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 APPROVAL OF A PILOT PROJECT, INCLUDING AN EXCEPTION FROM RULE 4 OF THE SPECIAL RULES AND REGULATIONS FOR THE PECOS SLOPE-PENNSYLVANIAN POOL FOR PURPOSES OF ESTABLISHING A PROGRAM TO DETERMINE PROPER WELL DENSITY AND WELL-LOCATION REQUIREMENTS IN PENNSYLVANIAN WELLS, CHAVES COUNTY, NEW MEXICO	CASE NO. 13,706

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 11th, 2006

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 11th, 2006, 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.

* * *

STEVEN T. BRENNER, CCR
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I N D E X

May 11th, 2006
Examiner Hearing
CASE NO. 13,706

* * *

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A P P E A R A N C E S

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By: OCEAN MUNDS-DRY

* * *

WHEREUPON, the following proceedings were had at 8:20 a.m.:

EXAMINER CATANACH: We're going to go a little bit out of order on these cases today.

We're going to hear at this time two of the Yates cases, 13,706 and 13,707.

So at this time I will call Case 13,706, which is the Application of Yates Petroleum Corporation for approval of a pilot project, including an exception from Rule 4 of the special rules and regulations for the Pecos Slope-Pennsylvanian Pool for purposes of establishing a program to determine proper well density and well-location requirements in Pennsylvanian wells, Chaves County, New Mexico.

And at this time I will call for appearances.

MS. MUNDS-DRY: Good morning, Mr. Catanach. My name is Ocean Munds-Dry with the law firm of Holland and Hart, here representing Yates Petroleum Corporation this morning, and I have one witness.

EXAMINER CATANACH: Are there any additional appearances in this case?

There are none.

Can we swear in the witness, please?

(Thereupon, the witness was sworn.)

DAVID F. BONEAU,

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

DIRECT EXAMINATION

BY MS. MUNDS-DRY:

Q. Good morning, Dr. Boneau. Would you state your full name for the record?

A. David Francis Boneau.

Q. Where do you reside?

A. Artesia, New Mexico.

Q. And by whom are you employed?

A. Yates Petroleum Corporation.

Q. Have you previously testified before the Oil Conservation Division?

A. Yes, ma'am.

Q. And have your credentials an expert in petroleum engineering been accepted and made matter of record before this Division?

A. Yes, they have.

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

A. Yes, I am.

Q. Are you also familiar with the status in the portion of the Pecos Slope-Pennsylvanian Pool that is the subject of this hearing?

A. Yes, I'm familiar with that.

Q. And have you made an engineering study of the area that is the subject of this Application?

A. Yes, I've made that study.

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

A. You bet.

MS. MUNDS-DRY: Mr. Catanach, are his qualifications acceptable?

EXAMINER CATANACH: They are.

Q. (by Ms. Munds-Dry) Dr. Boneau, have you prepared exhibits for presentation here today?

A. Yes, approximately 10.

Q. Would you please turn first to Yates Exhibit Number 1 and explain to the Examiner what Yates is proposing in this case?

A. Yes, Exhibit 1 is a kind of introductory and summary, together, page. Yates seeks authority to drill -- we really seek -- I'm not sure what your words say, but we really seek authority to drill two additional wells in the Pecos Slope-Penn Pool as an experiment, because it's time to waterflood that pool, in my opinion.

Briefly, the history of this is, we discovered a Cisco -- a Penn oil pool with a well called George Number 10 in 2001. In November, 2001, we came for temporary rules

for that pool, and they drain more than 40 acres, and -- anyway. Those rules were made permanent by a hearing that I was at in March of 2003.

The pool rules allow 320-acre spacing units for oil wells, with a second well allowed in the other quarter quarter section, so one well in each quarter quarter section, 660-foot setback in the -- this allowable for the spacing unit is 694 barrels of oil per day. And actually, the first well produced over 400 barrels a day at the start, but they're not making anything like that now.

