

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

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OIL CONSERVATION DIVISION

MAR 18 2004

IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )  
APPLICATION OF YATES PETROLEUM )  
CORPORATION FOR POOL CREATION AND )  
THE ADOPTION OF SPECIAL POOL RULES, )  
EDDY COUNTY, NEW MEXICO )

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

CASE NO. 13,222

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

March 4th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 4th, 2004, 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.

\* \* \*

## I N D E X

March 4th, 2004  
 Examiner Hearing  
 CASE NO. 13,222

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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   8:20 a.m.:

3           EXAMINER STOGNER: On page 1, down at the bottom,  
4   I'm going to call Case 13,222. This is the Application of  
5   Yates Petroleum Corporation for pool creation and the  
6   adoption of special pool rules in Eddy County, New Mexico.

7           Call for appearances.

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

12          EXAMINER STOGNER: Any other appearances?

13          Will the witnesses please stand to be sworn?

14          (Thereupon, the witnesses were sworn.)

15          MR. CARR: Mr. Stogner, at this time we call John  
16   Humphrey.

17          EXAMINER STOGNER: Mr. Carr, please continue.

18                         JOHN F. HUMPHREY,

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

21                                 DIRECT EXAMINATION

22   BY MR. CARR:

23           Q. Mr. Humphrey, will you state your full name for  
24   the record?

25           A. John Humphrey.

1 Q. Where do you reside?

2 A. Artesia, New Mexico, and I'm employed by Yates  
3 Petroleum Corporation.

4 Q. What is your current position with Yates?

5 A. Petroleum geologist.

6 Q. Have you previously testified before the Oil  
7 Conservation Division and had your credentials as an expert  
8 in petroleum geology accepted and made a matter of record?

9 A. Yes, I have.

10 Q. Are you familiar with the Application filed in  
11 this case on behalf of Yates?

12 A. Yes, I am.

13 Q. Are you familiar with the status of the lands  
14 involved in the area of the proposed new Abo Pool, which is  
15 the subject of today's hearing?

16 A. Yes, I am.

17 Q. Have you made a geological study of the area that  
18 is involved in this case?

19 A. Yes, I have.

20 Q. And are you prepared to share the results of your  
21 work with Mr. Stogner?

22 A. Yes.

23 MR. CARR: Mr. Stogner, we tender Mr. Humphrey as  
24 an expert in petroleum geology.

25 EXAMINER STOGNER: Mr. Humphrey is so qualified.

1 Q. (By Mr. Carr) Would you briefly summarize for  
2 the Examiner what it is that Yates Petroleum seeks in this  
3 case?

4 A. Yates seeks the creation of a new pool in the Abo  
5 formation, comprised of the north half of Section 36,  
6 Township 21 South, Range 21 East. This is via the results  
7 of the discovery of natural gas in the Abo formation in the  
8 Duvel "BCD" State Com Number 1, which is located 710 feet  
9 from the north line and 1980 feet from the west line of  
10 Section 36. We seek special pool rules, including  
11 provisions for 320-acre spacing for the Abo on a two-year  
12 temporary basis.

13 Q. So we're requesting temporary pool rules?

14 A. That's correct.

15 Q. Would you identify what has been marked as Yates  
16 Petroleum Corporation Exhibit Number 1 and review this for  
17 Mr. Stogner?

18 A. Yates Petroleum Corporation Exhibit Number 1 is a  
19 regional structure map of the top of the Abo dolomite. The  
20 location of the Duvel "BCD" State is indicated in 21 South,  
21 21 East on the structure map. The closest production to  
22 the Duvel "BCD" State Com Number 1 is 14 miles to the  
23 northeast of the Duvel. It is approximately 1000 feet  
24 downdip. The Siegreest Draw field, again, is closest upper  
25 Abo production, comprises of seven poor oil wells with a

1 cumulative production of 86,000 barrels of oil and 341  
2 million cubic feet of gas.

3           Basically what we're showing here on the  
4 structure map, Mr. Examiner, is the position of the  
5 productive Abo in relationship to the shelf edge of the  
6 Abo. Basically we're looking at grainstones that are -- at  
7 least in my opinion, they're parallel small field areas  
8 that -- small to medium field areas that are parallel to  
9 the shelf edge of the Abo, which is indicated -- the shelf  
10 edge is indicated with the blue line on the structure map.  
11 And there could be other Abo production parallel to the  
12 shelf edge between the Siegrist Draw field and the Duvel  
13 location.

