

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

CASE 10,543

EXAMINER HEARING

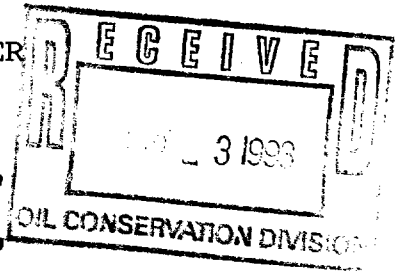
IN THE MATTER OF:

Application of Yates Petroleum Corporation for an
unorthodox gas well location and simultaneous
dedication, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

ORIGINAL



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

July 29, 1993

A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Division
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
Attorneys at Law
By: TANYA M. TRUJILLO
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FOR MERIDIAN OIL, INC.:

KELLAHIN & KELLAHIN
Attorneys at Law
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P.O. Box 2265
Santa Fe, New Mexico 87504-2265

* * *

1 WHEREUPON, the following proceedings were had
2 at 11:46 a.m.:

3 EXAMINER STOGNER: Call Case Number 10,543.

4 MR. STOVALL: Application of Yates Petroleum
5 Corporation for an unorthodox gas well location and
6 simultaneous dedication, Eddy County, New Mexico.

7 EXAMINER STOGNER: Call for any additional
8 appearances?

9 I understand this case was heard on July
10 17th.

11 MS. TRUJILLO: May it please the Examiner, my
12 name is Tanya Trujillo. I'm an associate with
13 Campbell, Carr, Berge and Sheridan in Santa Fe, New
14 Mexico. We represent Yates Petroleum Company in this
15 case.

16 I have affidavits here.

17 MR. STOVALL: The case is being reopened for
18 the purpose of -- There was inadequate notice given,
19 and it had to be reopened, and we had to extend the
20 period for notice; is that correct, Ms. Trujillo?

21 MS. TRUJILLO: Yes.

22 MR. STOVALL: And your affidavits are
23 evidence that that notice has been given in a timely
24 manner for this hearing?

25 MS. TRUJILLO: Yes. We've attached copies of

1 the notice and the return receipts.

2 At this time I would move the admission of
3 Yates Petroleum Exhibit A.

4 EXAMINER STOGNER: Exhibit A will be admitted
5 into evidence.

6 There's one return, Meridian Oil, Inc., no
7 forward order on file from the post office, so the
8 letter was returned, the notification.

9 MS. TRUJILLO: Uh-huh.

10 MR. STOVALL: Mr. Kellahin, do you want to
11 enter an appearance and accept that letter?

12 MR. KELLAHIN: I don't know what to do. Mr.
13 Carr knows how to serve Meridian. He's appeared in
14 opposition, for and against them. He certainly knows
15 how to find them.

16 MR. STOVALL: Well, let me go through here
17 for just a second, now. Mr. Carr is always --

18 MS. TRUJILLO: Do you want to verify that
19 address?

20 EXAMINER STOGNER: Mr. Kellahin, do you know
21 the Meridian address in Midland?

22 MR. STOVALL: We recognize you are not
23 representing Midland [sic] in this case, but you have
24 some information, Mr. Kellahin.

25 Does 21 Desta Drive sound familiar?

1 MR. KELLAHIN: Beats me.

2 MR. STOVALL: Okay, that's not the current
3 address in Midland, is it, that you send correspondence
4 to?

5 MR. KELLAHIN: Beats me.

6 MR. STOVALL: Okay.

7 MR. KELLAHIN: What do you want to do? What
8 kind of case have you got?

9 MR. STOVALL: Let's go off the record for a
10 minute.

11 (Off the record)

12 EXAMINER STOGNER: Let's go back on the
13 record. Mr. Stovall, I brought the issue up.

14 MR. STOVALL: Mr. Kellahin, would you care to
15 enter an appearance for Meridian Oil?

16 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin
17 of the Santa Fe law firm of Kellahin and Kellahin. I'm
18 willing to enter an appearance today on behalf of
19 Meridian Oil, Inc., in regards to their participation
20 in this case.

21 I will then call them personally and find out
22 if they have any objection to this case and advise the
23 Division.

24 MR. STOVALL: Leave the record open for five
25 days and give Mr. Kellahin a chance to talk to his

1 client here.

