

## NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date OCTOBER 18, 1989 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Samy Brooks	Harvey E. Yoder Co.	Roswell
Jim D. Miley	Katz	✓
Chip Fry	Yates Pet	Artesia
Monte A. Dugandant	Helt Oil & Gas	Roswell
Cy Cowan	Yates Pet	Artesia
David L. ...	Yates Pet	Artesia
Ed ...	Harvey E. Yoder Co.	MILLARD / NY
William L. ...	Campbell + Flack	Santa Fe
Shelley ...	Orff Energy	Midland
Bonnie ...	Orff Energy	Midland
A. BEER	" "	"
M. BARRON	" "	SA / HS
Keith ...	" "	Midland
David ...	" "	Midland
Mike Laseber	" "	Midland
...	" "	Midland

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SANTA FE, NEW MEXICOHearing Date OCTOBER 18, 1989 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
W. Kelly	W. Kelly	Santa Fe
Bob Hahn	Bureau	Santa Fe
MARK WEIDLER	BARNON ENERGY INC	FARMINGTON
JEFF Holcomb	Barnon Energy, Inc.	"
Andrew Hoff	Hinkle Law Firm	Santa Fe, N.M.
W. Perry Pearce	Montgomery, Andrews P.A.	Santa Fe
Larry D. Sweet	NMCO Operating Company	Tulsa, Oklahoma
JEFF REYNOLDS	Jeff Reynolds	Libbock TX.
Dennis To		M. LAND TX.
Ray W. Udd	Clawson U.S.A.	Houston, TX
Charles A. Gray	Crut Energy Co.	Dallas, TX.
Sarah Wilson		Santa Fe
Joe Stew	Grant Refining	Farmington

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4  
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7 EXAMINER HEARING  
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9 IN THE MATTER OF:  
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11 Application of Heafitz Energy Case 9778  
12 Management, Inc., for a unit  
13 agreement, Lea County, New Mexico.  
14  
15  
16

17 TRANSCRIPT OF PROCEEDINGS  
18

19 BEFORE: MICHAEL E. STOGNER, EXAMINER  
20

21 STATE LAND OFFICE BUILDING

22 SANTA FE, NEW MEXICO

23 October 18, 1989  
24  
25

**ORIGINAL**

## A P P E A R A N C E S

FOR THE APPLICANT: MONTGOMERY & ANDREWS, P.A.  
Attorneys at Law  
P.O. Box 2307  
Santa Fe, New Mexico 87504-2307  
BY: W. PERRY PEARCE, ESQ.

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1 HEARING EXAMINER: I'll call the next case,  
2 No. 9778, which is the application of Heafitz Energy  
3 Management, Inc., for a unit agreement, Lea County,  
4 New Mexico.

5 At this time I'll call for appearances.

6 MR. PEARCE: May it please the examiner,  
7 I'm W. Perry Pearce of the law firm of Montgomery &  
8 Andrews in Santa Fe, New Mexico, appearing in this  
9 matter on behalf of Heafitz Energy Management, Inc.

10 I have one witness who needs to be sworn.

11 Mr. Examiner?

12 HEARING EXAMINER: Are there any other  
13 appearances in this matter?

14 Will the witness please stand and be sworn.

15 ED INNERARITY,  
16 the witness herein, after having been first duly sworn  
17 upon his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. PEARCE:

20 Q. For the record, would you please state your  
21 name and where you reside.

22 A. Ed Innerarity, in Midland, Texas.

23 Q. Would you please spell your last name, Mr.  
24 Innerarity.

25 A. Sure, I do all the time.

1 I-n-n-e-r-a-r-i-t-y.

2 Q. Thank you, sir. Mr. Innerarity, what is  
3 your occupation?

4 A. I'm an independent producer and contract  
5 petroleum landman.

6 Q. Have you appeared before the Division or  
7 one of its examiners previously?

8 A. No, I have not.

9 Q. What is your educational background?

10 A. I graduated from the University of Texas in  
11 1974 with a Bachelor of Arts in Economics. I have an  
12 MBA from Trinity University which I received in 1975  
13 in Management. And I have a MS degree, a Master of  
14 Science Degree, from Trinity University, which I  
15 received in 1976.

16 Q. And you appear at the hearing this morning  
17 representing Haefitz Energy Management, Inc.; is that  
18 correct?

19 A. Yes, that is correct.

20 Q. What does Haefitz seek in the case this  
21 morning?

22 A. We seek approval of our proposed Tres  
23 Amigos Unit in Lea County, New Mexico.

24 Q. All right, sir. At this time I would like  
25 for you to refer to what I have marked as Exhibit No.

1 1 to this proceeding. Would you please describe for  
2 the examiner and those in attendance what's reflected  
3 on that exhibit?

4 A. This was a geologic report prepared by an  
5 independent consulting geologist by the name of Gene  
6 Davis.

7 This is essentially a summary of an  
8 exploratory test on our proposed Tres Amigos Unit. It  
9 is actually -- our exploratory effort will be the  
10 reentering and deepening to the Siluro-Devonian or  
11 Silurian formation of a well that was drilled in 1968  
12 to the Ellenberger by then Skelly Oil.

13 It was called the New Mexico P. Federal No.  
14 1. That Skelly well was drilled to nearly 23,000 feet  
15 and tested the Ellenberger, but never -- made no test  
16 whatsoever in this Siluro-Devonian formation.

17 It was subsequently plugged back to about  
18 15,600 feet as a marginal Atoka well.

19 We propose to reenter that well, deepen to  
20 approximately 19,400 feet, but no deeper than 19,800  
21 feet, and test the Siluro-Devonian formation.

