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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 10,626

EXAMINER HEARING

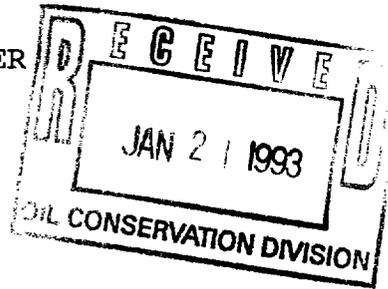
IN THE MATTER OF:

Application of Yates Petroleum Corporation for
compulsory pooling and an unorthodox gas well
location, Chaves County, New Mexico

TRANSCRIPT OF PROCEEDINGS

ORIGINAL

BEFORE: DAVID R. CATANACH, EXAMINER



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

January 7, 1993

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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

* * *

1 WHEREUPON, the following proceedings were had
2 at 1:27 p.m.:

3 EXAMINER CATANACH: Also, we need to call
4 Case 10,626.

5 MR. STOVALL: Application of Yates Petroleum
6 Corporation for compulsory pooling and an unorthodox
7 gas well location, Chaves County, New Mexico.

8 EXAMINER CATANACH: It's my understanding
9 this case was heard by me on December 3rd, so I should
10 know.

11 MR. CARR: Should.

12 EXAMINER CATANACH: It was. Go ahead, Mr.
13 Carr.

14 MR. CARR: That case was continued, Mr.
15 Examiner, to permit the time period to run on some
16 legal notices that were provided late because certain
17 interest owners were not identified early on. Just
18 surfaced close to the hearing date.

19 The time now has run and the case can be
20 taken under advisement.

21 EXAMINER CATANACH: Okay, Case 10,626 will be
22 taken under advisement.

23 (Thereupon, these proceedings were concluded
24 at 1:28 p.m.)

25 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10626
* * * heard by me on January 7 1963.

David R. Catanch, Examiner
CUMBRE COURT REPORTING & CONSERVATION DIVISION
(505) 984-2244

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

CASE 10,626

EXAMINER HEARING

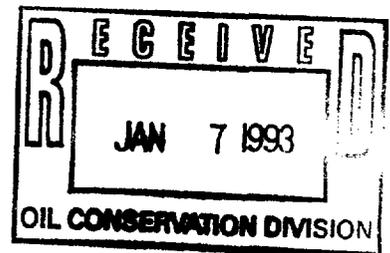
IN THE MATTER OF:

Application of Yates petroleum Corporation for
compulsory pooling and an unorthodox gas well
location, Chaves County, New Mexico

ORIGINAL

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

December 3, 1992

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: WILLIAM F. CARR
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208

* * *

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* * *

1 WHEREUPON, the following proceedings were had
2 at 11:45 a.m.:

3 EXAMINER CATANACH: At this time we'll call
4 Case 10,626.

5 MR. STOVALL: Application of Yates petroleum
6 Corporation for compulsory pooling and an unorthodox
7 gas well location, Chaves County, New Mexico.

8 EXAMINER CATANACH: Are there appearances in
9 this case?

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

13 We represent Yates Petroleum Corporation, and
14 I have two witnesses.

15 EXAMINER CATANACH: Any additional
16 appearances?

17 Will the witnesses please stand and be sworn
18 in?

19 (Thereupon, the witnesses were sworn.)

20 MR. CARR: Mr. Examiner, initially I would
21 like to point out that recently we have discovered two
22 additional interest owners in the property.

23 We have made offers to them, and we will be
24 showing you in a few minutes letters by which they have
25 indicated an interest in voluntarily participating in

1 the well.

2 So with your permission, we would like to
3 present the case today, and at the end of the hearing
4 we'll ask that it be continued for two weeks.

5 We believe in the meantime we will have
6 signed documents from those people, and then the case
7 can be taken under advisement at that time.

