

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

IN THE MATTER OF THE HEARING)	
CALLLED BY THE OIL CONSERVATION)	
DIVISION FOR THE PURPOSE OF)	
CONSIDERING:)	CASE NO. 10,991
)	
APPLICATION OF YATES PETROLEUM)	
CORPORATION)	
)	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 15th, 1994

Santa Fe, New Mexico

1994
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This matter came on for hearing before the Oil Conservation Division on Thursday, December 15th, 1994, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

December 15th, 1994
 Examiner Hearing
 CASE NO. 10,991

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>ROBERT BULLOCK</u>	
Direct Examination by Mr. Carr	5
Examination by Examiner Stogner	9
<u>DARRICK STALLINGS</u>	
Direct Examination by Mr. Carr	12
REPORTER'S CERTIFICATE	22

* * *

E X H I B I T S

	Identified	Admitted
Exhibit 1	6	9
Exhibit 2	7	9
Exhibit 3	7	9
Exhibit 4	7	9
Exhibit 5	14	20
Exhibit 6	15	20
Exhibit 7	15	20
Exhibit 8	16	20
Exhibit 9	18	20

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

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

3 EXAMINER STOGNER: I'll call the next case,
4 Number 10,991.

5 MR. CARROLL: Application of Yates Petroleum
6 Corporation for compulsory pooling, Chaves County, New
7 Mexico.

8 EXAMINER STOGNER: Call for appearances.

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

12 I represent Yates Petroleum Corporation in this
13 case, and I have two witnesses.

14 EXAMINER STOGNER: Are the two witnesses that
15 you're proposing --

16 MR. CARR: We have one witness who has not been
17 previously sworn.

18 EXAMINER STOGNER: Okay, let's have that one
19 witness who has not been previously sworn stand at this
20 time.

21 (Thereupon, the witness was sworn.)

22 MR. CARR: Mr. Stogner, I would request that the
23 record reflect that our first witness, Robert Bullock, Mr.
24 Bullock has previously been sworn, that his qualifications
25 as an expert witness in petroleum land matters have been

1 accepted and made a matter of record.

2 EXAMINER STOGNER: Mr. Bullock, you're still
3 sworn as in the previous case.

4 And the record will so reflect, Mr. Carr, Mr.
5 Bullock's qualifications.

6 MR. CARR: Thank you, sir.

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

10 DIRECT EXAMINATION

11 BY MR. CARR:

12 Q. Mr. Bullock, are you familiar with the
13 Application filed in this case?

14 A. Yes, sir.

15 Q. Have you prepared certain exhibits for
16 presentation here?

17 A. Yes, sir.

18 Q. Initially, could you state what Yates seeks with
19 this Application?

20 A. Yates is seeking an order pooling all mineral
21 interests from the surface to the base of the Abo formation
22 underlying the southeast quarter of Section 20, 6 South, 26
23 East, in Chaves County, New Mexico. It will be a standard
24 160-acre gas spacing unit, and the acreage dedicated to the
25 well will be in a standard gas well location.

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1 Q. Let's go to what's been marked Yates Exhibit
2 Number 1. Would you identify and review that, please?

3 A. This is a land plat indicating our proposed well.
4 We're calling it the Hancock "AHC" Com Number 3. It shows
5 the southeast quarter of Section 20 being dedicated to the
6 well.

7 It shows a well location being proposed in a
8 location of 1980 from the east line, 660 from the south
9 line. And it shows a breakdown of the proration unit as to
10 leases involved. It also indicates the offsetting wells
11 that have been drilled in the area.

12 Q. The primary objective in this well is the Abo Gas
13 Pool?

14 A. Yes, sir.

15 Q. Are there secondary objectives?

16 A. I think the San Andres could be considered as a
17 secondary objective.

18 Q. What percentage of the interest in this spacing
19 unit has been voluntarily committed to the well?

20 A. Over 98 percent.

21 Q. There's just one interest outstanding at this
22 time?

23 A. That is correct.

24 Q. And what interest is that?

25 A. That interest is Stevens Oil Company, who is in

1 bankruptcy at the present time.