2 MR. KELLAHIN: In the absence of objection,
3 then, we'll waive notification, and that should solve
4 this issue.

5 MS. TRUJILLO: Thank you, Mr. --

6 MR. STOVALL: I notice also, there are two
7 returns, two mailings to Flair Oil, one returned, but
8 they appear -- They're both Flair Oil, Inc., and I
9 think we'll say that one was received and accepted, and
10 that constitutes notice.

11 MS. TRUJILLO: Thank you. Should I again
12 move --

13 MR. STOVALL: Yeah, just to leave the record
14 open for five days to give Mr. Kellahin a chance to
15 discuss it with Meridian.

16 EXAMINER STOGNER: Okay, the record in this
17 matter will remain open for five additional -- working
18 days or real days?

19 MR. STOVALL: Let's make it working days.

20 EXAMINER STOGNER: -- working days, before an
21 order is issued, absent objection.

22 MR. STOVALL: And Mr. Trujillo, be sure to
23 chew Mr. Carr out for putting you in this precarious
24 situation.

25 MS. TRUJILLO: Yes, sir.

1 EXAMINER STOGNER: And I would suggest that
2 you tell Mr. Carr that we suggest that he find the
3 correct address for Meridian Oil.

4 MS. TRUJILLO: Yes, sir.

5 MR. STOVALL: And he will understand what
6 we're saying.

7 EXAMINER STOGNER: And with that, let's take
8 a 15-minute recess.

9 MS. TRUJILLO: Okay, thank you.

10 (Thereupon, these proceedings were concluded
11 at 11:54 a.m.)

12 * * *

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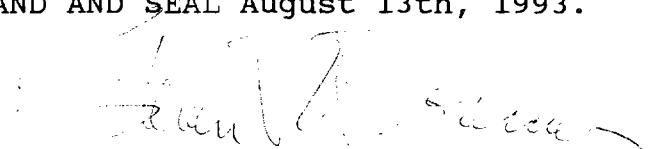
CERTIFICATE OF REPORTER

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.

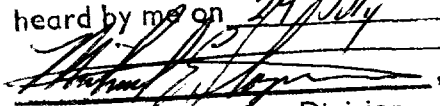
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL August 13th, 1993.


STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10543, heard by me on 29 July 1993.

, Examiner
Oil Conservation Division

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. 10543

APPLICATION OF YATES PETROLEUM CORPORATION

REPORTER'S TRANSCRIPT OF PROCEEDINGS

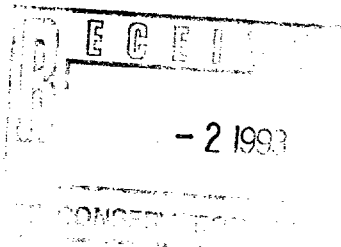
EXAMINER HEARING

BEFORE: David R. Catanach, Hearing Examiner

June 17, 1993

Santa Fe, New Mexico

This matter came on for hearing before the
Oil Conservation Division on June 17, 1993, at the Oil
Conservation Division Conference Room, State Land
Office Building, 310 Old Santa Fe Trail, Santa Fe, New
Mexico, before Deborah O'Bine, RPR, Certified Court
Reporter No. 63, for the State of New Mexico.



ORIGINAL

I N D E X

June 17, 1993
 Examiner Hearing
 CASE NO. 10543

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D'NESE FLY

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DAVID BONEAU

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
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SHERIDAN, P.A.
P.O. Box 2208
Santa Fe, New Mexico 87504
BY: WILLIAM F. CARR, ESQ.

CUMBRE COURT REPORTING

P.O. BOX 9262

SANTA FE, NEW MEXICO 87504-9262

(505) 984-2244

1 EXAMINER CATANACH: At this time we'll call
2 Case 10543, which is the application of Yates
3 Petroleum Corporation for an unorthodox gas well
4 location and simultaneous dedication, Eddy County, New
5 Mexico.

6 Are there appearances in this case?

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

12 EXAMINER CATANACH: Any other appearances?
13 Will the witnesses please stand and be
14 sworn in?

15 (Witnesses sworn.)

16 MR. CARR: May it please the Examiner, by
17 way of background, I think it should be pointed out
18 that Yates drilled its Irish Hills "KW" State No. 2
19 well in 1981 on the subject acreage at a standard
20 location. The well was originally projected to the
21 Morrow. It was a dry hole in the Morrow Clastics and
22 was later completed in the Penasco Draw Permo-Penn
23 Pool, in what we call the Cisco Canyon.

