

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

5 March 1986

DIVISION HEARING

IN THE MATTER OF:

Disposition of cases called on
Docket No. 8-86 for which no tes-
timony was presented.

CASE 8836,
8837, 8838,
8839, 8842,
8845, 8846,
8848, 8849,

8826.

*Transcript in
Case 8836*

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

19 February 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com- CASE
pany for compulsory pooling, Lea 8826
County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division: Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: Robert H. Strand
Attorney at Law
ATWOOD, MALONE, MANN & TURNER
P. O. Drawer 700
Roswell, New Mexico 88201

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ROBERT BELL

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LARRY BROOKS

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1
2 MR. STOGNER: Call next Case
3 Number 8826.

4 MR. TAYLOR: The application of
5 Harvey E. Yates Company for compulsory pooling, Lea County,
6 New Mexico.

7 MR. STRAND: Mr. Examiner, I'm
8 Robert H. Strand of the firm of Atwood, Malone, Mann &
9 Turner in Roswell, representing the applicant, and I have
10 two witnesses to be sworn.

11 MR. STOGNER: Are there any
12 other appearances?

13 Will the witnesses please stand
14 at this time and be sworn?

15
16 (Witnesses sworn.)
17

18 MR. STOGNER: Mr. Strand?
19

20 ROBERT BELL,
21 being called as a witness and being duly sworn upon his
22 oath, testified as follows, to-wit:
23
24
25

DIRECT EXAMINATION

BY MR. STRAND:

Q Please state your name.

A Robert H. Bell.

Q Mr. Bell, where do you reside and by whom are you employed?

A I reside in Roswell, New Mexico. I'm employed with the Harvey E. Yates Company in Roswell.

Q And what is your position with Harvey E. Yates Company?

A Petroleum landman .

Q Mr. Bell, have you testified before the Division in the past and are your qualifications as a landman a matter of record?

A Yes, I have, and yes, they are.

MR. STRAND: Is Mr. Bell considered qualified?

MR. STOGNER: Mr. Bell is so qualified.

Q Mr. Bell, would you please state the purpose of the application in this case?

A Mr. Examiner, in Case Number 8826 the applicant, Harvey E. Yates Company, seeks an order pooling all unleased and uncommitted mineral interest underlying the

1 northeast quarter of the southeast quarter of Section 8,
2 Township 16 South, Range 37 East in Lea County, New Mexico,
3 from the surface to the top of the Northeast Lovington Penn
4 Pool, and underlying the north half of the southeast quarter
5 in the interval comprising the Northeast Lovington Penn
6 Pool.

7 Q Mr. Bell, I refer you to what we have de-
8 signated as Exhibit Number One. Will you please describe
9 that exhibit?

10 A Yes, sir. Exhibit Number One is a plat
11 outlining our proposed location of the Lovington 8-2 Well.

12 Q Mr. Bell, you have designated on this
13 plat an 80-acre proration unit. Will that be the 80-acre
14 proration unit in the Northeast Lovington Penn Pool?

15 A Yes, sir.

16 Q And is the purpose of requesting pooling
17 of the northeast of the southeast --

18 A Yes, sir, northeast of the southeast.

19 Q Northeast of the southeast a 40-acre pro-
20 ration unit in the event you would complete the well at a
21 shallower depth as an oil well?

22 A That is correct.

23 MR. STRAND: Mr. Examiner, I
24 previously sent to you a letter requesting that this case be
25 readvertised to cover the additional pooling of the north-

1 east quarter of the southeast quarter, and I would request
2 that that be done.

3 MR. STOGNER: Thank you, Mr.
4 Strand. Inasmuch as this case was and will be readvertised
5 for the March 5th, 1986, hearing to include that 40 acres
6 underlying the northeast quarter of the southeast quarter,
7 to take care of all formations from the surface to the top
8 of the Lovington -- Northeast Lovington Penn Pool, at this
9 time we'll go ahead and hear testimony and at the 5th hear-
10 ing we will call for any additional testimony there might
11 be.