14           And also indicated on the structure map is cross-  
15 section A-A', which will look at the productive intervals  
16 in the Duvel location, compared to the Siegrist Draw field.

17           Q. Let's go to the cross-section, Yates Exhibit  
18 Number 2.

19           A. Basically, Mr. Examiner, this shows where the Abo  
20 is perforated in the Duvel well. This well is a well in  
21 the Siegrist Draw field. I use as an example the Sunflower  
22 "AHW" Fed 3. That had a cumulative production of 28- --  
23 approximately 29,000 barrels and about 73 million cubic  
24 feet of gas.

25           And again, Mr. Boneau will go over the productive

1 characteristics of the formation in more detail, but again,  
2 we're 1000 feet updip, the discovery well is, from the  
3 Siecrest Draw field. And what we've seen is predominantly  
4 natural gas in the -- well, all we've seen is natural gas  
5 in the Duvel well, as opposed to the Sunflower.

6 Q. Are there any other operators in the proposed new  
7 pool?

8 A. No, there are not.

9 Q. Are there any other operators of any Abo wells  
10 within a mile of the pool boundaries?

11 A. No, there's not.

12 Q. Not for 14 miles; isn't that right?

13 A. That's correct.

14 Q. There were therefore no owners to whom notice of  
15 this Application was required pursuant to Division Rules?

16 A. That's correct.

17 Q. Can you just provide the general conclusions that  
18 you reached from your geologic review of this area?

19 A. Due to the drilling of the well, Yates has found  
20 a new source of supply of natural gas in the Abo formation  
21 at the Duvel location, and it's obvious that it's a  
22 separate source of supply than the wells in the Siecrest  
23 Draw field to the northeast 14 miles.

24 Q. And then Yates will call Dr. Boneau to review the  
25 engineering portion of the case and explain why we're

1 requesting these rules?

2 A. That's correct.

3 Q. Were Exhibits 1 and 2 prepared by you?

4 A. Yes, they were.

5 MR. CARR: Mr. Stogner, at this time we'd move  
6 the admission into evidence of Yates Exhibits 1 and 2.

7 EXAMINER STOGNER: Exhibits 1 and 2 will be  
8 admitted into evidence at this time.

9 MR. CARR: And that concludes my direct  
10 examination of Mr. Humphrey.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Mr. Humphrey, in looking at Exhibit Number 1, as  
14 I understand, that's the closest pool, is that Siecrest  
15 Draw field or the upper Abo production, if I went due east  
16 of here where would my nearest Abo production be up on the  
17 shelf?

18 A. Well, you're going down into the Basin as you go  
19 to the east, Mr. Examiner, so you basically -- the Abo  
20 disappears within a matter of a couple of miles. You don't  
21 actually even -- You have a basinal equivalent of it. So  
22 there's no Abo production at all to the east. And we're  
23 right within a mile or two of the shelf edge, as indicated  
24 on the structure map.

25 Q. Is there any Abo production up on the shelf if I

1 go back to the south and west?

2 A. No, sir.

3 Q. So this is the furtherest --

4 A. It's some of the furtherest production, period,  
5 of natural gas. You're getting pretty close to the western  
6 edge of commercial production in Eddy County here.

7 If you keep going to the southwest there's a very  
8 major fault, and there's no production at all on the  
9 upthrown side of that fault.

10 Q. What am I seeing as depositional change or the  
11 kind of reservoir rock that's in this Duvel well, as  
12 opposed to the Siegreest area?

13 A. It looks basically the same. It's common to see  
14 what we call grainstones at the shelf edge here. You have  
15 some shoaling events. Basically you see some carbonate  
16 sands are deposited parallel to the self edge, and that's  
17 basically why you're seeing, I think, production equivalent  
18 position from the shelf edge as the Siegreest Draw field.  
19 Of course, we're a thousand feet updip and we're seeing  
20 natural gas as opposed to oil and water.

21 Q. Any indication of microfracturing or fracturing  
22 as you go up that -- updip?

23 A. I haven't seen -- We did run a formation micro-  
24 scanner or a formation micro-imager, as they call it now,  
25 over the formation. I didn't see any indication of

1 fracturing in the Abo.

