. At the time it was decided we were to drill these  
8 wells, it was a rather quick decision so I contacted in  
9 mid-March, through telephone calls found the proper person  
10 at ExxonMobil to talk to concerning the minerals in Chaves  
11 County that they had.

12 Pursuant to -- We had a discussion the 11th or  
13 12th of March, and then following that discussion I sent my  
14 letter dated March 13th, offering to lease the minerals  
15 with the proposed lease and the terms of the lease. And  
16 those negotiations are still continuing at this point.

17 Q. What is the current status of your negotiation?

18 A. They are not completed. Those minerals are still  
19 unleased.

20 Q. You have a lease form that you have been sending  
21 back and forth with comment?

22 A. I received a proposed lease form from Exxon that  
23 they proposed that we use. I have provided comments back  
24 to them concerning that lease form, and I have not heard  
25 back from them about the proposed changes.

1 Q. And that applies to their interests in both of  
2 the spacing units; is that right?

3 A. It covers both their spacing units and some  
4 additional lands in the same area.

5 Q. Mr. Moran, in your opinion is there a reasonable  
6 chance that before these wells are actually drilled and the  
7 lease has expired that you will have an agreement with  
8 ExxonMobil?

9 A. I think there's a chance that we will have an  
10 agreement. I think it is -- we will have it, but due to  
11 the fact that I have expiring leases and I need to get a  
12 communitization in place, ExxonMobil will not act quickly  
13 enough to allow me to get a communitization in place to  
14 save my federal leases, because we're drilling on a fee  
15 land.

16 Q. And there -- have been advised on several  
17 occasions that we're going forward with the pooling  
18 Application here today?

19 A. Yes.

20 Q. And if ExxonMobil and Yates reach an agreement  
21 for the leasing of these interests to Yates, will you  
22 immediately advise the Division?

23 A. Yes, I will.

24 Q. Now, what about the trust?

25 A. The trust, my initial contact with them was about

1 the 28th of March. I was unaware that they were out there  
2 until that time, and we discovered them. We mailed  
3 everything to the last known addresses.

4 I have finally tracked down actual people to talk  
5 to. I have reached verbal agreements with the Corn Trust.  
6 That lease has gone in the mail, and we should -- I  
7 anticipate receiving a signed lease from them in the very  
8 near future. They just -- One of the trustees is a tax  
9 attorney, and he wouldn't look at anything until after the  
10 15th.

11 The other trust was dissolved in approximately  
12 1995. The bank was purchased that owned the trust, and  
13 I've had to convince them that they need to do a corrected  
14 deed to convey out the minerals to the beneficiary, and I  
15 received a fax copy of that deed yesterday. I have reached  
16 a verbal deal with the beneficiary to lease those minerals  
17 pursuant to the disposition of the trust.

18 Q. As to each of these trusts, when those documents  
19 are returned to you and you have reached a voluntary  
20 agreement with them, will you immediately advise the  
21 Division?

22 A. Yes.

23 Q. Is Yates Exhibit Number 3 copies of the letters  
24 to each of these interest owners that reflect your efforts  
25 to reach a voluntary agreement?

1 A. Yes, they are.

2 Q. In addition to these letters there have been  
3 other communications with these parties?

4 A. In anticipation of having to come to -- not  
5 knowing what they were doing at that time, I have also  
6 invited the entities to participate in the drilling of the  
7 well.

8 Q. Okay. Let's go to what has been marked Yates  
9 Exhibit Number 4. Would you identify this, please?

10 A. Yates Exhibit Number 4 represents the proposed  
11 authority for expenditure for the Sterne "BCS" Com Number  
12 1, and on pages 3 and 4 the Sterne "BCS" Com Number 2 AFE.  
13 If you'll note with regards to the Sterne "BCS" Com Number  
14 1, the proposed dryhole cost of the well is \$366,500 and on  
15 the Sterne "BCS" Com Number 2 the proposed dryhole cost is  
16 \$380,400.

17 Q. Completed well costs are what?

18 A. The completed well costs on the Sterne "BCS" Com  
19 Number 1 are \$685,700 and on the Sterne "BCS" Com Number 2  
20 \$700,400.

