

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 AMENDMENT OF THE SPECIAL)
POOL RULES AND REGULATIONS GOVERNING THE)
PECOS SLOPE-ABO GAS POOL AND THE WEST)
PECOS SLOPE-ABO GAS POOL, CHAVES COUNTY,)
NEW MEXICO)

CASE NO. 13,057

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 24th, 2003

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, 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.

* * *

I N D E X

April 24th, 2003
 Examiner Hearing
 CASE NO. 13,057

PAGE

APPLICANT'S WITNESS:

DAVID F. BONEAU (Engineer)

Direct Examination by Mr. Carr

Examination by Examiner Stogner

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20

CLOSING STATEMENT BY MR. CARR

24

REPORTER'S CERTIFICATE

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* * *

E X H I B I T S

Applicant's	Identified	Admitted
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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 10:36 a.m.:

3
4
5 EXAMINER STOGNER: Okay, at this time I'll call
6 Case Number 13,057, which is the Application of Yates
7 Petroleum Corporation for amendment of the special pool
8 rules and regulations governing the Pecos Slope-Abo Gas
9 Pool and the West Pecos Slope-Abo Gas Pool, Chaves County,
10 New Mexico.

11 Call for appearances.

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe office of Holland and
14 Hart, L.L.P.

15 We represent Yates Petroleum Corporation in this
16 matter, and I have one witness.

17 EXAMINER STOGNER: Any other appearances?

18 MR. CARR: We'd request that the record reflect
19 that Dr. Boneau has testified in the previous case, that he
20 was sworn, remains under oath and that his credentials as
21 an expert in petroleum engineering have been accepted and
22 made a matter of record by the Division.

23 EXAMINER STOGNER: Dr. Boneau is so qualified,
24 and let the record show that Dr. Boneau has been previously
25 sworn in a previous case.

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DAVID F. BONEAU,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Dr. Boneau, are you familiar with the subject matter of this case?

A. Yes, sir.

Q. Have you made an engineering study of the area involved in this matter?

A. I've made a study of this matter, yes, sir. It involves engineering and some other things. But yes.

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

A. Yes, sir.

MR. CARR: And the witness's qualifications are acceptable, Mr. Stogner?

EXAMINER STOGNER: Yes.

Q. (By Mr. Carr) I think, Dr. Boneau, initially it would be helpful to refer to what has been marked Yates Petroleum Corporation Exhibit 1 and explain first what it is that Yates is seeking in this case.

A. I'll try to explain that. Yates is seeking what I call the possibility of having unorthodox locations in these pools approved administratively, and that is -- we'll

1 see that that is specifically prevented by the current
2 rules.

3 And we're also seeking to kind of what I would
4 call straighten out the situation with nonstandard
5 locations where there are -- administrative approval is
6 allowed in cases where the survey varies, but there's a 30-
7 day notice period instead of the normal 20, and then in
8 other kinds of nonstandard locations a hearing is required,
9 and we're -- we think it makes sense that the obligation to
10 have a hearing in these two cases -- in both the cases of
11 unorthodox location and nonstandard locations, you know,
12 should be taken away so that under reasonable conditions
13 these things could be done without a hearing.

14 Q. And so what you're doing is trying to eliminate
15 the requirement for hearing in all cases involving
16 unorthodox locations and in those cases now where hearings
17 are required for nonstandard units; is that correct?

18 A. Exactly, yes.

19 Q. You're also seeking to adjust the notice and
20 objection period that set the special pool rules so that
21 those rules are consistent with the statewide rules?

22 A. Yes, the statewide is 20 and this is 30, and we
23 think 20 would be fine everywhere.

24 Q. All right. What is the present situation in both
25 the Pecos Slope-Abo and the West Pecos Slope-Abo Pool in

1 terms of the rules that apply to --

2 A. The rules are governed by Order R-9976-C,
3 promulgated in March of 1996, and I may miss some of the
4 details but to me the main points are that a spacing unit
5 contains 160 acres, which would be a government quarter
6 section.

