

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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Oil Conservation Division

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)

CASE NO. 13,182

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

November 7th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Friday, November 7th, 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.

* * *

I N D E X

November 7th, 2003
Examiner Hearing
CASE NO. 13,182

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<u>CHARLES E. MORAN</u> (Landman)	
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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 9:31 a.m.:

3 EXAMINER JONES: Call Case 13,182, Application of
4 Yates Petroleum Corporation for compulsory pooling, Chaves
5 County, New Mexico.

6 Call for appearances in this case.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert with the Santa Fe office of Holland and
9 Hart appearing on behalf of the Applicant Yates Petroleum
10 Corporation. I have one witness here today.

11 EXAMINER JONES: No other appearances in this
12 case?

13 Will the witness please stand to be sworn?

14 (Thereupon, the witness was sworn.)

15 CHARLES E. MORAN,

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

18 DIRECT EXAMINATION

19 BY MR. FELDEWERT:

20 Q. Please state your name and address for the
21 record.

22 A. My name is Charles Moran and I reside in Artesia,
23 New Mexico.

24 Q. By whom are you employed and in what capacity?

25 A. I am employed by Yates Petroleum Corporation as a

1 landman.

2 Q. And have you previously testified before this
3 Division as a landman?

4 A. Yes, I have.

5 Q. And are you familiar with the Application filed
6 by Yates in this case?

7 A. Yes, I am.

8 Q. And are you familiar with the status of the lands
9 in the area?

10 A. Yes, I am.

11 MR. FELDEWERT: Mr. Examiner, are the witness's
12 qualifications acceptable?

13 EXAMINER JONES: Mr. Moran's qualifications are
14 acceptable.

15 MR. FELDEWERT: Would you -- and I neglected, Mr.
16 Examiner, if I may interrupt one minute -- This matter was
17 advertised as a pooling case for three spacing units, the
18 320, the 160 and the 40. We have since reached sufficient
19 agreement to dismiss the 160-acre spacing unit, as well as
20 the pooling for the 40-acre spacing unit, so the only thing
21 we're before the Division on today is the pooling for a
22 north-half 320-acre spacing unit.

23 EXAMINER JONES: Thank you.

24 Q. (By Mr. Feldewert) Mr. Moran, did I accurately
25 state what Yates is seeking with this Application?

1 A. Yes, we are seeking a pooling of all formations
2 below the base of the Abo to establish a 320-acre spacing
3 unit in Township 7 South, Range 25 East, Section 1 on a
4 north-half basis.

5 Q. And what do you propose to dedicate this well
6 to -- I'm sorry, the spacing unit to?

7 A. The spacing unit would be the north half of
8 Section 1.

9 Q. And it would be dedicated to what well?

10 A. It would be dedicated to our proposed Yankee
11 Federal Com Number 2, located at a location 1650 feet from
12 the north line and 1650 feet from the west line.

13 Q. And that would be Unit F?

14 A. That would be Unit F.

15 Q. Is that a standard location?

16 A. That is a standard location.

17 Q. Okay, why don't you turn to Yates Exhibit Number
18 1, identify that and review that for the Examiner, please?

19 A. Yates Exhibit Number 1 is a plat of 7 South, 25
20 East, Section 1, being in the center. The plat identifies
21 the north-half spacing unit, however it incorrectly
22 portrays where the well should be. The footages as
23 portrayed on this plat appear to be the original location.
24 It was moved to a -- off of the line and moved farther
25 south into Unit F of Section 1.

1 Q. Okay, so the little red dot on here should be
2 moved a little further south?

3 A. It should be moved further south to 1650 from the
4 south and 1650 from the west.

5 Q. Okay, what is the --

6 A. I mean, excuse me, from the north, not the south.

7 Q. All right. What is the status of the acreage in
8 the north half of this Section 1?

9 A. The acreage in the north half is composed of
10 federal leasehold that is all held by current production.

11 Q. Okay, and what is the primary target of this
12 proposed well?

13 A. The primary target of this proposed well is the
14 Silurian-Devonian. However, we're going to drill it all
15 the way to the basement.

16 Q. Now, does Yates Exhibit Number 2 identify the
17 ownership breakdown for this area?

18 A. Yes, it does, Exhibit 2 is the excerpt from the
19 proposed operating agreement identifying the ownership
20 based on -- in column 1 for a north-half basis.