24 In 1992, Yates appeared before you. They
25 proposed the drilling of their Irish Hills "KW" State

1 Well No. 3 at an unorthodox location 660 feet from the
2 north line and 660 feet from the east line of Section
3 2, Township 19 South, Range 24 East.

4 This matter came for hearing in September
5 of last year, and by Order No. R-9740, the Division
6 approved the unorthodox well location. This order was
7 dated October 10, 1992. However, it denied the
8 application for simultaneous dedication in the Cisco
9 or Permo-Penn.

10 In that order, the Division found that,
11 although its memorandum dated August 3, 1990, permits
12 the Division to authorize concurrent production of two
13 wells on a proration unit, that this can only be done
14 where the applicant demonstrates that its correlative
15 rights will be impaired unless both wells are produced.

16 And you also found at that time that we had
17 not presented testimony in that case that demonstrated
18 that our correlative rights would be impaired unless
19 both wells were produced simultaneously.

20 The Irish Hills "KW" State Well No. 3 was
21 drilled in 1992. The Morrow channel was missed, and
22 it was completed as a poor producer in the Penasco
23 Draw Permo-Penn Pool. We've requested that this case
24 be reopened so that we can address the Division's
25 findings 13 and 14 and appear before you and show that

1 the correlative rights of Yates will be impaired
2 unless the wells are simultaneously produced.

3 Our first witness is D'Nese Fly.

4 D'NESE FLY,
5 the witness herein, after having been first duly sworn
6 upon her oath, was examined and testified as follows:

7 EXAMINATION

8 BY MR. CARR:

9 Q. Will you state your name and place of
10 residence.

11 A. My name is D'Nese Fly, and I live in
12 Artesia, New Mexico.

13 Q. By whom are you employed?

14 A. Yates Petroleum Corporation.

15 Q. And in what capacity?

16 A. Geologist.

17 Q. Have you previously testified before the
18 Division and had your credentials as a geologist
19 accepted and made a matter of record?

20 A. Yes, I have.

21 Q. And you testified in the original hearing
22 concerning this matter as Yates' geological witness,
23 did you not?

24 A. Yes.

25 Q. Are you familiar with the portion of the

1 Cisco Canyon involved in this case?

2 A. Yes.

3 Q. And have you made a geological study of the
4 area?

5 A. Yes, I have.

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

8 EXAMINER CATANACH: They are.

9 Q. (BY MR. CARR) Could you briefly state what
10 Yates seeks with this application.

11 A. We're seeking the simultaneous dedication
12 for our Irish Hills "KW" No. 3 drilled 660 feet from
13 the north and east lines of Section 2, Township 19
14 South, Range 24 East, in Eddy County. We would like
15 to have simultaneous production from this Penasco Draw
16 Permo-Penn gas pool of our Irish Hills No. 3 along
17 with our Irish Hills "KW" No. 2.

18 Q. And the acreage we're talking about is the
19 north half of Section 2?

20 A. Yes.

21 Q. Could you refer to what has been marked as
22 Yates Exhibit No. 1, and before we review the
23 structure and facies map portion of this, by way of
24 orientation, could you identify for the Examiner the
25 wells that we are talking about and the acreage

1 involved?

2 A. They are located -- well, the 320 acres we
3 are talking about is outlined in red in Section 2, the
4 north half. We are talking about the only two wells
5 in the north half of that section, the Irish Hills
6 "KW" State No. 3 in Unit A and the Irish Hills "KW"
7 State No. 2 in Unit G.

8 Q. Are the offsetting operators also indicated
9 on this exhibit?

10 A. Yes, they are.

11 Q. All right. Could you now refer to the
12 exhibit and review the contour mapping that you have
13 placed on this acreage?

14 A. Okay. This is a combined structure map and
15 facies map. The solid contours show the structural
16 configuration on the top of the Cisco marker in 25-
17 foot contours. The Cisco marker overlies our
18 potential reservoir bank facies by about 100 feet and
19 is shown dipping here to the southeast with a slight
20 nosing in Section 2.

21 The Permo-Penn penetrations have double
22 circles around them here, with the only Permo-Penn
23 producer colored in a solid blue. Wells that I think
24 would have good potential are shown here with the
25 north half colored, and wells which I feel would have

1 poor to marginal potential are colored in the upper
2 right corner, a quarter section of the circle.

