

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION



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June 10, 1991

PADILLA & SYNDER
Attorneys at Law
P. O. Box 2523
Santa Fe, New Mexico 87504

RE: CASE NO. 10295
ORDER NO. R-9520

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

A handwritten signature in cursive script that reads "Florene Davidson".

Florene Davidson
OC Staff Specialist

FD/sl

cc: Bill Carr
BLM Carlsbad Office

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

IN THE MATTER OF:)
APPLICATION OF YATES ENERGY CORPORATION)
FOR COMPULSORY POOLING, EDDY COUNTY,) CASE NO. 10295
NEW MEXICO.)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Examiner

May 2, 1991

8:18 a.m.

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on May 2, 1991, at 8:18 a.m. at the Oil Conservation Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Susan G. Ptacek, a Certified Court Reporter No. 124, State of New Mexico.

FOR: OIL CONSERVATION BY: SUSAN G. PTACEK
DIVISION Certified Court Reporter
CCR No. 124

I N D E X

May 2, 1991
 Examiner Hearing
 Case No. 10295

PAGE

APPEARANCES

3

YATES ENERGY WITNESSES:

SHARON R. HAMILTON

Direct Examination by Mr. Padilla

5

Examination by Examiner Stogner

10

Redirect Examination by Mr. Padilla

12

BILL BAKER

Direct Examination by Mr. Padilla

13

Examination by Examiner Stogner

18

REPORTER'S CERTIFICATE

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* * *

E X H I B I T S

Admtd

YATES ENERGY EXHIBIT

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A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR YATES ENERGY CORPORATION:

PADILLA & SNYDER
Attorneys at Law
BY: ERNEST L. PADILLA, ESQ.
Post Office Box 2523
Santa Fe, New Mexico 87504-2523

FOR SPIRAL, INC., EXPLORERS PETROLEUM CORPORATION, HEYCO
EMPLOYEES, LTD., JAMES H. YATES, INC., COLKELAN:

CAMPBELL & BLACK, P.A.
Attorneys at Law
BY: WILLIAM F. CARR, ESQ.
110 N. Guadalupe
Santa Fe, New Mexico 87501

* * *

1 EXAMINER STOGNER: Call the next case, 10295.

2 MR. STOVALL: Application of Yates Energy Corporation
3 for compulsory pooling, Eddy County, New Mexico.

4 EXAMINER STOGNER: Call for appearances.

5 MR. PADILLA: Mr. Examiner, Ernest L. Padilla, Santa
6 Fe, New Mexico, for the applicant. I have two witnesses.

7 MR. CARR: May it please the examiner, my name is
8 William F. Carr with the law firm of Campbell & Black,
9 P.A., of Santa Fe. I would like to enter an appearance on
10 behalf of Spiral, Inc., Explorers Petroleum Corporation,
11 HEYCO Employees, Limited, James H. Yates, Inc., and
12 Colkelan, and I will not call a witness nor otherwise
13 participate in this proceeding.

14 EXAMINER STOGNER: Are there any other appearances?

15 Would the witnesses please stand and be sworn at
16 this time.

17 (Whereupon the witnesses were duly
18 sworn.)

19 EXAMINER STOGNER: Mr. Padilla.

20 MR. PADILLA: Mr. Examiner, at this time I call Shari
21 Hamilton.

22 SHARON R. HAMILTON,
23 the Witness herein, having been first duly sworn, was
24 examined and testified as follows:

25 DIRECT EXAMINATION

1 BY MR. PADILLA:

2 Q. Miss Hamilton, for the record, please state your
3 name.

4 A. My name is Sharon R. Hamilton.

5 Q. Miss Hamilton, have you testified before the Oil
6 Conservation Division as a petroleum landman for Yates
7 Energy Corporation in the past?

8 A. Yes, sir, I have.

9 Q. Have your credentials been accepted as matter of
10 record in those hearings?

11 A. Yes, sir, they have.

12 Q. You are a petroleum landman; correct?

13 A. Yes, I am.

14 Q. You are familiar with the land matters involved
15 in the compulsory pooling application here before the
16 division?

