

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:)

APPLICATIONS OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING AND)
AN UNORTHODOX GAS WELL LOCATION, EDDY)
COUNTY, NEW MEXICO)

CASE NOS. 12,081
12,082
and 12,083
(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 5th, 1998

Santa Fe, New Mexico

98 NOV 19 PM 2:13
OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 5th, 1998, 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

November 5th, 1998
Examiner Hearing
CASE NOS. 12,081, 12,082 and 12,083 (Consolidated)

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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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 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 11:11 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,081, which is the Application of Yates Petroleum
5 Corporation for compulsory pooling and an unorthodox gas
6 well location, Eddy County, New Mexico.

7 Call for appearances in this case.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan.

11 We represent Yates Petroleum Corporation in this
12 matter.

13 And I would request that at this time you also
14 call Case 12,082 and 12,083. Each of these cases involves
15 a well that is -- They all immediately offset one another,
16 and the testimony in these cases will be virtually
17 identical.

18 EXAMINER CATANACH: Okay, at this time we'll call
19 Case 12,082, the Application of Yates Petroleum Corporation
20 for compulsory pooling and an unorthodox gas well location,
21 Eddy County, New Mexico.

22 And call Case 12,083, which is the Application of
23 Yates Petroleum Corporation for compulsory pooling and an
24 unorthodox gas well location, Eddy County, New Mexico.

25 I will at this time call for additional

1 appearances in any of these cases.

2 Okay, Mr. Carr?

3 MR. CARR: Mr. Examiner, I have two witnesses who
4 need to be sworn.

5 EXAMINER CATANACH: Will the two witnesses please
6 stand to be sworn in?

7 (Thereupon, the witnesses were sworn.)

8 MR. CARR: Mr. Catanach, yesterday -- Each of
9 these cases seeks compulsory pooling of an interest owned
10 by Fina.

11 Yesterday afternoon an agreement was reached
12 between Yates and Fina, and the compulsory pooling portion
13 of each of these cases may now be dismissed.

14 EXAMINER CATANACH: Okay.

15 DOUGLAS W. HURLBUT,

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

18 DIRECT EXAMINATION

19 BY MR. CARR:

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

21 A. Douglas W. Hurlbut.

22 Q. Mr. Hurlbut, where do you reside?

23 A. Artesia, New Mexico.

24 Q. By whom are you employed?

25 A. Yates Petroleum Corporation.

1 Q. And what is your position with Yates?

2 A. I'm a petroleum landman.

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

6 Q. At the time of that testimony, were your
7 credentials as an expert in petroleum land matters accepted
8 and made a matter of record?

9 A. Yes, they were.

10 Q. Are you familiar with the Application filed in
11 each of these consolidated cases?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes, sir.

16 MR. CARR: Are the witness's qualifications
17 acceptable?

18 EXAMINER CATANACH: They are.

19 Q. (By Mr. Carr) Mr. Hurlbut, could you briefly
20 summarize for the Examiner what it is that Yates seeks in
21 each of these cases?

22 A. Well, we're looking at two different situations
23 here, a pooling and also unorthodox well location for each
24 one of these cases, but since the pooling has been taken
25 care of with our agreement with Fina, then basically what

1 we're looking at is just unorthodox well locations.

2 Case 12,081 is our Yates Hill View AHE Fed Com
3 Number 1 [sic] well. Our proposed re-entry of this well
4 will be located 660 from the south and west lines of
5 Section 13, Township 20 South, Range 24 East.

6 In Case 12,082 we're wanting to recomplete, and
7 we have recompleted the Yates Ceniza AGZ Com Well Number 2,
8 which is located 660 from the south line and 725 from the
9 west line of Section 12, Township 20 South, Range 24 East.

10 And in Case Number 12,083 we want to recomplete,
11 and we have recompleted, the Yates Ceniza AGZ Com Well
12 Number 3, which is located 1980 from the north line and 660
13 from the west line of Section 13, Township 20 South, Range
14 24 East, all located in Eddy County, New Mexico.

15 Q. Mr. Hurlbut, the two wells that have already been
16 recompleted, the Ceniza Number 2 and Ceniza Number 3, those
17 wells are shut in and are not being produced, pending OCD
18 approval of these locations?