3 The cross-section, which will be my next
4 exhibit, is shown here running through the Irish
5 Hills No. 2, the Irish Hills No. 3, and on up to the
6 northeast of the Rio State No. 1.

7 The transition zone between the bank facies
8 and the basin fill is shown there in a zigzag in
9 fuchsia. And the limits of my porosities in the bank
10 facies are shown in a green perforated -- by a green
11 perforated line.

12 The map displays the potentially gas
13 productive bank facies and then the nonproductive
14 basin fill facies. The bank facies are comprised of a
15 clean limestone and have porosity that usually shows
16 up in the lower interval of the bank. The basin fill
17 facies include shales, impure tight sandstones and
18 siltstones, and shaley limestones which are usually
19 tight.

20 Also shown -- I've already stated that. On
21 the map here is the wells where I did see some
22 porosity in the bank facies versus the wells to the
23 left of the green perforated line are tight. No
24 porosity was seen in those.

25 Q. The only well currently producing from this

1 pool is the Yates well in the north half of Section 2?

2 A. That is correct, the Irish Hills State No.
3 2.

4 Q. What is its cumulative production to date,
5 do you know?

6 A. I think as of December '92, it had cum'd
7 around 310 million cubic feet of gas, and around 2000
8 or 1900 barrels of condensate, and about 19 barrels of
9 water.

10 Q. What was its average producing rate per
11 date?

12 A. The most recent I could find, it's
13 producing about 60 Mcf a day right now.

14 Q. Do you have anything further to present
15 with Exhibit No. 1?

16 A. No.

17 Q. Let's go to Exhibit No. 2, your
18 cross-section, if you could identify and review that
19 for Mr. Catanach?

20 A. Okay. This is a stratigraphic
21 cross-section, running from the southwest to the
22 northeast, and it is hung on the Cisco marker, which I
23 talked about a little earlier. And it shows the bank
24 facies, which is the thick amount of limestone that we
25 see in the Irish Hills "KW" State No. 2 on the right.

1 And it shows how it grades into the shales and
2 limestone sequence of the basin fill on the right by
3 the time we get over to the Rio State No. 1.

4 I feel that our Irish Hills No. 3 came in
5 right on the transition side and a little bit
6 basinward. In some of the limestones you can see
7 there, we are still getting some porosity. And as we
8 get over to the Rio State No. 1, we do not see quite
9 as much porosity in the limestone stringers that are
10 present.

11 Q. Miss Fly, will Yates call an engineering
12 witness to review the impact of requiring the wells in
13 the north half of this section to be separately
14 reduced, the impact of that on Yates' correlative
15 rights?

16 A. Yes, we will.

17 Q. Is Exhibit No. 3 a copy of an affidavit
18 with attached letters and return receipts, confirming
19 that notice of today's hearing has been provided in
20 accordance with OCD rules?

21 A. Yes.

22 Q. Were Exhibits 1 through 3 prepared by you
23 or have you reviewed them and can you testify as to
24 their accuracy?

25 A. Yes.

1 MR. CARR: At this time, Mr. Catanach, we
2 would move the admission of Yates Exhibits 1 through
3 3.

4 EXAMINER CATANACH: Exhibits 1 through 3
5 will be admitted as evidence.

6 MR. CARR: That concludes my direct
7 examination of D'Nese Fly.

8 EXAMINER CATANACH: Mr. Carr, can your
9 witness testify on the acreage owners in this area, or
10 would you like to address that?

11 MR. CARR: The offsetting operators are
12 indicated on Exhibit No. 1, and those conform to the
13 interest owners who are identified in Exhibit No. 3
14 for notice purposes, if that's your question.

15 EXAMINER CATANACH: It appears from Exhibit
16 No. 1 that Yates currently operates in Sections 1, 12,
17 10 and 11 and all of Section 2?

18 MR. CARR: And 34.

19 EXAMINER CATANACH: And Section 34. And
20 Mesa operates in Section 36, Amoco in Section 3, and
21 in Section 35 --

22 MR. STOVALL: It doesn't conform to the
23 affidavits, though.

24 MR. CARR: It's Tempo.

25 MR. STOVALL: I don't see those names, with

1 the exception of Amoco --

2 MR. CARR: On Tempo.

3 MR. STOVALL: Where's Tempo on Exhibit A?

4 MR. CARR: Can you respond to that?

5 THE WITNESS: I don't feel qualified to
6 respond to the question, but I can get the information
7 for you and supply it.