17 A. Yes, sir, I am.

18 MR. PADILLA: Mr. Examiner, we tender Miss Hamilton as
19 an expert petroleum landman.

20 EXAMINER STOGNER: Miss Hamilton is so qualified.

21 Q. (By Mr. Padilla) Miss Hamilton, would you
22 briefly tell us what this hearing is about?

23 A. Yes, sir. We're seeking compulsory pooling to
24 drill a well in the southwest quarter of the southwest
25 quarter of Section 1, Township 18 South, Range 31 East?

1 Q. Miss Hamilton, let's go on to the first exhibit
2 in this hearing or the -- well, let me ask you, first.
3 Have you prepared certain exhibits for introduction or have
4 exhibits been compiled under your supervision for this
5 case?

6 A. Yes, sir, I have.

7 Q. Miss Hamilton, let me show you now what we have
8 marked as Exhibit 1, and have you identify that for the
9 examiner?

10 A. Yes, sir. It's a map plat that indicates the
11 Township 18 South, Range 31 East and the 40-acre proration
12 unit in the southwest quarter of the southwest quarter of
13 Section 1 is indicated in the yellow.

14 Q. 40 acres is assigned to this well; is that
15 correct?

16 A. Yes, sir, it's a standard proration unit.

17 Q. Let me hand you what we have marked as Exhibit
18 No. 2 and have you identify that for the examiner.

19 A. Yes, sir. It's an ownership summary. The first
20 portion indicates the hundred percent ownership in the
21 property, and the second section indicates the parties that
22 we request to force pool.

23 Q. Who are the parties that you are requesting to
24 force pool?

25 A. Spiral, Inc., Explorers Petroleum Corporation,

1 HEYCO Employees, Ltd., and Chevron USA, Inc.

2 Q. Miss Hamilton, what efforts have you made to get
3 the voluntary joinder of those nonconsenting parties?

4 A. We had supplied them with AFEs and requested
5 participation. We've spoken to them several times to
6 attempt to have them participate in the drilling.

7 Q. Let me hand you what we have marked as Exhibit
8 No. 3 and have you tell the examiner what that is and what
9 it contains?

10 A. Exhibit 3 is a summary of the contacts that
11 we've had with these owners, where we've initially proposed
12 the well and spoken to them on the telephone concerning a
13 farmout or any other possible agreement.

14 Q. What was the first time you contacted these
15 parties?

16 A. This well was originally proposed in August of
17 1990 as a Bone Springs test. We received a compulsory
18 pooling order No. R-9312 in October, but we were unable to
19 drill the well under that order. And we have in April --
20 we repropose the well as a shallower test.

21 Q. Why did you not drill it under the prior
22 compulsory pooling order?

23 A. The parties -- the owners involved were not --
24 did not want to economically justify the drilling of a
25 deeper well, and when the oil prices dropped, we couldn't

1 economically justify it either.

2 Q. Did you feel that you had to give a new proposal
3 for the prospect to be --

4 A. Yes, sir, we did.

5 Q. Let me hand what we have marked as Exhibit No.
6 4, and identify that for the examiner and tell him what
7 that contains.

8 A. These are the copies of the correspondence that
9 have gone between the company concerning this property.

10 Q. Can you summarize the contents of that exhibit
11 for the examiner, please?

12 A. Yes. We had made the original proposal and
13 attempted to negotiate farmouts with the parties. Not
14 being able to negotiate any farmouts, then we resubmitted
15 the shallower proposal with the hope they would
16 participate.

17 Q. Is the shallower proposal included in Exhibit 4?

18 A. Yes, sir, it is.

19 Q. What results did you obtain from that?

20 A. We haven't -- the parties that are being forced
21 pool at this time have not responded to participate in the
22 well.

23 Q. Is there any likelihood that they will
24 participate following this hearing?

25 A. I believe that the Chevron interest is pending a

1 transaction where they would turn their interest to a third
2 party. So at this time they are in no position to respond
3 to the proposal.

4 Q. Miss Hamilton, have you forced pool these same
5 parties in the same area in the past?

6 A. Yes, sir, we have.

7 Q. And have the results been similar to what you're
8 experiencing with this proposal?

9 A. Yes, sir.

10 Q. And you forced pool these parties in the past?

11 A. Yes. In fact, the well that is directly
12 opposite this one we had to force pool these same parties.

13 Q. They have not participated in any wells you've
14 drilled out there?

15 A. The Spiral, Explorers and HEYCO Employees, Ltd.,
16 have participated in one well with us, but not in any
17 others.