8 MR. STOVALL: Mr. Carr --

9 MR. CARR: We are drilling in a designated
10 tight formation, and therefore we'd like to go forward
11 because we hope to drill the well before the end of
12 this year.

13 MR. CARR: Mr. Carr, with respect to that, in
14 all seriousness, is there any reason to take it under
15 advisement for that purpose, since the Order provides
16 that if you reach agreement it's null and void as to
17 those people? I'm looking at it from the standpoint of
18 getting it over --

19 MR. CARR: Well, the only problem is, they
20 were discovered after the time that notice had to be
21 given to them --

22 MR. STOVALL: Oh.

23 MR. CARR: -- and I did that, and all notice
24 requirements will be complied with by the 17th.

25 MR. STOVALL: Okay, so there's a notice

1 problem, as far as -- It's not just the timing?

2 MR. CARR: There is also that. It's not just
3 the timing, and they came in several days after we
4 had -- the deadline for providing notice for today's
5 hearing. So we did provide notice the 17th.

6 We think it will all take care of itself, but
7 for that reason we do need to continue the case at the
8 end of the hearing. Okay?

9 MR. STOVALL: Got you.

10 MR. CARR: All right. At this time we'd call
11 Robert Bullock.

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

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. Would you please state your name and place of
18 residence?

19 A. My name is Robert Bullock. I reside in
20 Artesia, New Mexico.

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

23 A. I'm employed by Yates Petroleum Corporation
24 as a landman.

25 Q. Have you previously testified before this

1 Division?

2 A. Yes, I have.

3 Q. At the time of that testimony, were your
4 credentials as a landman accepted and made a matter of
5 record?

6 A. Yes, they were.

7 Q. Are you familiar with the Application filed
8 in this case on behalf of Yates?

9 A. Yes, I am.

10 Q. And are you familiar with the subject area?

11 A. Yes.

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

14 EXAMINER CATANACH: They are.

15 Q. (By Mr. Carr) Would you briefly state what
16 Yates seeks in this case?

17 A. We seek a compulsory pooling of the northwest
18 quarter of Section 32, Township 6 South, Range 26 East,
19 in Chaves County, New Mexico, for the drilling of our
20 Tamarack "QF" State Com Number 1 well.

21 Q. Have you prepared certain exhibits for
22 presentation here today?

23 A. Yes, we have.

24 Q. Would you refer to what has been marked as
25 Yates Petroleum Exhibit A?

1 A. Okay.

2 Q. Identify that and review it for Mr. Catanach.

3 A. Exhibit A shows four sections, being Sections
4 29, 30, 31 and 32, shows our -- and the ownership in
5 those sections, and various wells that have been
6 drilled in and about our proposed location, being
7 Section 22.

8 The location is 1650 from the north line, 660
9 from the west line.

10 Q. Now, that is a standard location?

11 A. Yes, it is.

12 MR. CARR: Mr. Catanach, when we filed the
13 Application we did not request an unorthodox location.
14 It was over, however, advertised for one, but we do not
15 need that.

16 The well was moved one time from a location
17 1980 from the north, 660 from the west, to 1650 from
18 the north, 660 from the west, but those are both
19 standard locations.

20 EXAMINER CATANACH: Do you do those ads, Bob?

21 MR. STOVALL: I didn't do these ads.

22 Q. (By Mr. Carr) Why was the location actually
23 moved, Mr. Bullock?

24 A. For topographical reasons it had to be moved
25 from 1980 north to 1650 north.

1 Q. And what is the primary objective in the
2 proposed well?

3 A. The Abo formation.

4 Q. Would you identify what has been marked as
5 Yates Petroleum Exhibit B?

6 A. What we've attempted to do in Exhibit B is
7 show the mineral ownership of the northwest quarter of
8 Section 32, and I'll briefly run through that.

9 Tract 1, being the west half of the
10 northwest, shows Yates ownership being owned by the
11 four Yates companies.

12 Tract 2 shows the ownership being W.T. Reed
13 Trust, one half, and James Reed McCrory, one half. And
14 that's what is being -- it's open right now. And I'll
15 refer to something here in a moment with regard to how
16 we're negotiating that.