21 Q. So what would be of interest today would be the
22 first column that shows the --

23 A. Correct.

24 Q. -- the interests for the north-half unit?

25 A. Yes.

1 Q. Okay. Now, how many of the interest owners
2 listed on this Exhibit Number 2 are subject to this pooling
3 Application today?

4 A. Currently we have three interests subject to the
5 force pooling, that being the interest of Max Riley and his
6 wife Mignon Riley, doing business as Rampart Petroleum;
7 John D. Cadigan; and the Heirs and Devisees of Linda
8 Cadigan.

9 Q. Okay. Have you been able to locate these
10 interest owners?

11 A. I have had communication with the Rileys and John
12 Cadigan, and I believe John Cadigan to be the heir of the
13 Linda Cadigan Estate, and so by virtue of talking to him
14 I've taken care of those heirs.

15 Q. Okay, why don't you then turn to Yates Exhibit
16 Number 3. Identify and review that for the Examiner.

17 A. Yates Exhibit Number 3 is my initial proposal
18 letter to invite participation in the drilling of this
19 well. That letter was sent out September 12th. And as you
20 can see by page 2 of it, those were the parties that the
21 letter was sent to.

22 Q. Okay, did it include the parties that are listed
23 as pooled parties today?

24 A. Yes.

25 Q. Okay, and did this letter include an AFE?

1 A. The letter included an AFE and a proposed
2 operating agreement.

3 Q. All right. Did you have any subsequent telephone
4 conversations with the individuals that are being -- or the
5 interests that are being pooled today?

6 A. Yes, I did. And due to the fact that this rig
7 was moving very quickly, upon notification from the
8 drilling department that they were moving the rig I talked
9 to Mr. Cadigan and to Mr. Riley concerning participation in
10 the drilling of this well.

11 Q. Okay. And in your conversations with Mr.
12 Cadigan, what was the result?

13 A. Mr. Cadigan indicated that he was probably not
14 going to cooperate and won't participate in the drilling of
15 this well.

16 Q. Did you inform him that you were then going to
17 proceed with a pooling application?

18 A. Yes, at that point I made the decision that we
19 had to file the force pooling, because historically Mr.
20 Cadigan has participated readily in wells, and after this
21 conversation he was not willing -- my indications were that
22 he was not going to participate.

23 Q. Okay. Now, did you have any conversations with
24 the Riley interest, or representatives of the Riley
25 interest?

1 A. Yes, I did talk to Mr. Riley and they considered
2 participation, but they have indicated by letter to me that
3 they choose not to participate in this well.

4 Q. Has that been marked as Yates Exhibit Number 4?

5 A. Yes, it is.

6 Q. Okay.

7 A. That's his letter dated October 15th.

8 Q. Okay. Now, why don't you, then, turn to -- Or
9 let me ask you this: Have you made a good-faith effort to
10 obtain voluntary joinder of these interest owners?

11 A. I believe I have.

12 Q. And you mentioned the fact that you sent an AFE.
13 Has that been marked as Yates Exhibit Number 5?

14 A. Yes, it is.

15 Q. Okay, why don't you review this AFE with the
16 Examiner?

17 A. This AFE is a recently-prepared AFE based on
18 costs incurred, that we were actually incurring out there
19 in our active drilling program. It has an estimated
20 dryhole cost of \$400,000 and a completed well cost of
21 \$680,600.

22 Q. Are these costs in line with what you have
23 experienced in your drilling program in this area?

24 A. Yes, they are.

25 Q. Okay. Have you made an estimate of the overhead

1 and administrative costs while drilling this well and also
2 while producing if you are successful?

3 A. Yes, those would be the rates that we're applying
4 for wells in this area of \$4000 operating cost -- or \$4000
5 a day cost, and \$400 a day operating -- month, operating
6 cost.

7 Q. Okay. Now, are those the amounts that are set
8 forth in the joint operating agreement?

9 A. Those are the numbers that I proposed to operate
10 the well to on all the parties and received agreement from
11 all other parties that signed up on the drilling of the
12 well.

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

15 A. Yes, I do.

16 Q. And do you request that the overhead figures
17 approved by the Division be subject to adjustment in
18 accordance with the applicable COPAS guidelines?

