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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:) CASES NOS. 10875
and 10871

APPLICATION OF YATES PETROLEUM CORPORTION
APPLICATION OF SANTA FE ENERGY PARTNERS, L.P.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: David R. Catanach, Hearing Examiner

December 2, 1993

Santa Fe, New Mexico

This matter came on for hearing before the
Oil Conservation Division on December 2, 1993, at
Morgan Hall, 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.

JAN 24 1994

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December 2, 1993
 Examiner Hearing
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1 EXAMINER CATANACH: At the time we'll call
2 the hearing back to order and we'll call Case 10875,
3 the application of Yates Petroleum Corporation for
4 compulsory pooling, Eddy County, New Mexico.

5 Are there appearances in this case?

6 MR. CARR: May it please the Examiner, my
7 name is William F. Carr with the Santa Fe law firm of
8 Campbell, Carr, Berge & Sheridan. I represent Yates
9 Petroleum Corporation in this case. This is a
10 companion case, Mr. Examiner, to an application filed
11 by Santa Fe Operating Partners, L.P., and I believe
12 that Mr. Bruce and I agreed that this should be
13 consolidated for purposes of testimony.

14 MR. BRUCE: Mr. Examiner, Jim Bruce from
15 the Hinkle law firm in Santa Fe, representing Santa Fe
16 Energy Operating Partners, L.P., and yes, I agree that
17 this case should be consolidated with 10871.

18 EXAMINER CATANACH: At this time we'll call
19 Case 10871, which is the application of Santa Fe
20 Energy Operating Partners, L.P., for compulsory
21 pooling and to shut in a producing well, and for a
22 nonstandard spacing and proration unit, Eddy County,
23 New Mexico.

24 Are there additional appearances in either
25 of these cases? There being none, Mr. Carr?

1 MR. CARR: May it please the examiner, as
2 you're aware, Yates has filed a motion in this case
3 seeking dismissal of the application filed by Santa Fe
4 Energy Operating Partners, L.P. The Santa Fe
5 application consists of three parts, an application
6 for compulsory pooling, a request to create a
7 nonstandard spacing unit, and a request to shut in a
8 producing Yates well.

9 There are certain key factual matters that
10 have to be addressed if the motion is to be
11 understood. First of all, what we're talking about is
12 the development of one section of land, Section 10.
13 This section falls within two pools. The northeast
14 quarter of the section is in the North Dagger Draw
15 that is developed on 160-acre spacing. The balance
16 of the pool is in South Dagger Draw on 320-acre
17 spacing.

18 This case also involves four wells.
19 There's a well that's drilled by Yates in the
20 northeast quarter of the section. 160 acres are
21 dedicated to it. Another well was drilled several
22 years ago by Yates in the adjoining section to the
23 west in the southwest quarter of Section 9; that's the
24 Judith well. That well is a producing gas well.

25 Yates has recently drilled and completed a

1 well, the Ocotillo No. 2 in the southeast of the
2 southeast in Section 10. And Santa Fe is proposing to
3 drill a well in the southwest quarter of the southwest
4 quarter of Section 10.

5 So we have four wells, one section that is
6 traversed or included within two pools with different
7 spacing patterns.

8 Yates is the owner of 50 percent of the
9 working interest in the west half unit that Santa Fe
10 desires to pool. The parties both have interests in
11 the Dagger Draw Field, the North Dagger Draw and the
12 South Dagger Draw. They have interests throughout the
13 area, and over the years, they have developed a number
14 of properties together. Santa Fe has proposed a well
15 to Yates, and, by and large, I think you will see that
16 Yates has drilled many, if not all, of these wells.

17 In 1991, Santa Fe proposed the drilling of
18 a well in the southeast southeast of Section 10. That
19 well is the well that was drilled in November of this
20 year.

21 In '92, they proposed drilling a well in
22 the southwest of the southwest of the section. That
23 well has not yet been drilled.

24 A formal proposal to drill the well in the
25 southwest quarter was received by Yates from Santa Fe

1 by letter dated September 10, 1993. Ten days later
2 Yates responded on September 20th with an AFE and a
3 proposal to drill its Ocotillo Well No. 2 in the
4 southeast quarter of that section, and Yates proposed
5 to dedicate the south half of the section to the well.

6 We submit there is no dispute that that's
7 what was being proposed. It was recited in the
8 letter. The AFE that was attached set out the
9 percentages for a south half unit. It's a standard
10 unit under OCD rules. A title opinion was included
11 that covered interests in the south half, particularly
12 in the southwest quarter. There was attached an
13 approved application for a permit to drill, and
14 attached to that was an acreage dedication plat that
15 showed a south half unit.

16 A proposed operating agreement was enclosed
17 that defined the contract area as the south half, and
18 in fact even the name of the well, the Ocotillo
19 Federal Com No. 2, would tell anyone who was aware of
20 the status of the acreage that tracts were going to be
21 combined, and the south half unit was what was being
22 discussed.

23 A month later, on October 20, Paul Baker,
24 division production manager for Santa Fe, signed the
25 AFE. Then on October 26, six days later, Santa Fe

1 filed an application to force pool the west half.
2 Santa Fe has refused to execute an operating agreement
3 or a communitization agreement for the south half.

4 The first thing Santa Fe seeks to do is to
5 obtain from this Division an order force pooling the
6 west half of the section. We submit to you that they
7 are not entitled to that. Under the Oil and Gas Act,
8 the Oil Conservation Division is authorized to pool
9 lands where parties have not agreed to pool and
10 voluntarily develop lands as a unit.

11 Here it is the position of Yates that an
12 agreement was obtained when the AFE was signed. The
13 AFE is a contract. And when parties signed the AFE,
14 they consented to pay their share of well costs. And
15 here those costs and their obligation is defined by
16 the AFE, and that AFE contained percentages which set
17 out the ownership under a south half unit, not a
18 southeast quarter.

19 We think there's no dispute that Santa Fe
20 agreed to the drilling costs, and we think there is no
21 doubt as to what these costs were. They agreed to
22 incur 58 percent of the cost of drilling the well, and
23 that's their percentage interest under a south half
24 unit. We don't think there can be a misunderstanding
25 about what the agreement was. It was set out in the

1 transmittal letter, the AFE, the application for
2 permit to drill, the title opinion, the joint
3 operating agreement, and in the name of the well.

4 The AFE was signed and Yates drilled the
5 well, and they now will show you that they have a
6 good, producing well in the Canyon formation. And now
7 Santa Fe wants to reduce the interest of Yates in this
8 very well by changing the acreage and reducing their
9 interest from approximately 42 percent to 33 percent.

10 We submit to you we have an agreement for
11 the voluntary development of this acreage, and this
12 application simply does not fall under the pooling
13 statutes, and therefore the application should be
14 dismissed.

15 They also want to shut in the Judith well,
16 the well that offsets this property to the west. This
17 is just a broadside against Yates' correlative
18 rights. As we all know, correlative rights are
19 defined as the opportunity to produce your just and
20 fair share of the reserves. And correlative rights
21 are measured by recoverable reserves.

22 In this case, Santa Fe leased these lands
23 in 1989. The Judith well was drilled in 1991, a year
24 and a half later. And each and every day since they
25 leased the property, Santa Fe has had the opportunity

1 to drill a well to take these mineral interests and to
2 convert them into recoverable reserves, but they have
3 not done so. And until they go out and avail
4 themselves of the opportunity to develop the land,
5 they haven't converted their mineral interests into
6 recoverable reserves, and there's nothing for you to
7 protect.

8 And their simple failure to develop simply
9 doesn't create a basis for shutting in a well owned
10 and operated by someone else who has availed
11 themselves of the opportunity, who drilled the well,
12 who now has recoverable reserves which under the Oil
13 and Gas Act you have a duty to protect. The part of
14 the case in which they seek a shut-in of the Judith
15 well should be dismissed.

16 As to the part of the case that relates to
17 a nonstandard spacing and proration unit, the argument
18 tracks closely arguments previously presented. We
19 contend we have an agreement to develop the south
20 half. The OCD rules say standard units are comprised
21 of 320 acres. And based on these rules and this
22 agreement, we drilled a well. We have 42 percent of
23 that well. And we submit that in this situation, our
24 share of the reserves that we're entitled to produce,
25 if our correlative rights are to be protected, is

1 measured by what we get in a south half unit or 42
2 percent of the recoverable reserves.

3 To create a nonstandard spacing unit takes
4 approximately 10 percent of the benefit of that effort
5 away from Yates, it impairs our correlative rights,
6 and the third point should also be dismissed.

7 So for the reasons stated, we submit that
8 the application of Santa Fe Energy Operating Partners,
9 L.P., should be dismissed in its entirety.

10 EXAMINER CATANACH: Mr. Bruce, would you
11 like to respond to the motion?

12 MR. BRUCE: Oh, I hardly know where to
13 begin, Mr. Examiner, but I think we're entitled to put
14 on testimony. As Mr. Carr says, correlative rights is
15 the opportunity to recover reserves under your
16 property. We'll put on evidence that Santa Fe first
17 proposed a well in the southwest quarter of the
18 section in September of 1992. Since then, Yates has
19 used every single opportunity to prevent the drilling
20 of that well which is necessary to offset the Judith
21 well. They just don't want a well offsetting the
22 Judith well, period, in any way, shape, or form. And
23 we'll put on plenty of evidence about that.

24 It is true that Santa Fe signed an AFE for
25 the Ocotillo No. 2 well. That's located in the

1 southeast of the southeast of Section 10. Yates
2 finally proposed the drilling of that well and
3 commenced it only after Santa Fe sent an AFE for its
4 proposed well. Why did they do it? That Ocotillo No.
5 2 well is a mile away from the Judith well. It just
6 does not protect Santa Fe's correlative rights.

7 Santa Fe did sign the AFE; however, there
8 is no communitization agreement or JOA covering the
9 entire south half. If you grant Yates' motion, you're
10 in effect saying that the southwest quarter is joined
11 in the well without a communitization agreement,
12 without a JOA, and without a force pooling order.
13 That's contrary to law.

14 Furthermore, the west half is all one
15 federal lease. Under federal regulations, we don't
16 think that the BLM will even approve a south half
17 communitization agreement for the Yates well.

18 Furthermore, Santa Fe will present
19 testimony that they had to sign the AFE. I think if
20 the positions were reversed, Yates would have signed
21 it, too, because neither of these parties is going to
22 go nonconsent for one of these South Dagger Draws,
23 neither of them. They had to sign the AFE within 30
24 days or they would have gone nonconsent and would have
25 suffered the penalties under the operating agreement.

1 The main issue here is Santa Fe's
2 correlative rights. That issue cannot be determined
3 without a hearing on the merits regarding, first, the
4 need for a well located in the southwest quarter and,
5 second, a nonstandard southeast quarter unit.

6 Santa Fe agrees that it's had this lease
7 for awhile, and that's all it's asking for is the
8 opportunity to drill a well in the southwest quarter
9 to protect its correlative rights, but it cannot do
10 that with Yates saying, "Well, we're going to propose
11 a well a mile away, and that will protect your
12 correlative rights." It just won't work.

13 We think that once you -- that there is not
14 enough facts and evidence now to grant Mr. Carr's
15 motion, and after you see the facts, the motion should
16 be denied.

17 MR. CARR: May I respond just briefly?

18 EXAMINER CATANACH: Briefly.

19 MR. CARR: The one thing that needs to be
20 kept in mind is that the only reason Santa Fe stands
21 before you without having an opportunity to drill a
22 well on the south half at any location they want is
23 they've unilaterally elected not to sign an operating
24 agreement that would give them that right, but that
25 doesn't negate the fact that they've signed an AFE for

1 the development of the south half. And we believe
2 that having done that, the southwest quarter is no
3 longer available to be pooled in a west half unit.

4 EXAMINER CATANACH: Mr. Carr and Mr. Bruce,
5 I am without legal benefit today, and I'm not sure
6 that the issues that have been brought up are going to
7 be easily decided anyway. So what I'm going to do is
8 I'm going to take the motion to dismiss under
9 advisement, and I think we should go ahead and hear
10 the evidence and testimony in this case, and we'll
11 work out the motion later.

12 So if you want to proceed from there, Mr.
13 Carr?

14 MR. CARR: With your permission, I think
15 that Santa Fe filed the application originally. The
16 nature of our presentation is more in the nature of a
17 response.

18 EXAMINER CATANACH: Okay, that will be
19 fine.

20 MR. BRUCE: Mr. Examiner, I forgot that we
21 even forgot to get to the point of swearing in the
22 witnesses.

23 EXAMINER CATANACH: Can I have all the
24 witnesses stand and be sworn in at this time?

25 (Witnesses sworn.)

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

4 EXAMINATION

5 BY MR. BRUCE:

6 Q. Will you please state your name and city of
7 residence.

8 A. My name is Gary Green. I live in Midland,
9 Texas.

10 Q. Who do you work for and in what capacity?

11 A. I'm a landman for Santa Fe Energy
12 Resources.

13 Q. Have you previously testified before the
14 Division as an expert petroleum landman?

15 A. Yes, I have.

16 Q. And your credentials were accepted as a
17 matter of record?

18 A. Yes, they were.

19 Q. Are you familiar with the land matters
20 involved in these two cases?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I tender Mr.
23 Green as an expert landman.

24 EXAMINER CATANACH: Mr. Green is so
25 qualified.

1 Q. (BY MR. BRUCE) Mr. Green, could you refer
2 to Exhibit 1 and identify it for the examiner?

3 A. Exhibit 1 is a land plat that we have
4 drafted. This land plat covers area in Township 20
5 South, Range 24 East.

6 In the center of the plat, you'll see a
7 broken line surrounding six sections. That's the
8 six-section area that Santa Fe and Yates has an AMI.
9 You see the stippled acreage is acreage in which Santa
10 Fe owns an interest; the white acreage Santa Fe owns
11 no interest. It sets out the percentage that we own
12 in each of the stippled acreage.

13 It also has the wells located on there.
14 Located with a red square is the Dagger Draw 1031, the
15 well that Santa Fe has proposed. The blue square
16 shows the Ocotillo AJI Fed Com No. 2 that Yates had
17 proposed. There's a green square up there that shows
18 another proposal that we received from Yates to drill
19 a well up in the northwest quarter of 10.

