

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 NOS. 11,355
)	11,283
APPLICATIONS OF TIDE WEST OIL)	(Consolidated)
COMPANY AND YATES PETROLEUM)	
CORPORATION)	
_____)	

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

August 10th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, August 10th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

August 10th, 1995
 Examiner Hearing
 CASE NOS. 11,355, 11283 (Consolidated)

	PAGE
EXHIBITS	3
APPEARANCES	3
OPENING STATEMENTS:	
By Mr. Kellahin	7
By Mr. Carr	9
YATES WITNESSES:	
<u>KATHY H. PORTER</u> (Landman)	
Direct Examination by Mr. Carr	12
Cross-Examination by Mr. Kellahin	21
Examination by Examiner Stogner	25
<u>ROBERT S. FANT</u> (Engineer)	
Direct Examination by Mr. Carr	28
Cross-Examination by Mr. Kellahin	36
Examination by Examiner Stogner	42
Further Examination by Mr. Kellahin	55
TIDE WEST WITNESSES:	
<u>JIM BRANNIGAN</u> (Geologist)	
Direct Examination by Mr. Kellahin	59
Cross-Examination by Mr. Carr	67
Examination by Examiner Stogner	71
CLOSING STATEMENTS:	
By Mr. Kellahin	74
By Mr. Carr	76
REPORTER'S CERTIFICATE	81

* * *

E X H I B I T S

Yates	Identified	Admitted
Exhibit 1	15	21
Exhibit 2	15	21
Exhibit 3	18	21
Exhibit 4	19	21
Exhibit 5	29	36
Exhibit 6	30	36

Tide West	Identified	Admitted
Exhibit 1	60	67

* * *

A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 10:01 a.m.:

3 EXAMINER STOGNER: Call Case Number 11,355.

4 MR. CARROLL: Application of Tide West Oil
5 Company for an unorthodox infill gas well location and
6 simultaneous dedication, Chaves County, New Mexico.

7 EXAMINER STOGNER: At this time I'll call for
8 appearances.

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
10 the Santa Fe law firm of Kellahin and Kellahin, appearing
11 on behalf of the Applicant, Tide West Oil Company.

12 MR. CARR: May it please the Examiner, my name is
13 William F. Carr with the Santa Fe law firm Campbell, Carr
14 and Berge, entering my appearance on behalf of Yates
15 Petroleum Corporation.

16 Yates Petroleum Corporation has another case on
17 the docket. It's Case 11,283, which involves an unorthodox
18 location offsetting the one proposed by Tide West in Case
19 11,355, and I believe it's agreeable with Mr. Kellahin that
20 these cases be consolidated for the purpose of hearing.

21 EXAMINER STOGNER: Mr. Kellahin, any objection?

22 MR. KELLAHIN: No, we concur in the request for
23 consolidation.

24 EXAMINER STOGNER: At this time I will call Case
25 Number 11,283.

1 MR. CARROLL: Application of Yates Petroleum
2 Corporation for an amendment to Division Order Number
3 R-9976-A authorizing a location change of a certain
4 unorthodox infill gas well location, Chaves County, New
5 Mexico.

6 EXAMINER STOGNER: Other than Tide West and
7 Yates, are there any appearances in either or both of these
8 cases?

9 Please let the record show that in the Yates
10 Case, 11,283 -- and I'm assuming, Mr. Kellahin, that you're
11 entering an appearance in that one?

12 MR. KELLAHIN: Yes, Mr. Examiner.

13 EXAMINER STOGNER: Okay. Do you have witnesses,
14 Mr. Kellahin?

15 MR. KELLAHIN: Yes, sir, there's a clerical
16 issue --

17 EXAMINER STOGNER: Okay.

18 MR. KELLAHIN: -- involved that I would like to
19 raise with you. In the Yates case, 11,283, I believe the
20 section should be 21 instead of 33.

21 MR. CARR: Yes, sir.

22 MR. KELLAHIN: I believe that is simply of no
23 consequence. All the parties involved recognize that that
24 should have been Section 21. The only parties that have
25 come forward with regards to these two cases are Yates

1 Petroleum and Tide West Oil Company. So as you look to
2 enter an order in these cases, it would be my opinion that
3 that error is nothing more than a clerical error and should
4 not further delay your processing of either of these cases.

5 MR. CARR: And I concur in that statement, Mr.
6 Stogner.

7 EXAMINER STOGNER: I'm not going to rule on that
8 motion just yet. I think we're prepared to go ahead and
9 hear the docket today -- I mean, hear these two cases
10 docketed today, and then at the end of the proceedings
11 we'll make that determination.

12 Anything further, Mr. Kellahin?

13 MR. KELLAHIN: No, sir. I have two witnesses to
14 be sworn.

15 MR. CARR: And I have two witnesses, Mr. Stogner.

16 EXAMINER STOGNER: Okay, will all four witnesses
17 please -- I'm not going to ask him to stand. You can.

18 MR. CARROLL: All right.

19 (Thereupon, the witnesses were sworn.)

20 (Off the record)

21 MR. CARR: Mr. Stogner, Mr. Kellahin and I have
22 discussed the case, and with your permission Yates will
23 present its witnesses first.

24 EXAMINER STOGNER: Well, with that, Mr. Kellahin?

25 MR. KELLAHIN: I'd like to make a short opening

1 statement, if it's appropriate at this time.

2 EXAMINER STOGNER: This is the opening of the two
3 cases, and Mr. Carr, you don't have a problem?

4 MR. CARR: I do not.

5 EXAMINER STOGNER: Mr. Kellahin?

6 MR. KELLAHIN: Thank you, Mr. Examiner.

7 On behalf of Tide West Oil Company, we have
8 outlined in our prehearing statement what we believe the
9 evidence will show you and what Tide West Oil Company
10 seeks.

11 By way of background, this case involves the
12 Pecos Slope-Abo Gas Pool, just north of Roswell, New
13 Mexico.

14 There is a spacing unit in the southeast quarter
15 of Section 21 that involves what you will recognize to be
16 the Catterson Number 7 well.

17 Yates Petroleum Corporation, over a series of
18 Division hearings, obtained approval for a pilot infill
19 drilling project to test the concept of the efficiency and
20 the practicality of infill drilling of the 160-acre gas
21 pool.

22 In the course of doing those applications, they
23 obtained approval for the Catterson well at an original
24 nonstandard location. Thereafter, the well was drilled at
25 a second nonstandard location, other than originally

1 approved.

2 As a consequence, the Catterson 7 well is 330
3 feet from the common boundary with the northeast quarter
4 spacing unit now controlled and operated by Tide West Oil
5 Company. The 330-foot location of the Catterson 7 well is
6 50 percent too close to the common line.

7 We are appearing today to ask the Division to do
8 the following:

9 To establish a 50-percent production penalty
10 against the Catterson well. To initiate that penalty,
11 effective as of the date of the order entered in this case,
12 we're asking that all gas already produced by Yates from
13 the Catterson 7 well be charged as overproduction and made
14 up over time pursuant to the production penalty that we
15 seek to have initiated.

16 In addition, we are requesting, Mr. Examiner,
17 that that penalty stay in place as long as, and until, Tide
18 West Oil Company elects to drill, complete and has first
19 gas sales on an offset protection well.

20 We're seeking approval in our case to do two
21 things:

22 One, to obtain approval for simultaneous
23 dedication in the northeast quarter of an additional infill
24 well, to be a companion for what you will be told is the
25 Chaves A Federal Well Number 1, located in Unit B of our

1 spacing unit.

2 And second of all, we're requesting approval,
3 should you agree, to let us have an equivalent offset
4 location that is no closer to the common boundary with
5 Yates than 330 feet. And should Tide West elect to drill
6 and produce that location, then at such point time as we
7 have gas sales we will consent and agree to have the
8 penalty on the Yates well removed.

9 And therein lies what we're asking you to do, Mr.
10 Examiner, and we will present two witnesses, a geologist
11 and an engineer, to describe for you the technical reasons
12 to support those requests.

13 EXAMINER STOGNER: Mr. Kellahin.

14 Mr. Carr, do you have anything, opening
15 statements, at this time?

16 MR. CARR: Yes, Mr. Stogner.

17 As Mr. Kellahin pointed out, we're here today
18 talking about two wells, one well that Yates has drilled at
19 an unorthodox location in the Pecos Slope-Abo Gas Pool, and
20 a proposed well that Tide West is planning to drill
21 offsetting that unorthodox location, equidistant from the
22 common boundary between the two tracts.

23 As Mr. Kellahin pointed out, the Catterson well
24 was drilled as part of the Pecos Slope efforts undertaken
25 recently by Yates to determine if in fact infill drilling

1 will improve recoveries from this field, and we will be
2 back to report to you on that later this month.

3 Mr. Kellahin pointed out that we came before you
4 and originally obtained approval of an unorthodox location.
5 That location was 2310 feet from the south line of Section
6 21, Township 7 South, Range 26 East.

7 We obtained a waiver from the offsetting
8 operator. And when we went out to drill the well, the BLM
9 made us move it 130 feet to the east, but we were still no
10 closer than originally approved to the offsetting tract,
11 the tract which now is operated by Tide West, and the well
12 was drilled.

13 And after the well was drilled, we sought an
14 administrative approval of the new unorthodox location.
15 And it was during that process that we were advised by
16 Merit Energy Company, the previous owner of the tract to
17 the north, that in fact that interest had been conveyed to
18 Tide West. And on the day that we were advised of that, we
19 advised both the Division and Tide West that this
20 Application was pending, and we're before you today because
21 of their objection.

22 We will present a land witness who will review
23 the events that resulted in the drilling of the Catterson
24 well.

25 We will present an engineering witness who will

1 make recommendations to you concerning penalty. Our
2 recommendation will be, one, that no penalty should be
3 imposed because we're no closer with this location to their
4 interest than what had previously been approved.

5 But if that order and that location is of no
6 effect, we will then also recommend a 50-percent penalty on
7 the Yates well. But we will recommend that that penalty be
8 based on a deliverability test, that it continue as Tide
9 West has proposed until they have an offsetting well
10 producing. But we will also ask you to put a limit on that
11 penalty if in fact Tide West has no intention to go forward
12 with the well.

13 That's what our evidence will show, that's what
14 we will request. And you should know going into this that
15 Yates, of course, has no objection to the proposal of Tide
16 West for their unorthodox location.

17 EXAMINER STOGNER: Thank you, Mr. Carr.

18 With that, Mr. Kellahin, do you want to present
19 your first witness?

20 MR. CARR: I think if it's all right with you,
21 Mr. Stogner, Yates will go first. We'll present --

22 EXAMINER STOGNER: Oh, I'm sorry.

23 MR. CARR: -- on land and the background --

24 EXAMINER STOGNER: Yes.

25 MR. CARR: -- and Mr. Kellahin has a geologist

1 and an engineer.

