

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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

CASE NO. 11,874

APPLICATION OF YATES PETROLEUM)
 CORPORATION FOR AN UNORTHODOX GAS WELL)
 LOCATION, EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 6th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 6th, 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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November 6th, 1997
Examiner Hearing
CASE NO. 11,874

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:18 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 11,874, the Application of Yates Petroleum Corporation for
5 an unorthodox gas well location, Eddy County, New Mexico.

6 Call for appearances.

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

11 EXAMINER CATANACH: Call for additional
12 appearances?

13 Okay, will the witnesses please stand to be sworn
14 in?

15 (Thereupon, the witnesses were sworn.)

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

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Will you state your name for the record, please?

22 A. Janet Richardson.

23 Q. Where do you reside?

24 A. Artesia, New Mexico.

25 Q. By whom are you employed?

1 A. Yates Petroleum Corporation, as a petroleum
2 landman.

3 Q. Have you previously testified before this
4 Division and had your credentials as an expert in petroleum
5 land matters accepted and made a matter of record?

6 A. Yes, I have.

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

9 A. Yes.

10 Q. Are you familiar with the status of the lands in
11 the area which is the subject of this case?

12 A. Yes.

13 MR. CARR: Are the witness's qualifications
14 acceptable?

15 EXAMINER CATANACH: They are.

16 Q. (By Mr. Carr) Ms. Richardson, would you briefly
17 summarize for the Examiner what Yates Petroleum Corporation
18 seeks with this Application?

19 A. Yes, we are seeking approval of an unorthodox
20 well location for our State K Number 4 well, which is
21 producing from the Morrow formation, and it's located 1980
22 feet from the south line and 660 feet from the west line of
23 Section 28 in Township 19 South, Range 25 East, Eddy
24 County, New Mexico.

25 Q. What is the current status of this well?

1 A. This well was drilled at an orthodox location, a
2 standard location, and was drilled to test the Canyon
3 formation. And much to our surprise and dismay, it was dry
4 in the Canyon.

5 And so while we were on location it was decided
6 that we would drill it to the Morrow formation. And at
7 that point it has made a commercial well in the Cemetery-
8 Morrow Gas Pool.

9 Q. Now, Ms. Richardson, we've discussed this matter
10 with the OCD and were advised that we needed to bring this
11 matter to hearing on this date; is that not correct?

12 A. Yes.

13 Q. Could you identify what has been marked as Yates
14 Exhibit Number 1?

15 A. Yes, Exhibit Number 1 is a plat showing the
16 spacing unit for this Morrow well, which would be the south
17 half of Section 28. It also has the well location spotted
18 on the map, and it shows the nine sections around the
19 location, shown by color code, the solid yellow is what
20 Yates has 100 percent, and the outlined in yellow is what
21 Yates has a partial interest in.

22 Q. Who are the offsetting operators north, northwest
23 and west?

24 A. Okay, north of the well the offsetting operator
25 is Yates Petroleum. Northwest of the well is also Yates

1 Petroleum. To the west, that spacing unit is Yates
2 Petroleum, and Nearburg operates one well in there.

3 Q. Is Exhibit Number 2 an affidavit confirming that
4 notice of this Application has been provided in accordance
5 with Oil Conservation Division rules?

6 A. Yes, it is.

7 Q. You have also provided notice to Mewbourne Oil
8 Company; is that not correct?

9 A. Yes, we have.

10 Q. And where is Mewbourne's interest?

11 A. They operate wells to the south of our location.

12 Q. So other than Yates, the only offsetting owners
13 are Mewbourne and Nearburg?

14 A. Yes.

15 Q. And they've all been notified of this case?

16 A. They're the offsetting operators.

17 Q. Right.

18 A. Yes, and they have been notified.

19 Q. Will Yates call a geological witness to explain
20 this particular location?

21 A. Yes, we will.

22 Q. Were Exhibits 1 and 2 prepared by you?

23 A. Yes.

24 MR. CARR: At this time, Mr. Catanach, we move
25 the admission into evidence of Yates Petroleum Corporation

1 Exhibits 1 and 2.

2 EXAMINER CATANACH: Exhibits 1 and 2 will be
3 admitted as evidence.

4 MR. CARR: And that concludes my direct
5 examination of Ms. Richardson.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Ms. Richardson, is there actually offset
9 production in the Morrow?