18 Q. Miss Hamilton, let me show you what we have
19 identified as Exhibit No. 5 and tell the examiner what that
20 is and what it contains?

21 A. It's the AFE that we presented when we proposed
22 the well, to drill a 5600-foot San Andres/Delaware test.

23 Q. Is that in your opinion a reasonable AFE for the
24 kind of test you're proposing?

25 A. Yes, sir, we believe it is.

1 Q. Is that AFE based on AFEs that have been used in
2 that same area in the past?

3 A. Yes, it is.

4 Q. Miss Hamilton, let me show you what we have
5 marked as Exhibit 6, and please tell the examiner what that
6 is and what it contains.

7 A. Exhibit 6 is a summary of the Ernest & Young
8 overhead rate chart, and for the depth of the well we are
9 drilling we're requesting that the drilling well rate be
10 4,000 a month and the producing well rate be 350 a month,
11 which is indicated on their survey results.

12 Q. You have used those types of rates based on the
13 Ernst & -- Ernst & Young survey results before the
14 division?

15 A. Yes, we have.

16 MR. PADILLA: Mr. Examiner, Exhibit No. 7 is simply my
17 affidavit together with the return receipt requested
18 information, as well as a copy of the notice that we have
19 sent in this case.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. In your notice there are several parties, the
23 Colkelan Corporation. That's C-o-l-k-e-l-a-n. But they're
24 a joinder at this time, are they not?

25 A. They're interested subject to an operating

1 agreement.

2 Q. That has been executed?

3 A. Yes, sir.

4 Q. Same with the James H. Yates, Incorporated
5 interest?

6 A. Yes.

7 Q. And the Harvey E. Yates Company?

8 A. They are also under an executed operating
9 agreement.

10 Q. You mentioned in your testimony that Chevron's
11 interest is being -- is preparing to be turned over to a
12 third interest? Can you elaborate on that?

13 A. From my understanding from my discussion with
14 them, they're attempting to finalize some type of a trade
15 transaction with a third party where the third party would
16 assume their position in these properties. So they were in
17 no position to respond to us as they haven't finalized
18 their deal yet.

19 Q. You wouldn't happen to know who that party was?

20 A. I believe it is Meridian who is also active in
21 this area.

22 Q. But since that has not been executed between
23 Chevron and Meridian, Meridian is not a party to this case;
24 is that correct?

25 A. No, sir.

1 Q. Order No. R-9312 which covered this previous
2 area, was that also for a 40-acre oil test?

3 A. It was a 40-acre but it was for a Bone Spring,
4 deeper test. When we first proposed that depth, location
5 the owners objected to the depth and indicated that they
6 would be more interested in drilling just a shallow well.
7 So when we repropose it we thought that per chance they
8 might go ahead and consent to participate.

9 Q. So the Bone Springs will not be tested at this
10 time?

11 A. No, sir, it will not.

12 EXAMINER STOGNER: I have no other questions of this
13 witness.

14 MR. PADILLA: I only have one other.

15 REDIRECT EXAMINATION

16 BY MR. PADILLA:

17 Q. Miss Hamilton, if this order is approved, does
18 Yates Energy Corporation desire to be named the operator of
19 the well?

20 A. Yes, sir, we do.

21 MR. PADILLA: That's all I have, Mr. Examiner.

22 EXAMINER STOGNER: No further questions, Miss Hamilton
23 may be excused.

24 MR. PADILLA: Call Bill Baker at this time,
25 Mr. Examiner.

1 BILL BAKER,
2 the Witness herein, having been first duly sworn, was
3 examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. PADILLA:

6 Q. Mr. Baker, have you previously testified before
7 the Oil Conservation Division and had your credentials
8 accepted as a petroleum geologist?

9 A. Yes, sir, I have.

10 Q. You are an employee of Yates Energy Corporation;
11 is that correct?

12 A. Yes, sir, I am.

13 Q. Did you prepare certain geologic exhibits for
14 introduction here today?

15 A. Yes, sir, I have.

16 Q. You are familiar with the areas as far as
17 geology and as far as the prospect is concerned?

18 A. Yes, sir, I am.

19 MR. PADILLA: Mr. Examiner, we tender Mr. Baker as a
20 petroleum geologist.

21 EXAMINER STOGNER: Mr. Baker is so qualified.

22 Q. (By Mr. Padilla) Mr. Baker, let's turn right to
23 Exhibit No. 8 and tell the examiner what that is and what
24 that contains.