22 Q. Mr. Innerarity, I'd ask you at this time to  
23 please look at the docket of this case, and I notice  
24 that the advertisement indicates that the proposal is  
25 for 3320 acres of land to be included in this unit.



1 Has that been revised?

2 A. Yes, that was revised, and I'll take the  
3 credit or the blame for doing that.

4 In an effort to get to the Commission our  
5 unit proposal in time for this hearing date, we  
6 included all of leases that we owned, and subsequently  
7 revised that to reflect two things: One, regular,  
8 320-acre spacing; and only that portion of our leases,  
9 or any lease, that was 50 percent or more  
10 prospective.

11 Shortly after the advertisement for the  
12 hearing went out, we made the necessary revisions so  
13 that our unit boundaries correctly reflected the  
14 geology.

15 Q. And what lands are now included within the  
16 proposed unit, please, by section?

17 A. All of these lands would be in Township 26  
18 South, Range 35 East, in, of course, Lea County, New  
19 Mexico. This would be all of Section 21, all of  
20 Section 22, all of Section 16, the west half of  
21 Section 15, and the south half of Section 9.

22 Q. The royalty of all of the land contained in  
23 this unit, who owns the royalty?

24 A. It is all owned by either federal or state,  
25 with the exception of Section 16, which is state. The

1 balance of the unit is federal.

2 Q. At this time I'd ask you to refer to what  
3 we've marked as Exhibit No. 2. Could you please  
4 advise the examiner and those in attendance what that  
5 exhibit reflects.

6 A. This is our unit agreement and attached  
7 unit operating agreement. It's our unit agreement for  
8 the development and operation of the Tres Amigos Unit  
9 covering the acreage I just described.

10 Q. You mentioned that all of the royalty in  
11 this land is state or federal. Who controls the  
12 working interest in the unit area?

13 A. The reason for my hesitation is, actually,  
14 Haefitz Energy controls all of it. The unit agreement  
15 is dated October 6, 1989, and certain assignments had  
16 not been either received by the BLM as of that date or  
17 approved by the BLM as of that date.

18 Specifically, those were assignments from  
19 Heritage Resources, Inc., in portions of Section 9 and  
20 15 and 22, and an assignment from Pogo covering 40  
21 acres in Section 22.

22 All of those assignments have been sent to  
23 the BLM, but until they're approved, we are reflecting  
24 record title on our Exhibits A and B the way they were  
25 on the date the unit application was made; that is,

1 October 6.

2 Q. I understand there is an 80-acre tract held  
3 by one of the Yates companies; is that Yates  
4 Petroleum?

5 A. Yates Petroleum, et al., has indicated that  
6 the south half of the southwest quarter of Section 15,  
7 which they own, they have elected not to participate  
8 in the unit.

9 Q. Have you discussed that particular 80-acre  
10 tract with the royalty owner, the federal government?

11 A. Yes. And since Haefitz and other joining  
12 working interest and record title owners of the lease  
13 have the remaining 95 percent and have approved, we'll  
14 just allow Yates to not be a party to the unit.

15 Q. Is it correct that the unit proposal is for  
16 a divided interest type of unit so that if a party  
17 elects not to participate, they will not be charged  
18 with any expenses unless their individual lands are  
19 developed?

20 A. That is correct.

21 MR. PEARCE: I had separated the unit  
22 operating agreement from the unit agreement. Mr.  
23 Examiner, he's discussed that briefly. That is the  
24 divided interest document.

25 I will now hand you what we've marked as

1 Exhibit 3. It is, Mr. Examiner, a divided  
2 interest-type operating agreement so that, although  
3 Yates Petroleum has an 80-acre tract which they have  
4 indicated they elect not to have participated in the  
5 unit, those lands will bear no part of the costs of  
6 this unit unless the individual lands are developed,  
7 and all of the remaining working interest in the  
8 proposed unit area is controlled by Haefitz Energy  
9 Management.

10 Q. At this time, Mr. Innerarity, do you have  
11 anything further to put on the record of this  
12 proceeding?

13 A. No, I do not.

14 MR. PEARCE: Mr. Examiner, that's all I  
15 have. I would request the admission of Exhibits 1, 2,  
16 and 3 to this proceeding, and the witness is available  
17 if you have questions.

18 HEARING EXAMINER: Exhibits 1, 2, and 3  
19 will be admitted into evidence at this time.

20 DIRECT EXAMINATION

21 BY HEARING EXAMINER:

22 Q. Mr. Innerarity, have you received  
23 preliminary approval from both the State Land Office  
24 and the BLM at this time?

25 A. No, not from the state. They were pretty

1 much following the lead of the BLM, but we have  
2 received approval from the Bureau of Land Management  
3 in Roswell.

4 Q. But the proper papers and forms have been  
5 filed with the State Land Office; is that correct?

6 A. Yes, they have.

7 HEARING EXAMINER: I have no other  
8 questions of this witness.

9 Are there any other questions of Mr.  
10 Innerarity?

11 MR. PEARCE: Nothing further, Mr. Examiner.

12 HEARING EXAMINER: If not, he may be  
13 excused.

14 Does anybody have anything further in Case  
15 No. 9778?

16 This case will be taken under advisement.

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CERTIFICATE OF REPORTER

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

I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; 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 November 13, 1989.

*Deborah O'Bine*  
 DEBORAH O'BINE  
 CSR No. 127

My commission expires: August 10, 1990

I hereby certify that the foregoing is a true and accurate record of the proceedings in the above-captioned matter of Case No. 9278, heard by me on 18 October 1989.

*Michael J. Hogan*, Examiner  
 Oil Conservation Division