Q. And Dr. Boneau, we're not seeking to change the allowable today; is that correct?

A. No, the allowable is plenty high.

Anyway, there are now four wells in this pool. We've drilled about ten times trying to outline the pool, but there are four wells. Two substantial oil wells, George Number 9 and 10, with cumulative production of 130,000 and 220,000 barrels each, so really good oil wells with substantial drainage.

Then updip there's a well, George Number 2Y, that's sort of an oil/gas -- on the edge between the oil zone and the gas cap.

And then there's a well called Powers 6 that's updip in a tight location, and so it's a gas well, not that great a gas well.

My calculations, which you can see in whatever detail you want, say that we have drained about 420 acres so far, and the better wells have clearly drained over 80 acres. And so the present spacing is not the problem.

Item number 6 gets to the -- Our pressure and performance data suggest that -- to me, at least, that there are two separate reservoirs, and I think it's time to waterflood these. And the goal is to be sure that we have at least two wells in each of these reservoirs, so that there's one to put some water in and one to take some oil out of.

Q. And you --

A. That's really the purpose of our experiment.

Q. And you'll have some additional pressure data, I think we'll show in a little while, that --

A. We'll show you our data. You know, I'll tell you my conclusions, and you can come to whatever conclusions you think are appropriate. That's kind of an outline of where we're going.

Q. And you mentioned that Yates seeks to drill two new wells initially under this Application. What are the names of those two wells, and where do you propose to locate them?

A. Okay, the two wells that we seek authority to drill are actually in items 7 and 8 on the first page. The

first well is called the George QJ Federal Number 13. It's located 990 north and 660 west of Section 35, 6 South, 25 East in Chaves County.

And then depending on how that turns out, the second well would be the George QJ Federal Number 12, 990 from the south and 660 from the west in Section 26.

Anyway, two specific locations that we're asking to drill.

MS. MUNDS-DRY: And Mr. Catanach, we'd ask that you take administrative notice of Case Number 12,751, which was the original case establishing the pool in this matter.

EXAMINER CATANACH: Administrative notice will be taken of that case.

Q. (by Ms. Munds-Dry) Dr. Boneau, would you please then turn to Exhibit Number 2 and explain to Mr. Catanach what it is and what it shows?

A. Well, Exhibit Number 2 is a map, an ownership-type map and a well-location map. It shows 16 sections. The yellow indicates leases where Yates is the operator. The small amount of white is operated by Great Western for the most part. There are lots of Abo wells in this area, and they are not shown on this map. What are shown on this map are the wells that penetrated deeper than 4800 feet and so went into the Penn.

The four wells that we're talking about are in

black, in the middle, more or less in the middle. And the two wells that we're seeking authority to drill have little red circles that say -- in red writing that says George 12 and George 13 next to it in the middle of the page.

Q. All the yellow area, you said, is operated by Yates; is that correct?

A. Yes.

Q. And if you'll please turn to Exhibit Number 3, Dr. Boneau, and explain what you're showing here to the Hearing Examiner?

A. Exhibit Number 3 is the same map, with the addition that there are four standup 320-acre spacing units outlined that are associated with the four wells in black, the four wells that we're talking about. So those four 320-acre spacing units are really the Pecos Slope-Penn Pool.

Q. So this gives them an idea of what the pool boundaries are for the Pecos Slope-Penn Pool?

A. Yes, ma'am.

Q. Okay. If you'll please turn to Exhibit Number 4, which is titled Deep Wells in Sixteen-Section Area, and explain that Mr. Catanach?

A. Okay, Exhibit 4 is a table listing some information about 25 wells. They are the 25 wells in this 16-section area that have been deeper than 4800 feet, that

basically have been drilled to test the Penn rather than the Abo. Lots of them have ended up as Abo wells, but -- and it is our intention not to go over this in detail.