20 Q. Mr. Green, before we go on, let's identify
21 two other wells for the examiner. Just to the west of
22 your red well is the Yates' Judith well. That will be
23 one of the wells we're talking about today; is that
24 correct?

25 A. The Judith well is located in the southeast

1 southeast of Section 9 at an unorthodox location.

2 Q. What's its footage?

3 A. It's located 560 from the south, 560 from
4 the east line of Section 9.

5 Q. And then just to the south of that is the
6 Algerita "AHR" State #1. Is that also a Yates well?

7 A. Yes, that is.

8 Q. And both of those wells, to the best of
9 your knowledge, are 100 percent owned by Yates or
10 Yates and their partners?

11 A. Yates, et al., yes, to the best of my
12 knowledge, that's correct.

13 Q. Now, in Section 10, let's go over that
14 briefly. There's a line down the middle. First of
15 all, what type of land is Section 10?

16 A. Section 10 is all federal acreage.

17 Q. Are the east half and west half separate
18 federal leases?

19 A. Yes, they are. Santa Fe in the east half
20 of Section 10, Santa Fe owns two thirds; Yates owns a
21 third of that lease. West half under separate federal
22 lease, Santa Fe owns 50 percent, Yates owns 50
23 percent.

24 Q. And on the east half, there is an operating
25 agreement between Yates and Santa Fe?

1 A. There is an existing operating agreement
2 that covers all of the east half of Section 10. There
3 is no Joint Operating Agreement covering the west half
4 of Section 10.

5 Q. And both sections now, you've already
6 testified that Section 9 is 100 percent Yates. Is
7 that also federal acreage?

8 A. Yes, it is.

9 Q. And expanding on that a little bit, you
10 look at this well, and there's a number of wells on
11 the boundary of your AMI. Who are the operators or
12 the owners of those wells right on the boundary of
13 your AMI?

14 A. To the best of my knowledge, all, with very
15 few exceptions, all of those wells are Yates owned and
16 operated wells.

17 Q. And now as far as what pools we're in, what
18 pool or pools is Section 10 in?

19 A. The northeast quarter of Section 10 is in
20 the North Dagger Draw, Upper Pennsylvanian Pool. The
21 south half of Section 10 is in the South Dagger Draw
22 Upper Penn associated oil and gas pool. The northwest
23 quarter of 10 is not in either pool.

24 Q. Let's discuss the issues leading up to this
25 case. We have a number of exhibits to go through

1 briefly, but what first precipitated Santa Fe's
2 interest in drilling a well in the west half of
3 Section 10?

4 A. In April of 1991, Yates completed its
5 Judith AIJ Federal Well #1 at the location I
6 previously stated, 560 from the south and 560 from the
7 east line of Section 9. That well produced
8 intermittently until about May of 1992, when it began
9 to produce full time.

10 Q. What type of well is that?

11 A. It is a gas well in the South Dagger Draw
12 Pool. The east half of Section 9 is dedicated to that
13 well.

14 Q. To the best of your knowledge, what is its
15 current producing rate, and what has it produced to
16 date?

17 A. It produces between 1.3 and 1.5 million
18 cubic feet a day, and has done so since about May of
19 1992. It's cum'd .82 Bcf of gas to date.

20 Q. And what about the Algerita well in the
21 northeast quarter of Section 16, what is the status of
22 that well?

23 A. It was completed in November of 1990, and
24 it has produced 4.2 Bcf to date.

25 Q. Obviously, Santa Fe would like to offset

1 these wells, wouldn't they?

2 A. Yes, we certainly would.

3 Q. As far as getting a well drilled, let's go
4 to some of your exhibits now, starting with Exhibit
5 2. Let's keep Exhibits 2 through 8 together at this
6 point, and could you go down briefly what these
7 exhibits represent, identify them for the examiner,
8 and briefly describe them.

9 A. Exhibit 2 is a notice Santa Fe received
10 from the BLM, initial notification of possible
11 drainage that affected the west half of Section 10.
12 We received this in April -- Santa Fe received it
13 April 2, 1991.

14 After we received this -- Yates is the
15 operator out there -- we provided Yates with a copy of
16 this drainage demand letter, and that is Exhibit 2.

17 Q. Before we get to Exhibit 3, you say, you've
18 already testified that the west half of Section 10 is
19 nonoperated, yet Exhibit 3 is from Yates. Why did you
20 give this to Yates?

21 A. Yates operated all of the other -- the
22 terms of our trade is that Yates would operate this
23 area for us. We would be the nonoperator in this
24 six-section AMI. And as operator, we sent this on to
25 Yates for them to handle.

1 Q. Okay. And what did their response to the
2 BLM say?

3 A. Did not see the response to the BLM.
4 Exhibit 3 is a letter that Santa Fe received from
5 Yates dated April 12, 1991. It says that they are
6 responding to the BLM letter concerning drainage of
7 the captioned acreage and would keep us advised as to
8 their response.

9 It also says that they had visited with
10 John Yates and updated him as to our concerns on the
11 lease. Also told us that, as you know, the geologists
12 picked the Morrow location in Unit F, which would be
13 the southeast to the northwest, and the Canyon
14 location, Unit N, which would be the southeast of the
15 southwest of Section 10, and told us that if Santa Fe
16 wanted a well on the south half of Section 10 this
17 year, Yates would immediately propose such a test and
18 unit it in and recommended that it be drilled next
19 fall when gas prices will hopefully be higher.

20 Q. What was the next correspondence?

21 A. The next correspondence, November 4, 1991,
22 wrote Yates a letter, basically in an effort to get
23 our 1992 drilling budget and our development plan for
24 Dagger Draw prospect, submitted to them what wells we
25 would propose be drilled in 1992 to Yates.

1 At that time we proposed ten wells be
2 drilled. We asked that they assign one drilling rig
3 and have it continuously assigned to that area to
4 drill the Santa Fe and Yates jointly owned leases.

5 Q. This well doesn't propose a well in the
6 southwest quarter, does it?

7 A. No, it does not. This does propose, in
8 addition to the number of wells, it proposed a well in
9 the southeast quarter of the southeast quarter of 10,
10 which is the Ocotillo No. 2. This was proposed in
11 November 1991.

12 Q. That's the well that's currently being
13 completed or maybe has been completed?

14 A. Yes. We also told them in this letter
15 that, you know, the concerns that we had in this
16 prospect were to protect the Santa Fe and Yates joint
17 leases from drainage. And we also wanted to see some
18 orderly development of the prospect.

19 Also told them that we would be available
20 to review the proposal or any proposals they might
21 have prior to the end of the year.

22 Q. What is Exhibit 5?

23 A. Exhibit 5 is a letter written to Yates
24 where we had discussions, we had basically asked for a
25 meeting to discuss the Dagger Draw prospect and

1 attached an agenda of the items that Santa Fe wanted
2 to talk about. That letter is dated March 10, 1992.

3 Q. To the best of your knowledge, was a
4 meeting ever held as a follow-up to this letter?

5 A. No, it was not.

6 Q. Now what's Exhibit 6?

7 A. Exhibit 6, we wrote the letter in March, we
8 had had some discussions with Yates, trying to get
9 some wells drilled. Gene Davis had been talking to
10 them. We had been talking to Kathy, Kathy Porter.

11 Basically, Kathy said, "Give us a list,
12 tell us what you want to do in Dagger Draw for the
13 remainder of 1992." This letter is dated September
14 23, 1992, wherein we proposed seven wells, one of
15 those wells being the Ocotillo ACT No. 2, located in
16 the southwest quarter of the southwest quarter of
17 Section 10.

18 We told them in this letter that we felt
19 they had some concerns about allowable. We had looked
20 at the production. We felt that the allowable was
21 such that we wouldn't have allowable problems out
22 there. We also told them that the wells we had
23 proposed in Sections 10 and 15 should be drilled as
24 early as possible to take advantage of the increase in
25 gas prices.

1 Q. So this was the first letter that
2 specifically addressed a well in the southwest
3 quarter, southwest quarter of Section 10?

4 A. Yes, it is.

5 Q. And that's, what, a year and a quarter ago?

6 A. Yes, it is.

7 Q. Did Santa Fe ever -- you mentioned Gene
8 Davis. He's a geologist for Santa Fe; is that
9 correct?

10 A. Yes, he is.

11 Q. And he also had discussions with Yates
12 about these wells?

13 A. Yes. The majority of the discussions
14 between Santa Fe and Yates concerning the development
15 of this prospect was done by Gene.

16 Q. Okay. And he will testify?

17 A. And he will testify to those conversations.

18 Q. What is Exhibit 7 then?

19 A. Exhibit 7 is a letter dated September 10,
20 1993, basically proposing the drilling of the well in
21 the southwest quarter of the southwest quarter of
22 Section 10. And attached to that is an AFE that was
23 submitted to Yates.

24 Q. What was Yates' response to this letter?

25 A. Yates' response to the letter, to our

1 proposal of September 10th, is a letter dated
2 September 20, wherein basically they responded by
3 sending us an AFE, which we felt the well proposal was
4 under an existing Joint Operating Agreement that
5 covered a lease. It covered the southeast quarter of
6 Section 10 where the well would be located.

7 They sent us two copies of an AFE. They
8 sent us a title opinion. They sent us a copy of an
9 APD that was almost a year old. They also sent us an
10 operating agreement that asked us to sign and amend it
11 so that the operating agreement would cover all of the
12 south half of Section 10.

13 Q. Now, Santa Fe admits that it signed the
14 AFE?

15 A. Yes, Santa Fe did sign the AFE. It was my
16 impression or my understanding it was a well proposed
17 under an existing JOA. The consequences of not
18 signing an AFE would put you in a nonconsent position.

19 Q. Maybe your geologist could testify more
20 about this, but in this part of this pool, would Santa
21 Fe go nonconsent on such a well?

22 A. No, Santa Fe would not go nonconsent.

23 Also in the letter of September 20th, they
24 basically told us -- as you can see from the dates
25 above, we planned to propose the captioned well next

1 summer prior to the July 31, 1994, exploration date,
2 basically saying that they weren't going to drill, had
3 not proposed to drill any wells down there offsetting
4 for another eight months.

5 Q. And that time frame was unacceptable to
6 Santa Fe?

7 A. Yes, it was unacceptable to Santa Fe. We
8 had proposed the well originally to them, asked them
9 to drill the well in September of 1992.

10 They also told us in that letter that they
11 felt like this location would be much closer to the
12 oil leg and be a preferred location in the south
13 half.

14 Our concerns were drainage from the gas
15 well in the west half of 10 being drained in the west
16 half of Section 10, not the east half of Section 10.

17 Q. Even though you signed the Yates' AFE, did
18 Santa Fe sign a communitization agreement or a JOA?

19 A. No. Santa Fe was not willing to sign a
20 communitization agreement, nor were they willing to
21 sign an operating agreement that included the south
22 half of Section 10, the primary reason we felt doing
23 that, we would have no means whatsoever to protect our
24 correlative rights or ever be in a position to drill a
25 well offsetting the Judith to prevent drainage.

1 Q. Let's move on to Exhibits 9 through 12, and
2 tell us what happened then.

3 A. Exhibit 9 is a letter dated October 27th.
4 It's basically notification of Santa Fe's application
5 for compulsory pooling in the west half of Section
6 10. Told them when the hearing was scheduled, at that
7 time it was November 18th, and also if they had any
8 questions, asked them to please give me a call to
9 discuss it further.

10 Attached to that is certified receipts.

11 Q. What is Exhibit 10?

12 A. Exhibit 10 is a letter dated November 5
13 from Yates, basically proposing to drill a well in the
14 northwest quarter of Section 10. They asked us to
15 either join in that well, to farm out to them, or to
16 sell our interest.

17 Again, this would be very unacceptable to
18 Santa Fe. It would put a well in the west half of
19 Section 10, almost a mile away from the Judith well,
20 and still not help us protect our correlative rights
21 in the southwest quarter of 10.

22 Q. Then Santa Fe amended its application to
23 include a request for a nonstandard unit; is that
24 correct?

25 A. That's correct. That is Exhibit 11. It's

1 a letter dated November 9, 1993, where we had given
2 them notification of the amended application for
3 compulsory pooling. We set out that we felt that was
4 the only fair and equitable solution to the
5 development of Section 10 and the only means for Santa
6 Fe to protect its correlative rights, asked them to
7 review this application with their management, and
8 also asked them to basically support this application
9 for the spacing for these two wells to get Section 10
10 developed.

11 Q. And, finally, Exhibit 12, if I can
12 paraphrase, Santa Fe elected to agree to complete the
13 Ocotillo #2 well; is that correct?

14 A. It's just our verbal -- yes, just our
15 notice that we elected to participate in the setting
16 pipe and completion attempt of the Ocotillo #2.

17 Q. And, again, based on the history of wells
18 in this area, there's no reason for Santa Fe to do
19 anything but agree to that?

20 A. No.

21 Q. Now, as I'm sure you heard Mr. Carr point
22 out in his opening argument, and as we've already
23 stated, the west half is nonoperated. Santa Fe could
24 have proposed a well sooner, and in fact it did in
25 1992. Why not earlier than 1992? What was the

1 situation?

2 A. In 1991, basically we had a lack of
3 knowledge of the reservoir. There was very little
4 data on the Judith well. We had low gas prices.
5 Yates advised us several times they were very
6 reluctant to drill in the gas cap, in particular on
7 Santa Fe acreage, not necessarily on their own
8 acreage.

9 Q. And now in the last couple of years, you
10 have proposed a well, and I just want to reiterate
11 here a couple of things, Mr. Green. The vast majority
12 of Santa Fe's acreage in this area is Yates operated,
13 isn't it?

14 A. Yes, it is.

15 Q. Even where Santa Fe owns a majority
16 interest in the well?

17 A. Yes, it is. Yeah, the other reason, Yates
18 as the operator, we expect the operator to propose the
19 wells. We expect the operator to handle a fiduciary
20 responsibility to protect our correlative rights. We
21 also felt it would be better to let Yates drill and
22 operate the well.

23 Q. Yates has extensive facilities out here for
24 water disposal, etc.?

25 A. Yes, they do.

1 Q. Now, maybe Mr. Davis will talk more about
2 this, but as far as getting this well drilled, have
3 you had similar problems with Yates in this AMI?