2 So with your permission at this time we would
3 call Kathy Porter.

4 EXAMINER STOGNER: I'm sorry, I temporarily
5 forgot what you had said earlier.

6 KATHY H. PORTER,
7 the witness herein, after having been first duly sworn upon
8 her oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q. Would you state your name for the record, please?

12 A. My name is Kathy Porter.

13 Q. By whom are you employed?

14 A. I'm employed by Yates Petroleum Corporation,
15 Artesia, New Mexico.

16 Q. Ms. Porter, what are your duties or your position
17 with Yates Petroleum Corporation?

18 A. I'm employed as a landman. I also have the title
19 of land supervisor.

20 Q. Have you previously testified before the New
21 Mexico Oil Conservation Division?

22 A. Yes, I have.

23 Q. At the time of that prior testimony, were your
24 credentials as a landman accepted and made a matter of
25 record?

1 A. Yes, they were.

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

4 A. Yes, I am.

5 Q. I'm talking about the case with the Catterson
6 "SS" well.

7 A. Correct.

8 Q. Are you familiar with the Catterson "SS" Federal
9 Number 7 well?

10 A. Yes, I am.

11 MR. CARR: Are the witness's qualifications
12 acceptable?

13 EXAMINER STOGNER: Any objections?

14 MR. KELLAHIN: No, sir.

15 EXAMINER STOGNER: So qualified.

16 Q. (By Mr. Carr) Ms. Porter, could you briefly
17 state what Yates seeks with this -- in this case?

18 A. In this case, Yates Petroleum Corporation seeks
19 amendment of Division Order Number R-9976-A to approve the
20 location of the Catterson "SS" Federal Number 7 well at an
21 unorthodox location of 2310 from the south line, 660 from
22 the east line, Section 21, Township 7 South, Range 26 East,
23 Chaves County, New Mexico.

24 Q. Could you tell us why this particular infill was
25 drilled?

1 A. The Catterson Number 7 was drilled as part of our
2 enhanced gas recovery project in the Pecos Slope-Abo Pool.

3 Q. And has that project been approved by the
4 Division?

5 A. Yes, that was approved September 24th, 1993, by
6 Division Order R-9976.

7 Q. And how long were these temporary rules to remain
8 in place?

9 A. The order gave two-year temporary rules.

10 Q. Just briefly state what the purpose of this pilot
11 project was.

12 A. To determine if infill development will prevent
13 waste in the Pecos Slope-Abo Gas Pool.

14 Q. Now, have you been involved with the land work
15 related to this particular pilot project?

16 A. Yes. I am actually the landman for the Catterson
17 Number 7 well, which makes me responsible for the land
18 matters.

19 I am the direct supervisor for the regulatory
20 agents that permit the wells, which makes me responsible
21 for regulatory matters.

22 In addition, I am also a corporate officer, so I
23 have been advised of this project.

24 Q. Was this well originally proposed at standard
25 location?

1 A. This well has always been unorthodox. It was
2 originally proposed at a location of 2310 from the south
3 line, 790 from the east line.

4 Q. And was that location approved by the Division?

5 A. That location was approved by the Division by
6 Order R-9976-A, which is Exhibit 1.

7 Q. In the context of that approval process for the
8 original location, did Yates notify the offset operator to
9 this proposed location?

10 A. Yes, Merit Energy Company was notified.

11 Q. And what response did you receive from Merit
12 Energy?

13 A. We received a waiver letter from Merit Energy,
14 being Exhibit Number 2.

15 Q. What is Exhibit Number 1?

16 A. Exhibit Number 1 is the Order R-9976-A.

17 Q. This is the order originally approving the
18 location for the Catterson well?

19 A. That's correct.

20 Q. And when was the hearing on that Application?

21 A. The hearing date was June 23rd, 1994.

22 Q. And if we go to Exhibit Number 2, the waiver
23 letter from Merit, what was the date on that waiver letter?

24 A. Well, the waiver letter was dated -- They
25 actually signed it June 18th.

1 Now, there were two hearings connected with this
2 first order, May 26th, 1994, and June 23rd, 1994.

3 Q. And when was the waiver actually executed by
4 Merit?

5 A. Actually executed June 18th, 1994.

6 Q. And that is what has been marked as Yates Exhibit
7 Number 2?

8 A. That's correct.

9 Q. When did the Division actually approve the
10 location?

11 A. The Division actually approved the unorthodox
12 location June 23rd, 1994.

13 Q. If you look at the order, Exhibit 1, is that not
14 July 26th?

15 A. Oh, that's correct, on the order, yes.

16 Q. Okay. In your opinion, have you --

17 A. The hearing was June 23rd.

18 Q. -- notified the direct offset operator for the
19 proposed unorthodox location for the Catterson well?

20 A. Yes, we believe we did.

21 Q. And have you made any subsequent check of records
22 to determine if in fact you did notify the correct offset
23 operator?

24 A. No, I haven't.

25 Q. When was the Catterson well actually drilled?

1 A. January, 1995.

2 Q. And do you know when it actually first produced?

3 A. Yes, I have that date. April the 6th, 1995.

4 Q. Should questions concerning the producing
5 capability of the well be directed to the Yates engineering
6 witness?

7 A. Yes.

8 Q. Was the well drilled at the unorthodox location
9 that had been approved by the Oil Conservation Division?

10 A. No, it was not.

11 Q. And how was it different from the approved
12 location?

13 A. It was drilled the same 2310 from the south line,
14 however the footage was changed from 790 from the east line
15 to 660 from the east line.

16 Q. Do you know why that change was, in fact, made in
17 the location?

18 A. Yes, I do.

19 Q. And why was that?

20 A. Due to the BLM on-site review during their APD
21 process, the BLM advised us they would not approve the 790
22 from the east line due to drainage. The BLM then made the
23 suggestion to move the well 660 from the east line.

24 Q. And that's what you did?

25 A. That is what we did.

1 Q. You moved it, in fact, 130 feet east of the
2 approved location?

3 A. Correct, only to the east.

4 Q. And the well was drilled prior to obtaining
5 approval of that new location from the OCD?

6 A. Yes.

7 Q. Did Yates seek approval of this location from the
8 Division?

9 A. Yes, we filed for administrative approval.

10 Q. And is Exhibit Number 3 a copy of that
11 application?

12 A. That's correct.

13 Q. And what is the date of the application?

14 A. The application is dated March 24th, 1995.

15 Q. And was a copy of this application provided to
16 Merit Energy Company?

17 A. Yes, it was.

18 Q. And also to Sanders Petroleum Corporation?

19 A. That's correct.

20 Q. Is Sanders the east offset?

21 A. Yes, they are.

22 Q. And what response did Yates receive to this
23 application, this administrative application?

24 A. We received the signed waiver from Sanders
25 Petroleum, we received a phone call from Merit, advising us

1 that they had conveyed their interest to Tide West.

2 Q. And when was that telephone call?

3 A. The telephone call from Merit came on March 30th.

4 Q. And then what did Yates do?

5 A. Yates immediately advised the OCD that our
6 administrative application for approval would have to be
7 delayed in order to give Tide West the required notice.

8 Q. And was the application then transmitted to Tide
9 West?

10 A. Yes, by certified mail.

11 Q. Can you identify what has been marked as Yates
12 Exhibit Number 4?

13 A. Yates Exhibit Number 4 is the letter confirming
14 our verbal conversation on March 30th. We then had this
15 followed up with the March 31st letter, advising what had
16 happened. It is also the copy of the certified letter that
17 was sent to Tide West.

18 Q. Do you know how this matter actually came to
19 hearing?

20 A. It was actually set by the OCD for hearing on May
21 18th.

22 Q. Aside from the hearing process, has Yates
23 attempted to resolve the dispute with Tide West?

24 A. Yes, we have contacted Tide West at least five
25 times, to no avail.

1 Q. What is your understanding of the reason this
2 case has taken so long to get to hearing?

3 A. We were served with a subpoena to produce data on
4 May 19th and told that Tide West needed two weeks to
5 review.

6 Q. Were there other reasons that came to your
7 attention concerning delays in the hearing?

8 A. At a later date we were advised that Tide West
9 was having some problems in getting their APD approved by
10 the BLM and therefore needed additional time.

11 Q. Now, Ms. Porter, there is no dispute between us
12 and Tide West that the well was drilled at a location
13 different from the one originally approved by the Division;
14 is that right?

15 A. That's correct.

16 Q. And this location was moved to the east at the
17 request of the BLM?

18 A. That's also correct.

19 Q. And it is no closer to the offsetting Tide West
20 acreage than originally approved?

21 A. That's correct. It's always been the 2310 from
22 the south.

23 Q. Were Exhibits 1 through 4 either prepared by you
24 or compiled at your direction?

25 A. That's correct.

1 Q. And are these copies of documents from the files
2 of Yates Petroleum Corporation?

3 A. Yes, they are.

4 MR. CARR: Mr. Stogner, at this time we would
5 move the admission into evidence of Yates Petroleum
6 Corporation Exhibits 1 through 4.

7 EXAMINER STOGNER: Are there any objections?

8 MR. KELLAHIN: No objection.

9 EXAMINER STOGNER: Exhibits 1 through 4 will be
10 admitted into evidence at this time.

11 MR. CARR: And that concludes my direct
12 examination of Ms. Porter.

13 EXAMINER STOGNER: Thank you, Mr. Carr.

14 Mr. Kellahin, your witness.

15 MR. KELLAHIN: Thank you, Mr. Examiner.

16 CROSS-EXAMINATION

17 BY MR. KELLAHIN:

18 Q. Ms. Porter, do you have access to your well file
19 that would disclose the forms filed by Yates with regards
20 to the Catterson 7 well?

21 A. Yes, sir.

22 Q. Let me go through the chronology with you and
23 make sure I understand it.

24 Division Order R-9976, which is your Exhibit 1,
25 that was in Case 10,981, and that was an application by

1 Yates to expand the pilot project and within the context of
2 that application to now include the southeast quarter of
3 Section 21 for the drilling of this Catterson 7 well,
4 wasn't it?

5 A. That's correct.

6 Q. Did your records reflect any knowledge about the
7 fact that Merit Energy had assigned of record, as of about
8 July 8th of 1994, their interest in the northeast quarter
9 of 21 to Tide West Oil Company?

10 A. Our records, no, sir.

11 Q. So your first knowledge of the fact that the
12 offsetting property in the northeast quarter was now
13 operated by Tide West came to you as a result of your
14 administrative application to change the Catterson location
15 from the original nonstandard location to the new
16 nonstandard location in about March 24th of 1995?