21 Q. Has Yates drilled other wells in this area?

22 A. We have drilled in the vicinity, not --

23 Q. Are there any wells, really, in the immediate  
24 area?

25 A. Not any recent wells that we're aware of.

1 Q. Are these costs in line with the actual costs  
2 incurred by Yates in drilling similar wells in southeast  
3 New Mexico?

4 A. These costs are in line with wells we've drilled  
5 up in Chaves County, a couple of townships away.

6 Q. What is Exhibit Number 5?

7 A. Exhibit Number 5 is excerpts from the proposed  
8 operating agreement that I mailed out to all the parties  
9 when I invited them to participate in the drilling of the  
10 well.

11 Q. Did these --

12 A. The excerpt was composed of basically the cover  
13 page to the operating agreement and the Exhibit "C", which  
14 is the joint accounting procedures proposed for operating  
15 any well under that operating agreement.

16 Q. Do these attached COPAS accounting procedures  
17 provide for the periodic adjustment of overhead and  
18 administrative costs?

19 A. Yes, they do.

20 Q. Does Yates request that the order entered in this  
21 case also provide for the adjustment of these costs in  
22 accordance with COPAS procedures?

23 A. Yes.

24 Q. Have you made an estimate of the overhead and  
25 administrative costs to be incurred while drilling the well

1 and also while producing it, if it is successful?

2 A. We have, and it's represented on the fourth page  
3 in of this exhibit. It's marked COPAS, page 3.

4 The proposed depths of these wells will fall into  
5 the range of 4000-8000 feet, which we are currently  
6 charging a \$4000-a-day day rate and \$400-a-month operating  
7 rate.

8 If you will note, the recent survey provided by  
9 Ernst and Young provided that the average rate for wells at  
10 this proposed depth was a \$3900 day rate and a \$603 monthly  
11 operating rate.

12 Q. And so you're a hundred dollars over on the  
13 drilling rate and a couple of hundred below on the --

14 A. -- operating rate.

15 Q. Do you recommend that these figures be  
16 incorporated into any order which results from this  
17 hearing?

18 A. I recommend that the figures that we propose be  
19 incorporated into any hearing.

20 Q. Does Yates Petroleum Corporation seek to be  
21 designated operator of the proposed well?

22 A. Yes.

23 Q. Are Exhibits 6 and 7 affidavits with attached  
24 letters confirming that notice of the hearing in each of  
25 these cases has been provided in accordance with the Rules

1 of the Division?

2 A. Yes.

3 Q. And Yates will drill each of these wells prior to  
4 the expiration of the leases on the 1st of June, 2003?

5 A. We would intend to drill both wells, hopefully  
6 being able to drill one prior to the other to determine the  
7 potential in the area.

8 Q. How soon do you have a rig available to commence  
9 the drilling?

10 A. We have a rig available to commence this  
11 drilling.

12 Q. At this time?

13 A. At this time.

14 Q. Were Exhibits 1 through 7 either prepared by you  
15 or compiled under your direction?

16 A. Yes, they were.

17 Q. Can you testify to their accuracy?

18 A. Yes.

19 MR. CARR: At this time, Mr. Brooks, we would  
20 move the admission into evidence of Yates Exhibits 1  
21 through 7.

22 EXAMINER BROOKS: Yates 1 through 7 will be  
23 admitted.

24 MR. CARR: And that concludes my direct  
25 examination of Mr. Moran.

## EXAMINATION

1  
2 BY EXAMINER BROOKS:

3 Q. Now, do you have a lease expiration? Did I hear  
4 you say something about that?

5 A. Yes.

6 Q. And what is that date?

7 A. That is June 1st for both federal leases. Each  
8 section has a separate federal lease in it.

9 EXAMINER BROOKS: Okay. I think that's the only  
10 question I have. Do you have anything, Mr. Stogner?

11 EXAMINER STOGNER: I do not have any questions.

12 EXAMINER BROOKS: Very good.

13 MR. CARR: At this time we would call Mr. Miller.

14 EXAMINER BROOKS: You may proceed.

15 TIM MILLER,

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

## DIRECT EXAMINATION

18  
19 BY MR. CARR:

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

21 A. My name is Tim Miller.

22 Q. Mr. Miller, are you the -- Did you testify in the  
23 immediately preceding case?

24 A. Yes, I did.

25 Q. And your credentials have been accepted and

1 recognized by this Division as an expert in petroleum  
2 geology?