12 MR. STRAND: Thank you, Mr.
13 Taylor.

14 Q Mr. Bell, the -- is the proposed location
15 for your well a standard location in either case of the 40-
16 acre proration unit or the 80-acre proration unit?

17 A Yes, it is.

18 Q I refer you to what we've designated as
19 Exhibit Number Two. Would you please describe that?

20 A Exhibit Number Two is a list comprising
21 ten mineral owners under the southeast quarter of Section 8,
22 who we have not been able to locate.

23 It also gives a breakdown of their
24 mineral interest under the southeast quarter.

25 Q I refer you to Exhibit Number Three.

1 Will you please describe that?

2 A Exhibit Number Three is a letter written
3 by Mr. J. R. Rowan of Midland, Texas. He has tried for some
4 time to contact these people with some success. He was able
5 to locate several but he also states that he was not able to
6 find any of the ten mineral owners listed on Exhibit Two
7 that we are trying to force pool.

8 Q Mr. Bell, does that letter state what
9 steps Mr. Rowan took to locate these people and the period
10 of time that he worked on this?

11 A Yes, sir, it does.

12 Q Mr. Bell, were notices of this hearing
13 sent to each of these parties at their last known address?

14 A Yes, sir, they were, and I'll tell you we
15 sent notices of the hearing January 30th to each of these
16 people by certified mail.

17 Q Mr. Bell, did that notice of hearing in-
18 clude a statement as to what was going to be covered at this
19 hearing and gave those people that they did have a right to
20 appear either through counsel for by themselves to present
21 testimony?

22 A Yes, sir.

23 MR. STRAND: Mr. Examiner, we
24 have copies of all these -- of all the notices. If you wish
25 those put into evidence, we can.

1 MR. STOGNER: Yes, I would like
2 to have that information.

3 MR. STRAND: I would ask, then,
4 we designate those as Exhibit Number Ten, and we'll stamp
5 those after the hearing and get them to you, if that would
6 be satisfactory.

7 MR. STOGNER: Exhibit Number
8 Ten will consist of the return receipt requests?

9 MR. STRAND: Yes.

10 Q Mr. Bell, have you gotten any -- any re-
11 sponse back on these notices?

12 A Yes, sir, just yesterday, I believe, we
13 had two that were returned, the people we were unable to lo-
14 cate.

15 Mr. Examiner, I might mention that we had
16 a hearing on March the 2nd, 1983, covering the south half of
17 the southeast quarter of Section 8. These are all undivided
18 minerals, at which time we had force pooled all these people
19 and received an order in our favor March the 29th, 1983.

20 These same people, and a similar letter
21 was entered as evidence at that time for that hearing.

22 Q Mr. Bell, I refer you to what we've de-
23 signated as Exhibit Number Four. Would you please describe
24 that?

25 A Exhibit Number Four is a 1977 model form

1 operating agreement covering the southeast quarter of Sec-
2 tion 8, as well as the northeast quarter of Section 17,
3 Township 16 South, Range 37 East.

4 Q What is the date of that operating agree-
5 ment?

6 A The agreement was prepared December the
7 1st, 1982, and revised January the 3rd, 1983.

8 Q Mr. Bell, did that operating agreement
9 cover the well you drilled in the south half of the south-
10 east quarter?

11 A Yes, sir, it did.

12 Q Would you please refer to the portion of
13 that operating agreement that relates to penalty provisions
14 for nonconsent operations?

15 A That would be on page number five of the
16 operating agreement, where we have the 400 percent noncon-
17 sent penalty.

18 Q Mr. Bell, does that -- do those provi-
19 sions provide basically for a 400 percent nonconsent penalty
20 for drilling operations and for the cost of in-well equip-
21 ment?

22 A Yes, sir.

23 Q And does it provide for 100 percent of
24 recovery of operating costs and the cost of surface equip-
25 ment?

1 A That's correct.

2 Q Mr. Bell, am I correct that this operat-
3 ing agreement will cover the well you've proposed to drill
4 in the north half of the southeast quarter?