4 A. Yes, we have, in particular on lease line
5 wells. For instance, in November, and as shown on
6 Exhibit --

7 MR. CARR: May it please the examiner, I'm
8 going to object. Whether or not there's trouble in
9 other unrelated situations is irrelevant to whether or
10 not this acreage should be pooled, a nonstandard unit
11 created, or the Judith shut in.

12 EXAMINER CATANACH: I'm not sure it's
13 irrelevant, Mr. Carr. I'm going to allow it.

14 THE WITNESS: In our November 4th letter,
15 which is Exhibit 4, Santa Fe proposed a well in the
16 southwest quarter of Section 15 to offset the Albert
17 well and the Algerita well.

18 In December of 1991, Yates completed the
19 Albert well in the northeast of northeast of Section
20 21. In August of 1992, we again asked Yates to drill
21 a well in the southwest quarter of 15. Yates took no
22 action. So in October of '92, even though we were not
23 the operator, we proposed to drill and operate the
24 well ourselves if they were not going to.

25 Yates finally responded in December of '93

1 and agreed to drill the well. Yates completed the
2 Conoco AGK in May of 1993.

3 So we have gone from November of '91 to May
4 of '93 to get a lease line well drilled offsetting
5 their 100 percent wells.

6 Q. Why did Santa Fe finally file this force-
7 pooling application or actually pooling and other
8 relief?

9 A. It became clear that Yates was not
10 interested in offsetting the Judith well or Algerita
11 well which in any way which would protect us from
12 drainage, and we felt the only way that we could
13 protect ourselves was to propose the well and drill
14 the well ourselves with or without Yates.

15 Q. As a result, do you seek to force pool the
16 Yates interest in the west half of Section 10?

17 A. Yes. The Yates, et al., be it --

18 Q. To the best of your knowledge, the usual --
19 or generally like Abo Petroleum, MICO Industries, and
20 Yates Drilling also own interests?

21 A. Yes.

22 Q. In your opinion, has Santa Fe Energy made a
23 good faith effort to obtain the voluntary joinder of
24 Yates in the proposed well in the southwest quarter of
25 Section 10?

1 A. I believe since September of 1992, we have
2 made several efforts, every effort we know how to
3 make.

4 Q. Does Santa Fe request that it be named
5 operator of the well?

6 A. Yes.

7 Q. Referring to Exhibit 7, what is the cost of
8 Santa Fe's proposed well?

9 A. Completed well cost is \$672,000.

10 Q. Is this in line with the costs normally
11 encountered of wells of this depth in this area of
12 Eddy County?

13 A. Yes.

14 Q. Do you have a recommendation as to the
15 amounts that Santa Fe should be paid for supervision
16 and administrative expenses?

17 A. It's our recommendation that \$5,400 per
18 month be allowed for the drilling well, and \$540 per
19 month be allowed for a producing well. These are
20 rates in the operating agreement covering the east
21 half of Section 10 that Yates is the operator on.

22 Q. And those are rates that you agreed to in
23 the east half of Section 10?

24 A. Yes.

25 Q. Do you request that if Yates doesn't

1 voluntarily join in the well, the overhead rates be
2 escalated or decreased annually pursuant to the COPAS
3 procedure?

4 A. Yes, pursuant to COPAS procedures. We've
5 also submitted those as Exhibit 13.

6 Q. And was Yates notified of this hearing?
7 And I refer you to Exhibit 14.

8 A. Yes. Exhibit 14 is my affidavit of notice,
9 containing our notice letters to Yates, the
10 application and amended application.

11 Q. Regarding notice of the nonstandard unit,
12 you have to notify offset operators. As far as the
13 southeast quarter of Section 10, who is the offset
14 operator?

15 A. The only offset operator is Yates.

16 Q. And will the geologist and engineer for
17 Santa Fe discuss the shut-in and the nonstandard unit
18 unit request?

19 A. And the risk penalty, yes.

20 Q. Finally, Mr. Green, Exhibit 15, could you
21 identify that for the examiner?

22 A. Exhibit 15 is a copy of No. 43 CFR, No.
23 3105, which requires -- federal regs, which requires a
24 well in it to consist of one federal lease, if
25 possible. The west half of Section 10 is one federal

1 lease. In our discussions with the BLM, they've
2 basically told us that if there are two federal leases
3 that can be developed independent of each other, they
4 will not approve a communitization agreement of those
5 two leases.

6 We understand that exceptions may be
7 granted for geological reasons, but our geologist will
8 testify that there is no geological basis to overcome
9 this regulation.

10 Q. In your opinion, will the granting of this
11 application be in the interests of conservation, the
12 prevention of waste, and the protection of correlative
13 rights?

14 A. Yes, it will.

15 Q. And were Exhibits 1 through 15 prepared by
16 you, under your direction, or compiled from records
17 maintained by Santa Fe in the normal course of
18 business?

19 A. Yes, they were.

20 MR. BRUCE: Mr. Examiner, I move the
21 admission of Santa Fe Exhibits 1 through 15.

22 EXAMINER CATANACH: Exhibits 1 through 15
23 will be admitted into evidence.

24 MR. BRUCE: Pass the witness.

25 EXAMINER CATANACH: Mr. Carr.

EXAMINATION

BY MR. CARR:

Q. Mr. Green, if I understand your presentation, Santa Fe's objective here is to obtain a well in the southwest quarter of Section 10 offsetting the Judith well; is that right?

A. The southwest quarter of Section 10, yes, sir.

Q. If I look at your Exhibit No. 1, you've got the area of mutual interest outlined with a dark line. Does Santa Fe operate any wells within that area of mutual interest?

A. No, they do not.

Q. Do you operate any wells in the North Dagger Draw Pool?

A. No, we do not.

Q. Any in the South Dagger Draw Pool?

A. No, we do not.

Q. You acquired your lease on the west half of Section 10 when?

A. That lease was probably acquired in 1989.

Q. So that was before the Judith well was drilled?

A. Yes, sir.

Q. There's nothing in this agreement that

1 creates an area of mutual interest that would prevent
2 or limit Santa Fe's right to go ahead and develop its
3 leasehold interest, is there?

4 A. No.

5 Q. And so you've always had a right to drill
6 on the west half of 10?

7 A. Yes.

8 Q. But there was no formal proposal of a well
9 in that acreage until September of '92?

10 A. Yes, sir.

11 Q. So the actions of Yates you're complaining
12 about are since September of '92?

13 A. Yes, sir, in the last year, 14 months.

14 Q. Is there any provision in any agreement you
15 have with Yates whereby Yates is to drill wells at the
16 request of Santa Fe?

17 A. No.

18 Q. It's just a practice that has evolved
19 between the two companies?

20 A. It is a practice that has evolved between
21 the two companies. With all the acreage that is
22 stippled out there, there are existing joint operating
23 agreements whereby nonoperators may propose wells.

24 Q. Are those provisions existent in the
25 operating agreement on the east half of 10?

1 A. Yes, they are.

2 Q. Did you review the operating agreement
3 proposed for the south half of Section 10?

4 A. No, I did not.

5 Q. If it contained that kind of a provision,
6 then you could have under operating agreement proposed
7 a well in the southwest quarter, could you not?

8 A. I don't believe if the well in the
9 southeast quarter of Section 10 is a gas well, with
10 320-acre spacing, I don't believe you would be able to
11 propose and justify a well there. You would have that
12 south half dedicated to the 320-acre spacing.

13 Q. Do you know if it's a gas well?

14 A. No, sir, I do not know if it's a gas well.
15 I do not even know if the well has been completed.

16 Q. If it was an oil well, would you be able to
17 drill a gas well in the southwest quarter?

18 A. No, not at this time, not under the current
19 regulation.

20 Q. In the past you have proposed wells under
21 joint operating agreements; isn't that right?

22 A. That is true in cases -- only in a few
23 cases. Basically our proposals to Yates have been in
24 the forms of the two exhibits that I've presented. In
25 cases where we could not get them to drill lease line

1 wells, then we would formally propose under the Joint
2 Operating Agreement whereby if they wouldn't drill
3 them, we would.

4 Q. If I understood your testimony when you
5 were talking about your Exhibit No. 8, you stated that
6 you hadn't signed a JOA or communitization agreement
7 because if you did, you would never be able to protect
8 your correlative rights; is that your understanding?

9 A. Yes, sir.

10 Q. If you had a Joint Operating Agreement that
11 let you propose additional wells, do you still think
12 that would prevent you from protecting your
13 correlative rights?

14 A. I certainly believe that it would. If you
15 have your south half spacing unit dedicated to a well,
16 you're not going to be able to drill another well in
17 there, whether you propose it under the JOA or not.

18 If you do and you do get it, you could get
19 your allowable cut. If you had simultaneous
20 dedication, you could lose your allowable, lose part
21 of your correlative rights.

22 Q. Would you, would Santa Fe -- if you're not
23 the person to ask this of, tell me -- but would Santa
24 Fe be opposed to a 160-acre unit in the southwest of
25 10 for a well in 10?

1 A. I'm not the person you need to ask that.

2 Q. All right. Were you involved when the AFE
3 and the related documents were delivered to Santa Fe
4 by Yates by letter dated September 20?

5 A. Yes, to some extent. I was in and out of
6 the office a lot. One of my landmen that worked for
7 me basically got copied on this.

8 Q. Who in your company is responsible for
9 deciding if an AFE is approved or not?

10 A. Depending upon whether it is an exploration
11 AFE or a development well AFE, the production manager
12 for development wells, the exploration manager for --

13 Q. In the case of the AFE on the south half of
14 10, who would be in charge of reviewing that?

15 A. That would be the production manager.

16 Q. Were you involved in that process at all?

17 A. No.

18 Q. Do you know who would look at the document
19 to determine if in fact it accurately set forth
20 ownership interest in the acreage?

21 A. It should have gone through, it should have
22 been done by the land department. Like I say, this
23 AFE in particular was handled by one of my landmen.

24 The percentage shown on that AFE would have
25 been and is irrelevant to us. We felt that we had no

1 choice but to sign that because it was proposed under
2 a JOA, and we weren't going to go nonconsent. At the
3 least, that would be the smallest interest we would
4 have in that well.

5 If we were able to get 160 spacing
6 established for that well, our interest would be two
7 thirds. If we were not able to, and it does
8 eventually end up as a south half spacing unit, that
9 would be our interest.

10 Q. At the time that this was proposed to you,
11 did you discuss the percentage ownership you would
12 have under the south half as opposed to a southeast
13 quarter?

14 A. I did not.

15 Q. Do you know if anyone in your company did?

16 A. I do not. That could possibly, Mr. Davis
17 may have talked about that but --

18 Q. Did anyone in your department review the
19 title opinion that was enclosed with the AFE that
20 you're aware of?

21 A. Yes, I looked at the title opinion.

22 Q. And that was for the southwest quarter, was
23 it not?

24 A. Um-hm.

25 Q. Did you examine the Joint Operating

1 Agreement at all?

2 A. No. I had no intention of signing or doing
3 anything --

4 Q. Did you know that the contract area was the
5 south half?

6 A. I knew that was the proposed area, but it's
7 not an area that we had agreed to, nor were we going
8 to agree to it.

9 Q. When you signed the AFE, did you expect
10 Yates to go ahead and drill a well?

11 A. We did not expect Yates to go ahead and
12 drill the well until we had settled this dispute that
13 we were having. Hopefully, we would be able to get to
14 the Commission, present our case, and get it decided.
15 They would have had 90 days from the date we signed
16 that in which to spud that well.

17 Q. Prior to filing and serving the application
18 to force pool, had you advised Yates that you were
19 going to the Oil Commission to pool the land?

20 A. We told them that if they weren't going to
21 drill a well in the west half of Section 10, we were.

22 Q. And when did you do that?

23 A. We did that about two days before we made
24 our proposal on September 10th when we proposed the
25 well in the west half of 10.

1 Q. Were you the person that communicated that?

2 A. I communicated that to Miss Kathy Porter.
3 Gene Davis and I both had conversations with Kathy,
4 and I think Gene had some other conversations with
5 some other Yates' personnel.

6 Q. Have you been involved in these requests to
7 ask Yates to drill wells within the area of interest
8 and elsewhere?

9 A. Yes, I have.

10 Q. The request that you made in 1991, which is
11 set out on your Exhibit something or other --

12 A. It should be Exhibit 4.

13 Q. -- 4, have all those wells been drilled?

14 A. As of this date, they have all been
15 drilled. We made this request on November 4, 1991.
16 We asked that these wells be prioritized, primarily
17 because we were concerned about drainage. The first
18 well that we proposed on there, the northeast of the
19 southeast of Section 14 was drilled over a year
20 later. It was drilled in December of '92.

21 The second well we proposed on there was
22 drilled, completed -- I'm sorry; these are completed
23 dates. The second well we proposed in November of '91
24 was completed July of 1993. The third one was
25 completed in November of '93. The fourth well was

1 completed in May of '92. The fifth well was completed
2 in March of '92. The sixth well in June of '92. The
3 seventh well in 7 of '92. The eighth well in May of
4 '93. The ninth well we proposed in 9 of '92. The
5 tenth well in 2 of '92.

6 They basically, for the most part, drilled
7 them in the reverse order in which we had requested
8 them to drill. And, in particular, the lease line
9 wells where they had offset acreage in producing
10 wells, those were delayed until -- one was drilled in
11 December of '92. The other two were not drilled until
12 mid-year this year.

13 Q. Every one of these wells has been drilled?

14 A. As of this date, yes.

15 Q. Is there anything in your relationship with
16 Yates, when you proposed a well, that they have to
17 drill it?

18 A. No.

19 Q. Is there anything that says they have to
20 drill it at any particular time?

21 A. If we propose that well under JOA, yes,
22 there is. If they elect to participate, they have
23 whatever the Joint Operating Agreement calls for,
24 which is 90 days, in which to spud the well.

25 Q. Any of these wells that were under a JOA,

1 you could have proposed under the JOA in 1991 and been
2 on 90-day track to get the thing going, couldn't you?

3 A. Yes.

4 Q. But you didn't do that?

5 A. No, we did not.

6 Q. And as to the wells you proposed in 1992,
7 there's nothing that requires Yates to drill any of
8 those wells outside a Joint Operating Agreement;
9 correct?

10 A. That is correct.

11 Q. And Santa Fe could have gone out and
12 drilled any well that it wanted to --

13 A. No.

14 Q. -- outside a JOA?

15 A. Outside the JOA?

16 Q. Yes.

17 A. There would have had to have been a JOA in
18 place because all of these leases -- all of Santa Fe's
19 acreage that's stippled on here is jointly owned
20 acreage. So you would have had to have a JOA or a
21 force pooling to drill a well.