Q. And if we'll turn to Yates Exhibit Number 5, and I see that you have four wells bolded here at the bottom, if you'll please explain that to the Hearing Examiner.

A. Exhibit 5 is a subset of the 25 wells on the previous page, and actually the items have the same numbers at the left as I had on the previous page. These are wells that have been completed in the Penn. Somebody found something worth trying in the Penn.

The top four are of secondary interest here, and they just say that there's been a few marginal wells found.

The four at the bottom are the four that we're directly interested in, in this Pecos Slope-Penn Pool, the George 10, 9, 2Y and Powers Deep Number 6.

Q. So do you think that these four wells really represent where the formation is located?

A. Represent the reservoir -- we would call it a -- our geologist would call it a Cisco reservoir, but a Cisco dolomite reservoir that -- more or less continuous in the same general area, yes. So those four wells at the bottom are the four wells that we've been talking about and the ones that we want to offset with these additional wells, for the reasons which I think are forthcoming.

Q. Thank you, Dr. Boneau. If you'll please turn to Exhibit Number 6 and identify this for the Examiner.

A. Okay, Exhibit Number 6 is a two-page table of monthly production from day one of these four wells in this Cisco Pool, and I think it's worth going to the very bottom and just looking through the numbers one time.

What I'd like to convey are the cumulatives and the present production of the various wells, and that's a little bit important. The wells are listed in more or less alphabetical order.

So anyway, the George 2Y is the first well. It's made 33,000 barrels of oil, .3 BCF and quite a bit of water. It is now making about 15 barrels of oil a day and 150 MCF, so it's still a decent producer.

The George Number 9 has produced 132,000 barrels of oil, and it's only making two or three barrels of oil a day anymore, and about 30 MCF. So it has dropped the furthest of the wells, it's the closest to the end of its life.

The George 10 is the best well, the original well, the one that was -- started out over 400 barrels a day. It's made 224,000 barrels, and it's still making over 20 barrels a day, it's still a decent well.

And then the fourth well, the Powers 6, has made 5000 barrels of oil and .1 BCF, and it's making about 40

MCF a day. It's been a mediocre well all along.

So really my point is that one of the wells is closer to death than the others, and that is one of the things that leads me to believe that it may be in a separate reservoir than the others.

Q. And I think we'll turn now to some other data that helps show that. If you'll please turn to Exhibit Number 7, this cross-section, and go over this for Mr. Catanach.

A. Okay, I'm not a geologist, and I've done zillions of these, but this is an exact duplicate of the cross-section that Tim Miller presented in 2003, and so I hope it's acceptable. It ought to be acceptable.

And it's simply -- It's an east-west cross-section through the field with non-productive well on the east and one non-productive well on the west, and it's just -- its purpose is just to show that these four wells have porosity in the same zone, and it's a way to get a little -- a log of the individual wells into the record, if that is any interest. We have a cross-section, if questions come up involving the logs or the porosity or anything else.

Q. Thank you, Dr. Boneau, if you'd please turn to Exhibit Number 8.

A. Exhibit Number 8 is the engineer's version of

that, more or less done with crayons, and it is simply a stick diagram of the structure of these four wells. And so the perforated intervals are shown. And what it shows is that the wells on the east, the George 9 and 10, the oil wells, are downdip, and the reservoir goes updip to the west.

Q. And this may help explain why the Number 6 and Number 2Y wells produce more gas.

A. Why the Number 6 produces gas and the 2Y is sort of on the boundary where it produces oil and gas.

Q. What does Exhibit 9 show you?

A. Exhibit 9 is a plot of bottomhole pressure, what bottomhole pressure data we have, plus some extrapolations I've made. So it's a plot of bottomhole pressure versus time for each of the four wells.

The various colors correspond to the various well. The blue is the George 10 -- and the initial pressure in the reservoir is about 2300 pounds -- and the George 10 drops down to 1000 pounds in 2003, and I drew it as something like 500 pounds. It's still more or less the present time, based on no data but based simply on that it's still producing fairly well. And that's somewhat arbitrary but...