17 And Tract 3 shows the -- breaks out the
18 mineral ownership. Under that Tract 3, Stevens Oil
19 Company owns 32.5 net acres and Yates Petroleum owns
20 7.5 net acres.

21 Q. As to the Stevens petroleum interest, that
22 interest is in bankruptcy; isn't that right?

23 A. That is correct.

24 Q. We have been advised by the attorney for the
25 trustee that the offer made by Yates is acceptable and

1 they're simply waiting on approval; is that right?

2 A. That's my understanding. They haven't
3 contacted me, but they have contacted you.

4 Q. And the Stevens trustee is aware of today's
5 hearing?

6 A. Yes.

7 Q. What percentage of the interest in this tract
8 has voluntarily agreed to participate in the well?

9 A. Eighty percent.

10 MR. STOVALL: Mr. Bullock, if I could, just
11 for a moment --

12 THE WITNESS: Yes.

13 MR. STOVALL: -- just to clarify for the
14 record --

15 THE WITNESS: Right.

16 MR. STOVALL: -- on Exhibit B --

17 THE WITNESS: Right.

18 MR. STOVALL: -- on the plat it shows
19 Stevens, but down under the tract thing it says "Steve
20 Oil Company". I assume that is both Stevens Oil
21 Company; is that correct?

22 THE WITNESS: Yeah, that's a typo,
23 typographical error.

24 MR. STOVALL: Okay, I just wanted to make
25 sure that was in the record in case -- particularly

1 since you're dealing with a bankrupt entity --

2 THE WITNESS: Right.

3 MR. STOVALL: -- let's clarify that.

4 Q. (By Mr. Carr) Mr. Bullock, let's now go to
5 what has been marked as Yates Petroleum Corporation
6 Exhibit C. Would you identify that and then, using
7 that exhibit, review for Mr. Catanach the efforts
8 you've made to obtain voluntary joinder of all interest
9 owners in this prospect?

10 A. Okay, Exhibit C-1 is our letter of November
11 3rd to Stevens Oil Company in Roswell, proposing the
12 drilling of the well, and enclosed with that
13 transmittal was our AFE and operating agreement,
14 soliciting their participation in the well.

15 Exhibit C-2 is a November 6th letter to James
16 E. Burke, who is the trustee in Albuquerque. In that
17 letter we offered to purchase their interest in the
18 northeast quarter of the northwest quarter for
19 consideration of \$3250 for their 32.5 net acres, and
20 further -- there were other terms -- That essentially
21 was a letter to -- sent to him to give them another
22 alternative in this well, us listing their selling of
23 their acreage.

24 Exhibit C-3, as noted, we subsequently found
25 two of the mineral owners that were unleased, and that

1 letter of November 25 was addressed to the Liberty
2 National Bank for the W.T. Reed Trust, and enclosed was
3 the -- our AFE and operating agreement, soliciting
4 their participation in the drilling of the well.

5 Exhibit C-4 was sent to James McCrory for the
6 same purpose, advising him of our intent to drill the
7 well and soliciting their participation and/or, I might
8 add, an alternative to lease their interest to Yates in
9 lieu of participation.

10 C-5 was a response by McCrory indicating his
11 willingness to lease his interest to Yates, and it set
12 out the terms. And at this point in time we haven't
13 consummated that, but we feel sure that we can.

14 Exhibit C-6 is a letter from Western Commerce
15 Bank, who represent the W.T. Reed Trust, indicating
16 their willingness to lease to Yates under the same
17 terms that James McCrory would lease his interest.

18 So we feel like we can make some type of deal
19 with them.

20 At this point in time we don't have an
21 executed oil and gas lease from them.

22 Q. At this time the only interests that you
23 still need to pool are the W.T. Reed Trust, James R.
24 McCrory, and the Stevens interest? Everyone else is
25 voluntarily now participating?

