

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION

IN THE MATTER OF:)
THE HEARING CALLED BY THE)
OIL CONSERVATION DIVISION)
TO CONSIDER:)

Case No. 10364
No. 10365

APPLICATION OF HARVEY E. YATES)
COMPANY FOR COMPULSORY POOLING, LEA)
COUNTY, NEW MEXICO.)
and)
APPLICATION OF HARVEY E. YATES)
COMPANY FOR COMPULSORY POOLING, LEA)
COUNTY, NEW MEXICO.)
-----)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

DIVISION HEARING

BEFORE: DAVID R. CATANACH, Examiner

August 8, 1991
11:00 a.m.
Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on August 8, 1991, at 11:00 a.m.
at the conference room, State Land Office Building, 310 Old
Santa Fe Trail, Santa Fe, New Mexico, before Susan G.
Ptacek, Certified Court Reporter for the State of New
Mexico.

FOR: OIL CONSERVATION
DIVISION

BY: SUSAN G. PTACEK
Certified Court Reporter
CSR No. 124

I N D E X

August 8, 1991

Commissioner Hearing

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APPEARANCES

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HARVEY E. YATES WITNESSES:

ROBERT BELL

Direct Examination by Mr. Carr

5

Examination by Mr. Stovall

11

Further Examination by Mr. Stovall

19

DAVID B. PEARCY

Direct Examination by Mr. Carr

11

Examination by Mr. Catanach

17

REPORTER'S CERTIFICATE

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E X H I B I T S

ADMTD

HARVEY E. YATES 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 Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR HARVEY E. YATES:

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

* * *

1 MR. CATANACH: At this time we will call Case 10364.

2 MR. STOVALL: Application of Harvey E. Yates Company
3 for compulsory pooling, Lea County, New Mexico.

4 MR. CATANACH: Are there appearances in this case?

5 MR. CARR: May it please the examiner, my name is
6 William F. Carr with the law firm Campbell, Carr, Berge &
7 Sheridan of Santa Fe. I represent Harvey E. Yates Company,
8 and I have two witnesses.

9 MR. CATANACH: Are there any other appearances? Will
10 the witness please stand and be sworn?

11 (The witnesses were duly sworn.)

12 MR. CARR: May it please the examiner, it's our
13 intention to consolidate cases 10364 and 10365. We request
14 the consolidation because they are in the same section.
15 We're pooling the same interest owner, and the testimony is
16 virtually identical.

17 MR. CATANACH: At this time we will call Case 10365.

18 MR. STOVALL: Application of Harvey E. Yates Company
19 for compulsory pooling, Lea County, New Mexico.

20 MR. CATANACH: Are there any additional appearances is
21 in the subsequent case?

22 Okay, Mr. Carr, you may proceed.

23 ROBERT H. BELL,

24 the Witness herein, having been first duly sworn, was
25 examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

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

A. Robert H. Bell.

Q. Where do you reside?

A. Roswell, New Mexico.

Q. By whom are you employed and in what capacity?

A. Harvey E. Yates Company; I'm the land manager.

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

A. Yes, I have, and yes, they are.

Q. Are you familiar with the applications filed in each of these cases?

A. I think so.

Q. Are you familiar with the subject area and the ownership in that area?

A. Yes, sir, I am.

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

MR. CATANACH: Yes.

Q. (By Mr. Carr) If you know, would you briefly state what Harvey E. Yates Company seeks with these applications?

1 A. Harvey E. Yates seeks the forced pooling of all
2 mineral interests in the northwest of the northwest quarter
3 and northwest of the northeast quarter of Section 32,
4 Township 18 South, Range 33 East, Lea County, New Mexico.
5 Harvey E. Yates proposes to dedicate the referenced pool
6 acreage to its Atlantic 32 State Well Nos. 3 and 4, to be
7 located at an orthodox location in Section 32, the Queen
8 formation.

9 Q. So you've got two 40-acre tracts, and you're
10 going to drill wells to the Queen on each of those tracts?

11 A. That's correct. The Queen Grayburg formation is
12 our objective.

13 Q. You will actually bottom the well in the
14 Grayburg?

15 A. That's correct.

16 Q. Amended applications were filed in this case
17 indicating that you would take the wells down to the
18 Grayburg; is that correct?