10 A. Not that I'm aware of.

11 Q. Okay. When you say that Yates is the offset
12 operator in the proration units, is that in the
13 Cisco/Canyon?

14 A. Yes.

15 Q. Okay. And to the west you said Nearburg also
16 operates a Cisco/Canyon well in there?

17 A. Yes, the Boyd X Number 5.

18 Q. That's in the southeast quarter?

19 A. Yes, it's in the northeast of the southeast. It
20 should be a direct west offset.

21 Q. Do you think if those wells are in the -- what
22 pool those wells are? Is it the north or south, do you
23 know?

24 A. I don't know.

25 Q. Okay. I'll ask the geologist.

1 A. Thank you.

2 EXAMINER CATANACH: I think that's all I have of
3 this witness, Mr. Carr.

4 MR. CARR: At this time we call Brent May.

5 BRENT MAY,
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. CARR:

10 Q. Will you state your name for the record, please?

11 A. Brent May.

12 Q. And where do you reside?

13 A. Artesia, New Mexico.

14 Q. By whom are you employed?

15 A. Yates Petroleum.

16 Q. What is your current position with Yates?

17 A. I'm a petroleum geologist.

18 Q. Have you previously testified before this
19 Division and had your credentials as an expert in petroleum
20 geology accepted and made a matter of record?

21 A. Yes, I have.

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

24 A. Yes, I am.

25 Q. Have you made a geological study of the area

1 surrounding the State K Well Number 4?

2 A. Yes, I have.

3 Q. Are you prepared to share the results of that
4 work with the Examiner?

5 A. Yes, I am.

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

8 EXAMINER CATANACH: Yes, they are.

9 Q. (By Mr. Carr) Mr. May, let's go to what's been
10 marked as Exhibit Number 3. Would you identify and review
11 that for Mr. Catanach?

12 A. This is a cross-section, A-A'. It's a structural
13 cross-section in the North Dagger Draw area. It's mostly
14 of the upper Penn or what I call the Canyon section. It's
15 a west-to-east cross-section.

16 In the lower right-hand corner is a location map
17 showing the location on the cross-section and the
18 surrounding production.

19 I might point out that on this location map
20 there's several dark-colored circles, well symbols. Almost
21 all of those well symbols are producing from the
22 Canyon/Cisco, with the exception of a few down in the very
23 lower right-hand corner of Section 34. But all the others
24 produce from the Cisco/Canyon.

25 And there are a few scattered gas well symbols,

1 and those are mostly Morrow producers.

2 I've shown on this cross-section the top of the
3 Canyon limestone, the top of the Canyon dolomite and the
4 base of the dolomite, and that dolomite which is the
5 reservoir out here has been shaded in purple. The datum is
6 a minus 4200. It is a structural cross-section.

7 Starting on the left-hand side of the cross-
8 section is the Yates Pet Boyd X State Number 5.

9 I might add that -- Ms. Richardson said that
10 Nearburg operates this well. Currently Yates is the
11 operator, but there are some, I should say, legal --

12 Q. -- negotiations.

13 A. -- negotiations, that's a good word -- between
14 Yates and Nearburg on this well.

15 This well is in Section 29 of 19 South, 25 East.
16 It was drilled just to the Canyon. It was completed as a
17 Canyon. It IP'd flowing about 600 barrels of oil a day,
18 close to a million in gas and about 700 barrels of water.

19 Might note on this well the top of the Canyon
20 dolomite and where the current perforations are at. They
21 are in the upper half of this Canyon dolomite.

22 Moving to the next location is the Yates Pet
23 State K Number 4 in Section 28 of 19 South, 25 East. That
24 is the well we're concerned about in this hearing today.
25 This well was originally permitted and was only originally

1 going to be a Canyon test. We drilled down to the Canyon,
2 and as you can see, we lost the upper part of the Canyon
3 dolomite. We had nothing but Canyon lime in the upper
4 part.

5 When we finally did encounter the Canyon dolomite
6 at about 7800, a depth of about 7800, which is about 100 to
7 150 feet lower than the surrounding wells, we started
8 running DSTs, because we knew we were structurally low
9 compared to the production in the surrounding area.