17 A. That's correct, when Merit called.

18 Q. All right. As of July 26th of 1994, the Division
19 has issued R-9976, and I believe there's a supplement,
20 there's an A order to that sequence.

21 But can you confirm for me that the date in which
22 the Division approved the original location, the 790
23 location, was July 26th of 1994? I believe that's what
24 that order shows.

25 A. That's what the order shows, yes, it does have

1 the footage.

2 Q. All right. Do your records also show that on
3 October 17th of 1994 that was the date Yates dated its APD
4 for the Catterson well at the new location, which is the
5 660 location, and it was filed with the BLM in Roswell?

6 A. I cannot verify the date, but that is the process
7 that would have been followed.

8 Q. Okay. So the Federal APD at the new location is
9 filed. When did you then commence drilling the -- When did
10 Yates commence spudding the well? Do you know?

11 A. The very first part of January, the well was
12 spudded.

13 Q. Would you be able to verify a record check on
14 this well file to show that the sundry notice for spudding
15 the Catterson well was dated on January 6th of 1995?

16 A. If that was the date, yes, we will have the date.

17 Q. Do your records reflect when Yates actually
18 completed the Catterson 7 well at this new unorthodox
19 location?

20 A. Yes, that would be on the completion report.

21 Q. All right. Would your recollection be consistent
22 with a date that shows March 31st of 1995 as to the date at
23 which Yates completes the Catterson 7 well?

24 A. I'm not sure if that was the actual completion
25 date or maybe the TD date. The timing would correspond

1 with first production of April 6th.

2 Q. All right, on March 24th, then, Yates through Mr.
3 Carr is filing an administrative application, now, to
4 achieve approval for the drilled location. I believe it
5 was on your Exhibit 3?

6 A. Of the 660 from the east, yes, sir.

7 Q. Okay. And your records reflect that you have
8 first gas sales of April 6th of 1995?

9 A. That's correct.

10 Q. All right. The purpose of the Application is to
11 obtain approval now for the drilled location?

12 A. Right.

13 Q. Do your records reflect any written approval by
14 the Oil Conservation Division to commence producing the
15 Catterson 7 well prior to obtaining Examiner Stogner's
16 approval of that location?

17 A. They reflect that the Application was filed in
18 March.

19 Q. All right. Do you have any records to show any
20 Division approval to let you produce the well?

21 A. No, sir.

22 Q. How would that normally be done? Is there a form
23 that you file to obtain a producing allowable or authority
24 to produce your gas well?

25 A. I'm sure that there's a form filed in the

1 production department with the authority to transport.

2 Q. It's the Authority to Transport form, is it not?

3 A. Uh-huh.

4 Q. Do you know whether or not you have one of those
5 forms in this case file?

6 A. I do not.

7 Q. And Yates has no objection to Tide West having an
8 equivalent location in its spacing unit for its infill well
9 that is the same distance between the common boundary
10 between you and Tide West?

11 A. Yates has no objection to Tide West drilling a
12 330-off-the-line well.

13 Q. Does Yates have any objection to the fact that
14 this would be the second well in Tide West's spacing unit?

15 A. No, we do not.

16 MR. KELLAHIN: I have no further questions of Ms.
17 Porter. Thank you.

18 MR. CARR: I have no additional questions on
19 redirect.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Just for clarification, on Exhibit Number 2, the
23 date of the letter, is that 1994? It looks like the
24 memorandum --

25 A. Yes, sir --

1 Q. -- obscured --

2 A. -- yes, sir, it is June 6th, 1994. And you will
3 notice they did sign it June 18th, 1994.

4 Q. On Exhibit Number 3, fourth page -- fifth page,
5 are you familiar with that report?

6 A. Yes, sir.

7 Q. Would you identify it?

8 A. The fifth page is the staking plat for the
9 location of 2310 from the south line, 660 from the east
10 line.

11 Q. And then it shows a diagram of the section down
12 towards the bottom half; is that correct?

13 A. That's correct.

14 Q. And this would be a 160-acre proration unit,
15 which would essentially be the southeast quarter --

16 A. Southeast quarter of 21, yes, sir.

17 Q. Do you know what the date of this form is?

18 A. I know that it was done in October, because --

19 Q. Of what year?

20 A. It would have been 1994.

21 MR. CARR: Mr. Stogner, a copy of this form is
22 also what is marked as Yates Exhibit Number 5, and it shows
23 it's signed by the operator. The operator certification is
24 signed October 17, 1994.

25 EXAMINER STOGNER: Okay, and also that has that

1 marked and the reference to 9976.

2 MR. CARR: That has been added. Yes, sir, we'll
3 discuss that with Mr. Fant.

4 EXAMINER STOGNER: Okay.

5 Q. (By Examiner Stogner) You have a copy of another
6 map on Exhibit Number 3, on page 4, which appears to be a
7 Midland Map Company ownership plat?

8 A. Yes, sir.

9 Q. Can I look at this and tell who the offset owner
10 of the property to the north of this proposed well is?

11 A. It shows you that Merit Energy is the operator,
12 which was the company that we notified when this first
13 started.

14 Q. Do you know what the date of this map is? I
15 believe that Midland Map updates plats periodically.

16 A. They update them all the time. Yates obtains new
17 maps yearly, every 10 to 13 months.

18 These are pulled out of what was going to be the
19 APD, so this map could have been anywhere from a year old
20 to six months old.

21 Q. Who with Merit Energy did you talk to concerning
22 that -- your return request?

23 A. Concerning the waiver letter they sent or --

24 Q. Yes.

25 A. -- the March -- It was sent to a Jean Dobb, I

1 believe. She is also the one that called our attorney in
2 March. It's actually "Dobbs", with an "s", not "Dobb".

3 EXAMINER STOGNER: Okay. I have no other
4 questions of this witness. If there's nothing further from
5 her, she may be excused.

6 MR. CARR: At this time we call Robert Fant.

7 ROBERT S. FANT,
8 the witness herein, after having been first duly sworn upon
9 his oath, was examined and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. CARR:

12 Q. Would you state your name for the record, please?

13 A. Robert Fant.

14 Q. By whom are you employed?

15 A. Yates Petroleum Corporation.

16 Q. And in what capacity?

17 A. I'm a petroleum engineer.

18 Q. Mr. Fant, have you previously testified before
19 the Oil Conservation Division?

20 A. Yes, sir, I have.

21 Q. At the time of that prior testimony, were your
22 credentials as a petroleum engineer accepted and made a
23 matter of record?

24 A. Yes, sir, they were.

25 Q. Are you familiar with the Applications in each of

1 these consolidated cases?

2 A. Yes, sir, I am.

3 Q. And are you familiar in particular with the
4 Catterson "SS" Federal Number 7 well?

5 A. Yes, sir.

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

8 EXAMINER STOGNER: Any objection?

9 MR. KELLAHIN: No objection.

10 EXAMINER STOGNER: So qualified.

11 Q. (By Mr. Carr) Mr. Fant, what are the well-
12 location and spacing requirements for the Pecos Slope-Abo
13 Gas Pool?

14 A. The spacing requirements are 160-acre spacing
15 with 660-foot setbacks from the proration unit boundaries.

16 Q. Could you go to what has been marked as Yates
17 Petroleum Corporation Exhibit Number 5 --

18 A. Yes, sir.

19 Q. -- identify this exhibit and then just briefly
20 review what it shows to the Examiner.

21 A. This is the State Form C-102 that was filed for
22 the Catterson Number 7 well.

23 It shows, with the small open circle, with the
24 dimensions leading from it, the location of the Catterson
25 well as it is right now.

1 It also shows, just to the west of the current
2 location, a black dot which is the location that was
3 approved by Order R-9976-A, that being 2310 from the south
4 line, 790 feet from the east.

5 The north half -- or the northeast quarter of
6 this Section 21 is the acreage operated by Tide West.

7 And one thing that I would like to point out on
8 this particular exhibit is that the new location -- or the
9 current location of the Catterson well is no closer to the
10 northern boundary of the proration unit than that approved
11 by R-9976-A, previously approved order.

12 Q. All right. Let's go to what has been marked as
13 Yates Exhibit Number 6. Can you identify this, please?

14 A. Yeah, Exhibit Number 6 is a production -- a
15 summary of the production history on the Catterson well.
16 I've got a little bit of chronology and then a few
17 calculations on it.

18 It shows that -- you know, the chronology that it
19 was frac'd in March of 1995. At the beginning of -- April
20 6th, as Ms. Porter testified to, gas sales were begun.

21 But the little table below it is kind of the meat
22 of it, and if you move over to the right-hand side, it
23 shows the average daily production for the months of April
24 through July of this year. It shows a -- you know, and
25 then total to date, total number of days the well could

1 have produced, the actual days it did produce, actual
2 production, and then the averages. We averaged over this
3 time period 398 MCF a day.

4 Q. Now, if you go down to the next line, it talks
5 about when the well was produced to capacity. Could you
6 review the way the well has been produced for the Examiner?

7 A. Yes, the -- Yeah, the well was frac'd, and then
8 it was put on line to clean up. Okay? Shortly after that
9 it was shut in. It only produced five days in April.
10 Okay, those were basically days it produced at capacity.
11 Most of the -- Then it was shut in.

12 In May it was opened back up, but it was opened
13 at a restricted rate. If you'll notice this line here,
14 "Well has produced at capacity for 44 days", and then
15 there's some date-time periods showing when the well was
16 producing at what we call capacity. That's basically -- It
17 had minimal restrictions applied to it. All other times it
18 was either shut in or being severely restricted by a choke
19 on the wellhead.

20 According to the calculations, it's produced --
21 44 days it has produced at capacity, and that's a -- we --
22 I want to -- we're trying to bring that across, because one
23 of the things in question here is what can the well
24 produce? And we're trying to show that -- in the 44 days
25 when it was not under severe restrictions, it produced

1 25,000 MCF, which, if you drop to the next line, that's
2 saying that on the times when it was at its maximum -- when
3 it was not being choked severely, it produced at an average
4 of 569 MCF.

5 Q. That 569-MCF-per-day figure is higher than the
6 average daily production figure shown in the last column in
7 the upper part of the exhibit?

8 A. Absolutely.

9 Q. And what is the difference between those?

10 A. The average daily production shown further up for
11 the total for the well includes many days in which the well
12 was restricted, severely choked back at the wellhead.
13 Those days are not indicative of what the well can produce.
14 They had a mechanical restriction to them.

15 Q. All right, let's go now to the lower part of the
16 exhibit, starting with the line that says "Maximum gas well
17 could have produced to date".

