

NEW MEXICO OIL CONSERVATION DIVISION

ILLEGIBLE

**Examiner Hearing
Santa Fe, New Mexico
September 2, 1999 -- 8:15 A.M.**

[illegible]

OIL CONSERVATION DIV.
9 OCT -6 PM 7:32

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. 12,219
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK W. ASHLEY, Hearing Examiner

September 2, 1999
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK W. ASHLEY, Hearing Examiner, on Thursday, September 2nd, 1999, 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.

* * *

I N D E X

September 2nd, 1999
 Examiner Hearing
 CASE NO. 12,219

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>DOUGLAS W. HURLBUT</u> (Landman)	
Direct Examination by Mr. Carr	5
Examination by Examiner Ashley	12
<u>TIM MILLER</u> (Geologist)	
Direct Examination by Mr. Carr	13
Examination by Examiner Ashley	18
REPORTER'S CERTIFICATE	20

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	11
Exhibit 2	7	11
Exhibit 3	9	11
Exhibit 4	10	11
Exhibit 5	10	11
Exhibit 6	14	18
Exhibit 7	15	18

* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

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 8:15 a.m.:

3
4 EXAMINER ASHLEY: This hearing will now come to
5 order for Docket Number 27-99. Please note today's date,
6 September 2nd, 1999. I'm Mark Ashley, appointed Hearing
7 Examiner for today's cases.

8 Before we call the first case, I'd like to review
9 the docket and go over the continuances and dismissals.

10 (Off the record)

11 EXAMINER ASHLEY: At this time the Division calls
12 Case 12,219.

13 MR. CARROLL: Application of Yates Petroleum
14 Corporation for compulsory pooling, Chaves County, New
15 Mexico.

16 EXAMINER ASHLEY: Call for appearances.

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

20 We represent Yates Petroleum Corporation in this
21 matter, and I have two witnesses.

22 EXAMINER ASHLEY: Any additional appearances?
23 Will the witnesses please rise to be sworn in?
24 (Thereupon, the witnesses were sworn.)

25 EXAMINER ASHLEY: Mr. Carr?

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25

DOUGLAS W. HURLBUT,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Douglas W. Hurlbut.

Q. Mr. Hurlbut, where do you reside?

A. Artesia, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation.

Q. And what is your current position with Yates?

A. I'm a petroleum landman for them.

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

A. Yes, I have.

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

A. Yes, I am.

Q. Are you familiar with the status of the lands in
the subject area?

A. Yes, I am.

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

1 EXAMINER ASHLEY: They are.

2 Q. (By Mr. Carr) Mr. Hurlbut, would you briefly
3 summarize for the Examiner what it is that Yates seeks in
4 this case?

5 A. We are trying to get an order for compulsory
6 pooling of all formations developed on 160-acre spacing for
7 the southeast quarter of Section 20, Township 7 South,
8 Range 25 East, Chaves County, New Mexico.

9 MR. CARR: Mr. Examiner, the case as originally
10 docketed also provided for compulsory pooling of 80- and
11 40-acre spacing units within this southeast quarter. Yates
12 Petroleum Corporation owns all the working interest
13 ownership in the north half of the southeast, and therefore
14 the portions of the case related to 40-acre spacing and 80-
15 acre spacing may be dismissed.

16 EXAMINER ASHLEY: Okay.

17 Q. (By Mr. Carr) Mr. Hurlbut, could you identify
18 the well and give its proposed location?

19 A. Yeah, it's going to be located in Unit Letter I
20 of Section 20, of Township 7 South, Range 25 East. The
21 actual location is 1000 feet from the east line and 1980
22 feet from the south line.

23 Q. And the name of the well is the Reinauer "RC"
24 Federal Com Well Number 3?

25 A. Correct.

1 Q. Have you prepared exhibits for presentation here
2 today?

3 A. I have.

4 Q. Could you identify what's been marked as Yates
5 Exhibit Number 1 and review it for Mr. Ashley?

6 A. It's basically just a plat that shows the Section
7 20 and the proposed well location there in Unit Letter I,
8 located in the southeast quarter of Section 20.