22 Q. Well, in Section 10 --

23 A. In Section 10.

24 Q. -- you could have proposed a well at any
25 time in the southwest quarter of the southwest

1 quarter?

2 A. And which we did in 1992. September of
3 1992, we proposed a well in the southwest quarter of
4 the southwest quarter of Section 10.

5 Q. And you could have, if they didn't want to
6 drill it, gone forward with your plans by force
7 pooling then; isn't that right?

8 A. That is correct.

9 Q. There are ways to develop this property
10 other than waiting for Yates to do it for you; isn't
11 that right?

12 A. Not necessarily when they're the operator.

13 Q. Other than by entering a contract with them
14 that you voluntarily agreed to, in any acreage that
15 isn't covered by a contract, you can go out and drill
16 a well, can you not?

17 A. That is correct. That's what we're
18 attempting to do here, Mr. Carr.

19 Q. And for as long as you've been involved
20 here, have you not to date drilled a single well in
21 the area of interest or either of these pools; isn't
22 that right?

23 A. No, sir, because we are not the operator.
24 Yates is the operator.

25 Q. Is Yates the operator of everything in the

1 area of interest?

2 A. Yes, sir, with the exception of the west
3 half of the west half of Section 10.

4 Q. Are they the operator of every property you
5 own in these pools?

6 A. Yes, sir.

7 Q. Well then --

8 A. These are the properties we own in these
9 pools.

10 Q. Is this only the second time that you have
11 -- well, they're not the operator of the west half,
12 are they, Mr. Green?

13 A. No.

14 Q. So they're not the operator of every
15 property you own?

16 A. They are not the operator -- technically,
17 they should be the operator. Our agreement with Yates
18 is they would operate the Dagger Draw field. There is
19 no Joint Operating Agreement in place covering the
20 west half of 10.

21 Q. You have an agreement that they'll be the
22 operator, but it has no terms that would give you the
23 right to propose the well?

24 A. No. It's a very loosely put together deal,
25 to be very blunt about it.

1 MR. CARR: Thank you, Mr. Green.

2 EXAMINER CATANACH: Mr. Bruce?

3 MR. BRUCE: Just a couple of follow-up
4 questions.

5 FURTHER EXAMINATION

6 BY MR. BRUCE:

7 Q. What year was the AMI formed, Mr. Green?

8 A. The AMI was formed in, I believe it was
9 January of 1989.

10 Q. Even before the lease on the west half of
11 Section 10 was issued by the Federal Government?

12 A. Yes, sir.

13 Q. And I think if you could maybe rephrase it,
14 is it like the west half of Section 10, there's no
15 operating agreement, but you have in the past by
16 informal agreement allowed Yates to operate your
17 acreage?

18 A. In the past what -- the way our deal has
19 worked with Yates, if there is not an operating
20 agreement in place covering a certain lease or area,
21 the wells are proposed at that time or we would ask to
22 propose a well. They would send us a well proposal.
23 Then they would send us a Joint Operating Agreement to
24 conduct operations on that particular lease with.

25 Q. And would you rather work out something in

1 harmony with Yates than be up here employing me?

2 A. Certainly.

3 MR. BRUCE: Thanks.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Just a couple. Mr. Green, if Santa Fe and
7 Yates were in agreement that the south half should be
8 developed as a proration unit, is it your testimony
9 that BLM would not approve a communitization for that
10 acreage?

11 A. In our conversations with Armando Lopez at
12 the BLM, he has basically told us that they would not
13 approve a communitization agreement for the south half
14 of Section 10 if those leases could be independently
15 developed. He said the only way they will approve a
16 communitization of two federal leases is if there is
17 geological testimony that shows that is the only way
18 to develop property.

19 We feel, and Mr. Davis can address this
20 later, we feel that the property -- each of those
21 leases can be developed independently.

22 Q. Assuming the south half dedication is
23 formed, you cited some regulations that would preclude
24 the drilling of a well in the southwest quarter. What
25 is that about?

1 A. I'm not familiar with those. Maybe I can
2 get Mr. Bruce to help me out with those. But right
3 now there is nothing in place that allows you to
4 simultaneously dedicate an oil well and a gas well in
5 the South Dagger Draw Pool rules.

6 Q. And you testified you did not review the
7 Joint Operating Agreement that was proposed by Yates
8 for the south half?

9 A. No, I did not review it. I'm sure it is a
10 -- the reason I didn't review it is because it
11 covered the south half. The well was proposed under
12 an operating agreement in existence that covers the
13 east half of the section, in my opinion.

14 There is an existing Joint Operating
15 Agreement that covers the east half. It was put in
16 place to drill the Ocotillo ACT #1 well. The location
17 of their well falls in the east half where there is an
18 existing JOA.

19 Q. The east half was formed in case it had to
20 be a 320-acre dedication on that well?

21 A. I'm sorry, could you repeat that, please.

22 Q. The operating agreement for the east half
23 was formed in anticipation of having to form an east
24 half, 320-acre proration unit for that well?

25 A. Just we covered it was one single lease.

1 The North Dagger Draw and South Dagger Draw line runs
2 through the center of Section 10. The south half -- I
3 mean the southwest quarter is in South Dagger Draw,
4 which is 320-acre spacing. The northeast quarter is
5 in the North Dagger Draw field, which is at 160-acre
6 spacing. But we did cover the whole 320 acres under
7 the JOA.

8 Q. What effect does that Joint Operating
9 Agreement have on the southeast quarter?

10 A. That operating agreement covers operations
11 and well proposals on anything that's drilled in the
12 east half, including the southeast quarter. I'm not
13 sure I answered your question.

14 Q. Under your proposal, does it have any kind
15 of legal binding effect on you guys, proposing a west
16 half or --

17 A. No.

18 EXAMINER CATANACH: Okay. I'm not going to
19 get into that. I think that's all I have for now.

20 The witness may be excused.

21 MR. BRUCE: Call Mr. Davis to the
22 stand.

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

EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of residence.

A. My name is Gene Davis. I live in Midland, Texas.

Q. Who do you work for?

A. I'm employed by Santa Fe Energy Resources.

Q. And what is your job there?

A. I'm the geological and geophysical manager.

Q. Have you previously testified before the OCD as a geologist?

A. Yes, I have.

Q. Were your credentials as an expert petroleum geologist accepted as a matter of record?

A. Yes, they were.

Q. Are you familiar with the geology in this area?

A. Yes.

Q. The area of this application?

A. Yes, I am.

Q. Is this Dagger Draw area within your area of responsibility at the company?

A. Yes, it is.

MR. BRUCE: Mr. Examiner, I tender Mr.

1 Davis as an expert geologist.

2 EXAMINER CATANACH: Mr. Davis is so
3 qualified.

4 Q. (BY MR. BRUCE) Mr. Davis, would you --
5 without letting me interrupt, you have about five
6 geological exhibits, starting with 16, would you go
7 through those and discuss the Cisco Canyon geology in
8 this area?

9 A. Yes, sir, Mr. Bruce.

10 Exhibit 16 is a structure map. It is a
11 structure map on Top of the Cisco Canyon Dolomite.
12 The map scale is 1 inch equals 2,000 feet. The
13 interval on the map is 25 feet.

14 Again, you see the same outline of the AMI
15 that Mr. Green referred to in his testimony around
16 Sections 2, 3, 10, 11, 14, and 15.

17 There are a number of well symbols on the
18 map, oil wells and gas wells. Santa Fe acreage is
19 stippled.

20 There are two green triangles, which they
21 represent wells that were staked by Yates but no AFE
22 was received by Santa Fe to date.

23 There are three well symbols or three
24 proposed well symbols in Section 10. Each one is
25 color-coded. The red one is the Santa Fe Energy-

1 operated L.P. Dagger Draw 1031 Federal well. The blue
2 one is the Yates Petroleum Ocotillo AGI Fed Com #2
3 well, which is currently being completed. And the
4 green is the Yates Petroleum Zorrillo ANZ Federal #1.

5 There is also a line of cross-section
6 labeled A to A', which goes across the acreage shown,
7 basically running east to west.

8 The structural trends that you'll notice on
9 the map basically run north-south. You'll see that
10 along the eastern half of the AMI in Sections 2, 11,
11 and 14, there is a structural high which rises to a
12 high point of about -3915 or 16 in the south part of
13 Section 14. And, again, it runs north-south.

14 You'll notice that most of the producing
15 wells that are associated with that structural high
16 are oil wells.

17 There is a low saddle, if you will, that
18 runs north-south again along the acreage lines between
19 Sections 2 and 3, 10 and 11, 14 and 15, respectively.
20 That's a low that drops down to below -4,000 feet,
21 below sea level.

22 As you move west of that low, the structure
23 on top of the Cisco Canyon Dolomite basically climbs
24 to the west, and it stops the structure -- or actually
25 the dolomite stops at an irregular boundary that is

1 located along the western edge of the AMI.

2 Basically what we have in the Dagger Draw,
3 South Dagger Draw and North Dagger Draw Fields, and
4 extending south into the Indian Basin Gas Field is a
5 very, I won't say narrow, but a couple-of-mile-wide
6 band of dolomite, a very porous dolomite. It is
7 flanked downdip into the east by basinal shales and
8 shaley limestones, which are nonporous.

9 On the west we have again nonporous
10 lagoonal limestone shelfward of this dolomite trend.
11 The dolomite is basically what we think to be a shelf
12 edge of Pennsylvanian age, which is probably a
13 carbonate buildup that has been dolomitized, is quite
14 porous and makes a very, very good reservoir.

15 Again, you'll notice that the oil
16 production is basically located on the east half, if
17 you will, of that dolomite trend as it runs across
18 this acreage position. And you see gas production on
19 the west half of the AMI as you move updip.

20 These gas wells in the pool, generally the
21 pool rules set aside that any well that has a GOR
22 greater than 30,000 is a gas well. And you will note
23 that in Sections 3, 10, and 15, there are currently
24 three gas wells that are producing from the Cisco
25 Canyon, one in Section 3 that you see is a gas symbol,

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1 and then there are two gas symbols in Section 15.

2 You'll note in Section 10, there is one
3 well that is classified as an oil well. I believe it
4 to be a gas well based on its GOR. Also in Section 3,
5 there is another well that you'll see in the southeast
6 quarter, and that well I believe is also, based on its
7 GOR, a gas well.

8 It's my belief that probably the Ocotillo
9 #2 well will be a gas well as well.

10 If we could go to the next exhibit, which
11 is Exhibit 17, Mr. Examiner, it is a cross-section,
12 and, I'm sorry, it's awfully large, and it will have
13 to be opened up. I apologize for that. I didn't have
14 a chance to have it reduced to a size that was more
15 convenient.

16 That cross-section line A to A' again goes
17 east to west across the acreage position. Let me
18 rearrange my desk here.

19 That line of cross-section starting on the
20 west begins with the Yates State D #1 well. It
21 continues going eastward through the Yates Algerita
22 AHR State #1 well located in Section 16, 20 South, 24
23 East. It continues to the north, jogs to the Yates
24 Petroleum Judith AIJ well in Section 9. It then goes
25 through the proposed location that is shown in red,

1 the Santa Fe Energy Dagger Draw 1031 Federal well,
2 which would located in Section 10 at a location 990
3 from the south and 990 from the west.

4 It then goes to the south and goes through
5 the Yates Petroleum Saguaro AGS Fed Com #2 well, which
6 is located in Section 15 in the north and west quarter
7 of that section. It then goes on to the east through
8 the Yates Petroleum Sara AHA #2 well, which is located
9 in the east half of Section 15. It ties at that point
10 to the north to the Yates Petroleum Ocotillo AJI Fed
11 Com #2 well located 660 from the south and east of
12 Section 10, and then finally ends up at the Saguaro #1
13 well operated by Yates in Section 11 in the southwest
14 quarter of that section.

15 This cross-section has a number of things
16 on it. It is hung on a stratigraphic marker; that is
17 stratigraphic cross-section. That strat marker is a
18 marker I call the Top of the Cisco Canyon. It is at
19 the base of a prominent shale marker and at the top of
20 a little limestone stringer that usually runs about
21 two to three, four feet thick.

22 Next, there are a number of lines of
23 correlation on here. I just want to go through those
24 real briefly. The one below the datum plane, the
25 first one encountered is the Top of the Cisco Canyon

1 carbonate. In this area it is generally a limestone;
2 it is not a dolomite. As you go farther to the east,
3 the buildup of the dolomite is a lot thicker, and
4 generally you encounter very little limestone at all
5 at the Top of the Cisco Canyon.

6 There is another marker, a Cisco Canyon
7 shale marker down there. If we looked at the middle
8 log, the Saguaro #2, you see that occurs at about 7515
9 feet or so. That's a real prominent marker that I can
10 correlate from well to well.

11 Beneath that you will see an area that is
12 shaded blue, and that is the Cisco Canyon Dolomite
13 itself. That is the reservoir facies for the South
14 Dagger Draw Pool. That is all shaded in blue.

15 And then right beneath that, in some cases
16 coinciding with the Base of the Cisco Canyon Dolomite,
17 is what I consider to be the Base of the Cisco Canyon
18 carbonate. In some cases the dolomite grades into a
19 limestone right at its base.

20 I've also shaded on this particular -- just
21 to back up for a second, you'll notice that there are
22 in each wellbore, there are in the center track of the
23 wellbore or well log itself is a black-shaded area
24 with clear open circles in the center of it. Those
25 represent the perforations, the perforated intervals

1 in those wells.

2 Beneath each of the wells there is some
3 information as to when the well was TD'd, the
4 perforated intervals, the treatment put on the well,
5 when the well was completed, the type of well that was
6 listed or was basically classified as by the operator
7 and turned in to the state. Also, the potential on
8 that well and any other data that would testify or
9 comment as to its reclassification.

10 Two wells, the Saguaro #2 and the Sara #2,
11 both located in Section 15, were originally classified
12 as oil wells, even though they had GOR's that were in
13 excess of 30,000. In fact, one was in excess by
14 70,000 on the GOR side, both classified, though, as
15 oil wells and then reclassified at later dates as gas
16 wells.