18 A. Okay, over this time period, the well -- There
19 was 117 days from the date of first gas sales up through
20 the end of July. That was 117 days. So if you take the
21 569 that it's capable of producing, times the 117 days,
22 that's 66,573 MCF. That's what the well, by these numbers,
23 could have produced. And then it was actually on 73 of
24 those 117 days.

25 And -- But you come down to the bottom line, we

1 have produced a total of 29,057 MCF over this time period,
2 a time period where we could have produced 66,573 MCF.

3 So in actuality, since the date that this well
4 was actually tied into the gas line, it's produced 44
5 percent.

6 Q. Does Yates recommend that a penalty be imposed on
7 the Catterson "SS" well?

8 A. No, we do not recommend a penalty, based upon the
9 fact that this well is no closer to the 330 line than we
10 were originally.

11 Q. Now -- What is the reason for recommending no
12 penalty initially?

13 A. We're no closer to the boundary than what was
14 approved by the previous order.

15 Q. Now, if a penalty is imposed, are you prepared to
16 make a recommendation?

17 A. We would recommend, yes, that a 50-percent
18 penalty be imposed upon the well.

19 Q. And when you say "imposed on the well", how would
20 that -- the ability of the well to produce be determined,
21 or how should it be, in your opinion?

22 A. Based on the basis of a deliverability test, what
23 can the well actually produce into the line?

24 Q. And will that test be witnessed by the OCD and
25 representatives of Tide West?

1 A. Absolutely.

2 Q. If a penalty is imposed, do you have an opinion
3 as to the period of time during which that penalty should
4 remain in place?

5 A. If a penalty were imposed, it should remain in
6 effect until the first gas sales from Tide West well that
7 they are proposing to drill as a twin to this well, or, I
8 believe it -- There should be a time limit on that. I feel
9 120 to 180 days, some time in that time, is a reasonable
10 time frame to allow them to drill the well, complete it and
11 get it tied in, whichever one of those dates occurs first,
12 first production or 120 to 180 days, whichever one of those
13 occurs first.

14 Q. And why have you recommended a time limit to the
15 penalty without the drilling of an offset well?

16 A. If the offset -- If Tide West never drills the
17 well, then the penalty remains in effect forever, and
18 that's not what we're -- what needs to be sought here.

19 Q. Is there any meaning to a penalty if there is, in
20 fact, never an offset?

21 A. No, all it changes is the timing of the reserves
22 at that point. If they don't drill the well, then there's
23 no change of who recovers it; it's just a change of when
24 it's recovered.

25 Q. So the difference between what you're

1 recommending and what Mr. Kellahin stated in his opening
2 statement is that we feel that, one, no penalty is
3 appropriate since we're no closer than what was previously
4 approved to Tide West --

5 A. Yes.

6 Q. -- but that if there is a penalty, we're in
7 agreement that it should be 50 percent.

8 A. Yes.

9 Q. We are in agreement that the penalty should come
10 off, and there's an offsetting well --

11 A. Yes.

12 Q. -- drilled and operating, and gas is being sold
13 by Tide West, but we are recommending that there be a limit
14 on that if, in fact, there is no offsetting development; is
15 that right?

16 A. Yes.

17 Q. Now, Yates has no objection to the proposal of
18 Tide West; is that correct?

19 A. No, we have no objection to their --

20 Q. What would be the impact on Yates if all prior
21 production were treated as overproduction from the
22 Catterson well?

23 A. Well, it would penalize Yates Petroleum for
24 agreeing to continue this case. So, you know, we agreed to
25 continue the case while they had the data, while they were

1 able to review the data. And penalizing us back to that
2 date would -- penalizing the -- calling it all
3 overproduction would penalize us for agreeing to continue
4 it.

5 Q. So in effect, you are in opposition to treating
6 production prior to this date as overproduction?

7 A. Yes, sir, we are.

8 Q. But you are recommending if there is a penalty,
9 the 50-percent penalty applied to the well at all times it
10 has produced?

11 A. Yes, sir.

12 Q. Were Exhibits 5 and 6 prepared by you?

13 A. At my direction, yes.

14 MR. CARR: At this time, Mr. Stogner, we would
15 move the admission of Yates Exhibits 5 and 6.

16 EXAMINER STOGNER: Exhibits 5 and 6 will be
17 admitted into evidence at this time.

18 MR. CARR: And that concludes my direct
19 examination of Mr. Fant.

20 EXAMINER STOGNER: Mr. Kellahin, your witness.

21 MR. KELLAHIN: Thank you, Mr. Examiner.

22 CROSS-EXAMINATION

23 BY MR. KELLAHIN:

24 Q. During the period of time that continuances were
25 made in your case, did you petition Examiner Stogner to

1 approve a rate at which your well could produce?

2 A. No, sir.

3 Q. At the time the well had first gas sales in April
4 of 1995, did you obtain approval from the Division to
5 produce your well prior to obtaining an order approving the
6 new location?

7 A. I don't believe so.

8 Q. When we look at the data you have presented on
9 Exhibit 6, are you involved in the Pecos Slope gas well as
10 a production engineer, Mr. Fant?

11 A. I have done extensive studies as a reservoir
12 engineer with the Pecos Slope-Abo Gas Pool.

13 Q. Would you know in that capacity what you would
14 characterize to be a typical production decline curve for
15 such a well?

16 A. I do not believe that there is a typical -- any
17 single typical curve specifically for the Pecos Slope.

18 Q. With regards to this particular well, do you see
19 that this well will come on at a certain rate, establish
20 within the first eight months to twelve months a decline of
21 about 30 to 40 percent, and thereafter level off to a less
22 steep decline?

23 A. I have no data that this well is not eight months
24 old. We do not know. It is still in the transient period
25 of flow. There is no data to show what its decline will

1 be, there's no way of telling that.

2 Q. Would what I have just described in terms of a
3 steep decline rate for a Pecos Slope gas well in the first
4 twelve months be characteristic with your experience as a
5 reservoir engineer in that pool?

6 A. That could be characterized, yes.

7 Q. When we look at how this well has been produced,
8 under the column where it says, "Average production at
9 capacity", that translates into 569 MCF of gas a day. Do
10 you see that number?

11 A. Yeah, the line that says "Average production at
12 capacity".

13 Q. Yes, sir.

14 A. Okay.

15 Q. At capacity we're getting 569 a day?

16 A. Uh-huh.

17 Q. Can you tell me what the line pressure is that
18 has resulted in that rate?

19 A. The line -- I can tell you that the line pressure
20 over that time period varied.

21 Q. Can you give me a range as to what the variance
22 is, sir?

23 A. Approximately -- well, let me -- Forgive me. On
24 this time period, I want to reiterate, this well has never
25 produced straight against the line. It has never been wide

1 open. We have never completely opened the choke on this
2 well.

3 Q. Okay.

4 A. This well is -- And when I said production at
5 capacity, it's near there, but it's still not completely
6 wide open.

7 The line pressure -- The tubing pressures have
8 ranged from 150 to over 220 p.s.i. You know, I'm giving
9 you approximate --

10 Q. That's your flowing tubing pressure?

11 A. That's approximately flowing tubing pressures.

12 Q. Okay. Give me the numbers again. Flowing tubing
13 pressure is between what?

14 A. I would say approximately between around 150 to
15 220 p.s.i.

16 Q. All right. What is your choke setting to get
17 that kind of flowing tubing pressure?

18 A. It varies.

19 Q. Are you varying it between a half inch and a
20 quarter?

21 A. It's never more than -- I believe the highest
22 choke setting this thing has ever been on is 26/64, which
23 is less than a half an inch.

24 Q. All right. Back to my question. Do you know
25 what the line pressure has been?

1 A. Line pressure is below that. It's been as in the
2 -- as low as 110 pounds. I don't know a maximum, I have
3 not checked that. But I know it has been there, and it has
4 at times -- it can go lower.

5 Q. To support the production history summary shown
6 on Exhibit 6, did you bring with you -- the actual
7 production data for this well? Do you have it with you?

8 A. We have in our -- I have in my records field-
9 reported numbers, okay? They are not -- They are just for
10 allocation purposes, so we know whether or not internally
11 we're doing that.

12 What we have reported here is the actual -- once
13 the chart is sent out and integrated by a third party to
14 determine what the actual gas sales are. So these numbers
15 reflect actual metered paid-for volumes, sold volumes. And
16 the numbers that appear on a daily basis are estimates from
17 the pumper.

18 And so as such I don't have exact numbers for
19 each day, but I have estimates from the pumper of what the
20 well produced.

21 Q. In response to my subpoena back in May, Yates
22 produced an internal spreadsheet for this specific well
23 that showed on a daily basis the rates and the other values
24 by which the well was produced.

25 A. Uh-huh.

1 Q. Do you understand what I'm talking about?

2 A. Yes, I know what you're talking about.

3 Q. Do you have that information in the same format
4 that will give us the June and July values under that
5 spreadsheet?

6 A. No, sir, I do not have that spreadsheet.

7 Q. You did not bring those with you?

8 A. No.

9 Q. Okay. Let's talk about what we see in the
10 reservoir in terms of a bottomhole pressure originally for
11 Pecos Slope wells.

12 A. Yes.

13 Q. What would that general range be, sir?

14 A. Approximately 1100 p.s.i.

15 Q. Okay. When this well was drilled and completed,
16 what was your initial bottomhole pressure in the Catterson
17 7 well?

18 A. The pressure buildup we'd estimate predicts it to
19 be 437 p.s.i.

20 Q. Is that a factor for you as a reservoir engineer
21 when you see the ability of the well to produce against a
22 certain choke setting?

23 A. That is one factor in -- of many, yes.

24 Q. In terms of a deliverability test that you have
25 recommended to the Examiner, against which if he decides a

1 penalty should be imposed, then we have a benchmark --

2 A. Uh-huh.

3 Q. -- to establish that penalty, describe for me
4 what you propose to do.

5 A. We would produce the well against the line into
6 the system, against line pressure, for a specified period
7 of time as determined by the Examiner, and we would measure
8 the gas rates over those time periods.

9 MR. KELLAHIN: Okay, all right. I don't believe
10 I have any further questions, Mr. Examiner. Thank you.

11 EXAMINER STOGNER: Mr. Carr?

12 MR. CARR: No, I have no additional direct-
13 examination.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. When I look at Exhibit Number 6, you show for the
17 month of April "Days Well Capable of Producing".

18 Was that accurate? It was completed and
19 essentially the wellhead was on the well? Is that what you
20 mean by that?

