

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 11,806

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

RECEIVED

July 10th, 1997

JUL 23 1997

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, July 10th, 1997, 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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 Examiner Hearing
 CASE NO. 11,806

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:21 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,806.

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

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan. We represent Yates Petroleum
13 Corporation in this matter, and I have two witnesses.

14 EXAMINER CATANACH: Call for additional
15 appearances.

16 Will the witnesses please stand to be sworn in?

17 (Thereupon, the witnesses were sworn.)

18 ROBERT BULLOCK,

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. My name is Robert Bullock. I'm employed --

25 Q. Where do you reside?

1 A. I reside in Artesia, New Mexico.

2 Q. By whom are you employed?

3 A. Yates Petroleum Corporation.

4 Q. And what is your position with Yates Petroleum
5 Corporation?

6 A. A landman.

7 Q. Mr. Bullock, have you previously testified before
8 this Division?

9 A. Yes, sir.

10 Q. At the time of that testimony, were your
11 credentials as a petroleum landman accepted and made a
12 matter of record?

13 A. Yes.

14 Q. Are you familiar with the Application filed in
15 this case on behalf of Yates Petroleum Corporation?

16 A. Yes, sir.

17 Q. And are you familiar with the status of the lands
18 that are the subject to the Application?

19 A. Yes.

20 MR. CARR: Are the witness's qualifications
21 acceptable?

22 EXAMINER CATANACH: Mr. Bullock is so qualified.

23 Q. (By Mr. Carr) Mr. Bullock, could you briefly
24 summarize for the Examiner what it is that Yates seeks with
25 this Application?

1 A. We seek an order pooling all the mineral
2 interests from 100 feet below the base of the Loco Hills
3 Sands formation to the top of the Mississippian formation
4 in the west half of Section 1, Township 18 South, Range 29
5 East, for the drilling of our Cerritos APT Fed Com Number 1
6 well. It's located at a standard location 1980 feet from
7 the north and west lines in Section 1.

8 Q. Have you prepared exhibits for presentation in
9 this case?

10 A. Yes, sir.

11 Q. Let's go to what has been marked for
12 identification as Yates Petroleum Corporation Exhibit
13 Number 1. I'd ask you to identify this and review it for
14 Mr. Catanach.

15 A. All we've attempted to do here with this plat is
16 just to identify the township and range and the section.
17 We've highlighted that section in the orange color and then
18 spotted the proposed well location with the red dot there
19 in the west half of Section 1.

20 Q. What is the primary objective in this well?

21 A. It is the Morrow formation.

22 Q. And is that in the Sand Tank-Morrow Gas Pool?

23 A. Yes, sir.

24 Q. Let's go to Exhibit Number 2, the operating
25 agreement, and I would ask you to review the status of the

1 ownership in the subject spacing area.

2 A. On Exhibit A to that operating agreement we have
3 set out the interests of the parties subject to the
4 agreement. The Yates companies have approximately 65
5 percent of the ownership in this spacing unit. Enron Oil
6 and Gas Company has 33.33 percent, and then the balance,
7 being approximately 1.5 percent, is owned by the Emmons
8 family.

9 Q. What percentage of the working interest in the
10 proposed spacing units have been voluntarily committed to
11 the well?

12 A. Approximately 98.5 percent.

13 Q. Does Exhibit Number 3, the correspondence
14 package, contain an AFE for this well?

15 A. Yes, sir, it does.

16 Q. Could you review the totals as set forth on that
17 AFE?

18 A. The dryhole cost for the drilling of the well is
19 \$467,500. The completed well total is \$774,100.

20 Q. And these are the figures that have been accepted
21 by Enron?

22 A. Yes, sir.

23 Q. Are these costs in line with what's incurred for
24 similar wells in this area?

25 A. Yes, sir.

1 Q. Could you briefly summarize for the Examiner
2 Yates' efforts to obtain voluntary participation in this
3 project from all affected owners?