19 A. That's correct.

20 Q. Let's go to what has been marked for
21 identification as Yates Exhibit Number 1, and I'd ask you
22 to identify it and review it for Mr. Catanach.

23 A. Okay, this plat was prepared by me and the
24 acreage -- the yellow indicates our acreage owned and
25 controlled by Yates Petroleum Corporation or its entities,

1 in-house entities.

2 The brown on the map indicates -- which is the
3 north half of 24, indicates ownership of Nearburg.

4 The crosshatching in the south half of 12 and in
5 13 indicates -- when this map was prepared for this force-
6 pooling part, this indicated where Fina owned their mineral
7 interest.

8 And then the south half of 12, which is in a blue
9 outline, indicates the proration unit for our Ceniza AGZ
10 Com Number 2.

11 And the green in the north half of 13 is the
12 indication of our proration unit for our Ceniza AGZ Com
13 Number 3.

14 South half of 13, the red outline, is the Hill
15 View AHE Fed Com Number 7.

16 And over in the north half of 14 in orange is our
17 John AGU Number 2.

18 Q. And that spacing unit and the well, the John AGU
19 Number 2, that has been approved by an administrative
20 order, has it not?

21 A. That's correct.

22 Q. And that's NSL 4158, which was entered on October
23 the 27th; is that right?

24 A. Correct.

25 Q. If we look at this plat, the unorthodox well

1 locations are really only encroaching on Yates-operated
2 property; is that correct?

3 A. That is correct.

4 Q. The only tract that is even offset by another
5 owner is the Hill View, which is offset by the Nearburg and
6 Prudential interest in the north half of 24?

7 A. That is correct.

8 Q. Is Exhibit Number 2 an affidavit which confirms
9 that notice of this hearing has been provided to Nearburg
10 and Prudential as required by OCD rules?

11 A. Correct, it is.

12 Q. Will Yates call a geological witness to review
13 the reason behind the requested unorthodox locations or the
14 unorthodox recompletions?

15 A. Yes.

16 Q. Were Exhibits 1 and 2 prepared by you or compiled
17 under your direction?

18 A. Yes, sir, they were.

19 MR. CARR: At this time, Mr. Catanach, we move
20 the admission into evidence of Yates Petroleum Corporation
21 Exhibits 1 and 2.

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

24 MR. CARR: That concludes my direct examination
25 of Mr. Hurlbut.

EXAMINATION

1
2 BY EXAMINER CATANACH:

3 Q. Okay, Mr. Hurlbut, Fina and Nearburg and
4 Prudential Bache have been notified of the unorthodox
5 locations --

6 A. Yes, they have.

7 Q. -- in each of these cases?

8 Where does the interest of Prudential come into
9 play?

10 A. It's the north half of 24. That acreage is owned
11 by Nearburg and Prudential.

12 Q. Okay. And is the well in the south half of
13 Section 13, is that actually encroaching towards that north
14 half of 24?

15 A. Well, I don't believe it is.

16 Q. Okay. They were provided notice, anyway?

17 A. Yes, they were.

18 EXAMINER CATANACH: Okay, nothing further.

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

20 BRENT MAY,

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

DIRECT EXAMINATION

23
24 BY MR. CARR:

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

1 A. Brent May.

2 Q. Where do you reside?

3 A. Artesia, New Mexico.

4 Q. By whom are you employed?

5 A. Yates Petroleum.

6 Q. And what is your position with Yates?

7 A. Petroleum geologist.

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

11 A. Yes, I have.

12 Q. Are you familiar with the Applications filed in
13 each of these consolidated cases?

14 A. Yes, I am.

15 Q. Have you made a geological study of the area
16 which is involved in these Applications?

17 A. Yes, I have.

18 Q. And are you prepared to now share the results of
19 that work with the Examiner?

20 A. Yes.

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

23 EXAMINER CATANACH: They are.

24 Q. (By Mr. Carr) Mr. May, let's go to first your
25 cross-section, and I'd ask you to review the information on

1 that exhibit for Mr. Catanach.