3 A. Yes, they were.

4 Q. Are you familiar with the Application filed in  
5 each of these consolidated cases on behalf of Yates  
6 Petroleum Corporation?

7 A. Yes, I am.

8 Q. Have you made a geological study of the area  
9 involved in these Applications?

10 A. Yes, I have.

11 Q. Are you prepared to share the results of your  
12 work with Mr. Brooks?

13 A. Yes, I am.

14 MR. CARR: Are the witness's qualifications  
15 acceptable?

16 EXAMINER BROOKS: They are accepted.

17 Q. (By Mr. Carr) Mr. Miller, the primary objective  
18 in these wells is what?

19 A. The primary objective in both the Sternes 1 and 2  
20 wells is the Siluro-Devonian dolomite formation.

21 Q. Are there secondary objectives?

22 A. There are some secondary objectives, possibly  
23 some Cisco and some Strawn sand, some -- possibly -- you  
24 could possibly even have some Abo sands uphole.

25 Q. Is the Granite Wash a potential as well?

1           A.    It is a potential, but a very minor secondary  
2 objective.

3           Q.    Let's go to what has been marked Exhibit Number  
4 8.  Would you identify that and review it for the Examiner?

5           A.    Exhibit Number 8 is the structural cross-section.

6           Q.    Exhibit 8 is the gross isopach.

7           A.    Oh, okay, my fault.

8           Q.    Do you want to go to the cross-section first?

9           A.    My fault.  Exhibit Number 8, as Mr. Carr says, is  
10 the gross isopach of the Siluro-Devonian dolomite where the  
11 Sternes Number 1 is in the southwest quarter of Section 11  
12 and the Sterne Number 2 in the southwest quarter of Section  
13 13.

14                   As you can see, we have -- There are very few  
15 deep penetrations in this township down to the Siluro-  
16 Devonian dolomite.  Most of the penetrations you see on the  
17 west side of 6 South, 26 East, are basically Abo producing  
18 wells, which basically means down around 4200, 4300, 4500  
19 feet.

20                   The Sterne 1, which is in Section 11, we figure  
21 we would have a thickness of the dolomite somewhere between  
22 50 and 75 feet thick.  The Sterne Number 2, down in the  
23 southwest section of Section 13, would have an interval  
24 somewhere between 150 and 175 feet thick.

25                   The well that we drilled basically about four

1 months ago in Section 22 in the southwest quarter, known as  
2 -- and I know it's hard to see on this map, it's the Buder  
3 Number 2 -- that had 70 feet of dolomite in it. We did --  
4 We have not tested it yet. We are producing uphole out of  
5 a Cisco well.

6 The only other -- There are two other deep  
7 penetrations on the eastern side of this plat. They are  
8 over in 6 South, 27, over in Sections 19 and 30. If you  
9 see down in the southeast quarter of 19, that is the old  
10 Read and Stevens West Haystack Federal Number 1 -- it has  
11 100 feet of Siluro-Devonian dolomite -- and the old  
12 Shenandoah well, which is in the south half of Section 30,  
13 has around 104 feet of dolomite.

14 The only other well that has penetrated this deep  
15 is up in the northwest quarter of this township in Section  
16 5. It is Yates Petroleum Spring Federal Number 4. That  
17 was an old Abo well that we have recently deepened in the  
18 last three months. We encountered 36 feet of dolomite.  
19 Our idea worked.

20 You have to realize that out here, basically the  
21 general thinking is, there is no Siluro-Devonian dolomite  
22 up in this township. Well, we have proved it in the Spring  
23 Number 4, we have proved it down in the Buder Number 2, and  
24 what the red dotted outline that sort of is in -- oh,  
25 basically the center of the township -- that is what we're

1 projecting as a granite high.

2 We have seen some of these on magnetics, is what  
3 we're basing this out of. And we drilled -- we deepened  
4 our Spring Number 4 and our Buder Number 2 well based on  
5 this idea. It has seemed to work, and we feel that  
6 drilling of the Sterne 1 and 2 would be east of this  
7 granite high and basically thicker for the dolomites that  
8 we possibly would encounter, a productive Siluro-Devonian  
9 dolomite formation.