19 A. That's correct.

20 Q. You prepared the exhibits for presentation
21 today?

22 A. Yes, sir, I have.

23 Q. Would you go to what has been marked as HEYCO
24 Exhibit No. 1, identify that and review it for
25 Mr. Catanach?

1 A. This is a land plat, showing our two proposed
2 locations, the No. 3 well is located in the northwest
3 northwest quarter of Section 32. No. 4 well is located in
4 the northwest of the northeast quarter. It also shows the
5 Harvey E. Yates is the lessee of record in the north half
6 of Section 32.

7 Q. Let's go now to what has been marked as Exhibit
8 No. 2 and I'd ask you to identify that.

9 A. Exhibit No. 2 is an Exhibit A from the operating
10 agreement, dated July 28, 1989, which covers the north half
11 of Section 32. It shows a breakdown of working interest
12 owners, parties to the operating agreement.

13 Q. What percent of the acreage in each of these
14 40-acre tracts has been voluntarily committed to the well?

15 A. 99.9987 percent.

16 Q. And identify the interest owner who has not
17 agreed to participate.

18 A. This is Mr. Edgar Braun, and he has a working
19 interest of .00126580.

20 Q. Does Mr. Braun have this same interest
21 throughout the north half of Section 32?

22 A. Yes, sir, he does.

23 Q. Have you had to come to the division in the past
24 to pool this interest of Mr. Braun?

25 A. That's correct.

1 Q. What is the status of the other two wells shown
2 on Exhibit No. 1 in the north half of 32?

3 A. All right. The Atlantic 32 State No. 1, which
4 is located in the northeast of the northwest quarter, is a
5 well that's producing out of the Queen formation, I
6 believe. The Atlantic 32 State No. 2, is also -- which is
7 located in the southwest of the northwest location is also
8 producing out of the Queen.

9 Q. Mr. Braun has this less than 1 percent interest
10 in each of those properties?

11 A. That's correct.

12 Q. Let's go to what has been marked as HEYCO
13 Exhibit No. 3. Would you identify that and review it for
14 Mr. Catanach?

15 A. Exhibit No. 3 is an AFE, which states that our
16 dry hole of \$134,138; producing well costs of \$352,920.

17 Q. Are these costs in line with the costs actually
18 incurred in the development of other two -- drilling of the
19 two wells in the north half of 32.

20 A. Yes, sir, they are.

21 Q. Could you summarize the efforts that you have
22 made to obtain voluntary participation in this effort by
23 Mr. Braun?

24 A. Sure. Harvey E, Yates Company purchased a
25 mineral interest in the north half of Section 32 in July of

1 1987. By letter dated October the 6, 1987, we attempted to
2 purchase what was an 8 percent interest that was owned by
3 84 individuals in the north half of it. We were able to
4 secure the interest or have these people committed to the
5 drilling of the wells, all with the exception Mr. Braun,
6 who has this very small interest.

7 We sent out a -- on April 20, 1989, a proposal
8 to plug back the Atlantic 32 State No. 1 well from the
9 Morrow formation, through the Cisco, and Mr. Braun never
10 signed the AFEs. Also in April 1991 we sent out a proposal
11 to drill Atlantic 32 State No. 2. Again, there was no
12 response from Mr. Braun. Then on July 12, 1991, we sent
13 another letter outlining our proposals for further
14 development in the north half of Section 32 with no
15 response. I have talked to Mr. Braun several times on the
16 phone, and he is not willing to work with us in any way.

17 Q. Exhibit No. 4 is a copy of the most recent
18 letter to Mr. Braun?

19 A. That's correct, July 12th.

20 Q. In your opinion have you made a good faith
21 effort to obtain his voluntary participation in your
22 efforts to develop the north half of Section 32?

23 A. Yes, sir, I believe we have done everything we
24 can.

25 Q. Is Exhibit No. 5 a copy of two affidavits and

1 letters by which you transmitted the amended -- or had
2 transmitted to Mr. Braun the amended application in these
3 cases?

4 A. That's correct.

5 Q. Does Harvey E. Yates Company seek to be
6 designated operator of the proposed well?

7 A. Yes, we do.

8 Q. Will a geological witness be called to testify
9 as to the risk associated with developing these properties?

10 A. That's correct.

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

13 A. Yes, sir, they were.

14 Q. Do you have anything further to add to your
15 testimony, if you know?

16 A. No, sir. I don't think I do.

17 MR. CARR: At this time we move the admission of HEYCO
18 Exhibits 1 through 5.

19 MR. CATANACH: Exhibits 1 through 5 will be admitted
20 as evidence.

21 (HEYCO Exhibits 1 through 5 were
22 admitted in evidence.)