The idea is to contrast it with the George 9 well, which is the pink, and its pressure dropped sharper

so that in 2003 it was already down to 500 pounds, and I drew it now as down about 100 pounds, but very -- it's got to have very low pressure now.

The other two wells are shown in yellow and in what I would call green, and my take on it is that they're kind of following the trend set by the George 10, rather than the trend set by the George 9. And so my suspicion, opinion, however you want to say it, is that the George 9 is probably in a separate pod, and the other three wells are in the bigger pod. So there's -- it looks to me like there are two pods of porosity.

Q. And what is Exhibit Number 10? It looks like there's about five pages or so?

A. Yeah, Exhibit Number 10 are some details of calculations of drainage areas of these four wells, and those calculations involve analysis of the logs for each well. And actually those details were in the 2003 hearing and not reproduced here, but the outline of the calculation is reproduced here.

The point is simply to give the Examiner some idea of what size reservoir we're draining here, and my answers are that the George 10, the best well, is draining 192 acres, is what I get. These numbers were listed on the original -- on the first page, anyway.

The other well well [*sic*], 83 acres. The George

2Y is producing both oil and gas, and I would tend to add those numbers together to get about 90 acres, and the Powers 6 about 50 acres.

So all together those wells are draining about 400 acres, and really their drainage is in line with the present spacing. That's not the point, is to change the spacing or anything like that. The point is just that it's time to do something to improve recovery here, which to me means waterflood. And I'm just trying to get enough wells in place to waterflood what I think are these two separate little pods. That's the whole purpose of this hearing, as far as I can tell.

Q. And I know you don't like this word, but we're proposing here an infill well. The only really exception, if I understand correctly, is that we need to have the well in the same quarter section, which the current rules don't provide; is that correct?

A. Yes, that's correct. The reservoir just turns out to be smaller than we hoped with the original rules, is, I think, the honest way to say it.

Q. Let's turn to Exhibit Number 11, and explain that to Mr. Catanach.

A. Yes, Exhibit 11 is the same map we've seen previously. I've drawn a shape on it that contains about 500 acres, which is my estimate of like the ultimate

drainage area of these wells. They're 410 acres now, they'll drain a little more as they die.

And I drew -- I originally drew circles and squares around each well about how big its drainage was -- anyway -- and I rounded those off into this shape. This shape is, you know, an approximation of where I think the reservoir is. And of course the oil is downdip, and there's gas updip.

So I think that the well in 36, George Number 9, looks like it's in a separate pod, and so I visualize a southern pod that would include, you know, more or less the reservoir in Sections 35 and 34, and then the wells in Section 26 and 27 look to me like they're in a bigger pod. Anyway, that's the picture I have of what's going on.

What it leads me to is that we need to drill that Number 13 well in the northwest northwest of 35, in order to get a second well in that smaller pod so that we can waterflood it.

The idea would be, we drill that Number 13 well, we run pressure measurements to try to determine if it's in communication with Number 9 or Number 10 or Number 2Y, et cetera. If it's in communication with Number 9 and not any of the others, then my two-pod thing is holding and we would just -- we would drill the well in 26 and have two little waterfloods.

If that Number 13 well turns out to be in communication with Number 10, we probably would not drill the second well.

Anyway -- I've actually gone through those scenarios, and it makes sense, I think, to drill the well in 35, do some testing, and then maybe drill the well in 26, maybe not drill it, and start some water injection, most probably in the two good oil wells, Number 9 and Number 10, and have two little floods and -- We've got primaries over 400,000, I think we can get 300,000 barrels of oil. That's the whole purpose of this exercise, is set up some way that we can get a little waterflood that I think will make 300,000 barrels of oil or so.

Q. If the Division approves this project, do you agree that it's not necessarily, then, based on your testimony, accelerating production, preventing the loss of those reserves?