1 A. That is correct.

2 MR. CARR: And Mr. Catanach, I was contacted
3 by Carol Clark, attorney for the Stevens Trustee,
4 indicating that they were accepting the offer set forth
5 in the November 6th, 1992 letter, that there was a 20-
6 day waiting period, just part of the bankruptcy rules,
7 and as soon as that period ran they would be
8 participating in the well and would at that time not be
9 subject to a pooling application.

10 MR. STOVALL: Contained in which letter, Mr.
11 Carr?

12 MR. CARR: The November 6th offer to Stevens,
13 yes.

14 THE WITNESS: The offer to purchase their
15 interest.

16 MR. STOVALL: Oh, so you're going to purchase
17 the interest? They're not going to participate in the
18 well --

19 THE WITNESS: That's correct.

20 MR. STOVALL: -- they're going to sell you
21 the interest?

22 MR. CARR: Yes.

23 THE WITNESS: That's right, that's what
24 they've indicated.

25 Q. (By Mr. Carr) Would you identify what has

1 been marked as Exhibit D?

2 A. Exhibit D is the AFE for the drilling of the
3 Tamarack well. It sets out the cost of well, the
4 dryhole cost being \$185,400, the completed well cost
5 being \$293,200.

6 Q. Are these costs in line with what's been
7 charged by other operators for Abo wells in the area?

8 A. Yes, we feel like they are.

9 Q. Have you made an estimate of overhead and
10 administrative costs to be assessed while the well is
11 drilling and, if successful, while it is producing?

12 A. Yes, the costs that we proposed are \$4000 per
13 month for a drilling well rate and \$400 per month for a
14 producing well rate.

15 Q. Are these costs the costs that are set forth
16 for wells in this area in the 1991 *Ernst & Young*
17 survey?

18 A. Yes, they were.

19 Q. Do you recommend that these figures be
20 incorporated into any Order that results from this
21 hearing?

22 A. Yes, sir.

23 Q. Does Yates Petroleum Corporation seek to be
24 designated operator of this well?

25 A. Yes, we do.

1 Q. And will Yates call a geological and
2 engineering witness to present the technical portion of
3 this case?

4 A. Yes.

5 Q. Were Exhibits A through -- Let's see, what is
6 Exhibit E?

7 A. Exhibit E is notification to Stevens,
8 notifying them of the compulsory pooling, of today's
9 date.

10 Q. Were Exhibits A through E prepared by you?

11 A. Yes, sir.

12 MR. CARR: At this time, Mr. Catanach, we
13 would move the admission of Yates Petroleum Corporation
14 Exhibits A through E.

15 EXAMINER CATANACH: Exhibits A through E will
16 be admitted as evidence.

17 MR. CARR: That concludes my examination of
18 Mr. Bullock.

19 EXAMINATION

20 BY MR. STOVALL:

21 Q. Mr. Bullock, you've referred to the tract
22 ownership as being Stevens Oil Company. Is that a
23 corporation, or is that Don Stevens d/b/a at the time?
24 Do you know?

25 A. At this point in time I don't know.

1 Q. Well, the reason I ask is, that's shown as
2 being Stevens Oil Company, and you've got -- I think
3 Mr. Elliott; is that correct? -- is the agent for
4 Stevens Oil? Have I got the right name?

5 A. Yes.

6 Q. And then you're showing Mr. Burke as trustee
7 for Mary Irene Stevens Bankruptcy.

8 A. They asked us to put that on the outside so
9 Mr. Burke wouldn't neglect acting on it. That was the
10 purpose for that being addressed that way.

11 I've got something here to tell me.

12 Q. Well, I guess you've -- You've stated that
13 the Stevens Oil Company is in bankruptcy, and this
14 would indicate that Mary Irene is the party in
15 bankruptcy, and I guess the difference is if it's a
16 corporation it's one thing, if it's a proprietorship
17 which she inherited -- For the record, Mary Irene is
18 Don Stevens' widow; is that correct?