2 Q. Could you refer to Exhibits 2 and 3 and briefly
3 summarize for Mr. Stogner the efforts that have been made
4 to obtain the voluntary commitment of the Stevens interest
5 to this well?

6 A. Exhibit 2 is Yates's letter of April 8th, 1994,
7 to the bankruptcy attorney in Albuquerque, offering a
8 couple of alternatives in order to commit that interest in
9 some fashion, be it through an actual lease or a signing of
10 the AFE.

11 And Exhibit 3 was a follow-up letter dated August
12 24 of 1994, still in an effort to negotiate something with
13 that interest. This was in the form of an oil and gas
14 lease that we suggested that they sign.

15 And both of these efforts were not -- did not
16 bear any fruit, they did not choose to commit that
17 interest.

18 Q. In addition to those letters, you have been in
19 communication with representatives of Stevens Oil Company?

20 A. Yes, sir.

21 Q. At this point in time, is it your understanding
22 that in fact United New Mexico Bank at Roswell may be
23 foreclosing on the property?

24 A. That is correct.

25 Q. Is Exhibit Number 4 a copy of an affidavit

1 confirming that notice of this proceeding in today's
2 hearing has been provided to all interest owners in this
3 spacing unit who had not committed to the well?

4 A. That is correct, and subsequently, several of
5 these -- all with the exception of Stevens Oil Company have
6 committed their interests to the drilling of the well.

7 Q. And the United New Mexico Bank at Roswell has
8 also been notified because of their contingent interests --

9 A. Yes.

10 Q. -- in the property?

11 A. That is correct.

12 Q. Have you made an estimate of the overhead and
13 administrative costs to be incurred while drilling and
14 producing the well if in fact it is successful?

15 A. Yes, sir, we have used the rates of \$4000 per
16 month as a drilling rate and \$400 per month as an overhead
17 rate.

18 Q. And are these figures that actually reflect the
19 costs that Yates incurs for drilling wells to this depth?

20 A. We think they do.

21 Q. Does Yates request that any overhead and
22 administrative figures included in the order that results
23 from this hearing also be permitted to escalate in
24 accordance with COPAS accounting procedures?

25 A. Yes, sir.

1 Q. Does Yates request to be designated operator of
2 the well?

3 A. Yes, they do.

4 Q. Will Yates be calling an engineering witness to
5 review the technical aspects of this project?

6 A. Yes, sir.

7 Q. Were Exhibits 1 through 4 either compiled by you
8 or at your direction and under your supervision?

9 A. Yes.

10 MR. CARR: At this time, Mr. Stogner, we move the
11 admission of Yates Petroleum Corporation Exhibits 1 through
12 4.

13 EXAMINER STOGNER: Exhibits 1 through 4 will be
14 admitted into evidence at this time.

15 MR. CARR: And that concludes my direct
16 examination of Mr. Bullock.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Bullock, when was the last communication you
20 had with the -- I guess the bankruptcy people?

21 A. Our letter of August 24 was the last written
22 communication.

23 And I think we've had -- We've let David Vandiver
24 of the Vandiver law firm in Artesia negotiate this for us,
25 and I think he's had subsequent conversations with that

1 interest beyond this time frame.

2 Q. Now, there's a Stevens Resources mentioned in
3 Austin, Texas, on your map. Well --

4 A. Yes, sir.

5 Q. Is that the same people?

6 A. No, that's a different entity, and that entity
7 has leased. They gave us an oil and gas lease.

8 Q. Okay, there's no relationship, then, between the
9 Stevens and --

10 A. They were brothers, uh-huh.

11 Q. Okay. Now, who is Ms. Mary Clark -- I mean Carol
12 Clark in Exhibit 3?

13 A. She is also one of the attorneys involved in this
14 trustee relationship with the bankruptcy court. We've
15 talked with her and James Burke as well.

16 Q. Was Ms. Clark notified of this proceeding today?

17 A. It's my understanding that she was. It looks
18 like the letter was addressed to James E. Burke, Trustee.

19 MR. CARR: Mr. Stogner, I'll be happy to clarify
20 exactly the relationship to the bankruptcy proceeding. I'm
21 trying to think. I've dealt with it before in other
22 bankruptcy matters, but I can't tell you her exact
23 relationship to the bankruptcy court. We'll be happy to
24 provide you with that information.