9 Q. And the area we seek to have pooled is the
10 southeast of Section 20?

11 A. Correct.

12 Q. What is the primary objective in the proposed
13 well?

14 A. Abo formation, Pecos Slope-Abo Gas Pool.

15 Q. Let's go to what has been marked as Exhibit 2.
16 Can you just identify this briefly for Mr. Ashley?

17 A. These were green cards, certified letters we had
18 sent out to the parties who did not respond to our letter,
19 our initial letter, to join in the drilling of the well.

20 Q. If we go to the third page of this exhibit, does
21 this set forth the interest owners in this tract that will
22 be participating in the well?

23 A. Yes, it does.

24 Q. And of those six owners, who at this time has not
25 voluntarily committed their interest to the well?

1 A. McKay Oil Corporation and Western Resources, Inc.

2 Q. At this time, what percentage of the working
3 interest in the spacing unit does Yates represent?

4 A. 93 percent, approximately.

5 Q. Could you review the efforts made to reach
6 voluntary agreement with McKay Oil Corporation?

7 A. Let's see, with McKay we sent them a letter and
8 an AFE, and they had not responded, and there was numerous
9 telephone conversations with them on what they were
10 planning on doing.

11 You know, of course we were also telling people
12 we -- you know, if you want to farm out your interest or,
13 you know, whatever work -- we would like to work something
14 out. And they came back and wanted to be carried to the
15 casing point as to a certain percentage, and we felt that
16 we didn't want to do that. So that's where it kind of
17 stopped with McKay.

18 Q. What about your efforts with Western Resources?

19 A. Western Resources, we called them -- We sent them
20 the same letter and then we called them and left our name
21 on their voice mail, and they never returned any of our
22 calls.

23 We then sent another letter dated June the 10th
24 to them, proposing that they either farm out their interest
25 to us, and we enclosed a farmout agreement, or we would buy

1 their interest. We enclosed an assignment and what we felt
2 like would be a bona fide consideration for their interest,
3 which they did not respond to that either.

4 Q. And that letter is dated June the 8th?

5 A. Yeah, June the 8th, I'm sorry.

6 Q. And a copy of that letter and the attachments are
7 also included --

8 A. Yes.

9 Q. -- as what has been marked as Yates Exhibit
10 Number 2?

11 A. This is correct.

12 Q. In your opinion, has Yates made a good-faith
13 effort to reach voluntary agreement with both McKay and
14 Western Resources?

15 A. Yes, they have.

16 Q. Has Yates drilled other Pecos Slope-Abo wells in
17 this area?

18 A. Yes, they have.

19 Q. Would you refer to what has been marked as Yates
20 Exhibit Number 3 and identify that for the Examiner?

21 A. Is that the AFE?

22 Q. Yes, it is.

23 A. Okay, yeah, it's the AFE for the drilling of the
24 well.

25 Q. Could you review the totals on that exhibit for

1 Mr. Ashley?

2 A. Yeah, the total down at the bottom for a
3 completed well is \$271,700, for a 4100-foot test.

4 Q. And are the costs reflected on this AFE in line
5 with costs incurred for similar wells by Yates drilled in
6 the Pecos Slope-Abo Pool?

7 A. Yes, they are. They are.

8 Q. Is Exhibit Number 4 a copy of the joint operating
9 agreement for this well?

10 A. Yes, it is.

11 Q. Is this the operating agreement that's been
12 executed by the other working interest owners who
13 voluntarily committed their interests to the well?

14 A. Correct, it has been.

15 Q. And is Exhibit Number 5 an affidavit with letters
16 and return receipts attached confirming that notice of
17 today's hearing has been provided in accordance with OCD
18 rules to McKay and to Western Resources?

19 A. Yes, it is.

20 Q. Have you made an estimate of the overhead and
21 administrative costs to be incurred while drilling the well
22 and also while producing it if, in fact, it is successful?

23 A. We have a drilling well rate of \$4000 a month and
24 a producing well rate of \$400 a month.

25 Q. Are these figures the same as those set forth in

1 the JOA that's been executed by the other interest owners?

2 A. Yes, it is.

3 Q. Do you request that the overhead and
4 administrative rates be escalated in accordance with the
5 COPAS escalation provisions in the operating agreement
6 which has been marked as Exhibit Number 4?