2 Q. This wasn't cored, was it?

3 A. Sidewalls.

4 Q. Sidewalls, cored?

5 A. Yeah.

6 Q. Were you surprised to see the Abo?

7 A. Yes, we were.

8 Q. Okay.

9 A. And Dr. Boneau will go into it. We had a very  
10 nice show when we drill stem tested it, and basically  
11 established at least the interest in it, then we completed  
12 in the Abo subsequent to the well.

13 Q. In your opinion, was Dr. Boneau surprised?

14 A. I don't know if you can ever surprise Dr. Boneau,  
15 but...

16 Q. I have yet to find first person to be surprised.  
17 I thought you might have been it.

18 When was this well drilled?

19 DR. BONEAU: It was probably in October --

20 THE WITNESS: Yeah, yeah, it was late last year.

21 DR. BONEAU: -- October, 2003.

22 EXAMINER STOGNER: Okay, I have no other  
23 questions for Mr. Humphrey at this time.

24 MR. CARR: That concludes our testimony with Mr.  
25 Humphrey, and now we'd like to call the surprising Dr.

1 Boneau.

2 DR. BONEAU: I'm just glad to be here.

3 DAVID F. BONEAU,

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

6 DIRECT EXAMINATION

7 BY MR. CARR:

8 Q. Would you state your name for the record?

9 A. David Francis Boneau.

10 Q. By whom are you employed?

11 A. Yates Petroleum Corporation.

12 Q. And what is your position with Yates?

13 A. It's called engineering manager.

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

16 A. Yes, sir.

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

20 A. Yes, they were.

21 Q. Are you familiar with the Application filed in  
22 this case?

23 A. Yes, sir.

24 Q. Have you made an engineering study of the area  
25 that is the subject of the Application?

1 A. Yes, we've done that.

2 Q. And are you prepared to share the results of your  
3 study with Mr. Stogner?

4 A. We are.

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

7 EXAMINER STOGNER: Dr. Boneau is so qualified.

8 Q. (By Mr. Carr) Dr. Boneau, would you refer to  
9 what has been marked for identification as Yates Exhibit  
10 Number 3, identify this and then review the information on  
11 this exhibit?

12 A. Yes, Exhibit 3 is my attempt at a summary of what  
13 we're trying to do today. I've called it Box Canyon-Abo  
14 Pool, because the other wells in the area are called Box  
15 Canyon, but that's -- We don't care about what you call it,  
16 just call it Abo. But we're seeking to establish this Abo  
17 pool with temporary special rules that include 320-acre  
18 spacing, the possibility of a second well on the other 160  
19 acres that's not drilled with the first well, and 660-foot  
20 setbacks.

21 The rules that we're seeking would make this Abo  
22 pool have the same rules as deep gas pools, as Morrow gas  
23 pools, and that's basically the idea.

24 The area we're talking about is a single 320 in  
25 the north half of Section 36.

1           And then in the middle I go through pretty much  
2 the history of the well, and let's try to do that and get  
3 this story out to the Examiner.

4           Yates drilled this well, spudding in October of  
5 last year. It was set up as a Morrow test, as all our  
6 wells had set up as a Morrow test. While drilling, we  
7 found this Abo zone on the way down and ran a DST at 3560  
8 to 3671, and it flowed gas to surface at a rate of 227 MCF  
9 a day on DST. And it was a surprise to everyone that this  
10 Abo zone was there.

11           The well was then drilled to 8700 feet through  
12 the Morrow to the Chester limestone to test basically all  
13 the zones in the area. We -- In completing the well, we  
14 tested a number of zones. You see them all listed here.  
15 But none of them are sensational, and that's part of the  
16 point. But we did actually test the Barnett shale at 8588  
17 and it made almost 400 MCF a day, so maybe there actually  
18 is something there.

19           The Morrow we tested at 8368 to 8404, the primary  
20 objective in the well, and it tested wet, so not a success  
21 at all there.

22           Then we tested three Permo-Penn zones, and the  
23 depths are listed there, and one of them didn't produce at  
24 all, one of them produced 100 MCF a day and one of them  
25 about 300 MCF a day. So we have a bunch of mediocre zones,

1 is what we had down in the deep.