21 A. Well, yes, that -- If you notice up above, it was
22 completed in April on the 6th. Okay, from the 6th through
23 the 30th of the month, we have 25 days. Okay, that's where
24 that 25 came from. So it was hooked up to the gas line on
25 the 6th, which means we had 30 days -- 25 days in that

1 month we could produce. It produced five days to clean up,
2 and then it was shut in. Okay? The field was shut in at
3 the time. So we produced it to clean up, and then we shut
4 it in.

5 And then the same thing occurred in -- When you
6 look in May, there are, you know, 31 days in May. That's
7 how many it could have been produced, but most of that time
8 it was shut in, it only produced eight days.

9 Q. Okay, then you explained what wells actually
10 produced or days the well actually produced.

11 A. Uh-huh.

12 Q. And then if you go down to that next line, "Well
13 has produced at capacity for 44 days", and then in
14 parentheses you show 4/6 to the 10th.

15 A. Uh-huh.

16 Q. That's four days, right? In April?

17 A. Well, 6, 7, 8, 9, 10. That's inclusive of both
18 ends, so it's --

19 Q. Okay.

20 A. -- that's the five days it produced in April.

21 Q. So it produced at capacity, and your definition
22 was at the largest choke setting that you had or -- put
23 on --

24 A. Yeah.

25 Q. -- the flow, as opposed to what you could have

1 put on the flow?

2 A. Yeah.

3 Q. Now, you choked it back in all of May?

4 A. Yeah, the eight days it was produced in May it
5 was severely restricted.

6 Q. And then for 19 days in June you produced at
7 capacity again?

8 A. Uh-huh.

9 Q. And then from July 12th to the 31st it was at
10 capacity again?

11 A. Uh-huh.

12 Q. Now, the days that it wasn't on capacity, do you
13 have the choke setting, or was it -- was it a constant, or
14 did you change it or fluctuate it?

15 A. The choke changes were setting -- much of the
16 time it was like at 10/64 choke, so -- I don't know my --
17 you know, exactly, that's 5/32 of an inch. You know,
18 that's a pretty small choke setting. But it was very...

19 The choke sizes will change with time as the well
20 is produced. It would generally be opened a little bit
21 larger as time goes on. We never like to just go in and
22 open them up wide open.

23 Q. Why not?

24 A. Field foreman does not feel that that's a good
25 idea. Just, you know, quite honestly. He has the greatest

1 amount of experience in bringing these wells on line, and
2 he feels that it's better to open them up smoothly, so to
3 speak, and not just, you know, blow them wide open.

4 Q. Would you consider that smooth if you had it
5 large and then go back to small again and then come back
6 large and then drop down after July?

7 A. Actually, the production is large because of some
8 -- It's large at those times because of some transient
9 effects, wellbore unloading. And in actuality, the choke
10 setting, when we were getting those 909 MCF a day in April,
11 was not very large. I mean, it was in the -- you know, 18
12 to 20...

13 See, these wells -- in the -- Throughout the life
14 of these wells, a specifically large choke setting doesn't
15 always relate to large production. It has to do with when
16 you do it, what the choke setting is and when was the well
17 last shut in.

18 Q. Okay. The days that it was shut in, in April and
19 May, you said the whole field was shut in?

20 A. I don't want to say the whole field, but the
21 majority of the production from the Pecos Slope was shut
22 in. We were bringing wells on line, and when you complete
23 a well, once you frac it, you do want to produce it back
24 for a period of time, to clean the stimulation fluids up.

25 Q. Okay. And what caused the shut-in of the portion

1 of the field?

2 A. Market conditions.

3 Q. Market conditions?

4 A. Low gas prices.

5 Q. And Yates, the operator, did this?

6 A. Yes.

7 Q. So if the well has been shut in, with what you're
8 saying, to bring it back up on line you would do a
9 gradual -- You would set the choke setting to a gradual
10 increase or decrease?

11 A. Actually, we open it up slightly, and throughout
12 time that choke setting will actually increase over time.

13 Now, once you've started drawing one of these
14 down, if you choke it back, it severely restricts
15 production. I mean -- and that's -- Changing the flow
16 rates like that is not that bad.

17 Our particular field foreman -- and we cannot get
18 him -- I've asked him to open up more at times to test his
19 theory, but he won't do it.

20 Q. Does this occur often in this field, that the
21 wells are shut in due to market?

22 A. It does occur, yes. It's occurred at least twice
23 in the last year.

24 Q. Does such a shut-in generally disrupt the flow of
25 a well? Are you able to get it back up on line with no

1 problem? Does it come back to capacity?

2 A. We take great care in the wells and checking
3 them. There was a period of time in the 1980s when they
4 were shut in and one well -- it was not really good for the
5 well to be shut in like that.

6 But the majority -- I mean, 99-plus percent of
7 the wells in the Pecos Slope-Abo field show no adverse
8 effects from being shut in and then put back on production.

9 Q. Is there any fluid production with these wells or
10 with this well in particular? Have you seen any water or
11 condensate?

12 A. There is a small amount of water that is produced
13 with it that's commensurate with the fact that we put
14 several hundred thousand gallons of fracturing fluid in it.
15 So it's basically just load water. We put in thousands of
16 barrels, we get back a few hundred barrels. And then over
17 time we get the rest of that water back as a water vapor
18 and mist.

19 But there's no natural -- With this particular
20 well, there's no natural fluid production with this well. I
21 don't believe. I believe any liquid production -- And
22 there's no liquid hydrocarbon production to speak of.
23 Maybe a barrel a month.

24 Q. Is that typical with the wells in this area?

25 A. Yes, sir.

1 Q. I mean, this is an infill well. How about the
2 other wells?

3 A. That's typical for the area. It's very dry gas.

4 Q. Now, this particular well, was it completed in
5 such a manner as what you would usually do? Or because it
6 was an infill well did Yates complete it differently? Did
7 they do any other kind of fracturing that they normally
8 wouldn't do to the first well?

9 A. Our stimulation techniques, we have been
10 fracturing larger than originally -- than some of the
11 original wells were on -- the first wells drilled on the
12 proration unit. But that's just a matter of we are
13 learning that bigger fracs make better wells. If we had
14 the original wells to do over again, we would have given
15 them bigger frac jobs.

16 We're just learning, and I mean, that's common
17 technology available to everybody, you know, that can read
18 the completion reports and see the size of the jobs that
19 we're putting on. We did not stimulate it larger because
20 it's an infill well; we stimulated it larger because we
21 feel that's a better way to stimulate the wells.

22 Q. Now, on this well you show that it was frac'd on
23 March 31st. Was there any kind of a flow test prior to the
24 frac job?

25 A. No, sir, these wells, our practice is to

1 perforate these wells and go in, then frac them. This is
2 classified as a -- with the federal government as a tight
3 gas sand. This thing just won't -- We can't get anything
4 measurable out of these wells unless we frac them.

5 Q. Subsequent to March 31st and April 6th, was there
6 any testing of the well, flaring the gas or anything?

7 A. There were estimated choke rates in that time
8 period. The problem being, those are gross, gross
9 estimates, because you get a lot -- That's the time period
10 when we get the most amount of water.

11 By April 6th the water production had dropped
12 down enough to where we could get it into our system
13 without problems, and until that time it was venting gas,
14 after the frac job on the 31st.

15 Q. How long does it usually take one of these wells
16 after a frac job to get all the frac liquids or the liquids
17 that are in the reservoir that were injected down there in
18 association with the frac job -- how long does it take to
19 usually clean those wells out?

20 A. Well, generally about a week to ten days before
21 that -- See, what we do is, we fracture them and then we
22 flow them back, and then as soon as we can -- as soon as we
23 can operationally put them into the line, we do that,
24 because we don't want to waste gas, we don't want it to go
25 into the atmosphere.

1 And then after about ten days it cleans up almost
2 completely, and at that point we've had a flow period with
3 measured flow rates, with the gas chart, and then we run a
4 bomb in the hole and do a seven-day pressure buildup.
5 That's why the well was shut in right after that. The
6 field was shut in at that time, so we just left it shut in
7 over that time period.

8 And what we find is that after ten days, even
9 with a bomb in the hole, we'll find no liquid in the
10 wellbore, there will be no liquid down in that wellbore
11 after about -- well, ten days of production and then the
12 seven days of the pressure buildup, there will be no liquid
13 down in the wellbore. So the well has essentially stopped
14 producing liquids. And that's after only getting a
15 fraction of the stimulation fluid.

16 We will then produce the well. Next time the
17 well is produced, you know, you won't see any water
18 production to speak of. And what you get is, you'll get
19 water vapor. It comes in as -- you know, the rest of that
20 water that we put in there, I believe, comes out as water
21 vapor, which is actually passed with the gas and extracted
22 at the compression sites.

23 Q. These production figures that you're showing on
24 this production history summary, do these match up with the
25 monthly report to the State?

1 A. Yes, this is the actual monthly production as
2 reported to the State. That's why these numbers were
3 presented. It's -- You know, these are the actual numbers
4 that were produced by the well, measured on the charts. I
5 mean, our guy goes in there, and when he talks about a
6 daily production he kind of eyeballs it and averages it for
7 the day, you know, for the day, so that the reading average
8 -- you know, 30 inches of water on the differential or
9 something like that.

10 Q. Have you been on this project from the initial
11 phase? What I mean by "project", the -- what, the gas
12 recovery?

13 A. I was brought in on the Pecos Slope-Abo project
14 after the first six wells in the infill drilling program
15 were drilled, which was -- I want to say -- approximately
16 November of 1993, is what's going on in my mind. I may be
17 off. But I've worked on it and done extensive studies of
18 the Pecos Slope-Abo reservoir since that time.

19 And I was involved in the case -- in the original
20 -- the May hearing, May of 1994 hearing, in which we
21 applied to the OCD for the additional wells in the infill
22 drilling program. I believe it was an additional 18 or 20
23 wells, of which the Catterson is one of those wells. I was
24 involved in the picking of the original location on this
25 well.

1 Q. In short, without going into great detail, can
2 you kind of give me an overall synopsis of the reason for
3 the infill drilling project, what Yates is seeking to
4 accomplish, what is going -- yeah, essentially what's going
5 on? Just a short synopsis to help me understand?

6 A. Well, briefly, the Pecos Slope-Abo is a very --
7 It's comprised of many, many, many sandstone-intertwined
8 little bodies of sandstone. They're tough to predict their
9 location and their thickness.

10 And their continuity is the big question that
11 came into my mind with this. And our questions were, we
12 wanted to go out there and -- We did calculations to
13 calculate the drainage area of the wells in Pecos Slope,
14 and they all seemed kind of small, and they were like big
15 areas that they didn't seem to be covering, and it was our
16 belief that there were significant undrained portions of
17 the reservoir out there.