10 Q. There's a trace on this exhibit for the cross-  
11 section, is there not?

12 A. Yes, there is.

13 Q. Let's go now to cross-section Exhibit 9, and I'd  
14 ask you to review that.

15 A. This is basically -- This cross-section is a  
16 structural cross-section hung on a subsea datum of a minus  
17 1850. It basically generally runs northwest to southeast.

18 If we start up in the left-hand side of the  
19 cross-section at A, at the Yates Petroleum Spring D Federal  
20 Number 4, as I stated before, this was an old Abo well that  
21 we decided to deepen to test this idea of Siluro-Devonian  
22 dolomite on the northwest side of this granite high because  
23 the magnetic show that you come off this high, you are  
24 going into somewhat of a low, that there is a possibility  
25 that we thought we could have the dolomite that was not

1 eroded off and that we would have a thickness. At that  
2 time there was just a question mark how much we would have.

3 We encountered, like it says on the map -- it's  
4 hard to see the number -- 36 feet. As you see on the  
5 cross-section, the Siluro-Devonian interval is colored in  
6 blue. There actually is a Mississippi interval on top of  
7 it. And up above the Strawn, there is a Cisco zone which  
8 is colored in red, crossover of small gas effect in that.

9 But our idea has worked. Based on magnetics, we  
10 encountered 36 feet of dolomite. We consider it a  
11 successful well. We have yet to come in here and try to  
12 complete it, so it's still a question mark if it's going to  
13 be productive.

14 If you move to the southeast across the granite  
15 high and down the flank of the granite high, the next well  
16 on the cross-section is Stevens Operating Corporation, the  
17 O'Connell Federal Com Number 1. As you can see on this  
18 cross-section, we have the Strawn interval, but the  
19 Mississippian and the Siluro-Devonian have been eroded off.  
20 If -- They were deposited on this granite high at one time  
21 just because of the -- we feel that the uplift, that they  
22 were eroded off and you have no Siluro-Devonian dolomite in  
23 this well. It is basically producing now uphole in the  
24 Wolfcamp.

25 As on the cross-section, they tried a small

1 Strawn sand where you see the perms from 5413 to 5416, and  
2 they basically got no show out of it.

3 But this well again demonstrates that if you're  
4 up on the highs, the granite highs, that you will probably  
5 encounter no Siluro-Devonian dolomite because it probably  
6 has eroded off.

7 The next well on the cross-section is our Yates  
8 Petroleum Corporation's Buder "ACN" Federal Number 2. This  
9 was another well that we decided to drill to test the idea,  
10 and we were pleasantly surprised when we encountered 70  
11 feet of dolomite, which is colored in blue.

12 As you can see on the cross-section, we have  
13 decided at this time that we did try a Strawn -- what was  
14 left of a Strawn sand up there, basically at 5500, got a  
15 very small show out of it. We have not tested the dolomite  
16 in here. We thought it was advantageous to go up at around  
17 5310 to -20, into a Cisco zone, because that was our best  
18 show in the well.

19 And so far from March of 2002 through -- or that  
20 should actually be March of 2003, through April, we have  
21 produced 52 million cubic feet of gas out of this Cisco  
22 interval. But because of high gas prices, management just  
23 thought it was more prudent to go up there and get that  
24 producing than later on we would come down there and test  
25 the dolomite.

1           But we figured this was a better success because  
2 we are off that granite high getting thicker, basically  
3 going downdip, having a thicker accumulation of dolomite,  
4 and we have 70 feet that this sets up an enhancement for  
5 both the Sterne wells, as -- those are the next two cross-  
6 sections -- or the next two wells on the cross-sections,  
7 the Sternes 1 and 2.

8           We are hoping to encounter, like I said, again,  
9 in the Sterne 1 somewhere between 50 and 75 feet of  
10 dolomite, the Sterne 2, which is further downdip and which  
11 we hope means that we have a thicker accumulation of  
12 dolomite, we would hope to encounter somewhere between 150  
13 and 175 feet of it.

14           Now, the last two wells on the cross-section are  
15 over in 6 South, 27 East, are the old Read and Stevens West  
16 Haystack Federal Number 1. They ran -- As you can see  
17 again, the Siluro-Devonian is colored in blue on this well.  
18 They did a test, ran a DST down in the dolomite, up into  
19 the Mississippian, and basically they recovered a majority  
20 of very slightly gas-cut salt water, basically a water  
21 well. And they decided to move up. It wasn't economical.  
22 And this well is producing out of a Cisco interval, you can  
23 see at the very top of the log, and it so far has produced  
24 1.3 BCF out of the Cisco lime.