4 A. Well, we have volunteer from Enron. The parties
5 that we don't have volunteer from are the Emmons family.
6 We began back in February of this year, contacting them to
7 obtain an assignment of their interest, and have been
8 unable to do so -- were unable to do so at that time. We
9 have subsequently, in the month of June, continued that
10 effort.

11 And then in the first part of June -- or actually
12 May the 28th, we sent them an AFE outlining the cost of the
13 well and asked them to please contact us and discuss it so
14 we could account for their interest in some fashion. And
15 I've had telephone conversations with all of the Emmons.
16 They've all indicated they would do something, but we're
17 still waiting. It's just a matter of -- We're ready to do
18 something, and they're just kind of holding up the show
19 here.

20 Q. If any of the Emmons interest owners voluntarily
21 commit their interest to the well, will you advise the
22 Division of their voluntary joinder?

23 A. Yes, sir.

24 Q. Is Yates Exhibit Number 3 a copy of your
25 correspondence with the Emmons interest owners?

1 A. Yes.

2 Q. Is Exhibit Number 4 an affidavit with attached
3 letters confirming that notice of today's hearing has been
4 provided to these affected owners in accordance with OCD
5 rules and regulations?

6 A. Yes, sir.

7 Q. Mr. Bullock, have you made an estimate of the
8 overhead and administrative costs to be incurred while
9 drilling the well and also while producing it if, in fact,
10 it is successful?

11 A. Yes, sir, those are in our COPAS accounting
12 procedure in the operating agreement on page 3. The rates
13 are -- The drilling well rate is \$5400 per month and the
14 producing well rate is \$540.

15 Q. And how do these compare to the Ernst and Young
16 figures for wells at this depth?

17 A. We think these rates are within the accepted
18 rates approved in the area.

19 Q. And this operating agreement has been accepted by
20 Enron?

21 A. Yes, sir.

22 Q. Do you recommend that these figures be
23 incorporated into the order that results from today's
24 hearing?

25 A. Yes.

1 Q. Does Yates Petroleum Corporation seek to be
2 designated operator of the proposed well?

3 A. Yes, sir.

4 Q. Will Yates call a geological witness to review
5 the risk associated with the drilling of this well?

6 A. Yes.

7 Q. Were Yates Exhibits 1 through 4 either prepared
8 by you or compiled at your direction?

9 A. Yes, sir.

10 MR. CARR: At this time, Mr. Catanach, we would
11 move the admission into evidence of Yates Petroleum
12 Corporation Exhibits 1 through 4.

13 EXAMINER CATANACH: Exhibits 1 through 4 will be
14 admitted as evidence.

15 MR. CARR: And that concludes my direct
16 examination of Mr Bullock.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Bullock, your first efforts to obtain the
20 Emmons interests started when?

21 A. February of 1996 -- Excuse me, February of 1997.

22 Q. And you've been in contact with them on and off
23 since that time?

24 A. Yes.

25 Q. Have they indicated to you any indication why

1 they haven't done anything?

2 A. They're just people that are, for one reason or
3 another, they're only -- hadn't made up their minds. One
4 of the family members has been out of the country for a
5 period of time. They can't consummate a trade without that
6 family member being there. There's just a multitude of
7 reasons why they haven't done anything.

8 Q. They've not conveyed to you that there is any
9 problem with the -- any of your proposals?

10 A. No.

11 Q. And they own a 1.5-percent interest?

12 A. Approximately, combined.

13 Q. That's in each of the proposed spacing units?

14 A. No. They own -- That would be in the spacing
15 unit, the west half, if we pool all those rights, they
16 would have 1.5 percent of the pooled rights that we're
17 talking about.