23 MR. CARR: That concludes my direct examination of
24 Mr. Bell.

25 MR. STOVALL: I've got a question for Mr. Bell.

EXAMINATION

BY MR. STOVALL:

Q. Is this the same fellow that you told us that you are force pooling that he was a whole lot more sophisticated than those cowboys in New Mexico?

A. Yes, sir.

Q. Is that a fact?

A. He's also an attorney. Yes, sir.

DAVID B. PEARCY,

the Witness herein, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

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

A. I'm David B. Percy of Roswell, New Mexico.

Q. But whom are you employed?

A. Harvey E. Yates Company.

Q. In what capacity?

A. I'm chief geologist.

Q. Have you previously testified before this division and had your credentials as a geologist accepted and made a matter of record?

A. Yes.

Q. Are you familiar with the application filed in

1 this case in the subject area?

2 A. Yes, I am.

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

5 MR. CATANACH: They are.

6 Q. (By Mr. Carr) Mr. Pearcy, have you prepared
7 certain exhibits for presentation here today?

8 A. Yes, that's correct. I have four exhibits with
9 me.

10 Q. Would you refer to what has been marked as HEYCO
11 Exhibit No. 6, identify that and review it for
12 Mr. Catanach?

13 A. Exhibit 6 is a producing zone map of the area in
14 the vicinity Section 32, 18 South, 33 East. It shows our
15 two wells in Section 32, which Harvey E. Yates is operator
16 of, the No. 1 and No. 2, which are coded in yellow, for
17 their current production from the Queen formation. You see
18 that these really two oil wells in this immediate vicinity.
19 There is an up-dip gas well in Section 30 that you will be
20 seeing later on. We believe that's in a separate pool.

21 Q. You ready to go to Exhibit No. 7?

22 A. I sure am.

23 Q. Would you identify that, please?

24 A. Exhibit 7 is a structure map on the top of the
25 Penrose pay sand, which is productive. The Penrose being a

1 submember of the Queen information, and that's the pay
2 interval in both our No. 1 well and the No. 2 well, which
3 are both located in the northwest quarter of Section 32.

4 Generally we have a monocline sloping down to
5 the south and southeast, and our subject wells Nos. 3 and 4
6 then also in the north half of Section 32 where we expect
7 them to be more or less on strike with the No. 1 and No. 2
8 wells, which are producing.

9 Again, I want to point out in Section 30, the
10 gas well that was producing from the Queen is significantly
11 up-dipped to what we have. So at this point these are the
12 only two wells the Buffalo Queen field.

13 Q. Let's move now to your cross section. Would you
14 identify that and review it for the examiner? I believe
15 there is a trace for this cross section on Exhibit No. 6?

16 A. On Exhibit No. 6, that's correct. It's a
17 roughly east-west cross section. Near the center you see
18 HEYCO's two wells, the No. 1 and No. 2 well, with the
19 producing zone shown with the blue dot right there, again
20 the Penrose member of the Queen formation.

21 We completed the No. 2 well in June. We're up
22 here in May for the forced pooling on that one. I did find
23 the pay zone present in that well. This up-dip well that
24 I've identified as being the gas well is on the left-hand
25 side of the cross section, Enfield's Hudson Federal No. 1,

1 and that well produced just under 200 million cubic feet of
2 gas, was plugged in 1975. Because there was no oil to that
3 well at all and because gas/oil ratio appeared to be
4 completely different from what we're facing, I believe that
5 is in a separate pool.

6 Q. Ready to go to the isopach map?

7 A. Yes, I am. The isopach map pretty much
8 summarizes all the information on the previous exhibits
9 we've talked about. You see that our current two wells are
10 shown in the same pool up to what might be about 20 feet of
11 Penrose sand pay, and that well in Section 30, which I have
12 labeled with a "NL" on there because there was no log
13 through the Penrose zone, appears to be in a totally
14 separate gas pool. There was an immediate offset to that
15 well which was dry, and then the other well which is shown
16 with 12 feet of potential gas pay; in other words, tested
17 in the gas zone.