18 And so we initiated the program to test the
19 theory and drill the wells and see if there is undrained
20 gas out there. And, you know -- I think next month Yates
21 will be back to present some results from that. And you
22 know, we feel that they're undrained -- or the initial
23 theory was that there were undrained portions of the
24 reservoir, and I think we've found some of those.

25 Q. How about the Catterson Federal Number 7? Did it

1 find undrained reserves?

2 A. The Catterson well, I'm not going to mince words.
3 This particular reservoir -- part of the reservoir that
4 it's -- At least part of the reservoir that it's contacted
5 with has been partially drained by some other well, most
6 probably our well to the south, because it's the closest
7 well.

8 Q. So I take it you didn't see reservoir -- or
9 virgin pressure?

10 A. We did not see virgin pressure in this well.

11 As a reservoir engineer, if -- the odds are that
12 if you see -- if there is one zone in there that is not
13 virgin pressure -- You know, you may have three or four
14 zones within the well. If there's one zone that's not
15 virgin pressure, and it's a relatively high permeability
16 zone for the Pecos Slope-Abo, it's going to dominate the
17 pressure buildup and it will appear that the whole
18 reservoir, the whole zone -- all of those zones, are very
19 low pressure, and that can actually be dominated by one
20 zone.

21 But this particular well, I'd have to say there's
22 strong evidence that at least part of the zone that this
23 thing has contacted is contacted by another well.

24 Q. What is the first well on this proration unit?
25 Could you give me the location on that one? Do you know?

1 A. It should be on the land plat. On the --

2 Q. Are you referring to that Midland map?

3 A. Midland map. Do they happen to have well spots
4 on that?

5 Q. Yeah. You wouldn't happen to know the footage on
6 that well, would you?

7 A. It's -- it would be measured like in the -- I
8 would say Unit Letter O, probably, I believe, is where that
9 one is. I don't have it off the top of my head.

10 Q. Do you know the name of it?

11 A. Actually, in this instance I don't. I apologize.
12 It's -- Oh, excuse me, it's in Unit Letter P. It's the
13 Catterson Number 1.

14 Q. Okay. Do you know if that was a standard or an
15 unorthodox location?

16 A. I can't -- I do not -- I'm just looking at it. I
17 do not know whether it was standard or unorthodox. It
18 looks standard but just --

19 Q. Do you know how far this well is away from your
20 Catterson Number 7?

21 A. On an approximate basis, it's going to be about
22 1550 feet, 1600 feet, approximately.

23 EXAMINER STOGNER: I have no other questions of
24 this witness.

25 MR. KELLAHIN: Mr. Examiner, I have a couple

1 follow-up.

2 EXAMINER STOGNER: Mr. Kellahin?

3 FURTHER EXAMINATION

4 BY MR. KELLAHIN:

5 Q. When you talk about your ability to shut in the
6 Pecos Slope-Abo, you're talking about the fact that Yates
7 has the gathering system for all your wells and therefore
8 can make the choice to keep the gas off market?

9 A. At the time that this was going through -- well,
10 and still at this point, we do not actually own the
11 gathering system. There was a -- There is a purchase that
12 is going through between Yates Petroleum and Transwestern
13 to purchase the gathering system out here.

14 But other -- When most of this work was going
15 through, we did not own the gathering system. And when we
16 chose to shut in the wells, we simply, you know, went out
17 to the wellheads and closed the valves.

18 Q. Okay. Do you currently control the gathering
19 system, then? You have not completed that transaction?

20 A. They are currently in the due-diligence period,
21 and honestly, I do not know who is in control of the
22 gathering system.

23 Q. Okay. You said something earlier about the fact
24 that you had asked your field man to increase the rates of
25 wells like the Catterson 7 and that he was uncomfortable

1 and wouldn't do it. I may have misstated that, but you and
2 the field man had a discussion, and he wouldn't open these
3 up?

4 A. We've had long discussions about his practices of
5 producing the wells. I do not have his experience in the
6 field. I mean, he's been out here many -- you know, ten
7 years or so. He has been working in this field as a pumper
8 and a foreman.

9 Q. In terms of his practice, then, for the Catterson
10 7 well, is he producing it at the maximum rate at which,
11 based upon his experience, he chooses to produce it?

12 A. He's producing it simply at what he chooses to
13 produce it at, yeah, I think that's about the only way I
14 can say that, is that it's what he chooses to produce it
15 at.

16 Q. And we don't know what his criteria is by which
17 he has made the judgment about how fast or at what rate to
18 produce the Catterson 7?

19 A. I have never been able to understand it.

20 MR. KELLAHIN: All right, thank you. I have no
21 further questions.

22 EXAMINER STOGNER: Mr. Carr?

23 MR. CARR: That concludes our presentation in
24 this case.

25 (Off the record)

1 EXAMINER STOGNER: At this point, Mr. Carr, do
2 you want to present your next witness?

3 MR. CARR: That concludes our presentation, Mr.
4 Stogner. Mr. Kellahin --

5 EXAMINER STOGNER: Oh, okay. I tell you what, I
6 do have one question for your landman, Ms. Porter.

7 Ms. Porter, do you know when -- Or were you out
8 on the BLM inspection trip?

9 MS. PORTER: I was not present. One of the
10 regulatory agents was present with John Crane of the BLM.
11 I can find out the exact date. We know it had to be just
12 before Exhibit -- Is it 5 or 6?

13 MR. FANT: Five.

14 MS. PORTER: It's the actual plat out of the APD
15 turned in to the BLM, because that plat does have the BLM's
16 requested location on it. So that on-site had to take
17 place prior to that staking.

18 EXAMINER STOGNER: Yeah, I'd like to have that,
19 especially if there's some sort of notation about the BLM
20 requesting you to move it.

21 MS. PORTER: Okay, I can furnish you that.

22 EXAMINER STOGNER: Okay. Mr. Carr, I'll --

23 MR. CARR: We will furnish that, Mr. Stogner.

24 MS. PORTER: The permit agent that signed on the
25 staking plat is the one that was on location. So we can

1 get that to you.

2 EXAMINER STOGNER: Let's take a five-minute
3 recess at this point.

4 (Thereupon, a recess was taken at 11:22 a.m.)

5 (The following proceedings had at 11:30 a.m.)

6 EXAMINER STOGNER: Hearing will come to order.
7 Mr. Kellahin?

8 MR. KELLAHIN: Thank you, Mr. Examiner.

9 I'd like you to take administrative notice of
10 three items, Mr. Examiner. Ms. Porter referred to all
11 three. It's Case 11,004, Case 10,981 and then lastly it's
12 the Division well file for the Catterson 7 well. I think
13 it fills in some of the context and substance for the
14 discussion we've already had this morning. We believe it's
15 relevant, and I'd ask you to take administrative notice of
16 those items.

17 EXAMINER STOGNER: Administrative notice will be
18 taken of -- and I'm assuming when you say "the cases", that
19 you're talking about the whole record in those cases?

20 MR. KELLAHIN: Yes, sir. They are not lengthy,
21 and what we're looking at specifically is so far as they
22 relate to the Catterson 7.

23 EXAMINER STOGNER: Okay, I'll take administrative
24 notice of Cases 11,004, 10,981, and the Division file.

25 Mr. Kellahin?

1 MR. KELLAHIN: I'd like to call Mr. Jim
2 Brannigan. Mr. Brannigan resides in Roswell, New Mexico.
3 He's a consulting geologist. He's been retained by Tide
4 West Oil Company as an expert witness in this case.

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

8 DIRECT EXAMINATION

9 BY MR. KELLAHIN:

10 Q. For the record, Mr. Brannigan, would you please
11 state your name and occupation?

12 A. Jim Brannigan. I'm a consulting geologist.

13 Q. Summarize for us your education and employment
14 experience.

15 A. Okay, I have a bachelor's degree in geology from
16 Northern Arizona University. I have testified before in
17 front of the Commission and have gotten their blessing as
18 an expert witness.

19 I have 15 years' experience, the majority of
20 which is in the Pecos Slope. I've done extensive mapping
21 for Mesa Petroleum and other oil companies in the past in
22 the Abo, have co-authored two publications in the Pecos
23 Slope. I've sat over 200 wells, logging jobs in the Pecos
24 Slope for Mesa Petroleum and various other oil companies.

25 I actually did some work indirectly for Yates

1 Petroleum and Mesa and a few other companies when back in
2 the early 1980s, Yates contacted a consulting geologist by
3 the name of George Scott, who I was associated with in the
4 early 1980s, to extend the FERC 107 tight gas sands from
5 the de Baca/Chaves county line as far north as we could get
6 it. We did manage to get it into the northern limits of
7 Guadalupe County, so I was one of the geologists that
8 actually did the geology to get the 107 gas extended up
9 into northern Guadalupe County.

10 I'm also a Certified Petroleum Geologist with the
11 AAPG and also a Certified Professional Geologist with the
12 AIPG.

13 Q. When Tide West Oil Company asked you to make a
14 geologic investigation in this particular area, then they
15 were asking you to do something that's within your
16 expertise?

17 A. Yes, they were.

18 MR. KELLAHIN: We tender Mr. Brannigan as an
19 expert geologist.

20 EXAMINER STOGNER: Are there any objections?

21 MR. CARR: No objection.

22 EXAMINER STOGNER: Mr. Brannigan is so qualified.

23 Q. (By Mr. Kellahin) Mr. Brannigan, you have out
24 before you what we've marked as Tide West Oil Company
25 Exhibit 1. Let me set the context of my questions for you,

1 and then we'll look at the exhibit.

2 Geologically, do you find that you're able to
3 reach an opinion about the necessity of an additional well
4 for Tide West in their spacing unit, insofar as the
5 Catterson 7 well relates to the existing Tide West Chaves
6 "A" well?

7 A. Yes.

8 Q. Geologically, can you determine whether or not
9 the Chaves "A" well is able to protect its spacing unit
10 from any encroachment?

11 A. Yes, it can be determined.

12 Q. And have you reached that conclusion?

13 A. I've concluded that the Catterson -- the Tide
14 West Chaves "A" Number 1 is not a protection well from the
15 sands that are producing from the Catterson Number 7.

16 Q. In addition, based upon your experience, can you
17 characterize for us what we would expect to be the
18 performance of a typical Pecos Slope-Abo well and, based
19 upon that characteristic, determine if there's any geologic
20 basis by which you see these wells produce and perform?

