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)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

April 24th, 2003

Santa Fe, New Mexico

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)

* * *

E X H I B I T S

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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
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P.O. Box 2208
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By: WILLIAM F. CARR

* * *

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

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

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

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

Very good, the witnesses may be sworn.

(Thereupon, the witnesses were sworn.)

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

testimony will facilitate the presentation of the evidence.

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

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

EXAMINER BROOKS: You may proceed.

CHARLES E. MORAN,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Charles Moran.

Q. Mr. Moran, where do you reside?

A. In Artesia, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation.

Q. And what is your position with Yates?

A. Landman.

Q. Have you previously testified before this Division?

A. Yes, I have.

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

and made a matter of record?

A. Yes, they were.

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

A. Yes, I am.

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

A. Yes, I am.

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

EXAMINER BROOKS: They are accepted.

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

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

Pool.

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

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

A. Right.

Q. Let's go to 13,056.

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

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

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

A. That's what I would understand.

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

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

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

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

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

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

Q. And are these wildcat wells?

A. Yes, they are.

Q. What is Exhibit 2?

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

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

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

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

Q. All other interests are voluntarily committed to

the well?

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

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

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

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

Q. What is the current status of your negotiation?

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

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

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

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

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

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

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

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

A. Yes.

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

A. Yes, I will.

Q. Now, what about the trust?

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

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

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

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

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

A. Yes.

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

A. Yes, they are.

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

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

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

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

Q. Completed well costs are what?

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

Q. Has Yates drilled other wells in this area?

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

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

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

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

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

Q. What is Exhibit Number 5?

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

Q. Did these --

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

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

A. Yes, they do.

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

A. Yes.

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

and also while producing it, if it is successful?

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

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

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

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

A. -- operating rate.

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

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

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

A. Yes.

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

of the Division?

A. Yes.

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

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

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

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

Q. At this time?

A. At this time.

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

A. Yes, they were.

Q. Can you testify to their accuracy?

A. Yes.

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

EXAMINER BROOKS: Yates 1 through 7 will be admitted.

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

EXAMINATION

BY EXAMINER BROOKS:

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

A. Yes.

Q. And what is that date?

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

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

EXAMINER STOGNER: I do not have any questions.

EXAMINER BROOKS: Very good.

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

EXAMINER BROOKS: You may proceed.

TIM MILLER,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. My name is Tim Miller.

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

A. Yes, I did.

Q. And your credentials have been accepted and

recognized by this Division as an expert in petroleum geology?

A. Yes, they were.

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

A. Yes, I am.

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

A. Yes, I have.

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

A. Yes, I am.

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

EXAMINER BROOKS: They are accepted.

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

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

Q. Are there secondary objectives?

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

Q. Is the Granite Wash a potential as well?

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

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

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

Q. Exhibit 8 is the gross isopach.

A. Oh, okay, my fault.

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

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

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

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

The well that we drilled basically about four

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

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

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

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

projecting as a granite high.

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

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

A. Yes, there is.

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

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

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

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

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

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

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

As on the cross-section, they tried a small

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

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

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

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

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

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

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

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

The last well on the cross-section is the old

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

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

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

A. Yes, we will.

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

A. Yes. Yes, they were.

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

EXAMINER BROOKS: Eight and 9 are admitted.

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

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

any questions. Do you, Mr. Stogner?

EXAMINER STOGNER: No, I do not.

EXAMINER BROOKS: Very good.

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

DAVID F. BONEAU,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. David Francis Boneau.

Q. Dr. Boneau, where do you reside?

A. Artesia, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation.

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

A. I work as engineering manager at Yates Petroleum.

Q. Have you previously testified before this Division?

A. Yes, sir.

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

A. Yes, they were.

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

A. Yes, sir.

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

A. I have done that, yes, sir.

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

EXAMINER BROOKS: They're accepted.

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

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

Q. And that's the area --

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

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

Q. What does the yellow shading indicate?

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Number 9, drilled and abandoned.

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

Number 11 never produced and is not an economic well.

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

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

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

Q. What is Exhibit 13?

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

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

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

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

wells do not make it.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Q. And from this testimony it should be apparent

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

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

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

A. Yes, sir, very definitely.

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

A. They were, yes, sir.

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

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

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

EXAMINER BROOKS: Ten through 15 are admitted.

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

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

EXAMINER STOGNER: I dare not risk asking any questions.

MR. CARR: Then that concludes our presentation

in this case -- in these cases.

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

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

* * *

April 24

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13056 heard by me on May 8, 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