2           Then finally we tested this Abo, and actually we  
3 tested two zones, as was indicated on the geology exhibit.  
4 So we tested the DST zone, which is part of the upper Abo,  
5 and then another zone about 100 feet lower. And they  
6 produced -- the maximum recorded was 826 MCF a day, so a  
7 halfway reasonable amount of production. And the well was  
8 completed in that Abo zone, and it's sitting there, has  
9 never produced.

10           So that's what we have in the well.

11           I think I'm actually trying to make two points.  
12 One is that this Abo could exist over a relatively  
13 substantial area, and so it's worth making pool rules. And  
14 the second is that the ownership is diverse in some of this  
15 area, and I really think what we're proposing -- that we  
16 essentially make the ownership uniform from top to bottom,  
17 and that turns out to be fairer in my opinion, but...

18           So we have mudlog shows in several -- about five  
19 other wells around here. And to me, that indicates that  
20 this Abo could exist over a substantial area. Then like I  
21 say, I want to give an example of ownership where it works  
22 out better, in my opinion, with the new proposed rules.

23           Q. Dr. Boneau, as you go forward with your efforts  
24 to develop the area, you look at a six-section area that  
25 could encompass as many as 25 wells. That's potentially

1 there, is it not?

2 A. That's what we think. And that's what makes it  
3 worth going to this trouble and taking the Examiner's time  
4 to go to this trouble to set up a pool, is that it might  
5 actually be substantial.

6 Q. Let's go to what has been marked Yates Petroleum  
7 Corporation Exhibit Number 4, the plat. Would you review  
8 that?

9 A. Exhibit 4 is a map from the Midland Map Company  
10 with some of the area colored in yellow, and that is Yates  
11 Petroleum acreage that's colored in yellow. There's a lot  
12 of white acreage too, but there's substantial Yates  
13 acreage. And the pink circle indicates the location of the  
14 subject well, Duvel State Com Number 1.

15 Q. Compare this to the next exhibit, Yates Exhibit  
16 5.

17 A. Exhibit 5 is the same picture with a little  
18 additional information. What's added are two boxes.

19 A green box, this is the 320-acre spacing unit  
20 that would be the -- well, would be the spacing unit for  
21 the deep production, and what actually looks like it might  
22 produce is the Permo-Penn or that deep shale, but that  
23 would be on 320 acres as indicated by the green box.

24 And the red square is the 160-acre spacing unit  
25 for Abo gas in this area, and it would be the northwest

1 quarter of Section 36, would be the spacing unit for Abo.

2 And the point is, the current rules now have  
3 different spacing units for those productive zones,  
4 different productive zones in the same well.

5 Q. And while you're gathering data on the reservoir  
6 to try to determine its extent what you're advocating is  
7 the same rules for the deep gas and for the Abo in this  
8 area, as you go forward with this effort?

9 A. Exactly, we think that would be convenient and  
10 save everybody headaches.

11 Q. Let's go to Exhibit Number 6, and I would ask you  
12 to review the data on that exhibit as it relates to the  
13 Siegreest Draw-Abo Pool.

14 A. This is our attempt to give Mr. Examiner a  
15 feeling for what we're dealing with here. We're dealing  
16 with, you know, relatively marginal things. And so Exhibit  
17 6 is a listing of some data, production data, basically, on  
18 the seven wells that have produced from the Abo in this  
19 Siegreest Draw field 14 miles away.

20 The production numbers are out to the right, the  
21 right three columns. But the best well has made 28,000,  
22 29,000 barrels. The best well, the best gas well, has made  
23 .22 BCF. And the wells that have made decent amount of oil  
24 and gas have made a lot of water, as you can see by the  
25 half a million and million barrels of water there.

1 I think the point -- Well, the Siecrest Draw  
2 field in the Abo is not really a commercial success. It's  
3 seven mediocre wells, probably none of them actually  
4 economic on their own.

5 The connection -- Well, we're showing this just  
6 so you know the facts, and the connection, I think, is that  
7 maybe the Abo in the Duvel is, you know, decent but not  
8 fantastic, kind of idea. We don't know if it's fantastic  
9 yet. But there are several productive zones, and we may  
10 end up commingling. And if the ownership were common it  
11 would be a lot easier to do, just to go forward with the  
12 development.