7 Number 2, nonstandard spacing units can be
8 approved administratively if they are due to survey
9 variances and if the offset operators are notified by
10 registered or certified mail and no one objects within the
11 period which is now set at 30 days. The rules -- It's not
12 really on my paper here, but the rules say that if the
13 nonstandard spacing unit is the result of something other
14 than a survey variance, you must have a hearing.

15 The rules, number 3, say that an optional second
16 well is allowed in each 160-acre spacing unit. And that
17 was a great -- that was the reason for lots of the hearings
18 in 1995 and 1996 that resulted in this.

19 And the locations of these wells, the first well
20 and the optional second well must be at least 660 feet from
21 the outer boundary of the quarter section to be orthodox.

22 And as number 5 says, each well must be at least
23 ten feet from what I call an inner quarter-quarter section
24 boundary, and that's just fine.

25 And the present rules, my item number 6 there in

1 bold says an "unorthodox well location can be granted only
2 after notice and hearing", and no exceptions. And that's
3 the main point that we're trying to address today, really.

4 Q. Yates was the original applicant in the cases
5 when it resulted in the adoption of these special pool
6 rules; is that right?

7 A. That's correct, yes.

8 Q. And the objective in those cases was to authorize
9 under certain circumstances infill development of the Pecos
10 Slope-Abo and the West Pecos Slope-Abo?

11 A. That's correct. At the time -- Lots of people
12 from Yates testified, et cetera, but I've worked on the
13 Pecos Slope-Abo since 1980 when I joined Yates, and we
14 found essentially that the first wells were draining about
15 100 acres on average, and so sometimes you needed a second
16 well and sometimes you didn't. And anyway, we tried -- The
17 main purpose of all that series of hearings was to get a
18 second well and get some reasonable circumstances under
19 which you could infill that second well. And this order is
20 what resulted out of a pretty lengthy process of working
21 with the Division on that.

22 Q. The orders that promulgated the special pool
23 rules for these pools express concern about the potential
24 for correlative-rights violations, do they not?

25 A. Yes, they clearly did. I think it was item --

1 Finding 27, and I don't know that it makes any sense for me
2 to quote it, but you clearly don't want second wells
3 drilled real close to some other people's leases or where
4 correlative rights could be violated, and --

5 Q. And the requirements that we're talking about
6 today are actually requirements imposed by the Division as
7 this effort was initiated to provide extra protection to
8 assure that correlative rights problems did not occur;
9 isn't that correct?

10 A. My understanding is that that was the thinking of
11 the Division and, you know, rightly so. I think our point
12 today is that their system has worked maybe too well, and
13 there have not been -- I think there have not been
14 correlative-rights violations, and we're here to say that
15 the extra protection built in by this mandatory hearing has
16 put extra work on the Division and on the companies that
17 doesn't seem justified in view of six or eight years of
18 experience with this order.

19 Q. Exhibit 1 has a section toward the bottom where
20 you have broken out a first change and a second change.
21 Would you like to review that, please?

22 A. If I can -- I'll try to do that halfway briefly.
23 But by first change, I mean the mandatory hearing, really
24 mostly for unorthodox locations, but the mandatory hearing.
25 We think that you can give people the same protection by --

1 through the notice process and through the chance for
2 people to object, and in some cases a hearing is just plain
3 not -- does not need to be mandated.

4 Anyway, we would say that you retain the notice
5 -- and you obviously are going to do this by the registered
6 and certified mail. We're suggesting that you allow
7 administrative approval if no one objects within 20 days.
8 And obviously you schedule a hearing if an operator, an
9 offset operator objects, or if the Division wants to. And
10 that gives lots of protection.

11 We're trying to give you a reason for making this
12 change, and in vague terms it's that it will be a more
13 efficient process that still protects the interest of the
14 offset operators. They will all receive the same notice as
15 required by the present rules and by the statewide rules
16 and in other types of hearings.

