

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:)	CASE NO. 11,210
)	
APPLICATION OF YATES PETROLEUM)	
CORPORATION)	
)	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

March 2nd, 1995

MAR 10 1995

Santa Fe, New Mexico Oil Conservation Division

This matter came on for hearing before the Oil Conservation Division on Thursday, March 2nd, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

March 2nd, 1995
 Examiner Hearing
 CASE NO. 11,210

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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
AND SANDERS OIL AND GAS CORPORATION:

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By: ERNEST L. CARROLL

* * *

1 WHEREUPON, the following proceedings were had at
2 10:12 a.m.:

3 EXAMINER CATANACH: Okay, at this time we'll call
4 Case 11,210.

5 MR. RAND CARROLL: Application of Yates Petroleum
6 Corporation for compulsory pooling, Chaves County, New
7 Mexico.

8 EXAMINER CATANACH: Are there appearances in this
9 case?

10 MR. ERNEST CARROLL: Yes, Mr. Examiner, I'm
11 Ernest Carroll of the Artesia law firm of Losee, Carson,
12 Haas and Carroll, and I'm here today on behalf of Yates
13 Petroleum, and I will have two witnesses.

14 EXAMINER CATANACH: Any additional appearances?
15 Will the two witnesses -- I'm sorry, go ahead.

16 MR. ERNEST CARROLL: Mr. Examiner, I am also here
17 and would make an entry of appearance on behalf of Sanders
18 Oil Company. They are represented by the Modrall law firm.
19 I have been dealing with Mr. Lynn Slade and Timothy
20 DeYoung. They were unable to be in attendance.

21 This is a force-pooling Application, and all of
22 our differences between Yates and Sanders have been
23 resolved, and I have therefore been authorize to do this to
24 preserve their rights, though, and make this entry of
25 appearance for them.

1 EXAMINER CATANACH: Okay. Will the two witnesses
2 please stand and be sworn in?

3 (Thereupon, the witnesses were sworn.)

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

7 DIRECT EXAMINATION

8 BY MR. ERNEST CARROLL:

9 Q. Mr. Bullock, would you state your full name and
10 residence?

11 A. My name is Robert Bullock and I reside in Hope,
12 New Mexico.

13 Q. Mr. Bullock, how are you employed?

14 A. I'm employed by Yates Petroleum Corporation as a
15 petroleum landman.

16 Q. And Mr. Bullock, have you on previous occasions
17 testified and had your credentials in the area of petroleum
18 land management accepted?

19 A. Yes, sir.

20 MR. ERNEST CARROLL: Mr. Catanach, I tender Mr.
21 Bullock as an expert in the field of petroleum land
22 management.

23 EXAMINER CATANACH: Mr. Bullock is so qualified.

24 Q. (By Mr. Ernest Carroll) Mr. Bullock, you are
25 familiar with the Application before Examiner Catanach, are

1 you not?

2 A. Yes, sir.

3 Q. And this is seeking to force-pool the southeast
4 quarter of Section 17, Township 10 South, 25 East, Chaves
5 County?

6 A. That's correct.

7 Q. You have prepared certain exhibits for
8 presentation today, have you not?

9 A. Yes, sir.

10 Q. Let's turn, first, to Exhibit Number 1. Would
11 you identify that for the record?

12 A. This is our land plat. We've -- just try to give
13 you an overview of the lands involved here. We're talking
14 about lands in Chaves County, New Mexico, being 10 South,
15 Range 25 East, Section 17, and we outline the southeast
16 quarter as a proration unit with our heavy red outline.

17 We've indicated -- All these lands are fee lands.
18 We tried to show our Rose Cannon well, being at a location
19 of 1980 from the south line, 660 from the east line, of
20 that southeast quarter. We've also showed some offsetting
21 wells in the directions surrounding this prorationing unit.

22 Q. Now, Mr. Bullock, this case kind of presents --
23 It's not the normal force-pooling case. The Rose Cannon
24 well was actually drilled more than ten years ago; is that
25 correct?

1 A. It was drilled in November of 1983 by Sanders Oil
2 and Gas Corporation and was completed in January of 1984.

3 Q. This well was never placed on production,
4 however; is that correct?

5 A. That's correct. It was placed on production 1-30
6 of 1995.

7 Q. Just this year, by Yates Petroleum?

8 A. That's correct, Yates Petroleum has been
9 designated as successor operator to Sanders Oil and Gas.

10 Q. Basically, what happened is, there was a failure
11 to be able to get or obtain a line for production; isn't
12 that correct?