5 A Yes, sir, that's correct.

6 Q I refer you to Exhibit Number Five. Would
7 you please describe that?

8 A Exhibit Number Five is an AFE which Har-
9 vey E. Yates Company has prepared covering the Lovington 8-2
10 Well.

11 Q Will you please state what the total cost
12 of that well --or estimated cost of that well will be?

13 A Estimated dry hole cost will be \$432,950;
14 a producing well cost of \$816,700.

15 Q Mr. Bell, as a part of your notice to
16 these parties, nonconsent parties, have you -- did you in-
17 clude a copy of that operating agreement and a copy of such
18 AFE and request such parties to join in the drilling of the
19 well?

20 A Yes, sir, that was included in our Janu-
21 ary 30th letter.

22 Q Mr. Bell, did you prepared Exhibits Num-
23 ber One through Four or were they prepared under your super-
24 vision?

25 A Yes, sir, they were.

1 MR. STRAND: I have no further
2 questions of Mr. Bell at this time.

3

4

CROSS EXAMINATION

5

BY MR. STOGNER:

6

Q Mr. Bell, of the parties listed on Exhibit
7 Number Two that you're seeking forced pooling today,
8 when were notices sent out to the ones with addresses?

9

A Could you please repeat the question?

10

Q When were notices sent to the addressees
11 on Exhibit Number Two?

12

A Mr. Examiner, as I stated before, this is
13 an undivided mineral interest covering the southeast quarter
14 of Section 8. We originally tried to locate these people by
15 letter of December the 17th, 1982, which was entered as evidence
16 in our first case.

17

When we decided to go ahead and drill the
18 Lovington 8-2 Well, covering the north half of the southeast
19 quarter, we again on January 30th, 1986, sent letters to
20 these people.

21

Q When you were seeking the force pooling
22 for the south half of this section, were the parties that
23 are being force pooled today identical to those parties at
24 that time?

25

A Yes, sir, with the exception of three or

1 four people that Mr. Rowan in Midland, Texas, was able to
2 find after the force pool order.

3 Q Did those parties that you've just al-
4 luded to, did they join in the north half today or are they
5 still listed as one of the parties to be force pooled?

6 A No, sir, they -- Mr. Rowan did receive
7 leases and he is participating with that interest.

8 Q Did you get a response back in '82 when
9 you were seeking the south half from any of these people on
10 Exhibit Three?

11 A No, sir.

12 Q When was Mr. Rowan contacted by your of-
13 fices to do this search?

14 A He was not. Mr. Rowan did this indepen-
15 dently after the force pool order covering the south half of
16 Section 8. He went -- by evidence in Exhibit Number Three
17 of this letter he outlines the steps that he took to find
18 these people and it's a very extensive search and he was on-
19 ly able to locate a small number, maybe three or four peop-
20 le, I'm not sure.

21 Q So this is essentially the work that he
22 did back in '82, is that correct?

23 A That's correct.

24 Q You stated earlier that you wished to
25 seek a 400 percent risk penalty factor, is that right?

1 A I don't -- I don't believe that was stated.

2 MR. STRAND: Mr. Examiner, he
3 stated that's what's in the current operating agreement.

4 MR. STOGNER: Oh, that's total.
5 That's not what you're seeking here today.

6 A No, sir.

7 Q And will your other witness --

8 MR. STRAND: Yes.

9 Q -- testify to the (not understood)?

10 MR. STRAND: Yes.

11 MR. STOGNER: I have no further
12 questions of Mr. Bell.

13 Are there any other questions
14 of this witness?

15 If not, he may be excused.

16
17 LARRY BROOKS,
18 being called as a witness and being duly sworn upon his
19 oath, testified as follows, to-wit:

20

21 DIRECT EXAMINATION

22 BY MR. STRAND:

23 Q Please state your full name for the re-
24 cord.

25 A Larry Brooks.

1 Q Mr. Brooks, where do you reside and by
2 whom are you employed?

3 A Artesia, New Mexico, and I'm employed by
4 Harvey E. Yates Company.

5 Q And what is your position with Harvey E.
6 Yates Company?

7 A Geologist.

8 Q Mr. Brooks, have you testified before the
9 Division in the past and are your qualifications as a geolo-
10 gist a matter of record?