17 I've also shaded on each log the porosity
18 on the density curve that is above or minus 4 percent;
19 that is, greater than or equal to minus 4 percent or
20 minus 4 porosity units -- pardon me, not percent but
21 porosity units. And that's all shaded red, and we'll
22 discuss that in a little bit of detail here as we get
23 to the next further exhibits.

24 The scale on this horizontally is just
25 relative. Vertically, there is a scale of 2-1/2

1 inches equals 100 feet. We'll refer back to this.
2 Keep it handy. We'll refer back to it as we look at
3 the further exhibits.

4 Exhibit No. 18 is an isopach map of the
5 gross Cisco Canyon or Canyon dolomite facies. That is
6 the zone that is colored blue on the cross-section.
7 This has a contour interval of 50 feet and, again, the
8 same scale. In fact, all of the maps presented are of
9 the same scale, 1 inch equals 2,000 feet.

10 You'll see again the same boundaries of the
11 dolomite package both on the east and west, basinal
12 shales on the east, the nonporous lagoonal limestones
13 on the west.

14 You'll also notice that there is a marked
15 thickening of the isopach to greater than 300 feet
16 along the eastern margin of the AMI that Yates and
17 Santa Fe have through Sections 2, 11, and 14. That's
18 where the thickening occurs. You'll notice that that
19 thickening -- well, you basically see after reaching
20 an apex right basically along the lease line between
21 Sections 11 and 12 for reference purposes. As you go
22 to the west, that thickening decreases. You see a
23 marked thinning.

24 By the time you get to the west edge of
25 Section 11, we are down to 142 feet of dolomite from a

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1 high of about 300 feet on the eastern edge. By the
2 time you hit the Ocotillo Fed Com #2 well, we're down
3 to 127 feet of dolomite.

4 You'll note that in the well to the south,
5 the Sara #2, it is 130 feet thick, to the north in
6 Section 10, 136 feet. And the Ocotillo well in the
7 northeast quarter and in Section 3 in the southeast
8 quarter in the Yates-operated Cholla well, it is 136
9 feet.

10 We do see a little thickening of the gross
11 Canyon dolomite interval, however, as you go to the
12 west across Sections 15 in the south quarter, Section
13 10. It does thicken to 154 feet in the Yates-operated
14 Saguaro #2 well. And then from that point it thins
15 dramatically. And when you get to the center portions
16 of Section 16 and parts of Section 9, it thins to 0.

17 The Judith well is 68 feet thick, the
18 Algerita is 85 feet thick, and the Yates #1 "D" well,
19 which is the extreme western well in the
20 cross-section, is only six feet thick, and the 0 line
21 is projected to be just outside that.

22 There are some -- generally, the dolomite
23 interval is fairly continuous. There are some
24 occasional shale barriers but not too many.

25 Our core data that we have in the area, we

1 are privy to two cores in the area: the Ocotillo #1
2 well drilled in the northeast quarter of Section 10,
3 there is a continuous core taken through the Cisco
4 Canyon by Yates in that well, and there is also a
5 continuous core in Section 14, in the Saguaro 8 well,
6 which is located in the southwest quarter of the
7 southeast quarter of that section.

8 Those two cores we have looked at. They do
9 show very little vertical fracturing in the reservoir
10 facies in the dolomite itself. There are zones or
11 layers of very large vugs, which tend to be very
12 porous, range up to as much as 14 or 15 percent in
13 porosity, and then there are abundant zones also or
14 layers of small pinpoint vugs, a lot smaller vugs.
15 The large vugs, in some cases you could put your thumb
16 into. The smaller vugs are the size of a typical
17 pen. And then there are also zones of just good
18 intercrystalline porosity.

19 Again, I just want to point out that the
20 thick that we see associated in the isopach, Gross
21 Canyon dolomite isopach, is associated generally with
22 all the oil wells that we see in the Dagger Draw South
23 Pool in this portion of the pool.

24 If we could turn to the next exhibit,
25 please, Exhibit 19, that is an isopach map as well of

1 the Cisco Canyon Dolomite. And here we're -- I'm
2 basically isopaching the density porosity that is
3 greater than or equal to -4 porosity units, not
4 percent. I apologize for the small error there on the
5 title block. It does say "percent." It should say
6 "porosity units," small drafting error. I apologize.

7 Basically what we've done here, as you look
8 back to the cross-sections, as I've said, we've
9 colored on the cross-section in red the points where
10 the density curve deflects to the left past a value or
11 greater than a value of -4 porosity units.

12 Now it seems strange that we'd have -4
13 porosity units, but all these logs represented on the
14 cross-section are compensated neutron logs/litho
15 density logs. So they're basically neutron density
16 logs to measure porosity.

17 In all cases or instances, they are all
18 logged, but they reference datum of 2.71 granite per
19 cubic centimeter, which is good for limestone but not
20 for dolomite. If you were looking at a limestone that
21 was tight, both of the curves would track pretty much
22 along the 0 porosity unit scale.

23 And just so I could point that out to you,
24 if you look at the extreme right portion of each log,
25 you can see that that scale is broken into four main

1 units marked by dark lines, starting on the right and
2 moving to the left. On the right, the value would be
3 -10. The next major dark line, which would be five
4 units over, is 0. The next dark line over, which
5 would again be five units, would represent the actual
6 centerline of that porosity scale on that log would be
7 10 units, and then 20 and 30, and so on across that
8 bottom scale.

9 The CNL log, when we look at again, as I
10 said, with a limestone, a limestone would basically
11 track along the 0 line along those log scales. In the
12 case of a dolomite, however, the density curve gets
13 pushed to the right or deflected to the right, and
14 therefore you have to kind of make adjustments for
15 that. When you look, use the chart books and use
16 correction factors built into the chart books and
17 cross-plot the neutron versus the density
18 measurements, you can get a cross-porosity that would
19 end up being in a positive number.

20 The reason I used the -4 porosity units
21 cutoffs in this case to isopach is that it corresponds
22 pretty much when you cross-plot it with the neutron
23 readings through those zones to be around or close to
24 3 percent cross-plot porosity, and we think that 3
25 percent cross-plot porosity and greater is basically

1 reservoir pay in the South Dagger Draw field.

2 This value also tracks pretty well with the
3 zones that Yates has perforated in most of the wells
4 in the South Dagger Draw Field. That is to say that
5 if you looked at -4 porosity units on most of the
6 wells in the South Dagger Draw Pool that we are
7 involved in with Yates, we would find that those zones
8 have been perforated. That is not true in every case,
9 but in the majority of cases, it is true.

10 What this isopach shows is that you'll see
11 two major trends of thickness as to the density
12 porosity through the dolomite zone. First you'll see
13 a trend that goes basically north-south, maybe skewed
14 a little bit north-northeast to south-southwest across
15 the Sections 2, 11, and 14, basically along the
16 eastern half of those sections, where it reaches in
17 excess of 100 feet, in places up to 160 feet thick.

18 Again, where we saw the structural saddle
19 before on Exhibit No. 16, I believe, you'll see that
20 there is also marked thinning in the porosity that
21 corresponds with that, and that trends basically
22 across Section 2 down through the corner, if you will,
23 of Sections 2, 3, 10 and 11, across the zone just to
24 the west of the Ocotillo Fed Com #2 well, which is
25 being completed, down through the Sara 2 well, which

1 has only got 25 feet of density porosity greater than
2 or equal to 4 porosity units, and then down into
3 Section 22.

4 As you go across into the west side of
5 Section 10, you'll note that there is a thick where it
6 gets up to as much -- we projected to get up to as
7 much as 75 feet thick, running through the west half
8 of Section 15, through the southwest quarter of
9 Sections 1, and through the central and portions of
10 the northeast quarter of Section 10, and then through
11 the eastern half of Section 3, where it attains a
12 thickness of about 68 feet.

13 This is all controlled by the control
14 points we have in the Cholla well in Section 3 at 68
15 feet, the Ocotillo #1 in Section 10 at 58 feet, the
16 Saguaro #2 well in Section 15 at 73 feet, and as we
17 come to the south, the Conoco 14 well that is drilled
18 in the southwest of the southwest of Section 15, that
19 is 53 feet thick.

20 The constraints we have as you go, again,
21 farther to the west, the Judith is 53 feet, the
22 Algerita 49 feet, and then once you get to the marked
23 well in Section 16 at the very far end of our
24 cross-section line, it is 0 feet thick.

25 Q. Based on this, Mr. Davis, you would

1 anticipate your proposed, Santa Fe's proposed well to
2 test the reservoir as good as the Judith well or as
3 good as the Ocotillo ACI No. 2 well?

4 A. I expect that the reservoir there will be
5 more in line with the type of reservoir we see in the
6 Saguaro 2 well in the south in Section 15.

7 Q. Are you through with this exhibit?

8 A. Yes, I am.

9 Q. Could you then go on to Exhibit 20?

10 A. Exhibit 20 is a production map, again, of
11 the area. It is a production map showing production
12 in the North-South Dagger Draw fields. It is dated
13 through 6-1-93. The data is basically data we have
14 commercially available to us through Dwight's, a
15 company out of Richardson, Texas. Their source for
16 that data is the NMOCD. I think you can get data
17 probably that's current now through August, but at the
18 time of the production of this map, all I had
19 available to me was through June 1st of '93.

20 Again, you can see the line of the AMI.
21 The Santa Fe acreage is stippled. The Yates location
22 is in green that they had staked, but no AFE was
23 received. The three locations to be discussed here at
24 the hearing today are the Ocotillo 2, the Dagger Draw
25 1031, and the Zorrillo ANZ No. 1.

1 The production here is color-coded. Green
2 is Wolfcamp. Light light blue is Penn. The darker
3 blue is Strawn. Atoka is shown in, I guess, a
4 purple. And Morrow is in a magenta color.

5 You can see that the lion's share of the
6 production throughout the area is from the Cisco
7 Canyon or the Pennsylvanian.

8 Next to each well, there is some
9 symbology. That symbology basically is that you have
10 the date of first production of the well, the barrels
11 of oil cumulative underneath that, and that is in
12 thousands of barrels of oil, and then cumulative gas
13 production, and that is in millions of cubic foot of
14 gas.

15 Q. Based on your study and the exhibits you
16 just testified about, is there any geological basis to
17 have a south half unit rather than a west half unit?

18 A. I'm sorry, would you ask that again?

19 Q. Sure. Is there any geological basis to
20 have a south half unit rather than a west half unit?

21 A. No, I don't see any at all.

22 Q. Would you anticipate the entire Section 10
23 being productive in the Dagger Draw Pool?

24 A. Yes, I do. I believe the entire section
25 will be productive in the South Dagger Draw Pool

1 except for the northeast quarter, which is in the
2 North Dagger Draw Pool.

3 Q. Now, looking at your Exhibit 20, the AMI
4 area seems to be ringed by producing wells?

5 A. That's correct. One of the things I'd like
6 to make a comment about on the production map is that
7 you'll notice that a large portion of the field,
8 especially that portion that is in the eastern half of
9 our AMI with Yates, is developed in a large part on
10 40-acre spacing. And, again, most of that AMI is
11 ringed by producing wells.

12 Yates has, in general, protected their
13 correlative rights by drilling wells, offsetting
14 wells, and within the AMI at the nearest legal
15 location. There are a few exceptions, but they are
16 few.

17 In contrast, there have been times when we
18 have had, at Santa Fe we've had some problems getting
19 Yates to drill some of the lease line wells that we
20 felt needed to be drilled. And, again, those wells
21 that we would have recommended would have been at
22 legal locations, and they would have been offsetting
23 wells that Yates had produced, and Yates' interest
24 would have been 100 percent, to the best of my
25 knowledge, outside of our AMI.

1 There are a few notable instances of this
2 that I'd like to describe, if I can, because I think
3 they have some bearing on what some of our frustration
4 has been here in dealing with Yates.

5 The first would be the Sara 8.

6 MR. CARR: I'd like to again make the
7 objection that I made before and have it on the
8 record, and I anticipate your ruling, but I would like
9 to object to this testimony as irrelevant.

10 EXAMINER CATANACH: Thank you, Mr. Carr.

11 How many of these instances are you going
12 to cite?

13 THE WITNESS: Two.

14 EXAMINER CATANACH: Okay. Let's go ahead
15 and do that.

16 MR. BRUCE: Be very brief, Mr. Davis.

17 THE WITNESS: I will be as brief as I can.

18 The Sara 8 well, which was a well that we
19 proposed to Yates, it is located in the southeast
20 quarter of the northeast quarter of Section 11. If
21 you look at the production map, you can see it fairly
22 clearly. It doesn't have any production data tied to
23 it, and that well now is completed.

24 It was first proposed to Yates 11-4-91, and
25 it shows on the Exhibit No. 4 Mr. Green gave, and that

1 was a letter we submitted to Yates basically at the
2 request of Kathy Porter after some telephone
3 conversations with her, that basically stated what
4 wells we'd like to see drilled in 1992 as a part of
5 the drilling program.

6 There were two wells producing in the
7 northeast quarter at that time. They would have been
8 in the northeast of the northeast, and the southwest
9 of the northeast. That was in this particular quarter
10 section, 160-acre unit was in the North Dagger Draw
11 Pool. So it has 160-acre spacing and 700 barrels of
12 oil per day allowable.

13 Six of the nine adjacent offsets were
14 producing at that time and a seventh had been staked.

15 My concern was that Yates had an offset
16 well that they were preparing to spud called the
17 Hillview 9, which was a direct offset to the east,
18 which in Section 12 would be in the southwest of the
19 northwest quarter. That well was completed in
20 December of '91. It came in at a producing rate of
21 605 barrels of oil per day, 1.5 million cubic foot of
22 gas, and 769 barrels of water.

23 What Yates' response in the early part of
24 1992 was, or I shouldn't say in the early part,
25 actually in probably June of '92, they drilled a well

1 in the northeast quarter of Section 11, and that was
2 the Saguaro 13, which was located in the northwest of
3 the northeast. When we sent our letter, Exhibit 4, to
4 Yates, we prioritized that we wanted to see the Sara 8
5 well drilled first because it was a lease line well,
6 and we had made that comment known to Yates because we
7 felt that we wanted to have the lease line wells
8 drilled in order to protect our correlative rights.