13 A. That is correct, yes.

14 Q. And at one time Sanders Oil and Gas and its group
15 of investors controlled the whole southwest -- southeast
16 quarter, excuse me, of Section 17; is that correct?

17 A. Yes, that's correct, and the leases over in the
18 east half of the southeast, shut in royalty was not paid
19 timely on those leases, and subsequently they expired.

20 Yates Petroleum came in in 1989 and acquired
21 those fee leases in the east half of the southeast quarter,
22 and they took over operations -- through a period of
23 negotiations with Sanders Oil and Gas, took over operations
24 January of this year.

25 Q. The well had to be placed on line prior to this

1 hearing for compulsory pooling, and why was that, Mr.
2 Bullock?

3 A. Because the leasehold under the east half of the
4 southeast quarter, being the Yates leasehold, those leases
5 were going to expire on 2-1 of 1995. So that lease was --
6 the well was put on production to maintain those leases
7 intact.

8 Q. All right, so much for the history.

9 It was -- you have -- since that time, or since
10 we began, you have made -- When Yates Petroleum began to
11 make the attempts to get the well on line and built a
12 connection, you began to contact some of the other partners
13 that were within the proration unit; is that correct?

14 A. That's correct, Sanders had some unleased acreage
15 over in the west half of the southeast quarter, and he made
16 an attempt to acquire those leases, and he was
17 unsuccessful, so it was determined that Yates would go
18 ahead and try to acquire those leases, and that's what
19 we're here for today. We were unable to acquire some
20 mineral interests under the west half of the southeast
21 quarter.

22 Q. All right. Exhibit Number 2 is -- Could you
23 describe what that is?

24 A. This was our initial attempt by letter of June
25 10, 1994, to lease these three mineral owners in the west

1 half of the southeast quarter, which by the way Sanders
2 never was able to acquire at any point in time. Those
3 leases were always outstanding, and the June 10th letter
4 was our initial attempt to negotiate a lease with them. It
5 was addressed to Pam Rose Ridge, Julia Rose Heald and Sue-
6 Ann Rose Edwards. They're all sisters.

7 That's what Exhibit 2 is.

8 Q. All right. Now, you've -- Beyond this letter of
9 June 10th, you have additionally tried to contact these
10 people by telephone and by additional writings; is that
11 correct?

12 A. Yes.

13 Q. Have you ever been successful in talking to these
14 individuals?

15 A. We have talked over the telephone. I believe
16 I've talked with Pam Rose Ridge and Sue-Ann Rose Edwards on
17 two prior occasions, and they were reluctant to do any type
18 of negotiation.

19 And so by letter dated December 6th, 1994, being
20 our Exhibit 3, we sent them an operating agreement and a
21 designation of pooled unit agreement, asking them to become
22 working interest participants in the well and to share in
23 the cost of drilling and completing it.

24 A second option we offered them in that letter
25 was again the opportunity to lease their 1/56 mineral

1 interest ownership on a quarter royalty lease.

2 And then the third option we gave them was a
3 farmout consideration.

4 And that's what Exhibit 3 is, it's -- That letter
5 is to each one of those sisters.

6 Q. In fact, Exhibit 3 is the letter to Pam Rose
7 Ridge, Exhibit 4 is an identical letter to Julia Rose
8 Heald --

9 A. Yes, sir.

10 Q. -- and Exhibit 5 is an identical letter to Sue-
11 Ann Rose Edwards?

12 A. That's correct.

13 Q. Have you received any response from this
14 communication?

15 A. No response whatsoever.

16 Q. Now, basically these three individuals are all
17 that Yates is seeking to force-pool by action today; is
18 that correct?

19 A. That is right.

20 Q. Exhibit 6. what is Exhibit 6?

21 A. Exhibit 6 is the operating agreement that we
22 submitted to these three women, along with the attached
23 designation of pooled unit in the back of it, that we
24 propose to use as the operating agreement for this well.

25 We submitted that with our letter of December

1 6th, 1994.

2 Q. Now, in the model form operating agreement, the
3 penalty that has been agreed to in it, it's 200 and 500
4 percent, is it not?

5 A. Yes, it is.

6 Q. Now, Yates Petroleum has come here today
7 recognizing that, one, 200 percent is the maximum that can
8 be awarded by the Commission [sic] in this case, but Yates
9 Petroleum has at least come here and asking for the --
10 under the circumstances, is asking for a penalty of 125
11 percent; is that correct?