2 A. This is a stratigraphic cross-section, A-A'.
3 It's basically a north-south cross-section. The trace of
4 the cross-section is on Exhibit Number 4. This cross-
5 section is basically showing just the Morrow section, the
6 lower Penn.

7 Starting on the left-hand side is the Yates
8 Petroleum Ceniza AGZ Com Number 2, in Section 12, 660 from
9 the south line, 725 from the west line. That is one of the
10 wells in question here. This well and also the Ceniza 3,
11 which I'll talk about in just a minute, were both
12 originally completed in the upper Penn formation, and both
13 of those were -- The upper Penn is on 320-acre spacing out
14 here, with 660 standbacks. So they're standard locations
15 for the upper Penn. But for the Morrow they would be
16 unorthodox.

17 As I said before, this well was produced from the
18 upper Penn. The zone was abandoned in the summer of 1998,
19 and Yates went down and recompleted into the Morrow zone,
20 IP'd it for a little over a half a million a day, and it is
21 currently shut in, waiting on the results from this
22 hearing.

23 The next well is the Ceniza AGZ Com Number 3, in
24 Section 13 of 20 South, 24 East, 1980 from the north line
25 and 660 from the west line. This well is very similar to

1 the Ceniza Number 2. It was originally producing out of
2 the upper Penn, and Yates abandoned that zone in the summer
3 of 1998, went down and recompleted into the Morrow sands
4 and IP'd this well for 1.8 million cubic feet of gas a day,
5 and again it is currently shut in.

6 The last well on the cross-section is the Yates
7 Nix IT Com Number 1, Section 13 of 20 South, 24 East, 660
8 from the south line, 990 from the east line. This well was
9 originally drilled back in, I believe, the late 1970s or
10 early 1980s. Some Morrow sands were encountered. A drill
11 stem test was run over the Morrow, and no gas was
12 recovered, just drilling mud. So the well was plugged.

13 Q. Let's go now to your structure map, Exhibit
14 Number 4.

15 A. Again, the trace of the cross-section is shown on
16 this exhibit. There's also three red arrows pointing to
17 the wells in question for this hearing. The two Ceniza
18 wells you can see that were on the cross-section, and the
19 next well, the Hill View Number 7, down in the south half
20 of Section 13, let me just set that up a little bit.

21 The Hill View Number 7 is currently producing out
22 of the upper Penn formation. That well was not drilled to
23 the Morrow, originally. There's 7-inch casing set about
24 200 to 300 feet below the base of the upper Penn, and Yates
25 is proposing to re-enter that well and deepen to the

1 Morrow.

2 This structure map is showing a basically west-
3 to-east dip in the Morrow. You might note that the Nix IT
4 Com Number 1 in the southeast-southeast of Section 13,
5 which was on the cross-section, is downdip of the other
6 wells. Note that -- Or recall that that DST recovered no
7 water.

8 Also, the two Ceniza wells that are currently --
9 have been IP'd in the Morrow are downdip or basically even
10 to the Hill View Number 7. So we don't feel like structure
11 is a problem here.

12 Q. Let's go now to Exhibit 5, your isolith map on
13 the lower Morrow.

14 A. This is basically a sand isolith of a clean gamma
15 ray of 50 API units or less, and basically counted up all
16 those sands just for the Morrow clastics section, which was
17 shown on the cross-section earlier.

18 Note that there is basically a north-south sand
19 thick trending through Sections 13, 12 and 24. On the west
20 side of those sections are the three wells in question.
21 They're also on the west side of that sand. You can see
22 that the Ceniza Number 2 had approximately 18 feet of sand,
23 the Ceniza Number 3 had about 31 feet, and we feel like the
24 Hill View Number 7 will have something similar to the
25 Ceniza 2, around 20 -- anywhere from 16 to 20 feet,

1 somewhere around there.

2 So we feel like it's a worthwhile well to re-
3 enter and deepen to the Morrow.

4 The main reason that we're asking for these
5 wells, because of the unorthodox nature, the two Cenizas,
6 they were very simple recompletions. We didn't have to
7 drill any new wells. The Hill View Number 7, we can save
8 anywhere from \$300,000 to \$400,000 on re-entering,
9 deepening, instead of drilling a brand-new well.