10 We ran 3 DSTs throughout most of the existing
11 dolomite in this well and only recovered mud and water, no
12 hydrocarbon shows. So in other words, we were structurally
13 too low for the -- most of the hydrocarbon potential in
14 this area, and the Canyon dolomite has been in the upper
15 half and we lost the upper half.

16 At that point, we could either plug the well and
17 walk away or kick around the idea of going down to the
18 Morrow. We polled the other partners. I believe all of
19 them except one joined in, and we proceeded to drill down
20 to the Morrow.

21 At that point, in the lower part of the cross-
22 section, I did show a piece of the Morrow to show what we
23 did encounter. We did encounter a Morrow sand. We DST'd.
24 The DST recovered about 1.2 million out of that sand. We
25 did run a pipe to bottom and have perforated and run a

1 short test, and it tested approximately 1.4 million. It's
2 currently shut in, waiting the outcome of this hearing.

3 The next well on the cross-section, which would
4 be the east offset, direct offset to the State K 4, is the
5 Yates Pet States K Number 3 in Section 28 of 19 South, 25
6 East.

7 This again is a Canyon producer, it was only
8 drilled to the Canyon. And again, note that all the
9 perforations are in the upper half of the Canyon dolomite,
10 which we lost in the State K Number 4.

11 Q. Mr. May, the reason you decided to go down and
12 test the Morrow was the fact that there is an offsetting
13 well completed in the Morrow; is that not correct?

14 A. At the time we drilled the well, the State K
15 Number 1, which is the southeast diagonal offset to the
16 State K Number 4, which you can see on the location map --
17 let's see, that would be Unit N up in Section 28 -- was
18 producing out of the Morrow. I believe it is producing
19 around 100 to 150 MCF.

20 There was some concern whether or not this
21 location of the State K Number 4, if there would be some
22 depletion in the Morrow. But since we either could go down
23 and look for some additional gas or plug the well, it was
24 decided to go on down and take a look at the Morrow. And
25 we did encounter the Morrow, and from what we saw of the

1 pressures on the DST it doesn't appear at this point that
2 there's any depletion in the Morrow sand of the State K
3 Number 4.

4 Q. What pool will this Morrow well be completed in?

5 A. The Cemetery-Morrow.

6 Q. And that provides for 320-acre Morrow spacing?

7 A. That's correct.

8 Q. What acreage will be dedicated to the State K
9 Number 4 well?

10 A. That would be the south half.

11 Q. And is this a prorated pool?

12 A. Not that I'm aware of.

13 Q. So you would only be permitted to have one well
14 at a time in a south-half unit?

15 A. That's correct.

16 Q. And what are you doing to deal with that issue?

17 A. We have already sent out AFEs and have, I
18 believe, gotten back everything from all the partners to
19 re-enter the State K Number 1, abandon the Morrow in the
20 State K 1 and move up to the Canyon dolomite.

21 That well was drilled, I believe, back in the
22 1970s or early 1980s, and on the way the Canyon dolomite
23 was DST'd. Over 1000 feet of oil was recovered. So we
24 feel very confident we can convert this into a Canyon
25 dolomite producer.

1 So we'll leave the Morrow behind, go up to the
2 Canyon dolomite, and then start producing out of the State
3 K Number 4, so we will have only one more producer in that
4 proration unit.

5 Q. If we look at the nine-section plat, your index
6 map to this exhibit, other than the State K Number 4 and
7 the State K Number 1, are you aware of any other Morrow
8 production currently from the wells in this area?

9 A. As far as I'm aware, there's not any current
10 Morrow production outside of that State K Number 1 and the
11 State K Number 4.

12 Q. In your opinion, will approval of this
13 Application and the production of the Morrow formation in
14 the State K Number 4 be in the best interests of
15 conservation, the prevention of waste and the protection of
16 correlative rights?

17 A. Yes.

18 Q. Was Exhibit Number 3 prepared by you?

19 A. Yes.

20 MR. CARR: Mr. Catanach, at this time we would
21 move the admission into evidence of Yates Petroleum
22 Corporation Exhibit Number 3.

23 EXAMINER CATANACH: Exhibit Number 3 will be
24 admitted as evidence.

25 MR. CARR: And that concludes our presentation in

1 this case.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. May, have you mapped any of the Morrow
5 interval, or have you mapped this Morrow interval?