12 A. Yes, that's correct, that's what we desire to
13 have.

14 Q. And that, I guess, has been in recognition of the
15 fact that some of the risk is -- there -- or at least the
16 kind of procedures or endeavors with respect to this well,
17 that Yates would foresee since it was already drilled and
18 in a producible state, would at least warrant that kind of
19 a penalty; is that correct?

20 A. Yes, sir, we feel there still is some mechanical
21 risk involved with putting this well on, being as how it
22 was drilled more than 11 years ago and was just put on
23 production here. There is going to be risk involved there,
24 and we feel this is a good penalty to ask for with respect
25 to that.

1 Q. The overhead operating rate that is in this
2 operating agreement is what?

3 A. It's \$400 per month, I believe is correct. Let's
4 see.

5 Q. \$400 producing well rate; is that correct?

6 A. Yeah, \$400 producing well rate, \$400 per month.

7 Q. And that would equate to a drilling well rate of
8 \$4000 per month?

9 A. That's correct, yes.

10 Q. Are those kind of rates the standard in this
11 particular area, Mr. Bullock?

12 A. Yes, sir, they are.

13 Q. And you would recommend those rates to the
14 Commission?

15 A. Yes.

16 Q. Exhibit 7 is what, Mr. Bullock?

17 A. Exhibit 7 is the certified mailing notice
18 required. It was given to these three women, telling them
19 that these hearings were going to be held today, force-
20 pooling their interest.

21 Q. The second page of this exhibit lists the parties
22 to whom this notice was sent; is that correct?

23 A. Yes.

24 Q. And it lists Sanders Oil, Enerag, and then the
25 three ladies that we've been talking about?

1 A. That is correct.

2 Q. Enerag, Inc., is a subsidiary company of Sanders
3 Oil; is that not true?

4 A. Yes, that's what --

5 Q. And they have -- Both Sanders and Enerag will be
6 signatory parties or have agreed voluntarily to pool their
7 interests?

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

9 MR. ERNEST CARROLL: Mr. Examiner, I would move
10 admission of Exhibits 1 through 7.

11 EXAMINER CATANACH: Exhibits 1 through 7 will be
12 admitted as evidence.

13 Q. (By Mr. Ernest Carroll) Mr. Bullock, is there
14 anything that I have overlooked to ask you concerning this
15 matter that you wish to --

16 A. No, I think we've covered everything that needs
17 to be covered.

18 MR. ERNEST CARROLL: That's all I have, Mr.
19 Examiner.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Bullock, this well is currently producing?

23 A. Yes, sir.

24 Q. Do you know what rate this well is producing at?

25 A. I think Dave Boneau can tell you about that. I

1 don't really know.

2 Q. Do you anticipate these women joining in this
3 well at all?

4 A. No, sir, sure don't. They have failed to
5 negotiate in good faith. You know, we've thrown an offer
6 at them and they have just stonewalled us with no response
7 at all. And that, to me, is not good-faith negotiation.

8 EXAMINER CATANACH: I have nothing further of
9 this witness.

10 MR. ERNEST CARROLL: We would next call Dave
11 Boneau.

12 DAVID F. BONEAU,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. ERNEST CARROLL:

17 Q. Would you state your name and residence for the
18 record?

19 A. My name is David Francis Boneau. I live in
20 Artesia, New Mexico.

21 Q. How are you employed?

22 A. I'm employed as an engineer, petroleum engineer,
23 by Yates Petroleum Corporation.

24 Q. Have you on previous occasions had your
25 credentials as a petroleum engineer accepted by the

1 Commission?

2 A. Yes, sir.

3 MR. ERNEST CARROLL: Mr. Catanach, I would tender
4 Mr. Boneau as an expert in the field of petroleum
5 engineering.

6 EXAMINER CATANACH: Mr. Boneau is so qualified.

7 Q. (By Mr. Ernest Carroll) Mr. Boneau, you are
8 familiar with the Application of Yates Petroleum that is
9 being heard by this Examiner, are you not?

10 A. Yes, sir.

11 Q. And you have prepared certain -- have done
12 certain engineering studies and have prepared certain
13 exhibits, have you not?

14 A. Yes, this is an unusual situation, and I've
15 prepared a little information to acquaint the Examiner with
16 the situation, and I've prepared one example of a type of
17 risk --

18 Q. All right.

19 A. -- involved.

20 Q. If you would then begin with Exhibit Number 8 and
21 explain what each of your exhibits are, identify them first
22 for the record and then explain their pertinence to this
23 hearing.