25 A. Exhibit No. 8 is a structure map on top of the

1 San Andres formation, which is the primary objective of the
2 Thornbush Federal No. 2. This particular exhibit right
3 here just basically indicates the regional dip of the San
4 Andres formation. It indicates the regional dip is in a
5 southeast orientation, and our proposed location will
6 encounter the San Andres at the subsea depth of
7 approximately minus 550 feet.

8 Q. What's the general geology in this area,
9 Mr. Baker?

10 A. The general geology in this particular area
11 pertaining to the San Andres formation is that we're at
12 such a point on the Pecos Abo slope shelf, it's where the
13 San Andres formation is interfingering with Delaware sands.
14 Therefore, it provides for a sand carbonate-type sequence,
15 interfingering sequence, and the San Andres formation in
16 here is comprised of clastic dolomite. When encountered
17 with porosity forms excellent traps.

18 Q. What does that mean to someone like myself
19 who -- in terms of encountering production in the San
20 Andres?

21 A. It indicates that when you get it, it's
22 extremely prolific but it's extremely risky because it is a
23 stratigraphic trap. Due to the nature of the fact that
24 it's interfingering with the Delaware sands, it sometimes
25 is somewhat hard to predict. So it adds an element of

1 extra risk there.

2 Q. Let's go on to your next exhibit, which is
3 Exhibit No. 9, and have you identify that for the examiner
4 and I would like for you to explain what it contains.

5 A. Exhibit No. 9 is an isopach map of the San
6 Andres dolomite, using a porosity cutoff of greater than 12
7 percent porosity in the San Andres dolomite. As you can
8 indicate from my isopach map here on the well control, it
9 appeared like these little porosity pods oriented in a
10 east-west orientation. You can also notice from the
11 isopach map they're extremely narrow and thin, and as I
12 will show you on Exhibit No. 10 in a second, you don't have
13 to move very far from extremely prolific to zero porosity.

14 Q. Does Exhibit No. 10 show any producing wells in
15 the San Andres formation?

16 A. Yes, it sure does. It indicates Thornbush No.
17 1, which is a key well in this area that we're offsetting,
18 was productive from the San Andres formation. It also
19 indicates that there are two wells located in Section 35
20 and 36 directly north of our proposed location that did
21 produce from the San Andres formation back in the early
22 50s.

23 Q. Do you have anything further concerning either
24 Exhibits 8 or 9?

25 A. No, sir.

1 Q. Let's move on to Exhibit No. 10 and have you
2 explain that to the examiner, please.

3 A. Exhibit No. 10 is a structural cross section
4 showing three key wells in the area through the San Andres.
5 If you will look at it from -- I should say -- right to
6 left or A to A prime, on the far right-hand side of the
7 cross section is the Yates Energy Prickly Pear Federal
8 No. 1. This was a well which was proposed shortly after
9 the Thornbush Federal No. 1 was completed in the San Andres
10 formation. We believed at that time the porosity did
11 indicate -- extend down into the north half of Section 12.
12 We proposed a well, we drilled a direct southeast offset,
13 700 feet away from the Thornbush Federal No. 1. We
14 encountered the San Andres dolomite, but as you can see
15 from my cross section I have indicated the 12 percent
16 porosity cutoff line, the formation was tight. It proved
17 to be nonproductive in the San Andres formation, and was
18 subsequently recompleted in the Queen sands for a
19 relatively noncommercial well, about 10 barrels of oil a
20 day.

21 As you continue to move to the left on the cross
22 section you encounter the Yates Energy Thornbush Federal
23 No. 1 well. This is the key well that is setting up the
24 Thornbush Federal No. 2. This was drilled as a 9100-foot
25 Bone Springs test. The Bone Springs ended up being

1 uneconomic. We subsequently recompleted to the San Andres
2 formation. The initial potential was 125 barrels of oil
3 per day and 16 barrels of water. The well has currently
4 made a total cum of about 8,000 barrels of oil and is
5 currently making about 19 barrels of oil a day and 80
6 barrels of water a day.