17 One of our points we really want to make, since
18 1996 I have found 36 unorthodox wells in these two pools,
19 and I've looked at them in detail. And in every single one
20 of the 36 cases, the operator of the unorthodox well is
21 encroaching upon a spacing unit operated by himself. Every
22 single one of them has been Yates encroaching upon Yates or
23 McKay encroaching upon McKay, or Gothic, which is now
24 Chesapeake, encroaching Gothic, which is now Chesapeake.

25 I think I'm right in saying there have been no

1 opposed hearings. There have been these hearings, but
2 there have been no opposed hearings. The way I would say
3 it is that the excesses envisioned when the order was
4 written simply have not happened, and we'll try to show,
5 you know, why we think they won't happen and if the rules
6 could be loosened. Okay.

7 I want to point out that when I'm saying that an
8 operator has always encroached upon himself I'm not saying
9 that the detailed ownership of the 160 that's being drilled
10 upon and the encroached-upon 160 is exactly the same. I
11 mean, I don't know enough -- have enough information to say
12 that, in some cases. And in a few cases I do have
13 information to say that those ownerships are slightly
14 different.

15 But the operators are the same, and the notice
16 rules say clearly that the nonoperating owners have got to
17 be notified and have a chance to object if they think their
18 rights are being violated.

19 Q. And that would remain under the rules if changed
20 as Yates is proposing?

21 A. Absolutely, that's in the statewide rule, that's
22 in the current rules, that's in any set of rules that you'd
23 consider.

24 So I mean, I actually was surprised to find --
25 and I hope I -- I looked really hard, I hope I found them

1 all. But I was surprised to find that there weren't cases
2 where Yates was trying to move closer to, you know,
3 somebody else's. There just have been none of those, and
4 to me that -- I was surprised to find it. Thirty-six of 36
5 is pretty good statistics that it's an okay thing to do.

6 Q. Is it fair to say that the history of the
7 development of this reservoir under these rules during the
8 past seven years simply doesn't justify the mandatory
9 hearing for unorthodox locations and nonstandard units?

10 A. That's our opinion, yes, and I think there's some
11 facts to support that.

12 Q. What is the second change you're asking for?

13 A. The second change that, you know, I think is
14 simple is, the notice period is set at 30 days. All the
15 rules -- all the other Division rules I'm familiar with
16 have a 20-day notice period. It just would be convenient
17 if they're all set at 20 days and you could think in terms
18 of all notice periods being 20 days. I don't see anything
19 special about this that the extra 10 days will save the
20 world. A 20-day notice would work great in this, like it
21 does in all the other activities the Division promotes.

22 Q. Dr. Boneau, let's go to what has been marked
23 Yates Exhibit Number 2. Would you identify and review
24 that, please?

25 A. Yes, sir. Exhibit 2 talks about 28 wells in the

1 Pecos Slope Pool, the main Pecos Slope Pool, that have been
2 drilled at unorthodox locations since the order in 1996.
3 And I guess they are listed by -- Well, they're listed by
4 location, I believe, but -- No, they're not, they're listed
5 by date. Wake up. So the one at the top had a spud date
6 of 1996 and the one at the bottom had a spud date in
7 February of this year. So they're actually listed by spud
8 date, is how they're listed.

9 But there's 28 wells, unorthodox locations. I've
10 shown the details of locations and the TDs and completion
11 dates, et cetera, and there's a column called "Outcome"
12 that shows what some of them ended up producing from and
13 their initial potential.

14 But the main point is the two columns on the
15 right-hand side. The second column from the right I've
16 labeled "Operator Drilled By", and so that's the operator
17 of the well, on the left-hand side the well that's talked
18 about in that row. And then the very last column is what I
19 call the "Operator Encroached Upon", and that is the
20 operator of the 160 that the well is moving towards, that
21 is closer than 660 feet to the well -- to the unorthodox
22 well.