9 That Saguaro 13 was drilled, made a good
10 well, and that was fine. It pushed the production in
11 that quarter section over the allowable at that
12 point. Gary Green and myself called and talked with
13 Kathy Porter prior to the drilling of the Saguaro 13,
14 and the reason was, we asked them why they were going
15 to drill that particular well, the Saguaro 13 and not
16 the Sara 8. Their response was, "That's the well that
17 is in our drilling program right now, that's what's in
18 our drilling schedule, and it can't be changed."

19 We said, "Well, jeez, we don't quite
20 understand that," and she said, "Well, our geologists
21 get together with management, they design the drilling
22 schedule, and that's the way the drilling schedule is
23 going to be."

24 We said, "We'd certainly like to change
25 that if possible," and she said, "Well, we'll make

1 your concerns known to management, but that's the best
2 we can do right now."

3 They went ahead, as I said, and drilled
4 that well.

5 After the well was drilled, we called again
6 and asked if it was possible to drill the Sara 8
7 anyway and curtail the production of some of the wells
8 in that particular quarter section in order to keep
9 production down below the allowable of 70 barrels of
10 oil per day so that we could get some production out
11 of the Sara 8 and take care of our correlative rights,
12 and we were told that that was not something that
13 management at Yates wanted to do, and they would
14 certainly voice our concerns, but that was the best
15 that would happen. The Sara 8 was spudded in June of
16 '93 and completed in July of '93.

17 Q. (BY MR. BRUCE) Mr. Davis, why don't you
18 move on to the other example, which is in Section 15,
19 I believe?

20 A. Yes. The other example is the Conoco 14
21 well, which is the well that was drilled in the
22 southwest of the southwest of Section 15. That well
23 at the time we proposed it, 11-4-91, there was the
24 Yates Algerita well producing 660 feet off the lease
25 line in Section 16, a legal location for a Canyon

1 well. There was one other well producing in Section
2 15 in the west half, 320-acre standup proration unit.
3 That was the Saguaro 2 well, which had been drilled
4 and completed in May of 1990.

5 We had no response from Yates to our
6 11-4-91 letter, which is Exhibit 4. There was no
7 response or action taken by Yates to that letter.

8 The second letter we sent to Yates,
9 recommending a southwest southwest location, was in
10 September of '92, and that was basically in response
11 to Yates having drilled their Albert well in Section
12 21, a direct southwest offset, 660 feet off the lease
13 line in early 1992.

14 When they came to us and said they wanted
15 to drill a well in Section 21, the Albert well,
16 basically an unorthodox location because it was a
17 Morrow depth well, we said that was fine, we granted
18 them the unorthodox location with no problem. We just
19 wanted them to be sure they would grant us the same
20 opportunity in Section 15 if the case arose.

21 During the time period of the letter of
22 November the 4th, '91, and September 23, '92, the
23 second letter we sent to Yates proposing that
24 southwest southwest location, I had a number of
25 conversations with Pinson McWhorter at Yates. The

1 gist of those conversations, the reason for those
2 conversations is that when we drilled the well in
3 Section 14, the Saguaro 8, we took a full core, we
4 were going to pay for 62-1/2 percent of that
5 particular well, and we were going to have to pay for
6 62-1/2 percent of the core as well, and we were
7 willing to do that, because Yates, Pinson McWhorter
8 told me, was going to pay to have a big study done in
9 the South Dagger Draw pool, on their behalf,
10 obviously, to study that particular reservoir.

11 They were certainly unclear as to the total
12 complexity of the reservoir and how the reservoir
13 worked, and they wanted to understand it better. And
14 we certainly were all in favor of that considering
15 they were operating the wells in our AMI, and we
16 wanted to be able to understand it as well. We felt
17 that would be something that would be very valuable to
18 us as a company, both to Yates and to Santa Fe,
19 because better wells would better manage the reservoir
20 and hopefully better well locations would result.

21 So we had no problem with doing that,
22 getting the core taken care of and paying for our
23 share of the core and the sophisticated engineering
24 work that was done on the core afterwards.

25 My discussions with Pinson at that time

1 also went to details somewhat. We discussed at some
2 length the availability of that study and the data
3 from that study, and although Pinson couldn't just
4 tell me that I could have the data to look at, he did
5 say he thought there wouldn't be any problem with us
6 having a chance to come over to their offices in
7 Artesia where they could make the report available to
8 us so we could take a look at it and see if we could
9 understand a little bit about the reservoir as well.

10 That was something I realized he had to
11 clear with management, and he told me on every
12 occasion that that was something that would have to be
13 cleared with Yates' management, but he didn't see it
14 as being a big problem or something that wouldn't be
15 granted.

16 Every time I talked to him during the
17 period of time through November through about---
18 November '91 through September '92, I asked him how
19 the study was coming, and it seemed that it was either
20 getting stalled every time or there was new things
21 that had to be added and more delays and more delays,
22 and it seemed like that study was never getting taken
23 care of.

24 On 9-21-92, Gary Green and I called Kathy
25 Porter. We asked them, there were seven more wells we

1 would like to see drilled and one recompletion during
2 the fourth quarter of '92. One of those wells was a
3 southwest southwest well in Section 15. The next day
4 I wrote a letter to Gary Green, which is Exhibit No.
5 20 --

6 Q. 21?

7 A. 21, rather, I'm sorry. It's a letter I
8 wrote to Gary Green, a followup after that phone
9 conversation with Kathy Porter. And if you look on
10 page 2, one of my concerns was we wanted to -- I felt
11 like Yates was going to drill the top three wells, No.
12 1, No. 2, and No. 3 listed on that page, sometime in
13 the next couple of months, but in order to drill any
14 more additional wells, I felt they were going to have
15 to employ another rig, something that Kathy seemed to
16 intimate, it was something that they would be willing
17 to do if we really wanted them to do it.

18 I thought we should stress our desire to
19 see the lease line gas cap wells in Section 10 and 15
20 drilled as soon as possible to take advantage of the
21 excellent gas prices that we were starting to see.
22 Gas prices were improving, and I felt like we needed
23 to get those wells drilled and get some gas production
24 into Santa Fe's interests, and as well I felt like we
25 had wells that were draining us on the lease line, the

1 Algerita and the Judith, since they were only 660 feet
2 off the lease line.

3 Those two wells in the month just prior, in
4 fact on a daily basis just prior to the date of this
5 letter, those two wells were both producing
6 cumulatively 7.5 million cubic foot of gas per day and
7 50 barrels of oil per day. And their argument that
8 they didn't want to drill -- one of the arguments that
9 Pinson always used on me was Yates was very concerned
10 about drilling any more gas cap wells because they
11 were afraid they might be depleting the reservoir
12 energy and therefore damaging the potential for
13 producing oil in the oil leg of the reservoir.

14 And it seemed to me that argument was
15 getting pretty thin. It was time that we did
16 something in that area.

17 MR. CARR: Mr. Catanach, I've got to
18 object. Not only are we having a long, just tirade
19 about Yates, but now we're characterizing statements
20 by other people as being "thin." I think the time has
21 come to get back to the issues: compulsory pooling,
22 the nonstandard unit, and the shutin of the Judith
23 well.

24 MR. BRUCE: He was merely stating his
25 opinion as far as the argument being thin.

1 MR. CARR: I object to that kind of
2 characterization of the testimony.

3 MR. BRUCE: Let me just wrap this up then,
4 Mr. Examiner, with a couple of --

5 Q. Mr. Davis, just a couple of quick questions
6 then. The well in the northeast quarter of Section
7 21, when was that completed?

8 A. The well in the northwest quarter in
9 Section 21 was completed in February of '92.

10 Q. When were you able to get the completion of
11 the Conoco AGK 14 in the southwest quarter of Section
12 15?

13 A. The well was spudded in March of -- in
14 April of '93 and completed in May of '93.

15 Q. So about a year and a quarter later?

16 A. That's correct.

17 Q. What has Yates proposed as far as, do you
18 know of any Yates activity in the north half of
19 Section 22?

20 A. Currently, Yates has staked a well in the
21 northwest quarter of Section 22 at a location 660 feet
22 from the north line and 1980 feet from the west line.
23 That will be the second well in that particular
24 320-acre proration unit.

25 Q. They were pretty prompt at drilling an

1 offset to your Conoco AGK 14?

2 A. I believe so, yes -- I'm sorry, Mr. Carr,
3 that's not on the map.

4 Mr. Examiner, it's not on the map.

5 Q. (BY MR. BRUCE) Okay. Now, as far as this
6 specific well, the one in the southwest quarter of
7 Section 14, you've already testified that your Exhibit
8 21 was an internal memo that prompted Mr. Green's
9 letter to Yates in September of 1992. After that
10 letter, did you have numerous conversations with
11 Yates?

12 A. Yes, I did.

13 Q. Who did you have them with at Yates?

14 A. This was after the letter of 9-22-92?

15 Q. Correct.

16 A. I had some conversations with both Kathy
17 Porter and Pinson McWhorter, not as many with Pinson
18 but a number with Kathy.

19 Q. Okay. Did you encourage the drilling of a
20 well in the southwest quarter of Section 10?

21 A. Yes, I did.

22 Q. Would Yates ever commit to drilling that
23 well?

24 A. They never committed to me on the phone
25 that they were going to drill a well there. They

1 basically were not interested in drilling a well in
2 the gas cap.

3 Q. Now, as far as this study that you talked
4 about, a reservoir study by Yates, have you ever been
5 able to see this study?

6 A. No, I have not.

7 Q. Would that help Santa Fe in choosing well
8 locations?

9 A. It certainly would help us to get a better
10 handle on the reservoir, to understand the reservoir
11 better.

12 Q. And in connection with that, just what is
13 Exhibit 22, very briefly?

14 A. Exhibit 22 is a letter that we received
15 from Yates from Kathy Porter. It's basically with
16 regards to the Conoco AGK Fed Com #14, telling us that
17 they are going to drill the well. It's dated
18 12-28-92, and that they would drill it as soon as they
19 got their APD approved.

20 The last sentence in that particular letter
21 basically states that they hope that the results of
22 the study will be in hand soon, and that both
23 companies could then evaluate and make prudent
24 decisions.

25 And I kind of read that to say that that

1 study is going to be done fairly soon, that I would
2 have an opportunity to look at it or at least discuss
3 it some.

4 Q. In summary, Santa Fe has had difficulty
5 getting Yates to drill a well to offset Yates' 100
6 percent-owned wells?

7 A. That's correct.

8 Q. And despite its concerns about the gas cap,
9 it appears to be producing its Cisco Canyon gas cap
10 wells; is that correct?

11 A. Yes, they are, all 15 or 16 of them.

12 Q. As far as the requested nonstandard unit
13 for the southeast quarter, the Ocotillo #2 well, based
14 on development in this area of the pool, is a
15 nonstandard unit any problem?

16 A. I don't see it as being a problem, no.

17 Q. Immediately to the east of this well, the
18 development is basically on 40's, isn't it?

19 A. Immediately to the east of the Ocotillo 2,
20 most of the oil production is on 40-acre spacing,
21 that's correct.

22 Q. And the northeast quarter is spaced on 160
23 acres of Section 10?

24 A. Yes, the northeast of 10 is spaced on 160
25 acres.

1 Q. If Yates goes nonconsent, what penalty
2 would you recommend against Yates as a nonconsenting
3 interest owner?

4 A. 200 percent.

5 Q. Final question here, Mr. Carr asked Mr.
6 Green about a nonstandard unit for the southwest
7 quarter. Do you see any problem with that?

8 A. A nonstandard unit being 160 acres?

9 Q. That's correct.

10 A. I'd have to talk it over with management,
11 but I think I would be inclined to recommend it.

12 Q. In your opinion, is the granting of this
13 application in the interests of conservation, the
14 prevention of waste, and the protection of correlative
15 rates?

16 A. Yes, it is.

17 Q. Were Exhibits 16 through 22 prepared by you
18 or compiled from company records?

19 A. Yes, they were.

20 MR. BRUCE: Mr. Examiner, I move the
21 admission of Exhibits 16 through 22.

22 EXAMINER CATANACH: Exhibits 16 through 22
23 will be admitted as evidence.

24 Mr. Carr?

25 MR. CARR: Mr. Catanach, I have very few

1 questions, you'll be glad to know.

2 EXAMINATION

3 BY MR. CARR:

4 Q. If you had two nonstandard units in the
5 south half of 10, could that pose any allowable
6 problems for you down the road?

7 A. If you had two nonstandard units in the
8 south half of Section 10, I assume they would both be
9 in the South Dagger Draw Pool. The South Dagger Draw
10 Pool is on 320-acre spacing, which is 1400 barrels a
11 day. I assume -- I'll make some assumptions, I guess,
12 that your allowable would be cut in half; is that
13 correct?

14 Q. If I were advising you, I'd say so.

15 A. I'm sure I would seek advice, Mr. Carr, but
16 I don't think it would pose us a problem.

17 Q. Does it make any sense, though, to chop a
18 spacing unit into 160's, in a pool that's spaced on
19 320?

20 A. In this case I don't think it's necessary
21 because I think we could drill the west half as a
22 standup 320. Unfortunately, we would have to restrict
23 the southeast quarter into a 160. So that does pose a
24 little problem, I'm sure.

25 Q. If I understood your testimony, you stated

1 that you thought the Ocotillo #2 was probably going to
2 be a gas well; is that correct?

3 A. It would be my conjecture at this point,
4 yes.

5 Q. If that's correct, you could also drill on
6 a south half unit an additional gas well over in the
7 southwest quarter, could you not?

8 A. Yes, you could.

9 Q. In fact, you have two of them down in 15 on
10 the west half, two gas wells?

11 A. That's correct.

12 Q. You had trouble getting Yates to offset the
13 well in the northeast of 21, was that your testimony?

14 A. Actually, I had a problem with getting
15 Yates to offset the well in Section 16, which is the
16 Algerita well, and in drilling a second well in the
17 proration unit, that the --

18 Q. Well, was the well in Section 21 one of the
19 wells you identified as a problem, getting an offset
20 to it?

21 A. Not a problem getting an offset to it, Mr.
22 Carr, no.

23 Q. You're not happy with the way Yates drills
24 wells when you ask them to in terms of the ordering
25 and the speed with which they get around to it?

1 A. That would be correct.

2 Q. You're not happy with the fact that Yates
3 doesn't provide you with a copy of their study; is
4 that right?

5 A. I think what I am -- I've been told one
6 thing, and it seems that I'm being told another thing,
7 and the second, the last conversation I had with
8 Pinson McWhorter, just after they sent us the proposed
9 drilling application for the Ocotillo #2, I asked him
10 if it was going to be possible for me to look at that
11 study or review it as we had talked about in the past,
12 and he told me that that study was confidential, and
13 it was not going to be reviewed by anyone outside of
14 Yates, and I was certainly not going to be allowed to
15 do that.