18 We do believe there is a general continuity of
19 this Penrose zone within the area, although I want to point
20 out that the No. 3 and No. 4 locations do take into account
21 some risk for where this Penrose does go from comparisons
22 with other Queen fields, which are off on the northwest to
23 this mapping area, it appears like the trends there are
24 heading off to the northeast and southwest. Where I see as
25 something which from the well data we have now doesn't fit

1 that pattern real well. I just want to point out again
2 there is some question as to which way tht isopach map
3 really indicates our pay zones ought to go.

4 Q. Mr. Pearcy, are you prepared to make a
5 recommendation to the examiner as to the risk penalty that
6 should be assessed against Mr. Braun's interest if he
7 decides not to participate in the well?

8 A. Yes, I am.

9 Q. What do you recommend?

10 A. I recommend 200 percent penalty on the drilling
11 of wells 3 and 4.

12 Q. Could you basically summarize your reason for
13 this penalty?

14 A. Well, again the reason is we have significant
15 doubt as to which way this Penrose pay does go. If I can
16 point out that we're under way right now in drilling the
17 No. 3 well, and as of our mud log indications from
18 yesterday our pay zone is absent in spite of my
19 well-prepared geologic material. So we have a lot of doubt
20 as to whether we will have any kind of Queen completion at
21 all in the No. 3 well, and No. 4, we would hope that we
22 would still have the encouragement to drill that within 90
23 days. Just we will have a lot more doubt about No. 4 due
24 to the apparent problems and successful completion of
25 No. 3.

1 Q. In your opinion is there a chance that both --
2 that either the No. 3 or 4 could be noncommercial?

3 A. Yes, there is a good chance of that.

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

7 A. Yes, I have. I have taken the Ernst & Young
8 survey results for 1990 here for west Texas and eastern New
9 Mexico, and based on the depth that we have of 5150 for the
10 projected TD, we're suggesting a monthly drilling rate of
11 \$4000, and a monthly producing well rate of \$350.

12 Q. You recommend that these figures be incorporated
13 into any orders which result from this hearing?

14 A. Yes, I do.

15 Q. In your opinion will granting this application
16 be in the best interest of conservation, prevention of
17 waste and protection of correlative rights?

18 A. That's correct.

19 Q. Were Exhibits 6 through 9 prepared by you?

20 A. Yes, they were.

21 MR. CARR: At this time, Mr. Catanach, we move the
22 admission of HEYCO Exhibits 6 through 9.

23 MR. CATANACH: Exhibits 6 through 9 will be admitted
24 as evidence.

25 MR. CARR: That concludes my examination of Mr. Pearcy.

EXAMINATION

BY MR. CATANACH:

Q. Mr. Percy, the main objective is the Penrose member of the Queen?

A. That's correct, although we did take the No. 2 well and plan on taking the No. 3 well down through the Grayburg zone to evaluate deeper pays.

Q. Is there a potential in the Grayburg?

A. Yes, there is. At the base of the cross section you see what we call the "Loco Hills sand," and there are some indications that is productive in the No. 1 well. We found it wet in No. 2, and are hoping it will be high enough structurally to possibly encounter that productive in No. 3. That's why the wording has been as it is as to pool all depth surface through the base of the Grayburg.

Q. Is there any potential above the Penrose?

A. There have been some Yates shows in the area, although at this point we don't think they're commercial. Yates has been productive in other wells within a mile of this area, though.

Q. You said you had some doubt as to which way the structure was trending; is that correct?

A. Not so much the structure. The No. 3 well from our mud log tops indicates like it's about flat to the No. 1, which, of course, we can map that in, just use a

1 little bit of geologic creativity in there and set up what
2 the points are showing. But our real problem is that the
3 No. 3 well doesn't seem to have anything like 10 feet of
4 pay sand as I am showing on my net Penrose pay map. I
5 believe it appears we do have a stratigraphic change
6 from the No. 1 and No. 2 wells as we head up here to the
7 northwest, and we get into a tight, nonproductive facies of
8 that sand.

9 So from the mud log we have three very
10 condemning -- lack of three -- if I can phrase it this way:
11 Lack of three positive indicators, no drilling, no gas, no
12 show, so we're afraid there is a very low chance of making
13 a Penrose completion. This is as of last night. So,
14 again, just pointing out the degree of risk we have here.

15 Q. You're still taking that well down to the
16 Grayburg?

17 A. Our plan is still to take the well down to the
18 Grayburg and hope that we may have something else there.
19 But, again, our primary zone appears to be missing.