7 A. Yes.

8 Q. And do you recommend that these overhead and
9 administrative rates be incorporated into the order that
10 results from today's hearing?

11 A. Yes, sir.

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

14 A. Yes.

15 Q. Will Yates call a geological witness to review
16 the technical portions of this case?

17 A. Yes, they will.

18 Q. Were Exhibits 1 through 5 either prepared by you
19 or compiled under your direction?

20 A. Yes, they were.

21 MR. CARR: At this time, Mr. Examiner, we move
22 the admission of Yates Petroleum Corporation Exhibits 1
23 through 5.

24 EXAMINER ASHLEY: Exhibits 1 through 5 will be
25 admitted as evidence.

1 MR. CARR: That concludes my direct examination
2 of Mr. Hurlbut.

3 EXAMINATION

4 BY EXAMINER ASHLEY:

5 Q. Mr. Hurlbut, was you said in the 40- and the 80-
6 acre spacing units that Yates controls 100 percent of the
7 working interest?

8 A. In the -- They control 100-percent working
9 interest in the north half of the southeast quarter. They
10 don't own the -- You know, they don't control the whole --
11 in the south half, southeast. And so the two affected
12 parties that we're pooling, their interest is in the south
13 half, southeast.

14 Q. Okay. And within 160-acre spacing you have 93
15 percent --

16 A. Correct.

17 Q. -- of the working interest?

18 A. Correct.

19 Q. Okay. And you haven't heard any response back
20 from Western at all?

21 A. No, we have not.

22 Q. Other than return receipts?

23 A. Right, correct.

24 EXAMINER ASHLEY: I don't have anything further.

25 Thank you.

1 MR. CARR: At this time, Mr. Examiner, we would
2 call Tim Miller.

3 TIM MILLER,
4 the witness herein, after having been first duly sworn upon
5 his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. CARR:

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

9 A. Tim Miller.

10 Q. Where do you reside?

11 A. Carlsbad, New Mexico.

12 Q. By whom are you employed?

13 A. Yates Petroleum Corporation.

14 Q. And what is your position with Yates Petroleum
15 Corporation?

16 A. I'm a petroleum geologist.

17 Q. Mr. Miller, have you previously testified before
18 this Division?

19 A. Yes, I have.

20 Q. At the time of that testimony, were your
21 credentials as an expert in petroleum geology accepted and
22 made a matter of record?

23 A. Yes, they were.

24 Q. Are you familiar with the Application filed in
25 this case?

1 A. Yes, I am.

2 Q. Have you made a geological study of the area
3 which surrounds the area that is the subject of this
4 Application?

5 A. Yes, I have.

6 Q. Are you prepared to share the results of that
7 work with the Examiner?

8 A. Yes, I am.

9 MR. CARR: Mr. Examiner, are the witness's
10 qualifications acceptable?

11 EXAMINER ASHLEY: Yes, they are.

12 Q. (By Mr. Carr) Mr. Miller, let's go to what has
13 been marked Yates Petroleum Corporation Exhibit Number 6,
14 and I'd ask you to first identify it and then review the
15 information on this for Mr. Ashley.

16 A. Exhibit Number 6 is three isopach, net-porosity
17 isopachs of the three different sand intervals that we
18 group the Abo sand interval to, A, B and C. They're net-
19 porosity isopachs of greater than 9 percent -- 9 percent or
20 greater, crossover, on the neutron-density log.

21 The upper left-hand corner, this is the net-
22 porosity isopach of the Abo A sand interval with our
23 location down in the southeast quarter of Section 20. As
24 you can see, the way we have the sand mapped, we will not
25 encounter any A sand interval.

1 Over to the upper right is, again, a net-porosity
2 isopach, 9 percent or greater of crossover on the neutron-
3 density log. This is an isopach of the Abo B sand. Again,
4 were we have our location proposed, we think we will
5 intersect the B interval from around 25 feet or greater of
6 sand.

7 The lower left-hand is again a net-porosity
8 isopach, 9 percent or greater crossover on the neutron-
9 density log. This is an isopach of the C sand interval,
10 and once again, for our location in the southeast quarter
11 of Section 20, we're predicting we will incur somewhere
12 around 25 feet or greater of sand.