25 EXAMINER STOGNER: If you would, I'd --

1 THE WITNESS: Yeah.

2 EXAMINER STOGNER: -- because I notice United New
3 Mexico Bank of Roswell is handling the affairs of Ms.
4 Stevens.

5 THE WITNESS: The foreclosure.

6 EXAMINER STOGNER: The foreclosure.

7 THE WITNESS: The foreclosing.

8 EXAMINER STOGNER: And then trustee in
9 bankruptcy.

10 MR. CARR: Trustee is Mr. Burke, he's actually
11 representing the estate. And I have in the past in other
12 bankruptcy matters talked with Carol Clark, and I'll be
13 happy to confirm exactly her relationship to this
14 bankruptcy proceeding for you.

15 EXAMINER STOGNER: Okay, because I don't see this
16 May 12th -- or this packet of letters, Exhibit Number 4, I
17 don't show a copy sent to Ms. Clark. But if you would get
18 back with us and Mr. Carroll here --

19 MR. CARR: Yeah, I can confirm that. I probably
20 can do that this afternoon.

21 Q. (By Examiner Stogner) And let's see, that's
22 \$4000 drilling, \$400 producing, and with an escalation
23 clause; is that correct?

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

25 Q. In looking at Exhibit Number 1, the southeast

1 quarter, southeast quarter, that's federal minerals?

2 A. Yes, sir.

3 Q. Now, the remainder of the proration unit is fee?

4 A. All fee, yes.

5 EXAMINER STOGNER: All fee, okay.

6 I have no further questions of this witness.

7 MR. CARR: At this time we call Mr. Stallings.

8 DARRICK STALLINGS,

9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. CARR:

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

14 A. Darrick Stallings.

15 Q. Where do you reside?

16 A. In Artesia, New Mexico.

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

18 A. By Yates Petroleum Corporation as a petroleum
19 engineer.

20 Q. Have you previously testified before this
21 Division as a petroleum engineer?

22 A. Yes, I have.

23 Q. At the time of that testimony, were your
24 professional credentials accepted and made a matter of
25 record?

1 A. Yes, sir.

2 Q. Are you familiar with the Application filed in
3 this case?

4 A. Yes.

5 Q. And are you familiar with the proposed well in
6 the subject area?

7 A. Yes.

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

10 EXAMINER STOGNER: They are.

11 Q. (By Mr. Carr) Mr. Stallings, what is the status
12 of the proposed -- or the Hancock "AHC" Number 3 well?

13 A. That well has been drilled. We spudded that well
14 in late November. We had to spud that well by the end of
15 November due to lease expiration concerns.

16 The well was -- We finished drilling the well
17 last week on December the 7th, and we plan to begin
18 completion operations on that well in the next two or three
19 weeks.

20 Because we've only drilled the well and not yet
21 completed it, the only data we have on the well is the well
22 log, and that's included here as one of the exhibits.

23 What we found when we logged the well was that we
24 encountered enough Abo pay sands to attempt a completion in
25 the well, but we didn't encounter the amount of pay that we

1 had hoped for.

2 What I hope -- What I will show here is that
3 based on the data we have at this point, which is log data,
4 our current analysis shows that this well will be marginal
5 economically, or there is a -- even a risk that it will be
6 an unprofitable well.

7 I'll also show that because of our lack of data
8 so far, there's a lot of uncertainty in that analysis. And
9 so even though the well has been drilled and cased, there
10 is still significant risk that the well will not be an
11 economic well.

12 And I think that risk justifies what -- the 200-
13 percent penalty that we're requesting in this case.

14 Q. Let's first go to what has been marked Yates
15 Exhibit Number 5. Could you identify that, please?

16 A. This is the AFE that we prepared to drill this
17 well.

18 Q. Would you review that for Mr. Stogner?

19 A. The total completed well costs shown on the AFE
20 is \$298,650.

21 Of this approximately \$300,000 total drilling
22 completion and facilities cost, we've spent approximately
23 \$175,000 to date to drill and case the well. Our expected
24 remaining investment to complete and get this well on line
25 is \$125,000.