7 Q. In terms of risk, how do you assess your
8 prospects, Mr. Baker?

9 A. In terms of risk there's -- the primary risk
10 here is purely stratigraphic risk. And due to the nature
11 the way this porosity comes and goes, it's pretty risky, as
12 you can see from what happened on the Prickly Pear Federal
13 No. 1.

14 Also there appears to be a water contact within
15 the San Andres formation here. The reason that this well
16 is currently producing so much water is we got down to a
17 rate of about 23 barrels of oil a day and about 3 barrels
18 of water and attempted a fracture stimulation. At that
19 time we broke down into the water and actually lost some of
20 our oil production, and increased our water production up
21 to about 80 barrels of water a day. So there is a
22 significant risk as far as a completion standpoint of
23 staying out of water, too.

24 Q. How about risk as far as bad is concerned?

25 A. Right now we feel like this is -- the well --

1 we've got reserve book of about 42,000 barrels, which is
2 basically just barely a three to one return on investment.
3 So if everything were to go in an ideal situation, this is
4 just barely an economic venture.

5 Q. Mr. Baker, what recommendation do you have for
6 risk penalty assessment?

7 A. The maximum, sir.

8 Q. 200 percent?

9 A. Yes, sir.

10 Q. Mr. Baker, would approval of this application in
11 your opinion be in the best interest of conservation of oil
12 and gas?

13 A. Yes, sir.

14 MR. PADILLA: Mr. Examiner, we tender Exhibits 1
15 through 10, and we pass this witness for cross-examination.

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

18 (Yates Energy Exhibits 1 through 10
19 was admitted in evidence.)

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Mr. Baker, this is on federal lease, is it not?

23 A. Yes, sir, it is.

24 Q. Has a well location been staked at this time?

25 A. Yes. Actually there have been two staked out

1 here. We staked one at the time in which we had the
2 Thornbush No. 2 proposed as a 9100-foot test, and then for
3 this particular proposal we have not come back and restaked
4 it. We left it at the old location, which was going to be
5 the 9100-foot test.

6 Q. What was the old location as far as the footage?

7 A. Well, it was actually 660 from the south and 330
8 from the west line.

9 THE WITNESS: Is that correct, Sharon?

10 MS. HAMILTON: Yes.

11 Q. (By Examiner Stogner) That's at a standard
12 location, is it not?

13 A. Yes, sir, it is.

14 EXAMINER STOGNER: I have no other questions of this
15 witness. Are there any other questions of Mr. Baker?

16 MR. PADILLA: I have nothing further, Mr. Examiner.

17 EXAMINER STOGNER: He may be excused. Anything
18 further in this case? Does anybody else have anything
19 further in case number 10295? If not, this case will be
20 taken under advisement.

21 (Whereupon, the hearing was concluded at the
22 approximate hour of 8:39 a.m.)

23 * * *

24

25

1 STATE OF NEW MEXICO)
) SS.
 2 COUNTY OF SANTA FE)


3 REPORTER'S CERTIFICATE


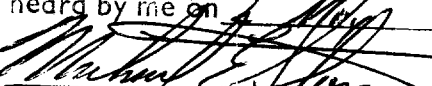
4
 5 I, Susan G. Ptacek, a Certified Court Reporter and
 6 Notary Public, do HEREBY CERTIFY that I stenographically
 7 reported the proceedings before the Oil Conservation
 8 Division, and that the foregoing is a true, complete and
 9 accurate transcript of the proceedings of said hearing as
 10 appears from my stenographic notes so taken and transcribed
 11 under my personal supervision.

12 I FURTHER CERTIFY that I am not related to nor
 13 employed by any of the parties hereto, and have no interest
 14 in the outcome thereof.

15 DATED at Santa Fe, New Mexico, this 7th day of June,
 16 1991.

17
 18 My Commission Expires:
 19 December 10, 1993


 SUSAN G. PTACEK
 Certified Court Reporter
 Notary Public

20
 21 I do hereby certify that the foregoing is
 22 a complete record of the proceedings in
 the Examiner hearing of Case No. 10285.
 23 heard by me on  1991.
 Examiner
 24 Oil Conservation Division
 25