25           The last well on the cross-section is the old

1 Shenandoah Federal "S" Read and Stevens Number 1. It has  
2 104 feet of dolomite in it. Shenandoah tested it,  
3 basically just recovered during their DSTs 630 feet of mud,  
4 130 feet of mud, and basically last DST 410 feet of mud-cut  
5 salt water. They decided it just wasn't economical,  
6 basically non-economical hydrocarbons. They abandoned it  
7 and -- basically as a dry hole.

8           These two wells are structurally, as the cross-  
9 section shows, downdip. We feel that's why they produced  
10 water on the DST results. We feel that our Sternes 1 and 2  
11 will be further updip, still have a substantial amount of  
12 dolomite that we hope to encounter gas production both  
13 Sternes 1 and 2.

14           Q. Mr. Miller, will Yates call an engineering  
15 witness to review the risks associated with these wells?

16           A. Yes, we will.

17           Q. Were Yates Exhibits 8 and 9 prepared by you?

18           A. Yes. Yes, they were.

19           MR. CARR: May it please the Examiner, at this  
20 time we move the admission into evidence of Yates Exhibits  
21 8 and 9.

22           EXAMINER BROOKS: Eight and 9 are admitted.

23           MR. CARR: And that concludes my direct  
24 examination of Mr. Miller.

25           EXAMINER BROOKS: Well, I don't believe I have

1 any questions. Do you, Mr. Stogner?

2 EXAMINER STOGNER: No, I do not.

3 EXAMINER BROOKS: Very good.

4 MR. CARR: At this time we would call Dr. Boneau.

5 DAVID F. BONEAU,

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

8 DIRECT EXAMINATION

9 BY MR. CARR:

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

11 A. David Francis Boneau.

12 Q. Dr. Boneau, where do you reside?

13 A. Artesia, New Mexico.

14 Q. By whom are you employed?

15 A. Yates Petroleum Corporation.

16 Q. And what is your position with Yates Petroleum  
17 Corporation?

18 A. I work as engineering manager at Yates Petroleum.

19 Q. Have you previously testified before this  
20 Division?

21 A. Yes, sir.

22 Q. At the time of that testimony, were your  
23 credentials as an expert in petroleum engineering accepted  
24 and made a matter of record?

25 A. Yes, they were.

1 Q. Are you familiar with the pooling Applications in  
2 each of these cases?

3 A. Yes, sir.

4 Q. Have you made an engineering study of the area  
5 involved in the cases, particularly focusing on the risk  
6 associated with the development?

7 A. I have done that, yes, sir.

8 MR. CARR: Are the witness's qualifications  
9 acceptable?

10 EXAMINER BROOKS: They're accepted.

11 Q. (By Mr. Carr) Dr. Boneau, would you refer to  
12 what has been marked as Yates Exhibit 10, identify this and  
13 review it, please?

14 A. Yes, Yates Exhibit 10 is a map that we're going  
15 to take the engineering testimony from. It's, I think,  
16 similar to the map you've seen. But in Section 11 the  
17 "BCS" 1 well is in the southwest southwest, and in Section  
18 13 the "BCS" 2 well is again in the southwest southwest.  
19 I've tried to take an area that extends the section out in  
20 all directions from the wells that we're talking about, and  
21 you end up with -- looking at these 16 sections, four-by-  
22 four grid of the sections shown here, with quite a bit of  
23 it owned by --

24 Q. And that's the area --

25 A. -- Yates Petroleum, and that's the area that I'm

1 going to talk about. It does not include the Shenandoah  
2 well that Mr. Miller is talking about, but it pretty much  
3 covers the same area that was talked about by the land  
4 people and the geologist.

5 Q. What does the yellow shading indicate?

6 A. The yellow shading indicates that Yates owns a  
7 part of that acreage, a part or all, but at least a part of  
8 that acreage.

9 Q. Let's go to Yates Exhibit 11. Would you identify  
10 this and review for Mr. Brooks how it's organized and what  
11 it shows?

12 A. Yes, we're talking here about risk. I think  
13 you've already heard that it's pretty risky. I think this  
14 sounds like exploratory morning from Yates Petroleum, from  
15 everything I've heard so far, but the geologist says it's  
16 risky, and I'm trying to quantify that in some sense.