24 A. Exhibit Number 8 -- We're talking about the Pecos
25 Slope-Abo Pool, actually the South Pecos Slope-Abo Pool.

1 The production here is from like a tongue of the pool that
2 sort of sticks out to the southwest.

3 Exhibit 8 is a list of the Abo wells drilled in
4 Township 10 South, 25 East. The well that we're talking
5 about here is item number 22 on this list. When it was
6 drilled, it was called Sanders Cannon Bitterlake Number 1.
7 It was drilled in 1983, completed as an Abo producer with
8 an initial potential of 2000 MCF a day.

9 As Mr. Bullock said, it went on production in
10 January of 1995, and it has produced a little since then,
11 but it has produced since then, but obviously its cum is
12 not going to be very high.

13 I'm not going to go through this entire list, but
14 the Examiner might note that ten or so of the wells are
15 operated by Yates, and those wells began production in the
16 fall of 1990, October-November of 1990, when Yates built a
17 gathering line into the area.

18 You'll see when we look at the map in a minute
19 that this township is split by the Bitterlake Wildlife
20 Refuge, and there are some wells on the west side of the
21 Bitterlake Wildlife Refuge, are really what we're talking
22 about here.

23 And there was no way to deliver gas from those
24 wells until this gathering line was built by Yates in the
25 fall of 1990. So the wells -- a lot of the wells in the

1 area were drilled in the early Eighties, but there was no
2 production from any wells in the area until the fall of
3 1990.

4 I think that's probably enough for Exhibit Number
5 8.

6 Exhibit Number 9 is a list of the production, the
7 total production from the well in question, which is called
8 Rose Cannon AOR Com Number 1, now that Yates Petroleum
9 operates it.

10 The well began production on January 30th, 1995.
11 It produced for two days in January, and it produced for
12 the first 17 days of February, and it's been shut in,
13 basically because of the low gas prices.

14 So it has produced in order to establish
15 production and maintain the lease, but today I believe it's
16 actually shut in.

17 Its production rates are listed there, and you
18 can see it's produced 600, 700, 800 MCF a day, a reasonably
19 good start for an Abo producer.

20 The next exhibit is a map of the western part of
21 Township 10 South, 25 East, and I've listed under each
22 producing well my estimate of the ultimate recoverable gas
23 from those wells.

24 An Abo well in the Pecos Slope field needs to
25 produce about 400 million to be an economic venture.

1 Exhibit 8 showed that the cums of these wells are
2 -- a lot of them are less than 200 million, and so it's not
3 one of the great areas of the Abo field.

4 This Exhibit 10 shows the Bitterlake Wildlife
5 Refuge. It shows the producing wells just to the west of
6 the wildlife refuge. The well in question has a red circle
7 so that it's easy to pick out.

8 You can see that there's a north-south trend of
9 good production from the east side of Section 8, near the
10 boundary of Section 16 and 17 and the east part of Section
11 20. Those are the good wells.

12 I estimate that the well in question will recover
13 621 million cubic feet of gas, and that would clearly be an
14 economic producer. That estimate is based on 19 days of
15 production and might not turn out to be exactly right. But
16 this -- Anyway, the Examiner can see the situation, I
17 think.

18 There's a group of wells there, Yates built a
19 gathering line, and the wells are on production. Some of
20 them are going pretty well, some of them are not as good.
21 Yates has drilled a couple new wells in the area, and we've
22 managed to get this old well on line and now producing.
23 Pretty much the story on what's going on with the Rose
24 Cannon today.

25 My other exhibit is going to involve a comparison

1 between this Rose Cannon Well, the well that's in red on
2 Exhibit 10, and the well in Unit M of 16, the southeast
3 offset to the Rose Cannon, and we can talk about that on
4 the next exhibit.

5 But the Examiner notices right here that the Rose
6 Cannon has projected reserves of 621 million, an economic
7 kind of venture. The well in Unit M of Section 16 has
8 reserves of only 130 million. And my point in the next
9 exhibit is going to be, that well started out pretty much
10 like the Rose Cannon, and it basically fell on its face.

11 So if we turn to Exhibit 11, which consists of
12 four pieces of paper, page 1 of Exhibit 11 is kind of a
13 brief comparison of those two wells, the Bitterlake PX
14 Number 1, which is in M of Section 16, and the Rose Cannon.

15 The initial potential of the Bitterlake PX 1 was
16 1800 MCF a day, and the Rose Cannon was 2000. So the Rose
17 Cannon is a little better, but they're similar.