19 A. That's correct, that's correct.

20 Q. And Don Stevens was the principal of Stevens
21 Oil Company; is that --

22 A. My understanding, it's Stevens Oil Company
23 that's in bankruptcy.

24 MR. CARR: Stevens Oil Company is in
25 bankruptcy, and to be sure that we got to the proper

1 person I also have an affidavit I can offer with copies
2 of letters showing that we sent notice by certified
3 mail to Mary Irene Stevens, to Stevens Oil Company, to
4 Stuart D. Shaner for Stevens Oil Company, to Steven L.
5 Elliott for Stevens Oil Company, and we have received
6 communication back from Carol Clark, attorney for the
7 trustee for Stevens Oil Company.

8 So I think we've covered them in all their
9 forms. We tried to, and I would offer that as Yates
10 Exhibit F.

11 MR. STOVALL: It probably would be useful. I
12 think that would help to -- Again, since we are dealing
13 with a bankruptcy estate, to make sure we've got the
14 proper --

15 MR. CARR: And I would move the admission of
16 Exhibit F.

17 EXAMINER CATANACH: Exhibit F will be
18 admitted as evidence.

19 Q. (By Mr. Stovall) The only other thing is, I
20 assume that Western Commerce Bank is the successor-in-
21 interest to Liberty National Bank --

22 A. That's correct, yes.

23 Q. -- as trustee?

24 A. Uh-huh.

25 MR. STOVALL: Okay, nothing further.

1 EXAMINER CATANACH: The witness may be
2 excused.

3 MR. CARR: At this time we would call Dr.
4 Boneau.

5 Mr. Catanach, would you prefer that I
6 requalify Dr. Boneau or --

7 EXAMINER CATANACH: No, let the record
8 reflect he's already been qualified.

9 MR. CARR: And that he remains under oath.

10 EXAMINER CATANACH: Yes.

11 MR. STOVALL: Well, he stood to be sworn at
12 the beginning of this, so that's no problem.

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Dr. Boneau, have you prepared certain
19 exhibits for presentation here today?

20 A. Yes, sir.

21 Q. Would you refer to what has been marked as
22 Yates Petroleum Corporation Exhibit Number 1, identify
23 that and review it for Mr. Catanach?

24 MR. STOVALL: Mr. Carr, I'm not sure we've
25 got the --

1 EXAMINER CATANACH: I don't think we have
2 your --

3 MR. STOVALL: -- Dr. Boneau's exhibits.
4 (Off the record)

5 Q. (By Mr. Carr) All right, let's refer to
6 Exhibit Number 1. Would you identify this and then
7 review it for Mr. Catanach?

8 A. Exhibit Number 1 is a map emphasizing the
9 nine sections around the location of the proposed well.
10 I believe the proposed well is "QF" Number 3, actually,
11 and we said Number 1. I think it's actually "QF"
12 Number 3.

13 But in the nine sections surrounding the
14 proposed location, there are 24 Abo wells shown in red.
15 The proposed location is shown as an orange hexagon.

16 All these wells are in the Pecos Slope Abo
17 field. I think the Examiner knows that the Pecos Slope
18 Abo field contains about a thousand wells, and Yates
19 operates approximately 600 wells in the Pecos Slope Abo
20 gas field.

21 Q. And this area is designated as a tight
22 formation?

23 A. This area is designated as a tight formation
24 under Section 107 of the Natural Gas Policy Act.

25 Q. And does Exhibit Number 1 also show the

1 ownership in the area?

2 A. Yes, sir, that's correct.

3 Q. Let's refer now to what has been marked as
4 Yates Exhibit Number 2, and I'd ask you to identify
5 this, please.

6 A. Yates Exhibit Number 2 is intended to be used
7 as a type log. It's actually the log of the Abo
8 section from the Federal HJ Number 7 well in the
9 Southeast of Section 31.