23 And the point is just what I said. You look down
24 there, and the second to the last column from the right and
25 the last column from the right have exactly the same entry

1 in it. And so Elk Oil was encroaching upon Elk Oil, and
2 Yates was encroaching upon Yates, and Gothic was
3 encroaching upon Gothic, and Pecos River Operating was
4 encroaching upon Pecos River Operating, et cetera. Every
5 single case, the operator of the unorthodox well is
6 encroaching upon itself, and I think that makes it
7 relatively to understand why there have not been opposed
8 hearings.

9 The facts are that the operator, in actuality,
10 has been encroaching upon himself, and that's mostly
11 related to acreage positions, I think. But those are the
12 facts of the unorthodox locations in the Pecos Slope Pool.

13 Q. Each of these wells would, under the rules, would
14 have to go to hearing before the location could be
15 approved; is that right?

16 A. Yes, sir, that's correct.

17 Q. And in each of these cases notice would have to
18 be provided not only to the offsetting operator but to the
19 working interest owners in the offsetting tracts, if they
20 were other than the operator or the ownership of the
21 drilled tract?

22 A. That's correct, yes, sir.

23 Q. And in your research looking into these, could
24 you find any evidence of any opposed hearing?

25 A. No.

1 Q. Let's go to what has been marked Exhibit 3.

2 A. Exhibit 3 is the exact duplicate kind of table
3 for the West Pecos Slope, and the West Pecos Slope since
4 1996, eight unorthodox-location wells have been drilled at
5 unorthodox locations. Every single one of them is by
6 McKay, and in all cases McKay was encroaching upon McKay.
7 Same story.

8 Q. Just another pool. But again, no opposed
9 hearings after notice?

10 A. Correct.

11 Q. Let's go to what has been marked Exhibit Number
12 4. What is this?

13 A. Exhibit Number 4 is just a big map, and it's a
14 big map of the main Pecos Slope Pool. So there's a red
15 outline that outlines the Pecos Slope Pool, extends from 4
16 South to 11 South and includes parts of 24, 25, 26 and 27
17 East.

18 There really are only two things shown on this
19 map. All the wells are there and the locations, et cetera,
20 but I've put a red circle, or there is a red circle, around
21 each of the unorthodox locations that's been drilled since
22 1996, so each of the wells on Exhibit 2 has a red circle on
23 this map. And you can see why Yates is offsetting Yates in
24 a lot of places.

25 And the only other thing, really, it shows is, in

1 yellow we've colored in the acreage operated by Yates. I
2 didn't color in other people, but just to give the idea I
3 colored in the acreage operated by Yates. And there's a
4 lot of yellow, and so it's reasonable to say that in a heck
5 of a lot of places a yellow is offset by a yellow. And I
6 do not have details of Chesapeake's acreage position, for
7 example, but people have for the most part continuous
8 blocks of acreage, and they end up offsetting themselves
9 for the most part.

10 So I just made the map to kind of make it a
11 little more believable that there are pretty big acreage
12 positions and a lot of potential for unorthodox locations
13 being close to other acreage operated in this case by
14 Yates, but in general by the same operator that's drilling
15 the unorthodox well.

16 So anyway -- Nothing magic about it, it's just a
17 way to help me make sense of the fact that all the cases
18 that we've seen, these 36 wells, have all been what I call
19 encroaching upon acreage operated by the same person, and I
20 felt better looking at this acreage position and saying,
21 Yeah, I can see why a lot of those things happen, there's a
22 lot of yellow on this map. That's really the only purpose
23 of it.

24 Q. We're looking at working interests when we look
25 at this map?

1 A. Yes.

2 Q. In these pools is it fair to say we have a larger
3 percentage of federal lands than you would normally expect
4 to encounter, or normally do encounter, in many fields in
5 southeast New Mexico?

6 A. I think that's a fair statement, yeah, there's a
7 lot of federal land.

8 Q. And how does that bear on this particular
9 Application?

10 A. Well, it kind of makes the same point as all this
11 yellow working interest acreage. A huge fraction of the
12 acreage is federal. The royalty owner is the same over a
13 large portion of this area, and again these unorthodox
14 locations would have federal royalties encroaching upon
15 federal royalties in a large number of cases. And so it
16 lessens the possibility of correlative-rights problems with
17 royalties.