8 MR. STOVALL: It appears to me from, you
9 know, if I look at your Exhibit A and who you sent
10 notice to and look at the map, there are more people
11 on your Exhibit A than the affidavit of Exhibit 3 than
12 there are on the map, and they are different with the
13 exception of Amoco.

14 MR. CARR: With your permission, we will
15 confirm against our affidavit the current ownership of
16 each of the offsetting tracts.

17 EXAMINER CATANACH: That will be helpful,
18 Mr. Carr, if you will submit that subsequent to the
19 hearing.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Miss Fly, how are the east and west
23 boundaries of the bank facies defined? Is that just
24 with well control information?

25 A. Of the carbonate bank facies? Well, you

1 can see that you have a solid interval of limestone as
2 shown there in the Irish Hills No. 2 in the
3 cross-section, and as you move toward the west, this
4 grades into a basin sequence of siltstones, sands,
5 shales, carbonates.

6 Q. So anything within this fairway is
7 potentially productive within the bank facies with
8 porosity?

9 A. Right, if the porosity has developed.

10 Q. Has Yates tested any of its other wells in
11 the Pennsylvanian?

12 A. No, we haven't. We just have mud log
13 shows, other than the Irish Hills No. 2, mud log shows
14 and log analysis, but they are currently producing in
15 the Morrow; so we have not tested them.

16 Q. Your legend indicates two different
17 classifications. One is for good potential, and one
18 is for marginal potential. How did you define "good"
19 and "marginal" potential?

20 A. Depending on the amount of porosity that
21 had developed within the bank.

22 Q. What figure did you use?

23 A. Oh, for a carbonate, I'd say 3 percent or
24 greater porosity. The tight limestones here are less
25 than 1 percent porosity, 1 percent to less than 1

1 percent.

2 Q. So anything above 3 percent would be a good
3 potential?

4 A. If it also had corresponding gas shows in
5 the mud log.

6 Q. The well in the south half of Section 35
7 doesn't have any kind of indication on it. Do you
8 know what the status of that well may be?

9 A. It was -- just has a gamma ray curve over
10 this interval. So I could not tell the porosity on
11 that log. It is a Morrow producer, and they just
12 logged the lower interval.

13 I would say it probably has potential, but
14 it is not logged right now; so I don't have any data.
15 But it does fall in an area where I think it would
16 have some potential. It would be in the marginal.

17 Q. So the only Pennsylvanian production is
18 currently in the north half of Section 2 in this area?

19 A. That's correct.

20 Q. Has the well No. 3 been tested?

21 A. Yes, it has, and the engineering witness
22 will elaborate on that.

23 EXAMINER CATANACH: That's all I have.

24 EXAMINATION

25 BY MR. STOVALL:

1 Q. I do have one question. Just explain to me
2 as simply as possible as a geologist why you need to
3 have both wells. I don't understand why these
4 exhibits show that you need both wells dedicated to
5 the same --

6 A. Dr. Boneau will go into that a little more,
7 but basically the No. 2 is not draining the entire
8 area, and we had this well and produced it, tried to
9 produce for the Morrow, and did not recover much in
10 the Morrow; so we have come back uphole. And as Dr.
11 Boneau will state, the Irish Hills No. 2 will not
12 drain this area over here, and he will elaborate on
13 that.

14 MR. STOVALL: Okay.

15 MR. CARR: The witness may be excused.

16 EXAMINER CATANACH: The witness may be
17 excused.

18 MR. CARR: At this time we call Dr. Boneau.

19 DAVID F. BONEAU,
20 the witness herein, after having been first duly sworn
21 upon his oath, was examined and testified as follows:

22 EXAMINATION

23 BY MR. CARR:

24 Q. Will you state your name for the record,
25 please.

1 A. David Francis Boneau.

2 Q. Where do you reside?

3 A. Artesia, New Mexico.

4 Q. By whom are you employed?

5 A. Yates Petroleum Corporation.

6 Q. And in what capacity?

7 A. Reservoir engineering supervisor.

8 Q. Have you previously testified before this
9 Division?

10 A. Yes, sir.

11 Q. At the time of that prior testimony, were
12 your credentials as a petroleum engineer accepted and
13 made a matter of record?