10 It indicates that the producing zones show up
11 as crossover on the neutron density logs, and those
12 crossovers are colored in red.

13 The sands, the Abo sands, are associated with
14 lower gamma-ray readings, and those sands are colored
15 in, in yellow.

16 The purpose of this is to show that there are
17 sands in the upper and the middle and the lower Abo,
18 throughout the field. These are braided channel sands.
19 They're river sands that are continuous over a mile or
20 two, but not blanketed over the whole field.

21 And they do exist in the upper, middle and
22 lower portions of the Abo. And for analyzing the
23 geology in the area we divided them essentially into
24 upper, middle and lower, and we call them Zone A, Zone
25 B and Zone C. The breaks between where Zone A ends and

1 Zone B starts are somewhat arbitrary, but the idea is
2 that they're upper sands which you try to correlate
3 over areas of middle sands and lower sands. And this
4 shows how we divided the sands into three separate
5 zones.

6 Q. Okay, let's move to Exhibit Number 3. What
7 is this?

8 A. Exhibit Number 3 shows the Zone A sands in
9 the nine-section area around the proposed location.

10 In general, the sands go from north to south
11 or a little bit northwest to southeast throughout the
12 field. And we see that in this area there's a thin
13 sand through Section 29 in the northeast of 32 and down
14 into Section 4, and at the west there's another
15 channel.

16 But there is no -- according to this map,
17 there will be no Zone A sand at the proposed location.

18 Q. All right. Let's now go to Exhibit 4, your
19 channel map on Zone B.

20 A. Exhibit 4 is the channel map on Zone B. And
21 again, the channels are colored in yellow.

22 The proposed location lies on the eastern
23 edge of the -- what looks like the main channel going
24 down through Section 30, 31, and Section 6.

25 Q. Okay. And now Exhibit 5, your channel map on

1 Zone C.

2 A. Exhibit Number 5 is a channel map on Zone C,
3 and again, the channels are shown in yellow.

4 And the channel that is in the area of the
5 proposed location does not really have much thickness
6 anywhere. It never gets much above 10 feet thick. And
7 the proposed location would again be on the edge of
8 that channel.

9 Q. Let's now move to Exhibit Number 6, which is
10 a well data sheet. Would you explain to Mr. Catanach
11 the significance of this exhibit?

12 A. Exhibit 6 lists quite a bit of basic
13 information about the 24 wells that are located in this
14 nine-section area. You can read a lot of the titles,
15 but it shows locations and operators and dates when the
16 wells were drilled.

17 Out towards the right-hand side are, I think,
18 the more significant numbers. There's a column that's
19 listed "9-1-92 Cum Mcf", and that shows how much each
20 of these wells had produced as of September 1st of this
21 year.

22 The next column to the right shows the
23 current producing rate.

24 And then there's a column that says
25 "Remaining Reserves" in MCF, and that column shows my

1 estimate of the remaining reserves in each of these 24
2 wells.

3 And finally, on the right-hand side, is a
4 column that's "Ultimate Reserves" in MCF, and that is
5 what amounts to my estimate of how much these wells
6 will ultimately produce, and it's the sum of the
7 cumulative plus my estimate of the remaining.

8 So we're going to talk about risk, and we're
9 going to talk about reserves of wells in this area, and
10 this table shows the reserves of the 24 wells in this
11 area.

12 Q. All right. Let's move to Exhibit Number 7.
13 Would you explain how this information differs from the
14 information presented on the preceding exhibit?

15 A. Exhibit 7 focuses a little more on ultimate
16 reserves, and it arranges the 24 wells in order of
17 increasing ultimate reserves.

18 There are two wells with no reserves at the
19 top of the list, and the reserves increase until the
20 last well has ultimate reserves of 2.7 BCF, which makes
21 it one of the best wells in the whole pool.