18 Q. Would you identify what has been marked as Yates
19 Exhibit Number 5?

20 A. Yes, Yates Exhibit Number 5 is a smaller but
21 similar map for the West Pecos Slope-Abo, and again it has
22 the red circles showing the eight McKay wells that have
23 been drilled on unorthodox locations, and then it also has
24 some yellow Yates acreage. It has Yates acreage in yellow.
25 All the unorthodox locations over here have been drilled by

1 McKay, and you can see they're centered in a white area
2 that's McKay acreage in the middle upper part of the map.

3 But from Yates' point of view, there's a lot --
4 The Yates yellow is in a contiguous kind of a block, and so
5 if Yates drills unorthodox locations out here, we're going
6 to be encroaching upon ourselves in a huge fraction of the
7 times that that happens.

8 Q. Dr. Boneau, in this case what Yates is seeking is
9 actually only procedural changes; is that right?

10 A. Yes, that's how I would characterize it.

11 Q. And what we're asking is that the rules that
12 govern unorthodox locations and nonstandard units in the
13 Pecos Slope-Abo Gas Pool and the West Pecos Slope-Abo Gas
14 Pool be made consistent with the rules that would apply to
15 unorthodox locations and nonstandard units in other pools?

16 A. Exactly, yes.

17 Q. We are not suggesting that -- with any unorthodox
18 or with any nonstandard unit, that notice not be provided
19 as required by the 1200 series of the OCD Rules?

20 A. We're not doing that. We're really saying Pecos
21 Slope, you know, is not special, we're not asking for
22 anything special for it, we're asking that it be treated
23 like everybody else.

24 Q. And affected parties, as that is defined by
25 Division rules, would still receive notice?

1 A. Absolutely.

2 Q. And if any of those parties object to an
3 application, the matter still would come here for hearing?

4 A. Clearly, yes.

5 Q. And is it fair to say that based on the
6 experience of the last seven years, that the correlative-
7 rights concerns that were expressed at the time infill
8 drilling was authorized simply have not come to pass?

9 A. They have not come to pass, and I think because
10 of the acreage position that they won't come to pass in the
11 future very often either.

12 Q. And that is the basis for Yates' recommendation
13 to abolish mandatory hearings and to bring the notice
14 objection time period down from 30 days to 20 days, as is
15 found in the general rules?

16 A. That's correct, yes.

17 Q. Dr. Boneau, is Exhibit Number 6 an affidavit that
18 confirms that notice of this Application has been provided
19 to the operators of all Abo wells in the Pecos Slope-Abo
20 Gas Pool and the West Pecos Slope-Abo Gas Pool?

21 A. Yes, Exhibit 6 is that affidavit, with numerous
22 pages of return receipts.

23 Q. We also notified operators of Abo wells outside
24 these pools within a mile of the pool; is that correct?

25 A. Correct, yes, sir.

1 Q. In your opinion, will approval of this
2 Application eliminate unnecessary hearings and therefore
3 relieve operators and the Divisions of the burdens that are
4 now found in these special pool rules?

5 A. Yes, it will eliminate some burdens.

6 Q. In your opinion, will approval of the Application
7 result in a regulatory system that effectively and
8 efficiently protects the correlative rights of all interest
9 in these pools?

10 A. Yes, it will do that.

11 Q. And in your opinion will approval of the
12 Application otherwise be in the best interest of
13 conservation and the prevention of waste?

14 A. I think that's correct, yes, sir.

15 Q. Were Exhibits 1 through 5 prepared by you or
16 under your direction and supervision?

17 A. Yes, they were.

18 Q. And Exhibit 6 is the notice affidavit that was
19 prepared by Holland and Hart; is that right?

20 A. Correct, yes, sir.

21 MR. CARR: Mr. Examiner, at this time I would
22 move the admission into evidence of Yates Petroleum
23 Corporation Exhibits 1 through 6.