13 Q. Let's look at the mudlog information. Would you  
14 refer to Exhibit Number 7?

15 A. Number 7 and 8 talk about mudlog shows in other  
16 wells in the immediate area of the Duvel. So there are  
17 actually five peak circles, and those are wells with mudlog  
18 shows. One of them in Unit C of Section 36 is the Duvel  
19 we're talking about, and it has the best show. But the  
20 other four, two to the north and two to the south, have  
21 real mudlog shows in the Abo. And actually one of those we  
22 plugged and various things, but now we're seeing the light,  
23 and we're going to go back and look for that Abo.

24 The following exhibit, Number 8, is a table with  
25 a little more detail, but it concerns the same five wells

1 that have Abo shows. And again, out at the right are what  
2 are called the maximum gas units, how big a show it was.  
3 And the Duvel actually has shows in those two zones, 190  
4 and 175 gas units, and those are arbitrary kind of units,  
5 but they're relative to each other.

6 The other four gas shows are smaller, in the 20  
7 to 50 gas unit range but, you know, definitely more than  
8 zero, and there is some gas in the Abo in those other  
9 places. And so we think that this Abo could be productive  
10 in -- you know, I'm saying -- we do a wiggly-line outline  
11 on Exhibit 7, and it covers like six sections. Anyway, so  
12 there could be 20 wells that we'd end up with, producing  
13 from this Abo pool.

14 Q. Let's go to Yates Exhibits 9 and 10. Would you  
15 first identify them and then explain what they show?

16 A. Okay, be happy to do that. Exhibit 9 and 10 are  
17 aimed at the idea -- if Yates owns a whole bunch of acreage  
18 out here, does it really matter what the ownership division  
19 is? And the answer is, yes, in some of the cases it does  
20 matter. And this is just a what-if example to show what  
21 we're trying to avoid.

22 And so Exhibit 9 is the theoretical idea that we  
23 would drill a well, offset the Duvel in the northeast  
24 quarter of Section 35. And again, we've drawn boxes with  
25 320 and 160-acre spacing.

1           So this conceptual well in the northeast quarter  
2 of Section 35, we're surely going to drill for the Morrow  
3 in the deep zones. You see that Yates owns 7/8 of the  
4 eastern half, but some other people named Fortner, I  
5 believe, own 12.5 percent of that.

6           So the point is, on 320s, which is what you would  
7 drill for the Morrow, these non-Yates people would pay one-  
8 eighth of the cost of the well. And as the rules are now,  
9 if we ended up in the Abo, they would have no ownership in  
10 the Abo production. And if you let us make the rules like  
11 we're saying, they would end up with one-eighth of the Abo  
12 production, which just seems fairer to me.

13           So anyway, that's the whole point. It's aimed at  
14 being an example of where these proposed pool rules would  
15 make the ownership different than it is now and, in my  
16 opinion, make the ownership fairer than it might be under  
17 the present rules.

18           And Exhibit 10 just is a table showing that --  
19 the numbers backing up the story I tried to say there.

20           Q.    Could you just summarize briefly for Mr. Stogner  
21 the conclusions you've reached from your engineering study?

22           A.    Yes, I can do that. We have this new Abo  
23 production, some excitement about it. But it may not be  
24 able to develop a whole play on its own, and so we think  
25 commingling is going to be involved. We think it would be

1 convenient and fairer, my words, to develop the field under  
2 rules where the Abo has the same spacing and same setbacks,  
3 et cetera, as the deeper zones, and we're asking to do that  
4 on a temporary basis so we can proceed with some  
5 development and come back sometime and tell you what  
6 actually happened.

7 Q. You're asking for temporary rules for a two-year  
8 period of time; is that right?

9 A. Yes, and the two years is a number I picked,  
10 basically, as I think -- I mean, we'll take whatever you  
11 give us, but to give us time to develop something out here.  
12 And I can't see anything going real wrong in two years, so  
13 I'm the one that thinks two years is a good length of time  
14 for this.

15 Q. In your opinion, will approval of this  
16 Application be in the best interests of conservation, the  
17 prevention of waste and the protection of correlative  
18 rights?