22 I've divided the 24 wells into four groups of
23 six, basically, four quartiles.

24 The sixth poorest well makes -- it's going to
25 produce 132 million cubic feet.

1 The median well, which is marked 12th, is
2 going to produce 364 million cubic feet.

3 The well at the third quartile, which is
4 marked 18th, is going to produce 536 million cubic
5 feet.

6 And then of course the best well is going to
7 be super good.

8 Q. Okay. Let's move on now to Exhibit Number 8,
9 and explain to Mr. Catanach what this exhibit is
10 designed to show.

11 A. Exhibit Number 8 is an engineering summation
12 of the geology, is the way I would say it.

13 But I've marked a big blue cross-hatched
14 strip more or less down through the middle, and the
15 point is that all the wells in that strip are among the
16 poorer wells in this group. They're all in the lower
17 half. Their reserves are all in the lower half of the
18 reserves in the area.

19 So I think if you remember the channel maps,
20 pretty much there was a barren area down the middle,
21 and the reserves confirm that the wells down the middle
22 of this picture are the poorer wells. And the Tamarack
23 3 location is on this edge of the poorer area.

24 Q. Let's go now to your economic calculations
25 set forth in Exhibit Number 9.

1 A. Well, can we make --

2 Q. Sure.

3 A. -- one more point with Exhibit 8?

4 If we look at Section 33, which is just to
5 the east of the Tamarack location, I think it gives the
6 Examiner a good indication of the variability of the
7 wells. In Section 33 is this very good well with 2.7
8 BCF, 2695...

9 In the other three wells which are
10 essentially in the same 160, are a dry hole and two
11 very poor wells with reserves of 123 million and a 132
12 million. So that it is extremely possible to have a
13 poor well near a good well, or a good well near a poor
14 well.

15 Q. Okay. Now, let's go to the economic
16 calculations.

17 A. Okay, the economic calculations are in
18 Exhibit 9, and what I looked at was the economics for
19 what I've called the first quartile well, the second
20 quartile and the third quartile, the sixth best well
21 and the 12th best well and the 18th best well out of
22 this group, under four different price scenarios, under
23 four ideas of what you might be able to sell the gas
24 for.

25 At the bottom of Exhibit 9 I've listed what

1 Yates has received for gas in the last four years, and
2 in the last two years we've received \$1.42 per MCF in
3 July of 1990 to June of 1991 and \$1.37 per MCF for the
4 period from July of 1991 to June of 1992. And based on
5 that, I've used \$1.25 and \$1.50 as gas prices.

6 The Examiner is probably aware that gas
7 prices at the moment are somewhat higher than that, but
8 the futures went down 20 cents yesterday, and so it --
9 the \$1.50 might be a reasonable estimate for gas
10 prices.

11 I've also included the possibility of the
12 tight gas credit, which is approximately 50 cents per
13 MCF. So I did economics for \$1.50 and \$1.25, with and
14 without the credit.

15 And the results are that if you have a 132-
16 million-cubic-foot well, you are never going to get
17 your money back at any of these prices.

18 For the median well, the well you'd expect to
19 get based on the whole nine sections, but in reality is
20 probably the best well you're going to get in the blue
21 hatched area, you get between not paying out and a 22-
22 percent rate of return, which is the very edge of
23 adequate, and you only get 22-percent rate of return if
24 you get the credit and the \$1.50 gas price.

25 If you get a better well, in the 500 million

1 range, and you get the credit, you get a 40- to 50-
2 percent rate of return and what you would consider a
3 decent project.

4 But the -- based on the reserves in the area,
5 my guess is that you're going to get about a 364-
6 million well, or a 350-million well, and the reserves
7 and the economics could be marginal to not really great
8 in that case.

9 In view of the going out of the tax credit,
10 Yates has put together a package of 20 to 25 Abo wells
11 we'd like to drill. And this is -- Well, this is
12 Number 24 on my list of good ones. It's one of the
13 poorer locations on that list, and we want to drill it,
14 but it's not one of the better locations.