14 A. Yes, sir.

15 Q. Are you familiar with the application filed
16 in this case?

17 A. That's correct.

18 Q. On the subject area?

19 A. Yes, sir.

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

22 EXAMINER CATANACH: They are.

23 Q. (BY MR. CARR) Dr. Boneau, before we get
24 into your exhibit, it might be helpful if you could
25 provide to the Examiner a history of the Yates' Irish

1 Hills "KW" State No. 3 well.

2 A. Mr. Carr told you the No. 2 well, the older
3 well, was drilled in 1981, and it has produced
4 continuously since then from the Penasco Draw
5 Permo-Penn.

6 The No. 3 well was the subject of a hearing
7 in September of last year, and the order that he
8 quoted allowed us to drill it as an unorthodox
9 location and denied the simultaneous dedication for
10 the Permo-Penn.

11 We spudded the well, the No. 3 well, on
12 November 1, 1992, drilled it to the Morrow. The idea
13 was to try to tap into a Morrow channel that's
14 productive in Section 35 to the north. We perforated
15 the Morrow. We frac'd the Morrow. We did not get
16 very much out of it. And we abandoned the Morrow.

17 In December we tested the canyon. In
18 January we tested the Strawn and the Atoka by
19 perforation and acidizing, swabbing, and then finally
20 in March, we went back to this Permo-Penn, the Cisco
21 zone. We opened the Cisco zone on March 17th of
22 1993. And on March 24th, that zone tested 122 Mcf a
23 day. The well is, we think, capable of producing in
24 the 100 Mcf a day range initially. It is sitting
25 there waiting the outcome of this hearing.

1 I think that gets us up to where we are
2 with what's happened in the past.

3 Q. Let's refer to Yates Petroleum Corporation
4 Exhibit No. 4, and I'd ask you to identify that and
5 then work through the exhibit for Mr. Catanach.

6 A. Exhibit No. 4 consists of five pieces of
7 paper. Our purpose of the exhibit is to show the
8 examiner something about the drainage area of the two
9 wells that are in the north half of Section 2.

10 The front page shows the conclusions. And
11 the conclusions are that the "KW" No. 2 will drain --
12 ultimate drainage is what I'm showing here -- will
13 drain an area of 77 acres. The No. 2 well has
14 produced cumulative of about 320 million cubic feet.
15 And in subsequent pages we show that it's ultimate is
16 somewhere around 450 million cubic feet. Anyway, it
17 will drain 77 acres is the calculation.

18 The No. 3 well has not produced. It has
19 only short-term production test off of the completion
20 rig, and that test was 122 Mcf a day. By analogy, the
21 No. 2 was potential'd for 1.3 million, and it produced
22 at rates starting above 100 Mcf a day, but it's now
23 producing 60 Mcf a day. In comparison, this well
24 tested 122 Mcf a day. It's a poorer well than the No.
25 2. The No. 3 is a poorer well than the No. 2. I've

1 estimated what it might make when it goes on line and
2 a decline that corresponds to how the No. 2 has
3 produced.

4 Pretty much the biggest I can get that
5 number is it might make 200 million. 200 million will
6 drain the 45 acres that is shown on this first page
7 here.

8 So the front page, like I say, is the
9 conclusion. The conclusion is that the No. 2 will
10 ultimately drain 77 acres, and there's a 77-acre
11 circle drawn there. And the second part of the
12 conclusion is that the No. 3 might drain as much as 45
13 acres, and those 45 acres are the smaller circle on
14 the front page.

15 The associated data that supports those
16 conclusions, the second page is a production curve for
17 the "KW" No. 2, and off into space into the future is
18 a production of how it might produce in the future.
19 And that ends up producing about 450 million cubic
20 feet a day.

21 Q. What's the remaining production life, would
22 you estimate, for the Irish Hills State No. 2?

23 A. It's about 15 years to get the rest of that
24 gas at 50 Mcf a day.

25 The third page of the exhibit is a

1 calculation of the drainage for "KW" State No. 2, and
2 the log analysis parts at the top and the engineering
3 calculations in the middle, conclusions at the bottom
4 of it. To date it's drained 55 acres and ultimately
5 would drain 77 acres.

6 The fourth page is a similar type
7 calculation for the "KW" State No. 3. To date it's
8 drained 0 acres; obviously, it hasn't produced
9 anything. And the ultimate production truly is just a
10 guess. You take the 120 Mcf a day and say it could
11 make that on line and then decline sort of like the
12 "KW" No. 2, you get 200 million Mcf, which would
13 drain 45 acres.