A. Well, it's the only way to get -- I think that it's the right way to go about waterflooding it. I mean, you know, just to be clear, I want to drill this Number 13 well. I think that the Number 13 well will have almost zero primary production. We're drilling in a place that all the calculations say is already drained. It's not necessary to accelerate production or -- It won't get very much primary production.

And so it -- I don't like to call it infill, I just don't like that word, because infill means acceleration of reserves. It's simply there to have a producer to go with the injector in that southern pod.

Anyway, it will not make much primary oil, that's not the purpose. And so I -- anyway, for that point I don't like the word infill. I don't like the word pilot, because we -- pilot has the connotation that if this works, you can expand it. Well, there's not very much -- you know, there's not very far to expand it. This is the whole deal, what we're showing here is the whole deal. And it's a way that makes sense to me and to us, to get several hundred thousand extra barrels out of this little reservoir.

Q. And Dr. Boneau, I do understand your resistance to the infill, but this doesn't violate the intent of the rule, right, which allows for one well on 160-acre spacing or two wells on 320-acre spacing?

A. No, this is a good idea and we should do it.

Q. Okay. Do you believe that these additional wells, if approved, would overdrain the area, the spacing units?

A. No.

Q. Would approval of this pilot project provide you an opportunity to recover oil that might not otherwise be

produced?

A. Yes, it will.

Q. And in a fashion that does not violate correlative rights?

A. No, I don't think correlative rights are an issue here.

Q. Will the granting of this Application be in the best interest of conservation, the prevention of waste --

A. Yes, ma'am.

Q. -- and the protection of correlative rights?

A. That too, yes, ma'am.

Q. There are no other operators in this pool as defined; is Yates the only operator?

A. Correct.

Q. Are there any other operators of Cisco wells within a mile of this pool?

A. No.

Q. So there's no one to notify of this hearing?

A. If we notify operators within one mile, there aren't any to notify, yes, ma'am.

Q. And Dr. Boneau, is Exhibit Number 12 an affidavit of publication showing that notice of this hearing has been given pursuant to Division Rules?

A. It appears to be that to me, yes, ma'am.

Q. And were Exhibits 1 through 12 prepared by you or

compiled under your direction and supervision?

A. Yes, with the exception of the cross-section that I explained.

Q. Which was previously --

A. Which was previously provided in a hearing where Tim Miller and I appeared together.

MS. MUNDS-DRY: Thank you, Dr. Boneau. We would offer Yates Exhibits Number 1 through 12.

EXAMINER CATANACH: Exhibits 1 through 12 will be admitted.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Boneau, I believe you stated that you had drilled 10 wells in this area, trying to define the reservoir; is that correct?

A. Yeah, that's correct.

Q. Okay, so you've drilled wells that have been dry holes in the past?

A. We've drilled wells that have been dry holes, or they ended up as Abo wells.

Q. Okay.

A. The latest one is called George 11, just to the -- in the north half of 26. We were sure that one would be in the pool, and it wasn't.

Q. Okay, so you've pretty much defined the

boundaries of the reservoir?

A. Yes. I mean, if you look at the map, whatever, George 11 is not in it, Cottonwood 5 is not in it, Cottonwood Ranch 6 isn't in it to the east, Sacra 21 to the south is not in it, Sacra 17 to the southwest is not in it, Red Rock to the west is not in it. We put the wagons all around it, and it wasn't there.

Q. All of those wells were drilled down to the Penn?

A. Yes.

Q. Okay. The intent is to drill the Number 13 well, and you said -- are you going to produce that well for a time?

A. I imagine so. I mean, my idea is that it turns into the producer, and we inject into the Number 9 --

Q. Okay.

A. -- the down- -- we inject into the downdip well and produce out of that new well. That's what I visualize as happening.