21 A. If I understand the question, I think the first
22 part is more of an engineering question.

23 Q. Yes, sir, but I want you to tie it back to a
24 geologic conclusion. Based upon your experience,
25 characterize what we see to be the signature of how a Pecos

1 Slope-Abo gas well performs.

2 A. Okay. Well, basically, if you want to go ahead
3 and look at all 800, plus or minus, wells that are
4 producing or were completed in the Abo, an average well
5 would have about 30 feet of cross-plot porosity of at least
6 ten percent, water saturation somewhere in the low 30s, and
7 would make somewhere in the neighborhood of 600 million
8 cubic feet.

9 What I'm seeing here in relationship to the
10 Catterson Number 7, it has approximately what I'm giving as
11 an eight-percent cross-plot porosity, about 55 feet of
12 potential porosity or pay, which is more than the normal
13 well in the field.

14 Unfortunately, the Tide West well in Unit B of
15 Section 21 does not have that many -- does not have --
16 according to this cross-section, doesn't have the -- what I
17 call the green sand or the pink sand, which are currently
18 being produced out of the Catterson Number 7. So the well
19 in Unit B is not protected because it doesn't have those
20 sands in the borehole.

21 But through my geological study, I'm concluding
22 that in the northeast quarter of Section 21, that those
23 sands, the pink and the green, do exist on the Tide West
24 acreage.

25 Q. When we look at the performance, producing rates

1 of the Pecos Slope-Abo gas wells, is there a common
2 characteristic to how they produce over time in terms of
3 rate?

4 A. Yes, there is. The average well in the Pecos
5 Slope -- and I'm talking originally with 1150- to 1200-
6 pound bottomhole pressure, again, dependent on what
7 Transwestern did with their pipeline pressures, but
8 generally what you saw in the first year was a 30- to 40-
9 percent decline in production.

10 Then the next year was a little bit less of a
11 decline, until finally over the course of the next umpteen
12 years you are looking at about an eight- to ten-percent
13 decline in the rate.

14 Now, the beauty of that was, back in the early
15 1980s, when there was this FERC 107 tight gas sand, the gas
16 prices were increasing at eight to ten percent per year.
17 So actually, what it was was, once you got your flush
18 production, the wells paid out in the first year. Because
19 normally in an Abo well, in the early days, if you didn't
20 get your money back in the first 12 to 15 months you
21 weren't going to get it back, because that's where your
22 flush production was.

23 From that point on, then, even though you were
24 declining at a given rate, the FERC 107 gas was increasing
25 about the same rate, so you pretty much stayed level, and

1 that was your gravy all the way to -- You know, some of
2 these wells, like the McConkey Number 1 have been producing
3 since 1977.

4 Q. Is there a geologic explanation to seeing why an
5 Abo gas well will start off at a rate, dramatically decline
6 and then level off over time?

7 A. Yes, the characteristic of the rock. The rock is
8 very tight, and that's why the federal government gave the
9 107 tight gas sands. In fact, I've seen some of the cores
10 from some of these Abo wells, and even the pay sands look
11 like -- they look like red brick.

12 Q. Based upon your geologic investigation, do you
13 have an opinion as to whether the sand members present in
14 the Catterson well extend into the Tide West spacing unit
15 in the northeast quarter of Section 21?

16 A. Yes, it's my opinion, after doing extensive
17 mapping in this whole field, doing field work and
18 individual mapping that I've done through the years, that
19 there's no question in my mind that these sands extend into
20 the northeast quarter of Section 21.

21 Q. In your opinion, will a protection well be
22 necessary by Tide West in order to avoid having its acreage
23 depleted by production from the Catterson 7 well?

24 A. Yes, absolutely.

25 Q. Let's look at the cross-section, have you orient

1 us as to the various sand members in each well, and then
2 show us why you have concluded the Chaves "A" well is not
3 situated to protect the spacing unit from any gas migration
4 caused by the Catterson 7 well.

5 A. Well, when you go from the north, which is the
6 Tide West Chaves "A" Federal Number 1, down to the
7 Catterson Number 7, you can see that the sand development
8 in the Number 7 Catterson, especially in the lower sands,
9 the pink, the green and the brown, which are the only
10 producers in the Catterson Number 7 right now, in the
11 Chaves "A" we only have one sand; that would be the brown
12 sand.

13 So essentially what I'm saying, from my work, is
14 that the pink sand and the green sand that are producing
15 right now in the Catterson Number 7 are not in the borehole
16 in the Tide West well but do -- those sands do extend into
17 the northeast quarter of Section 21.

18 Q. Do you have a recommendation to the Examiner as
19 to what you would seek him to do with regards to a solution
20 for these two cases?

21 A. I think, based on what we're seeing, is a 50-
22 percent -- the Yates well, the Catterson Number 7, is 50-
23 percent closer than a standard location would be, and my
24 recommendation would be a 50-percent penalty to go on *ad*
25 *infinitum*.

1 And the reason I say that is because whether Tide
2 West drilled their well 2310 from the north, 660 from the
3 east, or at some point in the future decided to drill a
4 standard location, 1980 from the north and east, or 1320 or
5 whatever the standard location might be, based on the
6 drainage we're seeing from the Number 1 Catterson in Unit P
7 to the Number 7, which is 1650 feet away, we're seeing a
8 substantial drop in bottomhole pressure from an original
9 1150 to 400-and-some-odd pounds in the Number 7.

10 I can say that if the sands -- and they do extend
11 in the northeast quarter of Section 21 -- if the drainage
12 took place 1600 feet away from the Number 1 Catterson, that
13 we're going to see at least 1600 feet to the north, into
14 the Tide West acreage.

15 Whether they drill their proposed location, like
16 I said, at 2310 from the north, 660 from the east, or
17 whether they go with an orthodox location, anywhere in the
18 northeast quarter where those sands are found, the pink and
19 the green sand, the Catterson Number 7 is going to
20 adversely affect Tide West production.

21 MR. KELLAHIN: That concludes my examination of
22 Mr. Brannigan. We move the introduction of his Exhibit
23 Number 1.

24 EXAMINER STOGNER: Any objections?

25 MR. CARR: No objection.

1 EXAMINER STOGNER: Exhibit Number 1 will be
2 admitted into evidence.

3 Thank you, Mr. Kellahin.

4 Mr. Carr, your witness.

5 CROSS-EXAMINATION

6 BY MR. CARR:

7 Q. Mr. Brannigan, I think you testified that the
8 Tide West Oil Company Chaves "A" Federal Number 1 in Unit B
9 would not be a protection well or an adequate protection
10 well for the Catterson "SS" Number 7?

11 A. It won't be for the pink and the green sands that
12 are not present in the Tide West well.

13 Q. In fact, if the Catterson is moved back to a
14 standard location, that well still wouldn't be an adequate
15 protection well, would it? If Catterson had been drilled
16 660 back from the common boundary?

17 A. Well, there still -- I'm not an engineer, but if
18 you moved it -- Obviously, there are some circles that
19 could be drawn by an engineer, and you could say, Well, the
20 fact that I am 50-percent closer, I am going to adversely
21 affect, more so than if I was a standard location.

22 If I was 660 from the common boundary instead of
23 330, yes, I would be affecting it, based on what we're
24 seeing. But 330 is 50-percent closer, so we're going to
25 drain farther to the north than we would have.

1 Q. But my question was whether or not the
2 Catterson -- or the Tide West Chaves "A" Federal Number 1
3 well -- it's not an adequate protection well in any event,
4 whether the Catterson Number 7 is 660 or 330, is it? You
5 need another well?

6 A. Exactly.

7 Q. And you've looked at this geologically and you've
8 determined from a geological point of view that a well is
9 needed?

10 A. Yes.

11 Q. Now, we've talked about it from a geological
12 point of view. Can you tell me whether or not Tide West
13 has in fact decided -- based on geology, but looking at
14 reserves, whether or not they're really going to drill an
15 additional well at this time?

16 A. Mr. Carr, I really don't know, because I work out
17 of Roswell, and I'm working as a consultant. I really
18 don't know. All I can tell you is that the APD has been
19 put into the BLM.

20 Q. So you just don't know that?

21 A. Well, all I know is that if Tide West does not
22 plan on drilling their well, they're spending a lot of time
23 and money to fool Yates Petroleum.

24 Q. If a penalty is not imposed -- Well, let's say a
25 penalty is imposed and no well is ever drilled. In that

1 circumstance, a penalty would have no meaning whatsoever.
2 It would just slow down the time it would take Yates to
3 recover those reserves; isn't that right?

4 A. To a certain extent. But if you go ahead and,
5 based on the common decline of an Abo well, being 30 to 40
6 percent in the first year, if we arbitrarily said, Okay and
7 the Commission agreed that we're going to be a 50-percent
8 decrease in production from a given rate that we're going
9 to -- say tomorrow, you can bet on a normal curve that a
10 year from now it's going to be at 40 percent of that
11 anyway.

12 So eventually, within a year, Yates is going to
13 be at that 40- to 50-percent decrease anyway. So
14 relatively speaking, Yates is really only looking at a year
15 penalty anyway, based on a normal decline of an Abo well.

16 Q. But if there is no well offsetting that tract,
17 whether it's a year or six months, penalty is meaningless?

18 A. But it's going to be my recommendation as a
19 geological expert to Tide West that they do drill a well in
20 the northeast quarter.

21 Q. And you don't know if they've decided to do that?

22 A. It's not privileged information to me.

23 All I can say is that it would seem -- It would
24 seem like they want to drill their well on the proposed
25 location, because otherwise they're putting -- they're

1 spending a lot of money on me and Tom for no reason at all.

2 Q. But you've said you don't know?

3 A. I'm not privy to that information.

4 Q. You don't know when the Tide West acquired -- the
5 date on which they acquired their interest in this section
6 either, do you?

7 A. To a certain extent I do, because I have been
8 working the Pecos Slope-Abo field for the last -- well,
9 since 1981.

10 Q. Can you tell me when it was they acquired the
11 interest from Merit?

12 A. Yes, within a certain parameter. And the reason
13 I say that is because a friend of mine, Enich Diffe, who's
14 a landman in Roswell, and I, got a farmout from Merit
15 Energy about -- it's been probably 15 months ago.

16 We went back for an extension after we had a
17 three-month farmout. Within that three months we weren't
18 dealing with Merit, we were dealing with Tide West.

19 So I would say give or take about a year ago is
20 when Tide West took over from Merit. And I'm basing that
21 on -- I did not have any dealings directly with either
22 Merit or Tide West. The landman did. I was looking at it
23 from a technical side.

24 Q. But you can't give me an exact date when this --

25 A. No, I mean -- When the paperwork was signed

1 and --

2 Q. Yes.

3 A. No.

4 Q. And being a geological consultant, you don't
5 know, do you, whether or not -- When Tide West acquired
6 their interest in the north half of 21, you don't know
7 whether or not they knew at that time there had been a
8 location authorized 330 feet off their south boundary? Do
9 you know that?