1 Q. Are these overall costs in line with what is
2 charged for other comparable wells in this area?

3 A. Yes, sir.

4 Q. Let's go to Exhibit Number 6. What is this?

5 A. This is a copy of the density neutron log, across
6 the Abo section in the subject well, the Hancock "AHC" Com
7 Number 3.

8 I've noted on this log the top of the Abo
9 formation, approximately 3670 or so. I've also shown the
10 Abo sands as colored in yellow on the left-hand track, the
11 gamma-ray curve on the left-hand track of the log.

12 The density neutron crossover is colored in red,
13 in the right-hand track of the log. This is what denotes
14 pay in the Abo gas sands.

15 I've also shown in the depth track, center track
16 there, our proposed perforations, where we plan to
17 perforate in this well.

18 You can see that there's three pretty good
19 looking Abo sands, and I've noted their total crossover
20 thickness on this log. The total pay in this well is 37
21 feet of crossover pay.

22 Q. Okay, let's go to Exhibit 7. What is this?

23 A. This is a plat of the area, again centered on
24 Section 20, which is where the Hancock Number 3 is located.
25 It is shown in the southeast quarter of Section 20 as the

1 red open circle, and its proration unit is shown there as
2 well.

3 I've also included in this plat all of the Abo
4 gas wells in the nine-section area surrounding this well.
5 In red under each well is that well's estimated ultimate
6 recovery.

7 I'd like to note in particular two wells which we
8 were keying off of when we justified drilling the Hancock
9 Number 3.

10 In the southwest quarter of Section 20 is the
11 Travis Federal Number 1. That well has ultimate reserves
12 of 2.1 BCF.

13 Just west of that well, in the southeast quarter
14 of Section 19, is the Savage "NI" Number 2. That well has
15 ultimate reserves of 1.2 BCF.

16 Those are the two best wells in this area of the
17 field, and we were trying to find the sands similar to
18 those wells so we can make a similar well to that in the
19 Hancock Number 3.

20 Q. Okay, let's go to Exhibit 8. Identify the
21 Exhibit first, and then review it for the Examiner.

22 A. This is a list of the Abo wells in the same nine-
23 section area surrounding the Hancock Number 3. These are
24 the same 25 gas wells as shown on the previous map.

25 Also in this table I've shown the ultimate -- the

1 EUR or the estimated ultimate recovery of each of those
2 wells. Those are the same numbers as shown on the previous
3 exhibit. Also, their pay thickness as I described earlier
4 on the log, the crossover thickness, h, in feet is included
5 here.

6 The wells -- These 25 wells are sorted in
7 descending order, based on their ultimate recovery. So the
8 best wells are at the top of the list.

9 You can see there that the Travis Fed Number 1
10 and the Savage Number 2 are at the top of the list. Those
11 are the two wells I previously pointed out on the map.
12 They have the best -- They are the best wells in the area,
13 based on their ultimate recoveries.

14 You can also see that they have the most pay in
15 them. The Travis has 82 feet of pay, and the Savage Number
16 2 has 69 feet of pay.

17 We were hoping for similar pay thickness in the
18 Hancock Number 3, but I showed on the log that we
19 encountered 37 feet of pay, so in that respect we were
20 somewhat disappointed in the results of the Hancock Number
21 3.

22 I'd like to note -- or point out the note at the
23 bottom of this table, that Yates's estimate of the minimum
24 economic reserves for a Pecos Slope-Abo well is 400 million
25 cubic feet of gas.

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1 Based on that criteria, of these 25 wells, 12 are
2 economic wells. They will ultimately recover more than 400
3 million cubic feet. And 13 of the wells will recover less
4 than 400 million cubic feet. So our success rate in making
5 economic wells out here is about 50 percent.

6 I'd like to show -- I didn't point it out, but on
7 the map previously there were two dry holes, one north, in
8 the proration unit due north of the subject well, and the
9 other in the proration unit due south of the subject well.
10 These two wells also show up at the bottom of the table, in
11 Exhibit 8. So of the 25 wells drilled, only two have been
12 dry holes, for approximately 8- or 10-percent dryhole risk.