15 Q. Are you prepared to make a recommendation to
16 the Examiner as to the risk penalty that should be
17 imposed on any interest owner who doesn't voluntarily
18 participate in this well?

19 A. Yes, sir.

20 Q. And what is that?

21 A. Based on the risks associated with what we've
22 looked at here, my recommendation is the 200-percent
23 penalty.

24 Q. It's based on the poor reserves in the area?

25 A. On the poor reserves in the area, the

1 marginal economics, and the uncertainty about the
2 credit, and the alternate minimum tax, and --

3 Q. And the high disparity between offsetting
4 wells in terms of producing capability?

5 A. Yes, that's a factor also.

6 Q. Has there been any drainage from this
7 particular tract?

8 A. It's possible, but you notice that to the
9 west are fairly decent wells, and we've documented
10 drainage in the Abo over a mile and a half to two miles
11 in some cases, and it's possible that in ten years of
12 production these other wells will drain some of the
13 reserves from this location.

14 Q. In your opinion, will granting this
15 Application and the drilling of the proposed well
16 result in the recovery of hydrocarbons that otherwise
17 will not be produced?

18 A. Yes, sir.

19 Q. In your opinion, will the Application
20 otherwise be in the best interests of conservation, the
21 prevention of waste and the protection of correlative
22 rights?

23 A. Yes, sir.

24 Q. Were Exhibits 1 through 9 either prepared by
25 you or have you reviewed them and can you testify as to

1 their accuracy?

2 A. They were either prepared by me or under my
3 direction.

4 MR. CARR: At this time, Mr. Catanach, we
5 would move the admission of Exhibits 1 through 9.

6 EXAMINER CATANACH: Exhibits 1 through 9 will
7 be admitted as evidence.

8 MR. CARR: And that concludes my direct
9 examination of Dr. Boneau.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. Mr. Boneau, the reserve calculations, were
13 those -- did those take into account reserves in all
14 three zones?

15 A. Yes, sir.

16 Q. Are most of these wells producing from all
17 three zones?

18 A. The general answer is yes, but you could look
19 at Exhibit -- or we could look together at Exhibits 3,
20 4 and 5, and the well spots that correspond to the
21 yellow or close to the yellow are producing from that
22 zone. We could go through it any way you want, but --

23 Q. That's okay.

24 A. Yes, they're -- We're looking for three
25 zones, and --

1 MR. STOVALL: They're open in all three;
2 you're not necessarily getting anything. Is that what
3 you're saying?

4 THE WITNESS: If there's any indication of
5 sand in that zone, it's open in that zone, yes, sir.

6 EXAMINER CATANACH: I have nothing further.

7 MR. CARR: We have nothing further in this
8 case.

9 MR. STOVALL: I'm not going to ask him any
10 geology or engineering.

11 (Off the record)

12 EXAMINER CATANACH: There being nothing
13 further, Case 10,626 will be taken under advisement.

14 (Thereupon, these proceedings were concluded
15 at 12:18 p.m.)

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I do hereby certify that the foregoing is
a complete and correct transcript of the proceedings in
the Examiner hearing of Case No. 10626,
heard by me on December 3, 1992.

David A. Catanach, Examiner
Oil Conservation Division

1 CERTIFICATE OF REPORTER

2

3 STATE OF NEW MEXICO)
 4) SS.
 5 COUNTY OF SANTA FE)

6 I, Steven T. Brenner, Certified Court
 7 Reporter and Notary Public, HEREBY CERTIFY that the
 8 foregoing transcript of proceedings before the Oil
 9 Conservation Division was reported by me; that I
 10 transcribed my notes; and that the foregoing is a true
 11 and accurate record of the proceedings.

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

16 WITNESS MY HAND AND SEAL December 26th, 1992.

17 

18 STEVEN T. BRENNER
 19 CCR No. 7

20 My commission expires: October 14, 1994

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