20 MR. CATANACH: I believe that's all I have. The
21 witness may be excused, but we do want Bob Bell for one
22 additional question.

23 ROBERT BELL,
24 the Witness herein, having been first duly sworn, was
25 examined and testified as follows:

FURTHER EXAMINATION

BY MR. STOVALL:

Q. Referring to your Exhibit No. 4, Mr. Bell, your letter to Mr. Braun of July 12th.

A. Yes, sir.

Q. And you only mention the Atlantic State No. 3; is that right?

A. That is correct.

Q. Did you advise Mr. Braun of the proposal for the Atlantic State No. 4 other than by the forced pooling application?

A. I mentioned our plans for development in the north half of the section by telephone conversation with Mr. Braun. Although we have not sent him a proposal letter for the No. 3 well.

MR. CARR: No. 4.

A. For the No. 4 well. I'm sorry.

MR. STOVALL: That represents a technical problem as far as actual approval of the No. 4.

Q. (By Mr. Stovall) The other question, Mr. Bell, is in that letter in the second paragraph you refer to this as a low-risk development well. Is that a land man's poor interpretation of the geology?

A. I think a geologist's poor interpretation of the feature. I was told that this was a pretty good prospect.

1 MR. PEARCY: Up until yesterday.

2 MR. STOVALL: We will have to think about the thing on
3 No. 4. I think that may present, unfortunately, a glitch.

4 MR. CATANACH: When did you plan on spudding the
5 No. 4?

6 MR. PEARCY: Perhaps within 90 days. That would have
7 been our original thought. Right now we will just have to
8 see. It would conceivably still be within 90 days on the
9 No. 1.

10 MR. CARR: To be certain that there is no problem with
11 that, and in view of the fact that there are 90 days, it
12 would be my recommendation that you take -- which case
13 involves the No. 4 well?

14 THE WITNESS: The second case.

15 MR. CARR: That you take Case 10364 under advisement;
16 that continue Case 10365 until the hearing four weeks from
17 now, and we will provide a followup to Mr. Braun to cover
18 that point and then at that time if he does not appear, we
19 can take it under advisement and clear that up so there is
20 no question later on.

21 MR. STOVALL: I think the record should reflect the
22 fact that this is not first time Mr. Braun has been
23 involved in this. That he has, if we can assume Mr. Bell's
24 hearsay testimony is somewhat correct, indicated his level
25 of knowledge about this is -- he is not somebody who is --

1 is he somebody who put himself in the position of not
2 having all the opportunity, and that should be reflected;
3 but I think your recommendation is accurate; he should at
4 least technically be given the opportunity to participate
5 in the No. 4.

6 THE WITNESS: All right.

7 MR. STOVALL: I would suggest, Mr. Carr, that given
8 the information that's been testified to here geologically,
9 I think it appears that Mr. Bell's reliance on prior
10 geologic advice may not be as accurate. Perhaps see what
11 the No. 3 does, so you can give Mr. Braun some adequate
12 recommendation as to what the risk is of that well.

13 MR. CARR: This will be continued then to the first
14 hearing in September; is that correct?

15 MR. CATANACH: I believe it's the 5th.

16 MR. CARR: All right. We have nothing further.

17 MR. CATANACH: There being nothing further, Case
18 No. 10364 will be taken under advisement, and Case 10365
19 will be continued to the September 5th docket.

20 (Whereupon, the hearing was concluded at the
21 approximate hour of 11:20 a.m.)

22 * * *

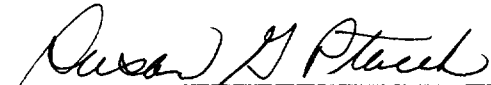
1 STATE OF NEW MEXICO)
) ss.
 2 COUNTY OF SANTA FE)

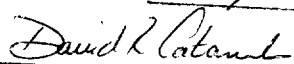
3 REPORTER'S CERTIFICATE

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 18th day of
 16 October, 1991.

17
 18 
 SUSAN G. PTACEK
 Certified Court Reporter
 Notary Public
 19 My Commission Expires:
 December 10, 1993

20
 21 I do hereby certify that the foregoing is
 22 a complete record of the proceedings in
 the Examiner hearing of Case No. 10364 10365
 23 heard by me on August 8 19 91.
 24 
 , Examiner
 Oil Conservation Division
 25