10 Q. Will approval of these Applications enable Yates
11 to effectively produce the reserves under these spacing
12 units?

13 A. Yes, I believe so.

14 Q. Will approval of the Application be in the best
15 interest of conservation, the prevention of waste and the
16 protection of correlative rights?

17 A. Yes.

18 Q. Were Exhibits 3 through 5 prepared by you?

19 A. Yes, they were.

20 MR. CARR: At this time, Mr. Catanach, I move the
21 admission into evidence of Yates Exhibits 3 through 5.

22 EXAMINER CATANACH: Exhibits 3 through 5 will be
23 admitted as evidence.

24 MR. CARR: And that concludes my direct
25 examination of Mr. May.

EXAMINATION

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BY EXAMINER CATANACH:

Q. Mr. May, the Ceniza wells, when were those drilled?

A. Those, I believe, off the top of my head, were drilled probably around the mid- to late Eighties, might have been early Nineties. Probably more late Eighties to early Nineties, I would guess.

Q. Both of those wells produced from the upper Penn and are now depleted?

A. Yes, sir, we believe so. The Number 2 made around 82,000 barrels of oil out of the upper Penn, and the Number 3 was a much poorer well. It only made about 6000 barrels of oil.

Q. And the Hill View well, the 7, it's currently a Penn producer?

A. Currently, yes, but it's in a similar situation. The Canyon is not producing very much right now, so we're looking for additional reserves to open up.

Q. Do you know what the rate on that well is, by any chance?

A. Not off the top of my head, no.

Q. But it's a marginal --

A. To make a guess, I would say it's less than 10 barrels a day.

1 Q. And that zone will be abandoned?

2 A. Yes, sir.

3 Q. And each of those wells, when recompleted to the
4 Morrow, those will be the only Morrow wells in each of
5 those spacing units?

6 A. That is correct.

7 I might note, I forgot to point out on both the
8 structure and that sand-thick map, I have all the Morrow
9 penetrations outlined with a black circle. So you can see
10 that in the south half of Section 12, the Ceniza 2 is the
11 only Morrow penetration. The north half of 13, the Ceniza
12 3 is the only well. And in the south half the Hill View,
13 when we deepen it, will be the only producer, because the
14 Nix IT is plugged.

15 Q. Okay. Is there potential, Mr. May -- obviously
16 there's potential in the Morrow in Section 14 if you're
17 going to drill that well; is that right? The John well?

18 A. Yes, we feel like it's -- the John is similar to
19 the Hill View Number 2. We wanted -- 7-inch casing was set
20 just below the base of the upper Penn, and we want to re-
21 enter and deepen it to the Morrow, and we feel like that
22 there is enough potential there to try that one. We're
23 looking at that. That one's not showing much sand. But
24 the way we're viewing this is that with the lower cost of
25 having an already-existing borehole there, we feel like we

1 can take larger risks by doing this.

2 Q. Is there similar potential for this type of thing
3 to occur in maybe Section 11 to the north?

4 A. If these turn out, we would love to do this in a
5 big part of South Dagger. So yes, definitely in 11 too.

6 Q. South, maybe the south half of Section 14?

7 A. Yes, sir, pretty much anywhere that we have
8 drilled and operate several of the old upper Penn wells
9 that are not doing very well right now.

10 Q. So you will -- If these three wells turn out, you
11 will be able to protect, say, the interest owners in the
12 sections to the west there --

13 A. Yes.

14 Q. -- by doing the same thing?

15 A. Yes.

16 EXAMINER CATANACH: Okay. I have nothing
17 further.

18 MR. CARR: That concludes our presentation in
19 these cases.

20 EXAMINER CATANACH: Okay, there being nothing
21 further in these cases, Cases 12,081, 12,082 and 12,083
22 will be taken under advisement.

23 (Thereupon, these proceedings were concluded at
24 11:32 a.m.)

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
* the Examiner hearing of Case No. 12081 P₂ P₃
heard by me on 11/17 1997

STEVEN T. BRENNER, CCR
(505) 989-9317 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 November 9th, 1998.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002