19 A. Yes, it actually will.

20 Q. Were Yates Exhibits 3 through 10 prepared by you  
21 or compiled under your direction and supervision?

22 A. Yes, they were.

23 MR. CARR: Mr. Stogner, at this time we would  
24 move the admission into evidence of Yates Petroleum  
25 Corporation Exhibits 3 through 10.

1 EXAMINER STOGNER: Exhibits 3 through 10 will be  
2 admitted into evidence at this time.

3 MR. CARR: That concludes my direct examination  
4 of Dr. Boneau.

5 EXAMINATION

6 BY EXAMINER STOGNER:

7 Q. Dr. Boneau, what's some of the closest deep  
8 Morrow-Pennsylvanian production to this well?

9 A. Directly north. That's near the top of my maps,  
10 pretty much any of the maps, they cover the same area. But  
11 up in Section 13, 18, where it really says "Box Canyon",  
12 and a little bit further north of that is a huge amount of  
13 production on BP AMOCO -- I mean -- yeah, BP, whatever  
14 they're called, BP Americas, Box Canyon/Sweet Thing area,  
15 there's some huge amounts of Morrow production three, four,  
16 five miles north.

17 Q. Are those pools Morrow or are they Pennsylvanian  
18 or Permo-Pennsylvanian or pre-Permian pools?

19 A. They're Morrow and Permo-Penn, in my memory.

20 Q. Now I noticed on Exhibit Number 3 how this well  
21 tested the Morrow, drilled down to the Chester, Chester  
22 limestone below the Morrow, and then you tested there. And  
23 also in subparts h. and i. of that, you tested some  
24 perforations between 6000 and 7000 feet. Is that  
25 commercial productive acreage -- I mean production, rather?

1 Are those completed for commercial production, along with  
2 the Abo?

3 A. They are not completed that way at the moment.  
4 But what I think will happen is that this well will end up  
5 producing hopefully commingled from the Permo-Penn and the  
6 Abo, is what I really expect. Because Permo-Penn, the h.  
7 and i. -- basically i. -- is a quite promising Permo-Penn  
8 zone, and those things hang in there. And I would expect  
9 that we would actually produce that zone.

10 Q. Now, those Permo-Penn zones that you're talking  
11 about, are they wildcat also, or are they within a pool  
12 boundary?

13 A. In Section 36, in Unit E, there's a plugged well.  
14 It's called Cities JH. You can barely read the JH. But  
15 anyway there's a well there that's plugged. That well  
16 produced from the Box Canyon-Permo-Penn Pool, about a  
17 quarter of a BCF, but it produced from the Box Canyon-  
18 Permo-Penn Pool. It was plugged about ten years ago, but  
19 that acreage was in a Permo-Penn pool. Whether it is at  
20 this moment is a -- you know, a semantics problem maybe,  
21 but that was a Permo-Penn pool, called Box Canyon-Permo-  
22 Penn.

23 Q. Do you know if that pool has any production  
24 currently?

25 A. I think that it does further north.

1 Q. Now, it's my understanding that Yates is  
2 proposing to just downhole commingle and open up both  
3 zones?

4 A. I think that that's what we will end up doing.  
5 We never know from day to day what actually we're really  
6 going to do, but that's the plan today. The actual plan  
7 is, we're going to produce the Abo. If the Abo is  
8 relatively sensational, we will be happy and go on. If the  
9 Abo drops to half a million or something, we will be  
10 looking at commingling Permo-Penn with that Abo.

11 Q. Well, I'm sitting here dancing around the issues,  
12 but I'm the wrong Examiner to bring a case that you're just  
13 wanting to hold acreage and gerrymander the pool rules to  
14 make it work. One could just hold acreage. Out of the  
15 ones I've had, it's always been based on science, and  
16 perhaps I was the wrong one to bring something like this  
17 to.

18 A. Well, that's why we ask for a permanent -- we  
19 don't -- I mean, the whole acreage that is -- Well, I would  
20 disagree that that's the point, but what you can -- you can  
21 think whatever you'd like, that's just fine. But that's  
22 the reason that it's temporary, so that we can see how this  
23 goes. I'm giving you a lot of basically unsubstantiated  
24 opinions about what will happen. We can go for a period of  
25 time and see what actually happens, and then it will be

1 easier to see what is the right -- really the right thing  
2 to do.