16 He did tell me that waterflood was
17 contemplated based on that study, but that's all.

18 Q. Santa Fe hasn't paid for that study, have
19 they?

20 A. As I said, Mr. Carr, we did not pay for the
21 study. We did contribute data to the study. We were
22 more than happy to have a well drilled and take a core
23 in that, which we would pay 62-1/2 percent of.

24 Q. And that was done?

25 A. Yes, it was.

1 Q. And you got the data on that core?

2 A. Yes, we did.

3 Q. Did you pay any other costs related to the
4 study?

5 A. We paid our 62-1/2 percent of that
6 particular core, that's correct.

7 Q. Of the core?

8 A. That's correct.

9 Q. And you got that data?

10 A. You bet.

11 Q. But as to the rest of the study, you didn't
12 pay?

13 A. That's correct.

14 Q. Do you drill wells as a company on some
15 sort of a regular basis?

16 A. I think so, yes.

17 Q. Do you have partners in those wells?

18 A. Yes, we do.

19 Q. Do they tell you when to drill wells?

20 A. Yes, on occasion, they do.

21 Q. Do you abide by their directions?

22 A. We certainly try to, yes.

23 Q. And when you're doing that, what kind of
24 considerations come in? Rig availability?

25 A. Certainly.

1 Q. Demands of other partners?

2 A. Certainly.

3 Q. Funds?

4 A. Always.

5 MR. CARR: Thank you. That's all I have.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Davis, you don't have any information
9 on the completion of the Ocotillo #2; you're just
10 assuming that's going to be a gas well?

11 A. I have some data in my possession in the
12 drilling report from this morning.

13 Q. Is it a pretty reasonable assumption that
14 it's going to be a gas well?

15 A. There is no gas reported. They perforated
16 the lower -- I think they made six or seven holes -- I
17 hate to misspeak, but it's six to eight holes in the
18 very bottom portion of that well. The well was
19 already overload, and recovery on the swab -- it may
20 have been on a pump. I don't believe it was. I think
21 it was on a swab -- it had produced overload. It made
22 2 barrels of oil and a large volume of water. No gas
23 was reported. And that means no gas. They didn't
24 even make any mention about gas being reported.

25 They were currently, as of the date of

1 December 1st, which was yesterday, perforating
2 uphole. There was no data as to that well being
3 completed as a producer.

4 In my testimony, my own correlations in the
5 area, it would be my guess that that's going to be a
6 gas well based on a 30,000 GOR.

7 Q. A well in the southwest quarter of Section
8 10 would be a gas well as well?

9 A. I believe it would be, yes.

10 Q. Would Santa Fe have any plans to develop
11 the northwest quarter of Section 10?

12 A. I'm sure we'd like to drill a second well
13 up in the northwest quarter of Section 10, yes, and
14 we'd like to do that as soon as we could get a well
15 drilled there.

16 Q. So you would have two wells in the west
17 half?

18 A. That's correct, just as we do in the west
19 half of 15.

20 Q. Is it a pretty good assumption that you
21 will get a good producing well in the southwest
22 quarter of Section 10?

23 A. I believe we will.

24 Q. Tell me what your 200 percent risk penalty
25 is based on.

1 A. I believe that if Yates is not going to
2 participate under the order, then they ought to be
3 penalized because we're taking the risk, the
4 mechanical risk. We're also taking the risk that
5 something could happen geologically that's unforeseen.

6 EXAMINER CATANACH: I don't have anything
7 else. The witness may be excused.

8 Let's take a break here, ten minutes.

9 (A recess was taken.)

10 EXAMINER CATANACH: We'll call the hearing
11 back to order and turn it over to Mr. Bruce.

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

15 EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name and city
18 of residence for the record.

19 A. Don Rogers, Midland Texas.

20 Q. Who do you work for?

21 A. Santa Fe Energy Resources.

22 Q. And what is your job with Santa Fe Energy?

23 A. I'm a senior engineer.

24 Q. Have you previously testified before the
25 Division?

1 A. No, I have not.

2 Q. Where did you get your college degree?

3 A. I have a B.S. in mechanical engineering
4 from Texas Tech, 1978.

5 Q. And since your graduation, what companies
6 have you worked for?

7 A. Between 1978 and 1984, I worked as a
8 reservoir and production engineer for Gulf and then
9 Chevron, and then from 1984 to the present, I worked
10 with Adobe Resources and Santa Fe Energy.

11 Q. Adobe was merged into Santa Fe, I believe?

12 A. That's correct, about a year and a half
13 ago.

14 Q. Are you familiar with engineering matters
15 related to this area of the pool?

16 A. Yes, I am.

17 Q. And have you conducted a study regarding
18 drainage of the wells in the portion of the pool that
19 we're concerned with today?

20 A. Yes, I have.

21 MR. BRUCE: Mr. Examiner, I tender Mr.
22 Rogers as an expert engineer.

23 EXAMINER CATANACH: Mr. Rogers is so
24 qualified.

25 Q. (BY MR. BRUCE) Mr. Rogers, would you

1 discuss drainage from the gas wells immediately
2 offsetting Santa Fe's proposed well, and I refer you
3 to your drainage map, Exhibit 23, and then the
4 calculations which go along with it, Exhibit 24?

5 A. Okay. Exhibit 23 is a calculated drainage
6 area map of the area in question. It highlights the
7 three wells offsetting the proposed location.

8 Exhibit 24 is a summary of the data used in
9 making those calculations. The net pay that I
10 analyzed was of the perforated interval only and areas
11 that were immediately adjacent to the perforated
12 intervals.

13 So, in other words, there are some areas
14 that we would consider net pay that have not been
15 perforated in some wells. And if they had not been
16 perforated, I did not include those in that net pay
17 calculation.

18 And then from that, from log analysis, I
19 just back-calculated what acreage that would have
20 drained at the cumulative production at 9 of '93. For
21 the Algerita that worked out to be 177 acres; the
22 Judith, 58 acres; and the Saguaro #2, 230 acres. And
23 then I recalculated based on my estimate of the
24 ultimate recovery for those three wells. It resulted
25 in 317 acres for the Algerita, 105 acres for the

1 Judith, and 425 acres for the Saguaro.

2 Q. In your opinion, if a well is not drilled
3 in the southwest quarter of Section 10, will that area
4 be drained by the offsetting wells?

5 A. Yes, it will.

6 Q. In your opinion, is the proposed well in
7 the southwest quarter of Section 10 necessary to
8 protect Santa Fe's correlative rights?

9 A. Yes, it is.

10 Q. In your opinion, is the shutting in of the
11 Yates' Judith well justified?

12 A. Well, I believe -- based on my
13 calculations, I believe that we're already being
14 drained by the Judith. Because of its nonstandard
15 location, you'd only have to drain 30 acres to be
16 draining our lease. And I'm already calculating with
17 the cumulative production of 819 MMcf that it's
18 already draining our lease.

19 So yes, I believe it needs to be shut in
20 until that time that we can drill, complete, and
21 connect the proposed well.

22 Q. What does Exhibit 25 exhibit, Mr. Rogers?

23 A. Exhibit 25 is just a summary of the gas-oil
24 ratios for the wells, what I consider the gas well
25 area of this Dagger Draw Pool. And it generally runs

1 along the eastern edge of Section 10 north and south.
2 And so all of the wells on this list are west of that
3 line, the east side of Section 10 that runs north and
4 south.

5 Q. If you looked at Exhibit 23, you can match
6 up these wells on Exhibit 25 with this map?

7 A. That's right.

8 Q. So, in your opinion, a well certainly in
9 the southwest quarter of Section 10 but probably
10 almost anywhere in Section 10 would be a gas well?

11 A. I believe it would, yes. The wells
12 directly north and south, the Ocotillo #1 and the Sara
13 #2, are clearly gas wells; so I would anticipate that
14 the Ocotillo #2 we'll eventually -- we'll see that it
15 is a gas well, too.

16 Q. In the South Dagger Draw Pool, what is the
17 dividing line as far as GOR is concerned regarding
18 what's a gas well and what's an oil well?

19 A. I believe it's 30,000.

20 Q. In your opinion, is the granting of Santa
21 Fe's application in the interests of conservation, and
22 the prevention of waste?

23 A. Yes, it is.

24 Q. Were Exhibits 23, 24, and 25 prepared by
25 you or under your direction?

1 A. Yes, they were.

2 MR. BRUCE: Mr. Examiner, I move the
3 admission of Exhibits 23 through 25.

4 EXAMINER CATANACH: Exhibits 23 through 25
5 will be admitted as evidence.

6 EXAMINATION

7 BY MR. CARR:

8 Q. Mr. Rogers, if I understand your Exhibit
9 24, the last column to the right is entitled Acres
10 Drained, is that total acres that will be drained by
11 the well?

12 A. That is based on my estimate of ultimate
13 recovery, that would be the total acres drained. And
14 that's what's represented on the map, Exhibit 23.

15 Q. Okay. So if we go back to the two columns
16 farther to the left, when we get acres drained, that's
17 what have been drained right now?

18 A. That is correct.

19 Q. So if we mapped the acres drained at the
20 present time for the Judith Federal #1, we would have
21 a circle substantially smaller than the one you've
22 shown, about almost half as small?

23 A. Well, as I testified, because of that
24 location, it's a nonstandard location, it's 560-560,
25 if you just built a square around that 560, that is

1 about 30 acres. Okay?

2 I've calculated that it's already drained
3 58 acres. So I feel like we're already in a drainage
4 situation.

5 Q. You would anticipate that even the well
6 that you're proposing in the southwest of 10, though,
7 when it ultimately drains the acreage available to it
8 wouldn't be confined just to the acreage on which it's
9 located; there would be an extension under the
10 draining properties. Isn't that fair to say?

11 A. I'm sorry, would you repeat that?

12 Q. Well, you're not suggesting that the only
13 acreage that a well is going to drain is equal to the
14 number of acres around the wellbore?

15 A. Oh, no.

16 Q. Now, if I understand your reasoning for
17 shutting in the Judith is it's a Yates' well and that
18 your correlative rights are being impaired by letting
19 that well produce until you get a well in the pool?

20 A. That's correct.

21 Q. Would that also apply to the Saguaro well?
22 It's a Yates-operated well, is it not?

23 A. It's a Yates-operated well.

24 Q. And it has a potential of also draining
25 from the acreage to the north, does it not?

1 A. Does it have have the potential? I think
2 it has the potential, yes.

3 Q. Wouldn't you want to shut that one in, too,
4 until you get your well in the pool?

5 A. Well, I think the difference in this case
6 is that at the present time, I've calculated that well
7 as drained 230 acres, the Saguaro #2, and I don't
8 think there is the likelihood that we're already in a
9 drainage situation there.

10 Q. Isn't it true that you also own 62-1/2
11 percent of that well?

12 A. I believe we do, yes.

13 Q. Now, if you're able to obtain approval and
14 drill a well in the southwest quarter, do you know
15 whether or not Santa Fe has a gathering system
16 available to connect the well to?

17 A. We do not.

18 Q. And whose gathering system would you use?

19 A. We would probably use Yates'.

20 Q. What about facilities to dispose the water
21 produced from this well, does Santa Fe have any
22 facilities to do that?

23 A. No, we do not.

24 Q. And you would have to use Yates again,
25 would you not?

1 A. That's correct.

2 Q. Do you have a pumper who works this area?

3 A. Yes, we do.

4 Q. So you would have a pumper who would be out
5 there who could check the well?

6 A. That's right.

7 Q. But as to the actual physical facilities,
8 you don't have any?

9 A. Not disposal or gathering system
10 facilities, no.

11 MR. CARR: That's all. Thank you.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. If Santa Fe's application is approved in
15 this case, how long would you anticipate before the
16 proposed well is drilled and completed?

17 A. I believe we could spud the well before the
18 end of the year, and it would take us approximately a
19 month to drill and complete the well.

20 Q. January '94?

21 A. January '94.

22 EXAMINER CATANACH: I don't have anything
23 else. The witness will be excused.

24 MR. BRUCE: Mr. Examiner, believe it or
25 not, I'm through with my direct case.

1 MR. CARR: I would like the record to
2 reflect that we have now used the total amount of time
3 that Mr. Bruce said it would take to present the
4 entire case from both sides.

5 EXAMINER CATANACH: Well then, you don't
6 have much time, do you, Mr. Carr?

7 MR. CARR: I will be short.

8 May it please the examiner, at this time we
9 call Kathy Porter.

10 KATHY PORTER,
11 the witness herein, after having been first duly sworn
12 upon her oath, was examined and testified as follows:

13 EXAMINATION

14 BY MR. CARR:

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

17 A. Kathy Porter.

18 Q. Where do you reside?

19 A. Artesia, New Mexico.

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

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

24 Q. Have you previously testified before this
25 Division?

1 A. Yes, I have.

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

5 A. Yes, they were.

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

8 A. Yes.

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

10 A. Yes, I am.

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

13 EXAMINER CATANACH: They are.

14 Q. (BY MR. CARR) Can you briefly state what
15 Yates seeks by appearing in this hearing?

16 A. Yates Petroleum Corporation seeks an order
17 for compulsory pooling in the south half of Section
18 10, Township 20 South, Range 24 East, for our Ocotillo
19 ACI Federal Com #2 well.

20 We also seek denial of the application of
21 Santa Fe for compulsory pooling of the west half of
22 Section 10, denial of the application for Santa Fe for
23 a nonstandard unit comprising the southeast quarter of
24 Section 10, and denial of the application of Santa Fe
25 for a shut-in order covering the Judith AIJ Federal #1

1 well.

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

4 A. Yes, I have.

5 Q. Would you refer to what's been marked as
6 Yates Exhibit 1 and briefly review this for Mr.
7 Catanach?

8 A. Yes. Exhibit No. 1 is a land plat that
9 shows the North and South Dagger Draw-Upper
10 Pennsylvanian Pools. You will note the North Dagger
11 Draw Pool is colored in pink as to producing wells out
12 of the north pool. The southern producing wells are
13 shown in the blue. The north is based on 160-acre
14 spacing. South Dagger Draw Pool is on 320.