14 That's a pretty optimistic assumption that
15 you can get it to produce into the pipeline what it
16 produced on test. And so I think the 45 acres is
17 really a maximum of what it will drain.

18 And the fifth piece of paper is a
19 calculation of the Z factor that goes into those other
20 calculations. So if I've made that clear, we've got
21 all the engineering data gathered together on these
22 two wells, the drainage area of the "KW" No. 2 is
23 quite well established. It's drained 55 acres to
24 date. Its ultimate is going to be about like it
25 shows, and that's less than 80 acres it's draining.

1 The No. 3, there's much less data, but it's
2 not going to make any more than this 200 million.
3 Obviously, we spent \$750,000 drilling this well and
4 trying all these zones. This is what we ended up
5 with. It's a poor well, but we think it's worth
6 producing. It's not going to drain anything that any
7 other well can attack.

8 Q. Dr. Boneau, was the Permo-Penn in this area
9 designated a tight sand under the NGPA?

10 A. Yes, it was.

11 Q. In your opinion, would the concurrent
12 production of the two wells in the north half of
13 Section 2 have an adverse impact on any of the
14 offsetting tracts?

15 A. No, sir, it only impacts the north half of
16 Section 2.

17 Q. Would, in your opinion, it be prudent to
18 drill wells simply to attempt to complete in the Cisco
19 Canyon or Permo-Penn in this area?

20 A. No. It would be foolish to do that.

21 Q. To effectively produce the reserves in the
22 Cisco under the north half of Section 2, what would be
23 required, do you think?

24 A. To produce all of the reserves in the north
25 half?

1 Q. Yes, sir.

2 A. You'd need the two wells that we have and
3 at least one more well in the west and maybe two more
4 wells in the west as part of the north half.

5 Q. Are there any wells offsetting the
6 dedicated acreage, the north half of Section 2, in
7 this formation?

8 A. There are no wells that produce from this
9 formation anywhere around here.

10 Q. Let's look for a minute at the correlative
11 rights of Yates Petroleum Corporation. If Yates is
12 not permitted to produce the two wells concurrently,
13 what decisions or what options are available to Yates
14 for the production of these reserves?

15 A. Well, we can ask, like we're asking, that
16 we be allowed to produce both of them together. I
17 guess we could ask that we could produce them
18 alternately or some scheme like that.

19 Q. From an operational perspective, would that
20 be a prudent decision for Yates, in your opinion?

21 A. Yates would not like that. If that were
22 what we were told to do, we would obviously want to
23 produce the better of the two most or all of the
24 time. And I think the better of the two is going to
25 be "KW" No. 2, but whichever one it was, the other one

1 will get neglected and maybe will never produce, or it
2 might produce after we're both dead.

3 Q. In your opinion, would it be prudent to
4 produce these alternating the wells or let one remain
5 shut in for 15 years while you deplete that well and
6 then go back to the other?

7 A. Well, that's not going to happen. If we're
8 asked to produce them alternately, it's just an
9 operational headache. We have not laid a pipeline to
10 the No. 3 just because of the uncertainty. We could
11 easily decide that the No. 3 is poor enough just to
12 not mess with when you can't produce it all the time
13 and just abandon those reserves, and that would be a
14 loss.

15 Q. If that occurs, those reserves would be
16 left in the ground and never recover?

17 A. Yes, the "KW" No. 2 is not going to get
18 those reserves.

19 Q. If that was required, in your opinion would
20 Yates be given an opportunity to produce without waste
21 its just and fair share of the reserves under the
22 north half of Section 2?

23 A. Not under that way, we would not.

24 Q. In your opinion, if the application is not
25 granted, will the correlative rights of Yates

1 Petroleum Corporation be impaired?

2 A. Yes. In the practical case what will
3 happen is that the "KW" No. 3 reserves will not be
4 produced.

5 Q. Do you have anything further to add to your
6 testimony?

7 A. No, sir.

8 Q. Was Exhibit No. 4 prepared by you?

9 A. Yes, sir.

10 MR. CARR: At this time, Mr. Catanach, we
11 move the admission of Yates Petroleum Corporation
12 Exhibit No. 4.

13 EXAMINER CATANACH: Exhibit No. 4 will be
14 admitted as evidence.

15 MR. CARR: That concludes my direct
16 examination of Dr. Boneau

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. Just to get an understanding of the time
20 frame, Dr. Boneau, what do you think your life
21 expectancy is?