10 A. No, I don't think even Yates knew it, because
11 they were contacting the wrong operator.

12 Q. My question is, do you know if Tide West knew
13 that a location had already been approved that close at the
14 time they acquired --

15 A. Oh, I couldn't tell you.

16 MR. CARR: I have no further questions.

17 EXAMINER STOGNER: Mr. Kellahin, any redirect?

18 MR. KELLAHIN: No, sir.

19 EXAMINATION

20 BY EXAMINER STOGNER:

21 Q. When I refer to your Exhibit Number 1, where
22 would you recommend by this cross-section where to put
23 perforations in the proposed Chaves "A" Federal Number 2 to
24 protect against the Catterson Number 7?

25 A. Assuming that all my sands are correct?

1 Q. Yeah, based on this --

2 A. Based on this cross-section?

3 Q. Uh-huh.

4 A. Well, I would say -- I would perforate -- I would
5 -- Again, Mr. Examiner, I think you run into an engineering
6 problem.

7 Let's assume that we get all the sands that I
8 think we're going to get. If we can base on Yates'
9 information that what I'm calling the pink, green and brown
10 sand are depleted heavily at 473 pounds bottomhole pressure
11 -- but let's say we get the red sand developed and these
12 other stringers that are above, but they have virgin
13 bottomhole pressure, or -- it may be 600 or 700 or 800 or
14 900 pounds.

15 It's probably an engineering call, then. Do you
16 complete them together when you have a 500- or 600-pound
17 difference in bottomhole pressure?

18 My recommendation would be to go ahead and set a
19 packer and produce out of the sands that Yates is producing
20 out of, to protect your acreage before you came back up and
21 went ahead and completed out of the upper sands, if that's
22 possible engineeringwise. I'm not an engineer, and I know
23 just enough to be deadly.

24 But I do believe that if the Tide West Number 2
25 Chaves "A" came in, I would produce those sands that Yates

1 has right now, to protect.

2 Q. Did you propose this location or --

3 A. No, I did --

4 Q. -- someone else?

5 A. No, I did not. This location was given to me by
6 Tide West.

7 EXAMINER STOGNER: I have no other questions at
8 this time.

9 Mr. Kellahin?

10 Mr. Carr?

11 MR. CARR: I have nothing.

12 MR. KELLAHIN: That concludes my discussion with
13 Mr. Brannigan.

14 EXAMINER STOGNER: Do you have another witness?

15 MR. KELLAHIN: I've conferred with Mr. Carr and
16 advised him I wasn't going to call further witnesses. I'm
17 going to let the record stand as it is, with the following
18 supplements, Mr. Examiner.

19 EXAMINER STOGNER: Okay.

20 MR. KELLAHIN: I do have a certificate of mailing
21 by which we have notified all the operators surrounding our
22 spacing unit, and we would ask that be submitted as part of
23 the record on behalf of Tide West.

24 In addition, Mr. Examiner, I will report to you
25 that Tide West's application for permit to drill at its

1 equivalent location that would offset the Catterson well is
2 still pending final approval with the Bureau of Land
3 Management. We don't have a final approved APD at this
4 point. I'm happy to furnish you a copy of that approval if
5 and when we ever receive it.

6 With that, we have concluded the presentation of
7 our evidence, and we're ready to make a short closing
8 statement.

9 EXAMINER STOGNER: Okay, Mr. Kellahin, I'll let
10 you start.

11 MR. KELLAHIN: Mr. Examiner, Yates has agreed
12 with us that we're entitled to an offset protection well.
13 They have waived any objection to having our well located
14 an equal distance off that common boundary line.

15 Mr. Brannigan has demonstrated to you that the
16 sand package present, at least some portions of the sand
17 package present in the Catterson 7 well, extend into the
18 Tide West acreage in the northeast quarter of Section 21.
19 It is his geologic conclusion that the existing Chaves well
20 that they have in Unit Letter B is not sufficient or
21 adequate to protect their spacing unit from the competition
22 by the Yates well.

23 The questions for you to answer are the questions
24 I raised to you a while ago at the beginning. That is,
25 Yates has failed to obtain Division approval to produce

1 this well, they do not have an order to produce this well
2 at its unorthodox location.

3 The fact that another location undrilled received
4 approval and had waivers from other parties is not the
5 equivalent to approving this location. My client has
6 objected to it. And without Division approval by either
7 this Examiner or anyone else at the Division, they have
8 selected to produce their well.

9 We believe that that production volume ought to
10 be charged against the well, based upon a production
11 penalty of 50 percent.

12 There is obviously insufficient reservoir
13 engineering data available to quantify the recoverable gas
14 that this well will achieve or to determine any other
15 equitable means by which to distribute a penalty.

16 In those circumstances, then, a 50-percent
17 penalty is the default penalty the Division uses in such
18 circumstances.

19 We are requesting that this overproduction, the
20 amount of gas they've already produced, be charged against
21 a production allowable and that after the date of this
22 order, that they receive a 50-percent penalty.

23 The issue for you to decide is, what is that
24 penalty to be based on? We suggest that Mr. Fant has given
25 you the answer in Exhibit 6.

1 We recommend to you that you go to Yates' average
2 production at capacity, averaged over 44 days, and that you
3 use 569 MCF of gas a day as the maximum rate and take 50
4 percent of that, and that demonstrates the appropriate
5 level of penalty for this well.

6 It matters not whether or not Tide West drills or
7 does not drill their well. Penalties imposed upon
8 locations are for the life of the encroaching well.

9 What we are asking you to do, though, if we
10 obtain BLM approval for this unorthodox location on our
11 side and we drill that well, and upon first gas sales, the
12 penalty comes off of their well. They still achieve a
13 competitive advantage. They get the benefit of having to
14 drill and produce the unorthodox location.

15 And we believe that's an appropriate solution,
16 and we recommend that to you, Mr. Examiner.

17 EXAMINER STOGNER: Mr. Carr?

18 MR. CARR: May it please the Examiner, as the
19 evidence shows, as to the Catterson Number 1, the well was
20 originally approved at a location 330 feet away from the
21 northern boundary of the Yates, 330 feet away from the
22 tract that Tide West now operates.

23 Yates proceeded to go forward with its plans to
24 develop this tract with an infill well, and the BLM told
25 them, You have to move 130 feet to the east, and that's

1 what we did.

2 They drilled the well, however, before they came
3 back to the Oil Conservation Division. When they -- Now
4 back before you seeking that application -- or seeking
5 approval of that location -- we have filed an
6 administrative application, we've received a waiver from
7 the party toward whom we moved the well, Sanders Petroleum,
8 and the only issue that stands is whether or not our
9 failure to come before you and obtain approval of the
10 location should become the basis for a 50-percent penalty
11 on the well.

12 I think it's important to look at how Yates
13 handled this matter, and any suggestion that they've been
14 trying to hide the ball or not absolutely up front with
15 anyone I think the evidence in this case absolutely and
16 clearly refutes.

17 As soon as they discovered -- the day they
18 discovered that there was a change in ownership and there
19 was a new offsetting operator to the north, what did they
20 do? They contacted the OCD and they said, Stop, you can't
21 approve our administrative application, we have to give
22 someone else notice. And they immediately gave them
23 notice.

24 And from the time the case was set for hearing,
25 they have produced the data they have been requested to

1 produce on the well, they have continued the case so that
2 the data can be reviewed and so that there can be efforts
3 to obtain a permit.

4 And we submit to you that we stand before you
5 having, yes, made a mistake, but having acted in good faith
6 to resolve that problem.

7 Now, we talked about a penalty. We feel no
8 penalty should be imposed, and that is because we're no
9 closer to them than we were authorized to be when they
10 acquired the acreage.

11 But if you believe a penalty is appropriate, we
12 all agree 50 percent -- just the simple approach, we're 50
13 percent too close, impose a 50-percent penalty -- is the
14 appropriate way to go. And we would even agree with Mr.
15 Kellahin's number, setting the basis for that based on our
16 Exhibit Number 6.

17 But I think you also ought to look at what we
18 have produced since the well was first capable of
19 production. We haven't even reached the 50-percent mark.
20 We've produced 44 percent, we believe, of what we could
21 have produced.

22 And in view of that, and in view of the fact that
23 we have let the case be continued instead of getting an
24 order in May, to come in now and charge everything we have
25 produced against us as overproduction we believe is

1 absolutely unfair.

2 The well has produced below 50 percent, we are
3 agreeable to a penalty at 50 percent, but we do believe at
4 some point in time, if there is no offset development, that
5 penalty should be removed.

6 We believe what we recommend is fair, we believe
7 what we recommend protects correlative rights, and we would
8 ask that you, based on your recommendation, either impose
9 no penalty or a 50-percent penalty from the date of first
10 production, no overproduction being charged against this
11 well, and that you impose some sort of a limit on the time
12 frame within which the penalty will remain in place.

13 EXAMINER STOGNER: I'd like to go back to the
14 motion that was made -- or, not the motion that was made
15 but the error that was called to our attention.

16 I believe that will be necessary, because there's
17 quite a bit of difference here in this section, and we did
18 readvertise the other one. I think it will be necessary to
19 readvertise the Case 11,283. I don't think there will any
20 necessity to come back in at that time and present any
21 testimony, but for notification's sake and publication's
22 sake we need to readvertise it.

23 That essentially gives us four more weeks. I
24 would ask the attorneys between now and then to perhaps
25 give me a rough draft on that.

1 This would also necessarily cause a delay in the
2 issuance of an order in the Tide West case, since I think
3 one order is necessary since we've consolidated.

4 I apologize for the error in the advertisement.

5 And with that, is there anything further in these
6 matters?

7 MR. KELLAHIN: No, sir.

8 EXAMINER STOGNER: I'll take the matter in Case
9 11,355 under advisement and will continue and readvertise
10 Case 11,283, with the necessary changes for public notice.

11 (Thereupon, these proceedings were concluded at
12 11:58 a.m.)

13 * * *

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21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case Nos. 11355 and 11283
 heard by me on 19 August 1995.

24 Michael E. Stogner Examiner
25 Oil Conservation Division

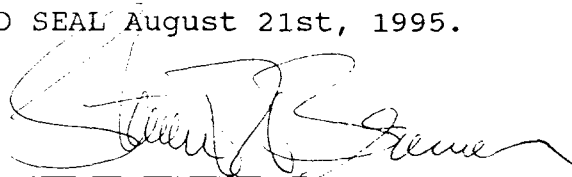
CERTIFICATE OF REPORTER

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 August 21st, 1995.

A handwritten signature in cursive script, appearing to read "Steven T. Brenner", written over a horizontal line.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998