18 Q. Okay. They would still have an interest in the
19 smaller units though?

20 A. Yes.Okay.

21 Q. This well is to what depth?

22 A. 11,700.

23 EXAMINER CATANACH: I have nothing further of
24 this witness. He may be excused.

25 MR. CARR: Mr. Catanach, at this time we call

1 Mike Hayes.

2 I would request that the record reflect that Mr.
3 Hayes testified in the previous case and his credentials as
4 an expert witness in petroleum geology have been accepted
5 and are a matter of record before the Division.

6 EXAMINER CATANACH: The record shall so reflect.

7 MICHAEL D. HAYES,

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 full name for the record?

13 A. Michael D. Hayes.

14 Q. And where do you reside?

15 A. Artesia, New Mexico.

16 Q. By whom are you employed?

17 A. Yates Petroleum Corporation.

18 Q. And what is your position with Yates?

19 A. I'm a petroleum geologist.

20 Q. Mr. Hayes, are you familiar with the Application
21 filed in this case?

22 A. Yes, I am.

23 Q. Have you made a geological study of the area
24 which is the subject of this Application?

25 A. Yes, I have.

1 Q. Are you prepared to share the results of that
2 study with the Examiner?

3 A. Yes, I am.

4 Q. Would you refer to what has been marked for
5 identification as Yates Petroleum Corporation Exhibit
6 Number 5, identify this and review it for Mr. Catanach?

7 A. Exhibit Number 5 is a combination structure
8 isopach and production -- producing-zone map.

9 The dashed contours are a lower Morrow clastic
10 structure marker with a 100-foot contour interval.

11 The solid lines are isopach map on the lower
12 Morrow clastic. They're in 10-foot contour intervals.

13 And then the producing zones are marked with a
14 color code that can be seen on the legend. There's
15 approximately a 27- or a 25-square-mile area here that
16 we're covering, and the dip is to the southeast at
17 approximately 100 to 200 feet a mile.

18 And as can be seen on this map, we believe that
19 there's a north-northeast-trending channel in the lower
20 Morrow that we can intercept.

21 Essentially what we're trying to do, as much as
22 anything, is to intercept a new well that was drilled in
23 Section 36 of Township 17 South, 29 East, up to the north
24 of this location. It's a brand-new well. It was completed
25 in April, I believe, of this year. It looks like a pretty

1 good well, and we're hoping we might intercept that same
2 channel that's present in that well.

3 Q. This exhibit also shows wells completed in other
4 shallower formations in the area; is that right?

5 A. That's correct.

6 Q. And are these other, shallower zones, potentially
7 productive at this location as well?

8 A. Yes, they are.

9 Q. How many of the Morrow wells in the area have
10 been successful?

11 A. Of the Morrow penetrations, I believe there's
12 about 27 in this area. They -- There are 11 of them that
13 are -- look like they're going to be commercial at some
14 point from the Morrow itself, and at least -- it appears at
15 least three of them are probably going to make bail-out
16 wells in the Strawn. That's the other most likely target
17 in the area.

18 So about half of them look like they're going to
19 be commercial at this time.

20 Q. Refer to what has been marked Yates Exhibit
21 Number 6 and review this for the Examiner.

22 A. Exhibit Number 6 is just a type log from the
23 nearby well that is shown on the map in Section 36 to the
24 north of the proposed location. And essentially what we're
25 hoping to do is get something that looks very similar to

1 this.

2 They IP'd the well in April for approximately 6
3 million cubic feet a day of gas and 12 barrels of
4 condensate. We have reason to suspect that it's probably
5 capable of a lot more than that, and we would essentially
6 like to get the same thing.

7 Q. Are you prepared to make a recommendation to the
8 Examiner as to the risk penalty that should be assessed
9 against the nonparticipating interest owners?

10 A. Yes, sir.

11 Q. And what is that recommendation?

12 A. 200 percent.

13 Q. And what do you base that upon?

14 A. The fact that the Morrow can be very risky, just
15 in general. And just in the map area you can see that
16 there's approximately about half of them that are
17 noncommercial. Half of them are going to be commercial at
18 that point.