24 EXAMINER STOGNER: Exhibits 1 through 6 will be
25 admitted into evidence at this time.

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

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Dr. Boneau, you mentioned that there's nothing
6 special about this pool, but at one time was there
7 something special about this pool?

8 A. Well, I think there were a number of things
9 special about this pool. Well, its discovery is a good
10 story. It's, you know, a huge development north of Roswell
11 where most of the gas in southeast New Mexico is, you know,
12 in Eddy County, south of Roswell, et cetera. It was
13 discovered at the time of the NGPA and the first gas crisis
14 and tight-gas rules, and it's a tight-gas sand that
15 received good prices, and that promoted its development.
16 There's 800 to 1000 wells up here, a half a TCF of gas.
17 You know, when it was found in the late 1970s and early
18 1980s it was a pretty special place. Obviously it's been a
19 big part, you know, of our company.

20 And like anything that's new, there are questions
21 that we didn't know the answer to concerning drainage and
22 concerning deliverability and concerning what reserves
23 would be, but 20 or so years later the reservoir kind of
24 questions have been, you know, mostly answered. And we're
25 on these second wells, and Yates and other companies are,

1 you know, trying to make these second wells work where
2 appropriate.

3 You look down through my outcome list on Exhibit
4 2, and a lot of the second wells -- Well, second wells have
5 been drilled. Some of them have not been that good. We
6 don't really -- You know, we can't drill a second well
7 that's always great. And I guess we'll keep trying, but --
8 I'm to the point of rambling, but when things are new
9 they're special. When they're 25 years old, they kind of
10 get to be old hat. There's still some romance in this
11 field, but most of its secrets have been revealed, I think.

12 Q. And that's essentially what I'm trying to get to.
13 The evolution of this pool has, like you said, been unique
14 about Chaves County, NGPA. Who would have ever thought
15 that a federal program would have promoted --

16 A. Yeah, this one did good.

17 Q. Yeah, this was the very rare instance where that
18 happened. Well, I can't say that either, because up in the
19 northwest -- But that was talking about the evolution.
20 This is where I was leading onto this.

21 Now the infill, the infill provisions, were
22 brought on in 1996. The maps that you presented today,
23 does it show all of the wells that you know of that are
24 producing or have produced from the Abo in both of these
25 pools?

1 A. Yes, it's intended to include all those, yes.

2 Q. Okay, how many infill wells would you estimate
3 have been drilled, or how many spacing units have two wells
4 on them, percentagewise?

5 A. Yeah, 10 to 20 percent of them have second wells.
6 Out of 800 wells there's in the range of 150 second wells.

7 Q. So would you classify that as somewhat of a
8 successful program in the depletion of this formation or
9 pool?

10 A. Oh, yeah, it's added 50 BCF to the production
11 from the pool.

12 Q. Okay, just in this area, and then still talking
13 about the evolution of it, the gas was never prorated; is
14 that correct?

15 A. Correct, this field has never been prorated.

16 Q. Okay. How many pipelines service this area,
17 these two pools?

18 A. Two main lines, the Transwestern main line and
19 the El Paso main line. There are various gathering systems
20 that are connected to those. Most -- Well, the Yates gas
21 is mostly connected to Transwestern, and so I think the
22 majority of the gas thereby is connected to Transwestern.

23 The gathering systems were originally put in by
24 Transwestern and El Paso, back in the days when the
25 pipelines did that. When the rules changed, the

1 Transwestern gathering systems were purchased by Yates, is
2 my memory, and I really don't -- Well, there are a couple
3 other small gathering systems.

4 Q. But for the most part there are two lines --

5 A. But there are two main lines, yes, and they --
6 Well, 20 years ago all the gas went to California. Now all
7 the gas goes east, or most of the gas goes east. You know,
8 things change, but there are two main big interstate
9 pipelines serving the area.