13 The lower right-hand corner is the line of cross-
14 section showing what we have drawn through the producing
15 wells in the area, plus our proposed location.

16 Q. All right, Mr. Miller, let's go to that
17 stratigraphic cross-section which is marked as Exhibit
18 Number 7, and I'd ask you to review the information on the
19 wells set forth on this exhibit.

20 A. Okay, the cross-section essentially starts on the
21 west side in Section 19, starting with A, and what I have
22 done, I've made the cross-section through all of the
23 surrounding wells that are near or adjacent to our proposed
24 location.

25 As you can see, I have hung the cross-section,

1 stratigraphic cross-section, on top of the Abo, which is
2 towards the top of the logs, and this is what it's hung on,
3 and I have broken down the way we break down the Abo sand
4 intervals into the A interval, the B interval and the C
5 interval.

6 The sands in the various wells that are colored
7 yellow on the gamma ray, and over on the right side, the
8 red, is the porosity, is sands that have a net porosity of
9 9 percent or greater.

10 The sands that are colored with orange on the
11 gamma ray are sands that have less than 9-percent porosity.
12 Even though some off them do have porosity, we feel that
13 the sands that at least have greater than 9 percent have a
14 better production rate.

15 As you can see on the cross-section, the Abo
16 sands are basically fluvial-deltaic sands. They come and
17 go.

18 Where our proposed location is, we are hoping to
19 intersect the B and the C interval, the B interval, up
20 around 25 feet or greater, the C interval the same thing.
21 We do not think we will have any A sand interval.

22 As you can see, the sand here -- the different
23 channels come and go very easily.

24 Q. In your opinion, could you drill a well at the
25 proposed location that would not be a commercial success?

1 A. Yes.

2 Q. Are you prepared to make a recommendation to the
3 Examiner as to the risk penalty that should be assessed
4 against any nonparticipating interest owner in this
5 acreage?

6 A. Yes, I am.

7 Q. And what is that percentage?

8 A. 200 percent.

9 Q. Could you just summarize your reasons for that
10 200-percent penalty?

11 A. Well, as you can see by looking at the cross-
12 sections and the isopach map, it is very easy to be in and
13 out of these sands in a hurry where we have our proposed
14 location in Section 20.

15 If you look at the B interval isopach, which is
16 in the upper right-hand corner, we're predicting around 25
17 feet or more. The well immediately to the west just has
18 eight feet. The well immediately to the southeast has zero
19 feet.

20 Same thing on -- if you look on the isopach of
21 the C interval, in the lower left-hand corner. We're
22 predicting around 25 feet. Wells to the east have anywhere
23 from 16 to 11. The well to the south in Section 29, which
24 is the northeast quarter, has zero feet.

25 The sands come and go, and we try to map them as

1 best we could, but you always have a chance of drilling a
2 dry hole out here.

3 Q. In your opinion, will the granting of this
4 Application and the drilling of the proposed well be in the
5 best interest of conservation, the prevention of waste and
6 the protection of correlative rights?

7 A. Yes, it will.

8 Q. Were Exhibits 6 and 7 prepared by you?

9 A. Yes, they were.

10 MR. CARR: At this time, Mr. Ashley, we move the
11 admission into evidence of Yates Petroleum Corporation
12 Exhibits 6 and 7.

13 EXAMINER ASHLEY: 6 and 7 will be admitted as
14 evidence at this time.

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

17 EXAMINATION

18 BY EXAMINER ASHLEY:

19 Q. Mr. Miller, are there any other compulsory
20 pooling orders in the immediate area of this?

21 A. No, there's not.

22 EXAMINER ASHLEY: I don't have any other
23 questions. Thanks, Mr. Miller.

24 MR. CARR: And that concludes our presentation in
25 this case.

1 EXAMINER ASHLEY: Case 12,219 will be taken under
2 advisement.

3 (Thereupon, these proceedings were concluded at
4 8:37 a.m.)

5 * * *

6
7
8
9
10
11
12
13
14 I do hereby certify that the foregoing is
15 a correct and true copy of the proceedings
16 as given in the hearing of Case 12219
17 heard by me on 9-2-99
18 Mark Kelly
19 Of Conservation Division
20
21
22
23
24
25

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 September 29th, 1999.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002