22 A. Mine? If I have three hearings every day,
23 it's getting shorter all the time. I'd hate to
24 estimate his life expectancy. I hope we see the next
25 century, but beyond that, who knows.

EXAMINATION

BY EXAMINER CATANACH:

Q. Dr. Boneau, the potential for the No. 3 well is, you said, approximately 120 Mcf a day?

A. Yes, sir.

Q. Do you have any reason to believe that may be higher when you actually bring it on line?

A. No. Experience always is that it's lower when you bring it on line.

Q. So you feel that is an accurate test at this point?

A. Yes. And I feel that when you bring it on line, you'll probably get 40, 50 Mcf a day. The rule of thumb is you get a third as much on line as you get on test.

Q. You projected ultimate recovery on the No. 2 of 450 million?

A. Yes, sir. I think the third page actually tests 447 million at the bottom of the third page, ultimate production, 447 million.

Q. To project your ultimate production on the No. 3, did you use the same decline curve, decline rate?

A. Yes. To project the 200 million on No. 3, I used 122 Mcf a day and a decline rate of 15 percent,

1 which is in line with the early production of No. 2
2 and what I feel is the future production of the No. 2.

3 Q. The intervals that you show on the depth
4 charts on the No. 3, are those actually perforated
5 intervals?

6 A. Those are the perforated intervals. If you
7 look closely at Mrs. Fly's cross-section, part of that
8 interval is below the interval she's talking about,
9 but it's in the Cisco. These are the perforated
10 intervals in the well, and I think they were the
11 producing intervals in the well. The interval that is
12 producing is a little broader than what Mrs. Fly
13 talked about on the cross-section.

14 Q. Do you know approximately the additional
15 cost that Yates may have to incur to lay a pipeline to
16 the No. 3 well?

17 A. The approximate cost would be about
18 \$10,000.

19 Q. And the expected producing life of the No.
20 3 would be approximately how long?

21 A. Shorter than the No. 2, approximately seven
22 to ten years.

23 EXAMINER CATANACH: That's all I have. The
24 witness may be excused.

25 MR. CARR: May it please the Examiner, as

1 to the notice question, as you are aware, this is a
2 reopening of last September's proceeding.
3 Accordingly, we didn't call again a land witness. The
4 testimony of Mr. Bulllock is in the prior transcript.

5 As you will note at that time, he testified
6 that there were some recent changes in ownership, and
7 that the notice that was provided at that time was
8 correct, and all offset owners were notified. We will
9 provide you with an affidavit confirming that in fact
10 each of the current offsetting operators was notified
11 of this proceeding.

12 MR. STOVALL: Was that the same at that
13 time as it is now? Is that what you used for --

14 MR. CARR: That's what we will do. We will
15 bring that forward and confirm to you that the people
16 who have received notice are in fact the current
17 owners of the offsetting tracts.

18 With that, we have nothing further.

19 EXAMINER CATANACH: This was an actual
20 reopened case? This was the original case number?

21 MR. CARR: This is the original case
22 number. The case was heard September the 17th, and at
23 that time the case was 10543.

24 EXAMINER CATANACH: There being nothing
25 further, Case 10543 will be taken under advisement,

1 and we'll take a break at this point, about 15
2 minutes.
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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)

) ss.

COUNTY OF SANTA FE)

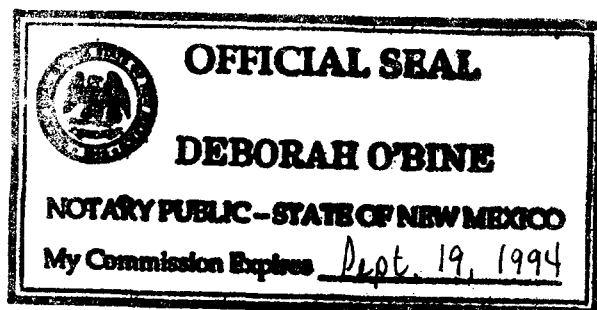
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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, June 29, 1993.

Deborah O'Bine

DEBORAH O'BINE
CCR No. 63



I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10543, heard by me on June 17 1993.

David K. [Signature], Examiner
Oil Conservation Division