11 A They are.

12 MR. STRAND: Is Mr. Brooks con-
13 sidered qualified?

14 MR. STOGNER: Mr. Brooks, who
15 were you previously employed by?

16 A New Mexico Oil Conservation Division.

17 MR. STOGNER: Mr. Brooks is so
18 qualified.

19 MR. STRAND: Thank you.

20 Q Mr. Brooks, are you familiar with the ap-
21 plication in Case Number 8826?

22 A I am.

23 Q And are you familiar with the matters
24 that Mr. Bell has testified to?

25 A I am.

1 Q Have you prepared certain geological ex-
2 hibits relating to this application?

3 A I have.

4 Q I refer you to what we've described as
5 Exhibit Number Six. Would you please describe that exhibit
6 and its relevance to the application?

7 A Okay. Exhibit Six is an Isopach on the
8 Strawn B Bank. It's maximum thickness of 200 feet is indi-
9 cated by the hard contours and it shows basically the dis-
10 tribution of five pods of carbonate bank build-up which are
11 the main pay objective in this well.

12 Q And that exhibit does show the location of
13 your proposed well?

14 A It does.

15 Q And is that designated by the dark cir-
16 cle?

17 A Yes.

18 Q In the -- you see in the southeast quar-
19 ter of the southeast quarter of Section 8?

20 A No. It's indicated by the light circle
21 --

22 Q Oh, I'm sorry.

23 A -- in the northeast of the southeast.

24 Q Okay, and then the other well located to
25 the south is the well drilled in 1982, is that correct?

1 A That's correct.

2 Q Mr. Brooks, I refer you to what we've de-
3 signated as Exhibit Number Seven. Would you please describe
4 that?

5 A Exhibit Number Seven shows the Isopach on
6 the top of the Strawn B Bank, showing the probable extent of
7 the reservoir, as indicated by the hard contour, negative
8 7644, running from the northeast of Section 8 into the
9 southeast -- southwest of Section 9 of 16 South, 37 East.

10 Q I'll refer you to Exhibit Number Eight.
11 Would you please describe that?

12 A Exhibit Number Eight shows an Isopach on
13 porosity with a 6 percent economic cutoff. It identifies the
14 well proposed and on the flank of marginal economic poros-
15 ity.

16 Q Fine. I refer you then to Exhibit Number
17 Nine. Would you please describe that?

18 A Exhibit Number Nine is a cross section,
19 which encompasses from west to east the existing East Lov-
20 ington No. 8 Well, with relation to Amerada Hess's Andres
21 No. 9 and the dry hole in Section 8, drilled by Energy Re-
22 serves Group, the Caudell No. 1.

23 Q Mr. Brooks, is that cross section also
24 shown on the prior Exhibits Six, Seven, and Eight as cross
25 section A-A'?

1 A It is.

2 Q Mr. Brooks, based on these exhibits and
3 your knowledge of the area, in your opinion is this an opti-
4 mal location for this particular well?

5 A Yes. The well is optimal with respect
6 that we feel the 8 No. 2 location is at such a point to most
7 effectively and efficiently drain the maximum amount of the
8 proration unit dedicated to the well, and also intercept the
9 greatest amount of Strawn carbonate bank build-up and the
10 anticipated highest amount of porosity built.

11 Q What is the depth, proposed total depth
12 of this well?

13 A Approximately eleven five.

14 Q Mr. -- go ahead.

15 A 11,500 feet.

16 Q Mr. Brooks, in your opinion is there sub-
17 stantial risk involved in drilling of this well?

18 A Definitely.

19 Q Would you comment on what you base that
20 opinion?

21 A Well, basic risks are -- in drilling a
22 well is, one, proposity is not developed; two, you might
23 have porosity development with no permeability, therefore
24 the zone is too tight for economic production.