6 A. I personally have not. There's another geologist
7 that works the Morrow in this area, but I worked with him
8 closely on this. I'm usually -- my area -- I usually take
9 care of the Canyon dolomite in this area, and he takes care
10 of the Morrow.

11 And I consulted with him when we encountered no
12 pay in the Canyon dolomite and, of course, with management.
13 And based on what he saw, he felt like that there was the
14 possibility of Morrow sands, but everyone was worried about
15 completion too. But we decided to take a chance and go on
16 down and take a look at the Morrow.

17 Q. Is that a channel sand?

18 A. Yes, I believe so.

19 Q. Do you know which direction it's oriented?

20 A. It's probably oriented either north-south or
21 maybe a northwest-southeast direction, in that general
22 direction.

23 Q. Do you know why the decision was made to orient
24 that proration unit in that direction, as opposed to a
25 stand-up west half?

1 A. I do not. The State K 1, it was based off that
2 well. It was not originally drilled by Yates, I don't
3 believe. We assumed operations of that well at a later
4 time. So I don't know exactly why that south half was
5 originally chosen for that.

6 And at this point in time we decided to stay with
7 the south half since ownership would change if we converted
8 to a standup west half.

9 Q. What was the current producing rate of the Number
10 1 well?

11 A. I believe -- I'm going off the top of my head,
12 but I believe it's around 100, 150 MCF.

13 Q. And there is no offset Morrow production to the
14 west?

15 A. Not currently. There have been some wells that
16 have gone down to the Morrow, but there is not current
17 Morrow production.

18 Q. And does that hold true for the northwest?

19 A. In Section 20?

20 Q. In Section -- well, actually in Section -- the
21 north half of Section 29.

22 A. Oh, yes. All of Section 29, there is no current
23 Morrow production in that section.

24 Q. Okay. And the north half of Section 28 as well?

25 A. That's correct, there is only Canyon production.

1 Q. Okay.

2 A. There is one well, the Ross IZ Number 1, which
3 originally went down to the Morrow, I think was originally
4 as a stinker, what I'd call a stinker Morrow well, and it
5 was then later recompleted to the Canyon.

6 Q. I'm sorry, which well was that?

7 A. The Ross IZ Number 1, in the north half of
8 Section 28. I believe that would be the southeast of the
9 northwest.

10 Q. That was tested in the Morrow?

11 A. I believe it actually did produce a little while
12 out of the Morrow, but it was very poor and did not produce
13 for very long.

14 Like I said, there are some more penetrations
15 around, but outside of the State K 1 and the State K 4,
16 there is -- I don't know of any other current Morrow
17 production.

18 Q. Do you have an opinion as to the potential of
19 some Morrow production, say, in Section 29?

20 A. Just off the top of my head, you know, there
21 might be that possibility, but -- Let's see, I'm trying to
22 remember which wells penetrated the Morrow in that section,
23 and I'm not sure now. There is one well in the northeast-
24 northeast of 32, the Savannah Number 1, which Conoco
25 originally drilled and took down to the Morrow, and it was

1 basically never completed in the Morrow.

2 Q. When do you propose to start recompletion of the
3 Number 1 well?

4 A. I think all we're waiting on is the pulling unit.

5 Q. So that well is already, in effect, shut in and
6 not producing at this point?

7 A. As far as I know.

8 EXAMINER CATANACH: Okay. I have nothing
9 further, Mr. Carr.

10 MR. CARR: That concludes our presentation.

11 EXAMINER CATANACH: There being nothing further
12 in this case, Case 11,874 will be taken under advisement.

13 (Thereupon, these proceedings were concluded at
14 9:38 a.m.)

15 * * *

16
17
18
19 I do hereby certify that the foregoing is
20 a correct and true copy of the proceedings in
the Examiners hearing of Case No. 11874,
heard by me on November 6, 1987.

21 David J. Catanach, Examiner
22 Oil Conservation Division
23
24
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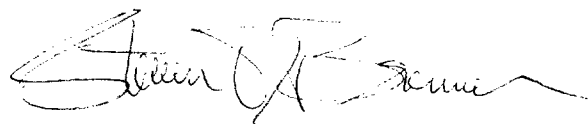
CERTIFICATE OF REPORTER

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

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

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

WITNESS MY HAND AND SEAL November 16th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998