10 Q. Another factor -- And the reason I brought this
11 out, because more than one pipeline has been a contributing
12 factor in prorating pools, and this was unique in that
13 instance that there was two lines out there that was --
14 prorating never occurred. But that was a factor in some
15 other pools in New Mexico that led to it. So when infill
16 was looked at -- In fact, what infill drilling was allowed
17 at the time this one was instituted, this was the first
18 that I know of where there was infill allowed in a non-
19 prorated pool. So everybody was a little bit edgy in those
20 days, looking back.

21 A. Yeah.

22 EXAMINER STOGNER: So we wanted to move into it
23 -- So the evolution today is trying to bring it into
24 acceptable means in the evolution which you're asking for
25 today, and that's administrative procedures be allowed to

1 dictate locations.

2 Okay, let's see. Well, with that, I don't think
3 there's any other questions I have. Mr. Carr?

4 MR. CARR: Mr. Stogner, just as a brief closing
5 statement: As you indicated, at the time Yates appeared
6 before the Division seeking approval of infill drilling,
7 this was the first case where there was a large infill
8 program being proposed in a nonprorated pool. And the
9 questions that were presented and the evidence really was
10 very clear on the fact that additional reserves could be
11 obtained by infill development in the pool.

12 But the hearing, and a large part of the hearing,
13 focused on procedurally how to move into this kind of a
14 program in a way where there was extra caution. I think
15 the Division had stated in its order and its findings that
16 they were being particularly careful as they moved into
17 this to be sure that correlative-rights problems didn't
18 develop and that nothing slipped.

19 And I think where we are today, and I think what
20 Dr. Boneau has shown is that in seven years of development
21 in the pool where a substantial number of these wells have
22 been drilled, the kinds of correlative-rights concerns that
23 were on the table seven years ago really haven't come to
24 pass.

25 And we're in a situation now where Yates

1 believes, and I think the evidence shows, that amendment of
2 the pool rules -- only the procedural provisions that
3 require hearings and that set special time period for
4 objections, that those are not needed and that it would
5 assist operators and also assist the Division in terms of
6 not having unnecessary hearings, to now change those rules
7 to bring them in line with the statewide. And that's what
8 the Application is for, and that's why we're here before
9 you today.

10 And that concludes our presentation in this case.

11 EXAMINER STOGNER: Thank you, Mr. Carr, for that
12 presentation. Let me assure you that this pool is still
13 special inasmuch as this is the model that a lot of the
14 evolution, a lot of the pools and production within this
15 state -- take for instance the infill drilling in southeast
16 New Mexico -- are somewhat modeled after this pool. The
17 northwest is going through an Abo situation now where
18 they're looking at infill drilling throughout northwest New
19 Mexico on those statewide spacing of 160. This is used as
20 a model, the case, the presentation and the orders which
21 came out of the Abo.

22 And I can also see in the future, also up in the
23 northwest, the infill-infill of the Basin-Dakota-Blanco-
24 Mesaverde is somewhat modeled after this where prorationing
25 is no longer really a factor up there. It's more of a

1 shadow prorationing in which if something happens we can
2 institute it again.

3 The coal gas, which is going on now, that infill
4 comes back to this pool, it is utilized as a model. I can
5 see in the future maybe all of southeast New Mexico or all
6 of New Mexico will have an optional infill provision spaced
7 on 160, based on what we have looked at, how this pool has
8 evolved, how the companies have developed it, how the
9 Division and companies hopefully have worked together, or
10 at least not against each other, and to -- developing the
11 pool and depleting it properly.

12 I think this will continue to be a model pool as
13 rules, marketing, production changes.

14 With that, that's all I have.

15 If there's nothing further in Case 13,057, this
16 matter will be taken under advisement.

17 MR. CARR: Thank you, Mr. Examiner.

18 THE WITNESS: Thank you.

19 (Thereupon, these proceedings were concluded at
20 11:14 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 13057,
25 heard by me on 24 April 2003.

Michael E. Saly
Examiner
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 29th, 2003.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006