13 And that just points out what we face out there,
14 drilling this field, that the risk is not in the drilling
15 of the well; we're generally about 90-percent successful in
16 encountering pay sands. The trick is finding enough
17 production to make the well economic.

18 Q. Let's go to Exhibit Number 9. Could you identify
19 this?

20 A. This is a crossplot of the data that was on the
21 previous table, the pay thickness, h, on the vertical axis,
22 versus the estimated ultimate recovery in millions of cubic
23 feet of gas on the horizontal axis.

24 I've plotted each of the 25 wells on this plot.
25 I did this when we got the logs on the Hancock Number 3, in

1 an effort to estimate the reserves for this well.

2 You can see that there's a pretty poor
3 correlation between pay thickness and ultimate recovery,
4 just based on the scatter of the data points shown on the
5 plot here. But nevertheless, this is the only data we have
6 right now on this well. So I've shown the best-fit
7 straight line through this data as a solid line, trending
8 upwards there.

9 And then I've also noted a vertical line at 400
10 million cubic feet of gas, the vertical hatched line there.
11 And that again notes the minimum economic reserves for a
12 well in this area.

13 I then entered this plot from the vertical axis
14 at 37 feet of pay, which is what we had in the Hancock
15 Number 3, until I intersected the best-fit line. That
16 results in our current estimate of reserves for the Hancock
17 Number 3 of 380 million cubic feet of gas. That's just --
18 It's very near and just barely less than the minimum
19 economic reserves for the well at this time.

20 And that -- I'd just say that obviously, based on
21 the scattering of this data, the actual reserves that this
22 well has may be a lot less or a lot greater than shown on
23 this plot. There is a lot of scatter in this correlation.

24 Q. Are you prepared to make a recommendation to the
25 Examiner as to the risk that should be assessed against the

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1 nonparticipating interests in the well?

2 A. Yes, based on the data that we have now for the
3 Hancock Number 3, there is a significant risk, I feel, that
4 this well will not recover enough reserves to be economic.
5 However, there is great uncertainty in this analysis, as
6 I've just shown. This risk and uncertainty justifies the
7 200-percent penalty, I feel, that we are requesting in this
8 case.

9 Q. Mr. Stallings, in your opinion, will approval of
10 this pooling Application and the drilling and producing of
11 this well result in the recovery of hydrocarbons that
12 otherwise would not be recovered?

13 A. Yes, sir.

14 Q. Will it otherwise be in the best interests of
15 conservation, the prevention of waste and the protection of
16 correlative rights?

17 A. I believe so, yes.

18 Q. Were Exhibits 5 through 9 prepared by you or
19 under your direction and supervision?

20 A. Yes, they were.

21 MR. CARR: At this time, Mr. Stogner, we move the
22 admission of Yates Exhibits 5 through 9.

23 EXAMINER STOGNER: Exhibits 5 through 9 will be
24 admitted into evidence.

25 MR. CARR: And that concludes my direct

1 examination of Mr. Stallings.

2 EXAMINER STOGNER: No questions of this witness.

3 MR. CARR: We have nothing further in this case.

4 EXAMINER STOGNER: In that case, Case Number
5 10,991 will be taken under advisement.

6 (Thereupon, these proceedings were concluded at
7 11:33 a.m.)

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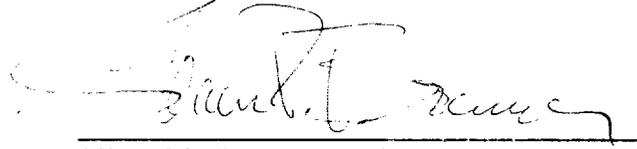
CERTIFICATE OF REPORTER

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

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

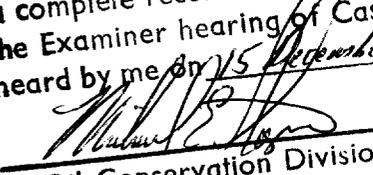
I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL December 19th, 1994.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10991 heard by me on 15 December 1994.

Oil Conservation Division, Examiner

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