17 So Exhibit 11 is a listing of the 12 wells that  
18 exist in this 16-section area, so there's not that many  
19 wells. Exhibit 11 kind of gives the basic data on these  
20 wells, when they were drilled, where they were completed  
21 and what their IPs were.

22 Looking down the list, especially the right-hand  
23 side of it, you can see that six of the 12 wells were dry  
24 and abandoned, drilled and abandoned, so not very  
25 successful. And some of the other wells tested decent

1 amounts of gas and oil, and in the other exhibits we'll see  
2 how their production turned out.

3 In this area we're talking about half-a-million-  
4 dollar wells, \$700,000 wells. You need, oh, probably like  
5 -- on the order of 400 million cubic feet of gas to start  
6 to be talking about a successful well. So there are -- a  
7 few of these wells had decent IPs. Six of them were dry  
8 holes, and we'll see in the next exhibit how some of these  
9 wells produced.

10 Q. All right, let's go to that exhibit, Exhibit 12,  
11 the production information.

12 A. Exhibit 12 lists the production from these 12  
13 wells. And again, the right- -- there's detailed  
14 information, but on the right-hand side there are two  
15 columns that say cumulative -- that say "Through 2002", cum  
16 gas, cum water, and then the last two columns on the right  
17 are indications of the current production of the well. So  
18 the December MCF per day and barrels of water per day.

19 The wells at the top are drilled and abandoned.  
20 There's a well named Andrew, that's number 3, that's made  
21 32 million since 1982. That is definitely not an economic  
22 well.

23 Number 4 is a well named Shadden that's made 118  
24 million since 1982 and is now shut-in, not an economic  
25 well.

1           The O'Connell well that Mr. Miller talked about  
2 since 1989 has made 144 million and is making 8 MCF a day.  
3 You know, that well's not going to be economic.

4           Number 7 is the Buder 1 that since 1985 has made  
5 1 million from the Abo, returned some of the value but not  
6 economic.

7           Well Number 8 is the Buder 2 that's just been  
8 drilled, Mr. Miller referred to. It started out -- It has  
9 one month of production, it's producing pretty well out of  
10 the Cisco, and you'll see I think that's going to be an  
11 economic well.

12           Number 9, drilled and abandoned.

13           Number 10 is a Leila well, Leila Number 2, an Abo  
14 well since 1982. It's made 360 million, but it's still  
15 making 55 a day, and actually that well I would call an  
16 economic well, as we'll see a little later.

17           Number 11 never produced and is not an economic  
18 well.

19           Number 12, the West Haystack Number 1 that's  
20 producing from the Cisco, has made 1.3 BCF. It's clearly  
21 an economic well. It's only making 3 MCF a day, and it's  
22 about, you know, reached its cum.

23           So out of the 12 wells -- we'll say the Buder  
24 Number 2 -- it's just started, economic well; the Leila Abo  
25 well is an economic well; and Number 12, the West Haystack,

1 is an economic well. Three out of 12 indicates pretty good  
2 risk, pretty high risk, in my opinion.

3 Q. What is Exhibit 13?

4 A. Exhibit 13 is a plot of the daily production from  
5 the Buder Number 2, the brand-new well that is producing  
6 from the Cisco and maybe has some Siluro-Devonian in it.  
7 But its production has been 1.4 to 1.2 million a day over  
8 about a 30-day period. And a little later on we have --  
9 There's a picture where I try to extrapolate that for the  
10 life of the well. But it started out as a really good well  
11 and looks to me like it will be an economic well.

12 Q. Let's go now to Exhibit 14, the information on  
13 cumulative and ultimate recovery from these wells.

14 A. And Exhibit Number 14 is just the third in this  
15 series of these tables, and on the -- actually the far  
16 right column, ultimate gas that will be produced is the  
17 significant column, I think. I went through these before,  
18 and -- well, we can go through them quick again, but I'm  
19 thinking you need 300 or 400 million to have an economic  
20 well.

21 You go down the list, and the Buder Number 2 that  
22 I'm giving about -- over half a BCF to, is an economic  
23 well. The Leila is probably an economic well now, but it's  
24 still producing quite flat. It will be an economic well.  
25 And Number 12 is 1.3 BCF, an economic well. The other

1 wells do not make it.