3 Q. Dr. Boneau, I understand what you're saying on  
4 that, but the precedent set today by doing something like  
5 that may not be the case that would be in some other area  
6 like Lea County where you had some federal and state and  
7 fee acreage and some other operators that were less than  
8 trustworthy utilizing this same thinking today.

9 There are some pre-Permian gas pools. Is that a  
10 possibility, just to extend the interval up into the Abo  
11 formation and then just treat it all as one common source  
12 of supply?

13 A. That is surely possible, it would accomplish the  
14 same thing, yes. To my mind, by making the Morrow  
15 basically on 160s -- yeah, you make these kind of -- or  
16 somebody, the world, has made these kind of things  
17 attractive, the Abo on 160s and the Morrow, two per 120,  
18 leads to the kind of thinking that you're hearing today.

19 Q. Okay, let's go back to Exhibit Number 3, and I'm  
20 taking a look at your completion in December, showing 195  
21 MCF a day for that Abo, and yet you testified too that some  
22 of the shows up above are about the same. So it's your  
23 opinion that this production from the Abo is draining just  
24 as much land as some of the deeper zones on 320?

25 A. Well, it is really my testimony that the Abo has

1 a reasonable chance of draining 160, and with the Morrow on  
2 two wells per 320, I think that that's relatively  
3 equivalent. I'm not sure if I understood what you're  
4 asking, sir.

5 Q. Well, is the Abo capable of draining more than  
6 160 acres in this area?

7 A. I think that we have no definite proof that that  
8 is true. And I didn't want to give you a -- you know,  
9 totally fictitious, totally opinion drainage calculation.  
10 I just didn't want to do that.

11 Q. Is there a reason why Yates didn't unitize this  
12 area like Yates usually does in a wildcat area?

13 A. I don't know the reason. It just -- You know,  
14 look at the ownership. We thought we could drill a Morrow  
15 well here. Every Morrow -- I don't know, Morrow wells  
16 don't lend themselves to unitization, in my opinion. We  
17 thought we could drill a Morrow well. The Morrow bombed  
18 out, we ended up serendipitously with this Abo, and we're  
19 trying to do something sensible with the Abo. To me,  
20 that's the story, and a unit to save acreage is not part of  
21 the story at all.

22 EXAMINER STOGNER: Do you have any other  
23 questions of Dr. Boneau?

24 MR. CARR: No, don't.

25 EXAMINER STOGNER: Okay. Mr. Carr, could you

1 perhaps provide me a brief --

2 MR. CARR: I can.

3 EXAMINER STOGNER: -- after our discussions today  
4 on what you have heard of the possibilities, the precedents  
5 in establishing spacing larger than what has been set --

6 MR. CARR: Okay.

7 EXAMINER STOGNER: -- for other reasons besides  
8 scientific? It's a new world, and I'm open to hear  
9 things --

10 MR. CARR: Okay.

11 EXAMINER STOGNER: -- and perhaps you can provide  
12 me something to help establish...

13 MR. CARR: I need ten days on that, if that's all  
14 right, Mr. Stogner. Can I have ten days to get that to  
15 you?

16 EXAMINER STOGNER: Oh, sure, yeah. Also, could  
17 you provide me a rough draft?

18 MR. CARR: Yes.

19 EXAMINER STOGNER: Do you need another ten days  
20 for that or --

21 MR. CARR: No, I don't, I can do it all -- I've  
22 got a couple of things I've got to do next week that you're  
23 also going to see, and this has to come behind it.

24 EXAMINER STOGNER: Okay. Well, with that, if  
25 there's nothing further in Case Number 13,222, I'm going to

1 hold the record open --

2 MR. CARR: Okay.

3 EXAMINER STOGNER: -- for ten days. The onset of  
4 that ten days, if it's necessary to re-open the case for  
5 additional testimony or for the record --

6 MR. CARR: We can do that.

7 EXAMINER STOGNER: Thank you.

8 MR. CARR: Thank you.

9 (Thereupon, these proceedings were concluded at  
10 9:00 a.m.)

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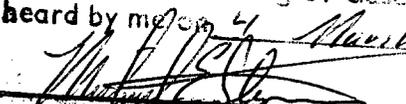
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 13222,  
heard by me on 4 March 2004.  
  
Michael E. Stogner, Examiner  
Oil Conservation Division

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 March 5th, 2004.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006