15 This plat also shows the south half of 10
16 with the Ocotillo #2 well in red.

17 Q. We basically don't have any disagreement
18 with the land plat presented by Santa Fe in this case,
19 do we?

20 A. No.

21 Q. In both of the wells that are under
22 consideration here today, the Ocotillo #2 and the
23 proposed Santa Fe well, what's the primary objective
24 in each of those wells?

25 A. The Canyon Upper Penn.

1 Q. Could you just review the working interest
2 ownership as it stands in Section 10?

3 A. In Section 10 on the south half, Yates
4 Petroleum Corporation has approximately 42.7 percent,
5 Santa Fe Energy approximately 58.3. On a west half
6 basis, Yates Petroleum Corporation has 50 percent;
7 Santa Fe has the other 50 percent. Southeast quarter
8 only, Yates Petroleum Corporation, one third, Santa Fe
9 Energy two thirds.

10 Q. So in the south half unit, Yates owns 8 or
11 9 percent more of the wells than if they are just on a
12 southeast quarter alone?

13 A. That's correct.

14 Q. What percentage of the acreage in the south
15 half of this section has voluntarily been committed to
16 the proposed Yates well?

17 A. All of the southeast quarter is committed.
18 Originally, we thought all of the southwest quarter
19 was committed, but since Santa Fe has declined to sign
20 the communitization agreement, 50 percent of the
21 southwest quarter is not committed.

22 Q. Without the communitization agreement of
23 the Joint Operating Agreement, you're forced to go to
24 the Division and seek a forced pooling order; is that
25 correct?

1 A. That's correct, without that
2 communitization agreement we must force pool to
3 combine the acreage in order to have the correct
4 number of acres for the South Dagger Draw Pool.

5 Q. And that's just to comply with state
6 regulatory requirements?

7 A. Exactly.

8 Q. Could you identify Exhibit No. 2?

9 A. Exhibit No. 2 is Yates Petroleum
10 Corporation's AFE covering the Ocotillo ACI Federal
11 Com #2 well.

12 Q. And this says at the top "Final." This is
13 the final AFE for this particular well?

14 A. That's correct. It's finalized when all
15 parties sign.

16 Q. And this does not reflect a signature by
17 Santa Fe Operating Partners, but this is the AFE that
18 has been signed by Santa Fe?

19 A. That's correct.

20 Q. What are the totals as indicated on this
21 exhibit?

22 A. On this AFE it shows Yates Petroleum
23 Corporation with 41.665625 percent. Santa Fe Energy
24 has 58.334375 percent.

25 Q. Are the costs that are shown on this AFE in

1 line with what Yates charges for similar wells in the
2 area?

3 A. They are probably comparable, a little bit
4 low. This is a 1992 AFE. As we pointed out to Santa
5 Fe, it could be revised if necessary, but they are
6 probably a little bit low.

7 Q. And as we compared at the time you sought
8 the application for permit to drill?

9 A. That is correct.

10 Q. You heard Mr. Green testify about
11 negotiations between Yates and Santa Fe?

12 A. Yes.

13 Q. Were you the land person who was
14 representing Yates in these discussions?

15 A. Yes, I was.

16 Q. What I'd like to do and try not to
17 duplicate Mr. Green's testimony, but I would like you
18 to refer to Exhibit No. 3 and summarize the efforts
19 made to obtain voluntary agreement by Yates in this
20 effort. And in so doing, I think we ought to just
21 start with the first document, and I would ask you to
22 identify that, please, and then explain the
23 significance of this letter.

24 A. Okay. The first document of Exhibit 3 is
25 Santa Fe Energy's November 4, 1991, letter to Yates

1 Petroleum Corporation. In this letter, they propose
2 the drilling of ten wells in 1992. These ten wells
3 were where Santa Fe and Yates did have joint
4 interests.

5 Q. And these wells have been drilled?

6 A. At this time, yes, all ten have been
7 drilled.

8 Q. Had the Judith well in Section 9 been
9 drilled by this time?

10 A. Yes, sir. It was drilled during February
11 1991.

12 Q. There's no well proposed for the southwest
13 quarter of Section 10?

14 A. No, sir.

15 Q. Did Santa Fe propose to offset the Judith
16 well anytime prior to their letter of November or
17 anytime prior to their 1992 letter?

18 A. No, sir.

19 Q. In the November 4 letter, they propose a
20 well in the southeast southeast of Section 10?

21 A. That's correct, which is the Ocotillo
22 Federal Com No. 2 well.

23 Q. Let's move to the second document in
24 Exhibit No. 3. That is the September 23, '92, letter
25 from Santa Fe?

1 A. Yes. In this letter Santa Fe is requesting
2 additional drilling, seven total wells.

3 Q. And how many of these have been drilled?

4 A. Three of these have been drilled.

5 Q. Is there any formal agreement between you
6 and Santa Fe whereby Santa Fe proposes wells to Yates
7 and Yates has any obligation then to go forward and
8 drill?

9 A. No, sir, no formal agreement.

10 Q. This area of mutual interest agreement,
11 does it apply to the actual drilling of wells, or is
12 it just in property acquisitions?

13 A. It is primarily property acquisitions.

14 Q. Is it fair to say that in trying to develop
15 these properties, you have fairly regular
16 conversations with Santa Fe?

17 A. Yes.

18 Q. When did you hear from Santa Fe following
19 the September 23rd letter concerning additional
20 development in Section 10?

21 A. We did have some periodic telephone
22 conversations. I do not have the exact dates, but
23 they do call periodically.

24 Q. Was there anything other than these calls
25 prior to their formal proposing of the well in

1 September of 1993?

2 A. No.

3 Q. What happened when this proposal was
4 received by Yates?

5 A. When we received the proposal on September
6 13, I immediately sent it to geology, engineering for
7 their technical review. After that review, it was
8 discussed in-house with management.

9 Q. What was done?

10 A. As a result of the technical
11 recommendations, we then sent our September 20, 1993,
12 letter to Santa Fe where we proposed the Ocotillo ACI
13 Federal Com No. 2 on the south half basis and attached
14 the AFE.

15 Q. That letter is included in Exhibit 3?

16 A. Yes, that's the next page of Exhibit 3.

17 Q. In addition to the AFE, there were other
18 documents sent to Santa Fe?

19 A. That's correct. We also sent title opinion
20 that we had obtained. This title opinion covered the
21 southwest quarter that would be under the south half
22 proposal. We included a copy of the approved APD from
23 the BLM.

24 We also submitted a south half operating
25 agreement, explaining in the letter we preferred to

1 have one operating agreement on the south half versus
2 a southeast quarter operating agreement and a
3 southwest quarter operating agreement.

4 Q. You were present when Mr. Green testified
5 about BLM regulations and being unable to communitize
6 two leases, that you could put the spacing unit all in
7 one lease?

8 A. Yes, I heard that.

9 Q. Did you have any difficulty in obtaining an
10 approved application for permit to drill on the south
11 half unit?

12 A. No.

13 Q. And why not?

14 A. Because before we put in this permit in
15 1992, we went to the OCD to check out spacing
16 requirements for the South Dagger Draw field to see if
17 the dividing line still ran through the middle of 10
18 where we thought it ran. It did. Therefore, the
19 application was put in on the South Dagger Draw field
20 rules, 320 acres, which meant it had to be a
21 communitized area.

22 Q. It's not possible to put two 320-acre units
23 in the South Dagger Draw field on the acreage that
24 remains in Section 10; is that right?

25 A. Well, that's correct.

1 Q. Following the submission of the AFE to
2 Santa Fe, what next happened?

3 A. Santa Fe did call several times and
4 requested a conference call with our technical people,
5 the geologists, the engineers. That call took place
6 on October 20.

7 Q. What transpired at that time?

8 A. Both locations were discussed in the south
9 half, the timing, and then the majority of the call
10 was technical discussion.

11 Q. Were you advised that Santa Fe would not go
12 nonconsent in the well you were proposing?

13 A. Yes, they did state that.

14 Q. Do you have any recollection of any
15 discussion then or later concerning -- or before
16 concerning filing of the compulsory pooling
17 application?

18 A. No, sir.

19 Q. The AFE was returned to Yates?

20 A. Yes.

21 Q. How did it come back to Yates?

22 A. They originally sent it by fax. Then they
23 followed up in mail with the original signature.

24 Q. When about was that?

25 A. The 21st of October.

1 Q. When was your next conversation with Santa
2 Fe?

3 A. Again, a telephone call from Mr. Green and
4 Mr. Davis on October 26.

5 Q. And what's happened in that telephone call,
6 do you recall?

7 A. Yes. Most of it was a repeat of the
8 October 20th call. They stated that they still wanted
9 a well in the southwest quarter.

10 Q. Was there any discussion of the compulsory
11 pooling application at that time?

12 A. No.

13 Q. Then the next thing Yates received was the
14 original pooling application from Santa Fe?

15 A. That's correct, for the west half.

16 Q. What percentage of the wells in the South
17 Dagger Draw Pool would you estimate have been drilled
18 by Yates Petroleum Corporation?

19 A. The majority, 90 percent, maybe even 94.

20 Q. Have they drilled all wells in the section
21 surrounding the Ocotillo #2?

22 A. Yes.

23 Q. Let's go to Exhibit No. 4. Can you
24 identify that, please.

25 A. Exhibit No. 4 is the affidavit and the

1 letters giving notice as required by the OCD.

2 Q. Of the pooling application?

3 A. Yes, that's correct.

4 Q. Have you made an estimate of the overhead
5 and administrative cost to be assessed against Santa
6 Fe while drilling and then while producing the
7 Ocotillo #2?

8 A. Yes, we have.

9 Q. What are those costs?

10 A. \$5,400, \$540, depending if it was it was a
11 drill-in or a producing well.

12 Q. And these are the same figures that have
13 been proposed by Santa Fe in their presentation?

14 A. Yes, that's what they said.

15 Q. Do you recommend that these figures be
16 incorporated into any order that results from this
17 hearing?

18 A. Yes, we do.

19 Q. Does Yates seek to be designated operator
20 of the subject well?

21 A. Yes, we do.

22 Q. The Ocotillo No. 2?

23 A. That's correct.

24 Q. On the south half unit?

25 A. On the south half proration unit.

1 Q. Were Exhibits 1 through 4 prepared by you?

2 A. Yes.

3 MR. CARR: At this time, Mr. Catanach, I
4 move the admission of Yates' Exhibits 1 through 4.

5 EXAMINER CATANACH: Exhibits 1 through 4
6 will be admitted into evidence.

7 MR. CARR: That concludes my direct
8 examination of Miss Porter.

9 EXAMINATION

10 BY MR. BRUCE:

11 Q. Miss Porter, you indicated that the Judith
12 well was completed in 1991, before the November 1991
13 letter from Santa Fe to you; is that correct?

14 A. Yes.

15 Q. Isn't it true that until, say, mid-1992,
16 that well produced sporadically, some months not at
17 all?

18 A. I do not know about the production, I'm
19 sorry. That would be a technical question.

20 Q. And you testified that you had no problem,
21 or Yates had no problem getting the APD approved. If
22 you'll look at your Exhibit 3, for one thing, both the
23 communitization agreement and the APD would be
24 approved by the BLM, but they're handled by different
25 people at the BLM, each function?

1 A. That is correct.

2 Q. Okay. So the person who approves the APD
3 wouldn't necessarily know whether or not the well has
4 been communitized?

5 A. Know whether it has?

6 Q. Whether it has or has not been
7 communitized?

8 A. No, he would not know.

9 Q. And Yates' APD indicated that it had
10 already been communitized; is that correct?

11 A. Well, on the plat, yes.

12 Q. But it had not?

13 A. No, no, the communitization will be the
14 time of consolidation.

15 Q. It says "Have the interests of all owners
16 been consolidated," and it says "Yes"?

17 A. They do mark it that way when it is going
18 to be a communitization.

19 Q. But you agree, it hadn't been?

20 A. No, sir.

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

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Miss Porter, to date, has that

1 communitization been completed?

2 A. No, sir, it has not been executed.

3 EXAMINER CATANACH: The witness may be
4 excused.

5 MR. CARR: At this time we call D'nese Fly.

6 D'NESE FLY,

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

9 EXAMINATION

10 BY MR. CARR:

11 Q. Will you state your name for the record,
12 please.

13 A. My name is Denise Fly.

14 Q. Where do you reside?

15 A. Artesia, New Mexico.

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

18 A. I'm employed by Yates Petroleum as a
19 petroleum geologist.

20 Q. Have you previously testified and had your
21 credentials as a petroleum geologist accepted and made
22 a matter of record?

23 A. Yes.

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

1 A. Yes.

2 Q. Have you made a geological study of the
3 subject area?

4 A. Yes, I have.

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

7 EXAMINER CATANACH: Yes, sir.

8 Q. (BY MR. CARR) Ms. Fly, could you identify
9 what has been marked Yates Petroleum Corporation
10 Exhibit No. 5?

11 A. Yes. Exhibit No. 5 is my production map
12 that's on the Top of the Canyon or Upper Canyon
13 Dolomite Reservoir in the South Dagger Draw Pool.

14 I guess, first of all, I'd like to state
15 that listening to Mr. Davis's testimony, geologically
16 speaking, there are not many discrepancies between my
17 structure and isopach map and his. Mine are in
18 50-foot contours; his are in 25. My following exhibit
19 has a net dolomite versus a gross dolomite. Those
20 would be the only two differences.

21 This is my -- Exhibit 5 is my structure map
22 on the Top of the Canyon. As you can see, there's --
23 you can see the dolomite on the western limit of the
24 reservoir pinches out to tight limestone, has an
25 eastern dip, and it does have a low right before we

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)

) ss.

COUNTY OF SANTA FE)

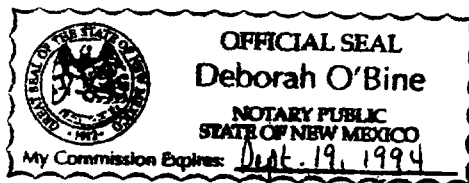
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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, January 5, 1994.

Deborah O'Bine

DEBORAH O'BINE
CCR No. 63



I do hereby certify that the foregoing is a complete record of the proceedings in 1087 the Examiner hearing of Case No. 1087, heard by me on Dec. 2, 1993.

David R. Galt, Examiner
Oil Conservation Division

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