Q. Which would be updip from the 9?

A. Yes, which would be updip from the 9.

Q. Sam situation in Section 26? Would you produce the 12 well and inject into the 10?

A. Yes, that's what I think. I don't think that the -- Well, the 2Y was an Abo well that we deepened out of small casing, so it's a tiny hole, a 3-inch hole. And I

don't know that the cement is that -- anyway, I don't like -- I don't think it can serve as the only real producer in that northern pod, assuming my idea of a northern pod is right, and we need another producer there, which would be the 12, and we would inject into the 10.

Q. Okay. Any plans for additional wells in Section 27 at all?

A. No, absolutely not.

Q. So do you think that these are going to be the last two wells drilled in the pool?

A. I think so. I think there -- there's a tiny chance that the northeast northeast of 34 would be worth drilling at some point, but we don't visualize doing that. The northeast northeast of 34 is the only reason for my hesitating to say absolutely no more.

Q. Uh-huh. Do you know -- I know you're -- I don't know if you're familiar with it or not, but is Yates the only interest owner in these wells?

A. I think so, but I don't know absolutely. I did not --

Q. Okay.

A. -- look at the ownership in those four sections.

Q. They're all -- I guess they're all federal leases, it appears. I'm not sure about Section 34.

We're not -- You're not trying to change the

rules at all, you're just asking for approval for these two additional wells to be drilled?

A. That is the way I would say it, yes, sir.

MS. MUNDS-DRY: And Mr. Catanach, the rules state that the initial well -- the infill well cannot be located on the same quarter section as the initial well, so we would ask for an exception to that part of the rule.

Q. (By Examiner Catanach) Now you do realize you're going to have to come back in when you start waterflood operations to get approval for that?

A. Yes. Yes, we'd like to come back, telling you that we think we're injecting into the right well. Or, you know, we'd like to come back with more knowledge of what's going on.

Q. Is the bottomhole pressure data the thing that you're using to determine that there might be two separate pods here? Is that your main evidence in that regard?

A. The bottomhole pressure data and the performance, the Number 9 dying sooner than the others, the fact that it's consistent with the pressure data. Those two little bits of information are the basis of that opinion that there are two pods.

Q. Do you think that that's -- they're totally separated? Porosity pinchout or something?

A. I don't know. We're trying -- We have tried to

computer-model it, we're trying again. We haven't come up with anything that fits everywhere. You know, this is my best guess, is really the word. I don't know what else to tell you, sir.

Q. Okay. And this is Cisco, right?

A. Cisco --

Q. The geologist would call it Cisco?

A. The geologist would call it Cisco, it's Cisco.

Q. Would you call it Cisco?

A. I would call it Cisco, yes. I follow the geologist. But I mean, it's a -- it's called a Penn pool, but it's the Cisco portion of the Penn, is what produces.

Q. Is there any other Penn -- I guess there's not any other Penn-producing intervals in this area, Morrow or Atoka or anything like that? Strawn?

A. Well, Morrow and Atoka don't exist here, but -- I mean, we have been drilling to the basement in Chaves County over a large area and found productive intervals in Silurian, which pretty much doesn't exist here, Strawn, Wolfcamp and Cisco. You know, there is some production in those -- in Strawn, Wolfcamp and Cisco at various places, in little reservoirs, and we've found lots of little reservoirs and missed lots of little reservoirs, but anyway...

Q. Are these -- The wells that you're producing

right now in the pool, are they just single completions in the Penn? You're not completing the Abo and producing the Abo in these wells, are you?

A. No, these four wells produce only from this Cisco zone.

EXAMINER CATANACH: Okay. Okay, that's all I have.

Do you have anything further?

MS. MUNDS-DRY: We have nothing further.

EXAMINER CATANACH: Okay. There being nothing further, Case 13,706 will be taken under advisement.

(Thereupon, these proceedings were concluded at 8:54 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13706 heard by me on May 11, 2006

David R. Catanach, 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 May 26th, 2006.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006