19 A. Yes, I do.

20 Q. And Yates Petroleum Corporation seeks to be the
21 designated operator of this well; is that correct?

22 A. Yes, we do.

23 Q. And does Yates request that the 200-percent risk
24 penalty authorized by statute and Division Rule 35 be
25 imposed against those interest owners that do not

1 voluntarily participate in this well?

2 A. Yes, we do.

3 Q. Were Yates Exhibits -- Is Yates Exhibit Number 6
4 an affidavit with attached letters giving notice of this
5 hearing?

6 A. Yes.

7 Q. And do these notice letters provide for the fact
8 that the Examiner Hearing was to be -- is to be on November
9 -- or is on November 7th?

10 A. Yes, they do.

11 Q. Okay. Were Yates Exhibits 1 through 6 prepared
12 by you or compiled under your direction and supervision?

13 A. Yes, they were.

14 MR. FELDEWERT: Mr. Examiner, at this time I
15 would move the admission into evidence of Yates Exhibits 1
16 through 6.

17 EXAMINER JONES: Yates Exhibits 1 through 6 are
18 admitted to evidence.

19 MR. FELDEWERT: That concludes my examination of
20 this witness.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Mr. Moran, the AFE for the -- has it been
24 adjusted to not test the Abo and above, or does it need to
25 be adjusted?

1 A. The Abo formation is currently subject to an
2 operating agreement, and all parties are signed up on that
3 operating agreement. That was the reason we dismissed as
4 to formations above the Abo. The current operating
5 agreement would cover those proposals.

6 If we are not successful on the deep operation,
7 then I would have to propose to those people that did not
8 participate in this recompletion into the Abo, and then the
9 operating agreement would cover those interests as to the
10 shallow formations.

11 Q. So these people do have working interests that
12 didn't sign, they just didn't -- these are nonsigned
13 working interests; is that right?

14 A. The existing operating agreements for the two
15 wells -- This area was developed for the Abo formation
16 originally by Mesa, and Mesa set up their operating
17 agreements to only cover surface to the base of the Abo
18 formation. So below the base of the Abo formation, there
19 is no voluntary agreement amongst the parties.

20 And so I had to propose a new operating agreement
21 to provide for covering all the lands, being the 320-acre
22 spacing unit that existed out there.

23 Q. Okay, that's -- \$8000 a day for the drilling is
24 quite heavy, but I guess rigs are hard to get right now.

25 A. The prices have been escalating, and we work on

1 the drilling companies to keep those as low as possible.

2 Q. Yeah, have to hammer on those engineers a little
3 bit.

4 Then you're planning on some lost circulation, an
5 optional string of pipe, it looks like. Must be going
6 through the salt section?

7 A. We are.

8 Q. Okay. And these other -- the 40 and the 160, we
9 can dismiss those in the Order, formally in the Order?

10 MR. FELDEWERT: Yes, yeah.

11 Q. (By Examiner Jones) And the name of the well
12 here --

13 A. -- is the Yankee ANK Federal Com Number 2.

14 EXAMINER JONES: Okay.

15 MR. FELDEWERT: It's listed in the advertisement.

16 EXAMINER JONES: Okay, got that, and we've got
17 the location, 1650-1650.

18 MR. FELDEWERT: That's also advertised as well.

19 EXAMINER JONES: And the pools subject to this
20 would be all pools -- all gas pools spaced on 320 acres?

21 THE WITNESS: Yes.

22 MR. FELDEWERT: Yes.

23 EXAMINER JONES: Including, but not limited to --
24 which ones here?

25 MR. FELDEWERT: It looks like we've got the

1 Undesignated Cottonwood Ranch-Pennsylvanian Gas Pool and
2 the Undesignated Five Mile Draw-Pennsylvanian Gas Pool.

3 EXAMINER JONES: Okay. Okay, that's it for my
4 questions.

5 Gail, do you have any?

6 MS. MacQUESTEN: I don't have any questions,
7 thank you.

8 EXAMINER JONES: Okay. Mr. Moran, thanks very
9 much for coming today.

10 THE WITNESS: Thank you.

11 EXAMINER JONES: Thanks, Mr. Feldewert.

12 MR. FELDEWERT: Thank you, Mr. Examiner.

13 EXAMINER JONES: And with that, we'll take Case
14 13,182 under advisement.

15 (Thereupon, these proceedings were concluded at
16 9:44 a.m.)

17 * * *

18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. _____
21 heard by me on _____, Examiner
22 _____
23 Oil Conservation Division
24
25

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL November 9th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006