2 So three out of 12 are economic wells and nine  
3 are not, and to me that indicates a pretty risky area.  
4 That's a wildcat, really undeveloped area.

5 Q. Would you identify Yates Exhibit 15 and review  
6 that?

7 A. Exhibit 15 are a series of production plots and  
8 forecasts of future production for the wells that have some  
9 production. And so they're backup for Exhibit 14.

10 Page 1 is the Andrew, which hasn't done that well  
11 and is, you know, making MCF-a-days kind of thing.

12 Page 2 is the Shadden, which has not done well  
13 and is about dead.

14 Page 3 is the O'Connell, which is, you know,  
15 making 5 MCF a day and is just -- doesn't have anything  
16 left.

17 Page 4 is the Buder, which is making 10 MCF a  
18 day, and it's about reached its economic limit.

19 Page 5 is the Buder Number 2, where we have one  
20 data point, basically, one month of production averaging  
21 over a million a day, and from the decline of the daily  
22 production and from other wells in the area I'm estimating  
23 a 60-percent decline. So it will last about three or four  
24 years from the Cisco zone and make more than half a BCF and  
25 pay out its cost, and then maybe the Siluro-Devonian would

1 add some more to that well. So that well is economic.

2 And the last page is a picture of the production  
3 of the Leila Number 2, an Abo well that's never really made  
4 a whole lot, but it's been a real steady producer, and we  
5 think it will produce 15 more years at this 50 MCF a day  
6 and make over half a BCF. So...

7 I guess that's not the last picture, I'm sorry.  
8 There's one more page, the West Haystack. And that has  
9 been a good producer, a million-a-day producer for a while,  
10 and it's made over a BCF and is clearly economic, although  
11 it's near the end of its life.

12 So just details to try to show all the aspects of  
13 three good wells, even though one of them is brand new, but  
14 a total of three good wells out of the 12. A lot of  
15 undrilled area. We're talking about drilling prospects  
16 based on magnetics, which is, you know, somewhat unproven.  
17 This is a risky deal. I think that the Examiner has  
18 probably already seen that from the geology testimony,  
19 but --

20 Q. Are you prepared to make a recommendation as to  
21 the risk penalty that should be imposed on any interest not  
22 voluntarily committed to the well?

23 A. Yeah, there's a real strong data in this case  
24 that 200 percent is the appropriate risk penalty.

25 Q. And from this testimony it should be apparent

1 that you could drill a well here that wouldn't be a  
2 commercial success; is that true?

3 A. There's a real good chance of that, yes, sir.

4 Q. In your opinion, will approval of this  
5 Application and the drilling of each of these wells be in  
6 the best interest of conservation, the prevention of waste  
7 and the protection of correlative rights?

8 A. Yes, sir, very definitely.

9 Q. Were Exhibits 10 through 15 prepared by you or  
10 compiled under your direction?

11 A. They were, yes, sir.

12 Q. Can you testify as to the accuracy of these  
13 exhibits?

14 A. They're as accurate as I could make them, yes.

15 MR. CARR: May it please the Examiner, at this  
16 time we'd move the admission into evidence of Yates  
17 Exhibits 10 through 15.

18 EXAMINER BROOKS: Ten through 15 are admitted.

19 MR. CARR: And that concludes my direct  
20 examination of Dr. Boneau.

21 EXAMINER BROOKS: Well, I have no questions. Do  
22 you, Mr. Stogner?

23 EXAMINER STOGNER: I dare not risk asking any  
24 questions.

25 MR. CARR: Then that concludes our presentation

1 in this case -- in these cases.

2 EXAMINER BROOKS: Very good. If there's nothing  
3 further, then Cases Numbers 13,055 and 13,056 will be taken  
4 under advisement.

5 (Thereupon, these proceedings were concluded at  
6 10:34 a.m.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 13055/13056  
heard by me on April 24 2003  
David K. Brooks Examiner  
Oil Conservation Division

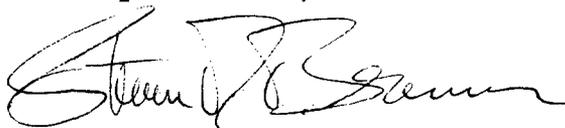
## CERTIFICATE OF REPORTER

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 April 27th, 2003.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 16th, 2006