19 So there's a substantial risk involved. And I'm
20 fairly confident in my mapping in here, but I wouldn't
21 guarantee that it's necessarily going to pan out like that.

22 Q. And there is a chance that you could drill a well
23 at this location that would, in fact, not be a commercial
24 success?

25 A. Absolutely.

1 Q. In your opinion will approval of this Application
2 and the drilling of the proposed well be in the best
3 interests of conservation, the prevention of waste, and the
4 protection of correlative rights?

5 A. Yes, sir.

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

7 A. Yes, sir.

8 MR. CARR: At this time, Mr. Catanach, we move
9 the admission into evidence of Yates Petroleum Corporation
10 Exhibits 5 and 6.

11 EXAMINER CATANACH: Exhibits 5 and 6 will be
12 admitted as evidence.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Hayes.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Hayes, what are your uphole prospects in this
18 well?

19 A. Certainly we've got a shot in the middle Morrow
20 clastics. I wouldn't rule that out at all. I'm not
21 showing them mapped here, but there's some middle Morrow
22 production nearby.

23 There also is, very rarely, but very good Atoka
24 production nearby. I believe the well in the northeast
25 quarter of Section 6, just to our east there, has a very

1 well developed Atoka sand in it, as shown on the production
2 map. I believe that's the yellow there, that's in the
3 bottom, that's showing that. That's very good production,
4 but it's also very rare. In the offset wells, it
5 essentially isn't existent.

6 And then the Strawn is another possible likely
7 zone. It tends, however, to be more well developed to the
8 south and east. We're getting towards the north and west
9 edge of the Strawn development, so we can't rule it out.
10 But it's becoming less favorable going to the west where
11 we're going, compared to some of the wells in the east.

12 So there's at least, I would say, three or four
13 uphole zones in the deeper section. And then --
14 Essentially, those would be the most likely. The really
15 shallow targets are not available to us at this time.

16 Q. Where is the -- Where is, exactly, the Loco Hills
17 sand? Is that in the Queen?

18 A. Loco Hills sand. No, it's actually more of a
19 Grayburg-type zone, a little deeper than that.

20 Q. So you're -- Anything above that is not available
21 to you?

22 A. I'm not precisely certain, but I believe that's
23 correct, yes.

24 Q. Okay. You're pooling an 80-acre unit. Do you
25 know if there's any 80-acre pools in this area?

1 MR. CARR: Mr. Catanach, we can check that --

2 THE WITNESS: Yeah, I do not.

3 MR. CARR: -- and confirm the name and
4 description of the pool if there is such a pool. If not,
5 that portion of the Application could be dismissed.

6 Q. (By Examiner Catanach) Okay. Did you map this
7 Morrow channel just with well control?

8 A. Yes, sir. There has been seismic shot by some
9 other operators out there, though.

10 Q. Basically that one well in Section 36 has been
11 the only well to penetrate that main channel there?

12 A. Yes -- Well, in the immediate area. You can see
13 from the offset wells, yes, there is sand present in the --
14 in some of the other offset wells. You can see where
15 there's 36 feet present in the well just to the east, and
16 then 23 in the west half of Section 6. I believe that
17 those are basically feeder channels coming into that main
18 channel that runs essentially northeast-southwest.

19 So yes, some of those other wells have
20 intercepted the channel. And in fact, that well in the
21 east half of Section 1 is a very good well.

22 EXAMINER CATANACH: Okay, I have nothing further
23 of this witness.

24 MR. CARR: That concludes our presentation in the
25 case.

1 EXAMINER CATANACH: Okay. If you could find that
2 information about the pool and let me know.

3 There being nothing further in this case, Case
4 11,806 will be taken under advisement.

5 Let's take a short break at this point.

6 (Thereupon, these proceedings were concluded at
7 9:35 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 11806,
heard by me on July 13, 1997.

David J. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL July 12th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998