25 With the structure as sensitive and small

1 as this, and as spotty, it could miss the pod entirely.
2 There is, even though we are assuming it will be high to the
3 offset wells, there is a remote possibility of being low in
4 structure; the depth to the objective is approximately
5 11,450 feet deep and it's only 20 to 30 foot thick, if
6 developed. And another risk is the price of oil.

7 Also, the reservoir may be limited as ex-
8 hibited by the East Lovington 8 No. 1 Well, which is also
9 operated by Heyco. This well is barely paid out.

10 Also there are numerous dry holes scat-
11 tered about, as on Exhibit One, which represents prior at-
12 tempts that ended up in failures, and that's basically the
13 risk.

14 Q Mr. Brooks, are there also mechanical
15 risks involved in drilling a well at this depth?

16 A Definitely.

17 Q Based on these factors, Mr. Brooks, would
18 you request on behalf of the applicant that the maximum sta-
19 tutory risk penalty be included in any order entered in this
20 matter?

21 A Yes.

22 Q Mr. Brooks, have you examined the AFE
23 that was testified to by Mr. Bell?

24 A I have.

25 Q Based on your experience, would you con-

1 sider the estimated cost of the well to be reasonable con-
2 sidering the depth?

3 A I think it's very fair cost.

4 Q Mr. Brooks, I refer you to the operating
5 agreement testified to by Mr. Bell. Would you state for the
6 record what the supervision rates are for drilling and oper-
7 ation as included in the COPAS form?

8 A Okay. Okay, for a drilling well rate
9 we're asking \$4000 per month and a producing well rate of
10 \$400 per month.

11 Q And those rates were included in the
12 operating agreement that was executed by all of the interest
13 owners in 1982?

14 A They were.

15 Q Do you consider those -- in your opinion
16 are those rates comparable to other rates utilized in this
17 area for wells of similar depth?

18 A They are.

19 Q And objective?

20 A They are.

21 Q On behalf of the applicant would you then
22 request that such rates be included in any order entered in
23 this matter?

24 A I would.

25 Q Mr. Brooks, in your opinion would the

1 granting of this application prevent unnecessary drilling of
2 wells, promote conservation, and prevent waste?

3 A It definitely would.

4 Q Were Exhibits Number Five through Nine
5 prepared by you or by other staff of the applicant?

6 A They were.

7 MR. STRAND: Mr. Examiner, I
8 move then the admission of Exhibits Number One through Ten.

9 MR. STOGNER: Exhibits Number
10 One through Ten, with Ten being submitted at a later date,
11 will be admitted into evidence at this time.

12

13 CROSS EXAMINATION

14 BY MR. STOGNER:

15 Q Mr. Brooks, are there any oil producing
16 formations, known oil producing formations, above -- I'm
17 sorry Mr. Strand, did you have some more questions?

18 MR. STRAND: No.

19 Q Are there any other known oil producing
20 zones above the Northeast Lovington Penn?

21 A Not to my knowledge, no, in this
22 particular area.

23 Q Mr. Brooks, do you know how old the
24 Northeast Lovington Penn Pool is, when was it formed?

25 A Oh, off the top of my head, I do not.

1 MR. STOGNER: I have no further
2 questions of this witness.

3 Is there anything further of
4 Mr. Brooks?

5 If not, he may be excused.

6 Mr. Strand, do you have
7 anything further in this case at this time?

8 MR. STRAND: Nothing further,
9 Mr. Examiner.

10 MR. STOGNER: The record on
11 this case will remain open pending the March 5th, 1986,
12 hearing, which will be called at that time to consider the
13 northeast/southeast quarter for any additional testimony.

14 That concludes this case for
15 today.

16

17 (Hearing concluded.)

18

19

20

21

22

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24

25

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY the foregoing Transcript of Hearing before the Oil
Conservation Division (Commission) was reported by me; that
the said transcript is a full, true, and correct record of
the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8826
heard by me on 22 February 1986.

Walter J. Rogers, Examiner
Oil Conservation Division