18 The logs of the two wells are pretty similar.
19 The Bitterlake PX Number 1 is 20 feet at 13 percent in the
20 main producing zone, Rose Cannon is 19 feet at 13 percent
21 porosity. The Rose Cannon has a couple minor zones in
22 addition, but the logs are pretty comparable. And the ϕh
23 values of the two wells are both between 3 and 4.

24 So you look at initial potential, you look at the
25 logs of the two wells, then you look at how they started

1 producing, and they're similar kind of wells.

2 The difference is, the Bitterlake PX Number 1
3 quickly fell off in production. It's cum'd in four years
4 only 96 million and estimated only up to 130 million in its
5 total life.

6 So the point is just that the Rose Cannon, after
7 a few weeks of production, looks like it ought to be an
8 economic well, but it could go the way of this PX Number 1
9 and really not be much of a well in the long term.

10 The additional pages of Exhibit 11 just fill in
11 some of the details.

12 Page 2 is a production plot, and pages 3 and 4
13 are snippets of the logs that show that the -- if you put
14 them together, that the logs of the two wells are very,
15 very similar.

16 Q. Based on this analysis of risk that you have
17 presented in Exhibit 11, Mr. Boneau, would you agree or
18 concur in recommending to the Commission that a penalty of
19 125 percent be adopted in this case?

20 A. A penalty of 125 percent is a reasonable penalty
21 in this unusual situation.

22 Q. Mr. Boneau, as an expert in the field of
23 petroleum engineering, do you feel that it is in the
24 interests of conservation, the prevention of waste and the
25 protection of correlative rights that the Division grant

1 this petition for compulsory pooling that Yates is
2 presenting?

3 A. Yes, sir, that would be a great thing to do.

4 Q. Is there anything further that you would like to
5 discuss with the Examiner concerning your exhibits?

6 A. No, sir.

7 MR. ERNEST CARROLL: Mr. Examiner, I would move
8 admission of Exhibits -- Yates Exhibits 8 through 11 at
9 this time.

10 EXAMINER CATANACH: Exhibits 8 through 11 will be
11 admitted as evidence.

12 MR. ERNEST CARROLL: I have nothing further, Mr.
13 Examiner.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Boneau, were you involved in bringing this
17 well on line?

18 A. Not directly.

19 Q. Are you aware of any difficulties that were
20 encountered bringing this well on production?

21 A. No, I heard nothing of any difficulty bringing
22 this well on production.

23 Q. Did you -- Have you compared the behavior of this
24 well to some of the better wells in that trend?

25 A. Yes.

1 Q. How does it relate to those wells?

2 A. The main part of the production is clearly from
3 what I've called zone 1, and at Yates we call it the
4 mountain channel. There's one main channel through this
5 are, and it goes through the area I indicated, where the
6 high cums and the high reserves are. The channel is not
7 much thicker anywhere. Twenty feet is a decent thickness
8 for the channel.

9 So the good wells have 20 to 30 feet of this good
10 zone, and they being producing a million a day or 800 a
11 day, and they hang in their fairly well and have good cums.

12 The one well I pointed out started out exactly
13 the same. It has the same kind of log. It started out at
14 600 MCF a day, just in -- a few months after, it was down
15 to 100 MCF a day and just hasn't done very well since then.
16 So it is the black sheep, basically, of the group of the
17 wells that's in the main part of the channel.

18 Does that approach your question?

19 Q. Do you know why this well behaved like that?

20 A. I don't know why. Speculation would be that the
21 channel stops to the -- just to the south of that well, is
22 one speculation.

23 Another speculation would be that the fracture in
24 the channel, you know, went across the channel rather than
25 along the channel. If you had a narrow channel and you

1 frac across it, you just don't open up very much of
2 reservoir volume. If you can fracture along the channel,
3 you contact way more of the pay zone.

4 Those are my speculations, but I don't know that
5 either of those is the real answer.

6 Q. So it's just a possibility, then, that this --
7 the Rose Cannon well might behave like this well?

8 A. Yes, it's a like one-out-of-five possibility.

9 EXAMINER CATANACH: Okay, I have nothing further
10 of this witness, Mr. Carroll.

11 MR. ERNEST CARROLL: That's all I have to present
12 today, Mr. Examiner.

13 EXAMINER CATANACH: Okay, there being nothing
14 further, Case Number 11,210 will be taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 10:40 a.m.)

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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, 1995.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is
 a complete record of the proceedings in
 the Examiner hearing of Case No. 11210,
 heard by me on March 1995.

 , Examiner

Oil Conservation Division

STEVEN T. BRENNER, CCR
 (505) 989-9317