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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:)
) CASE NO. 10315
APPLICATION OF HARVEY E. YATES)
COMPANY FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO.)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner

May 30, 1991

Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Division on May 30, 1991, at 9:50 a.m. at Oil
Conservation Division Conference Room, State Land Office
Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico,
before Freda Donica, RPR, Certified Court Reporter No. 417,
for the State of New Mexico.

FOR: OIL CONSERVATION BY: FREDA DONICA, RPR
DIVISION Certified Court Reporter
CCR No. 417

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I N D E X

May 30, 1991
Examiner Hearing
CASE NO. 10315

PAGE
3

APPEARANCES

HARVEY E. YATES COMPANY'S WITNESSES:

ROBERT H. BELL

Direct Examination by Mr. Carr	4
Examination by Mr. Stovall	10

DAVID B. PEARCY

Direct Examination by Mr. Carr	11
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REPORTER 'CERTIFICATE	20
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E X H I B I T S

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Commission
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

FOR THE APPLICANT: CAMPBELL & BLACK, P.A.A
Attorneys at Law
BY: WILLIAM F. CARR, ESQ.
110 North Guadalupe
Santa Fe, New Mexico 87501

1 HEARING EXAMINER: Call case 10315.

2 MR. STOVALL: Application of Harvey E. Yates Company
3 for compulsory pooling, Lea County, New Mexico.

4 HEARING EXAMINER: Appearances.

5 MR. CARR: May it please the Examiner, my name is
6 William F. Carr, with the law firm of Campbell & Black, P.A.
7 of Santa Fe. I represent Harvey E. Yates Company, and I
8 have two witnesses.

9 HEARING EXAMINER: Witnesses please stand and be sworn.

10 (Witnesses sworn.)

11 ROBERT H. BELL

12 the witness herein, having been first duly sworn, was
13 examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. CARR:

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

17 A. Robert H. Bell.

18 Q. Mr. Bell, where do you reside?

19 A. Roswell, New Mexico.

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

21 A. I'm the land manager for the Harvey E. Yates
22 Company in Roswell.

23 Q. Have you previously testified before this
24 division and had your credentials as a landman accepted and
25 made a matter of record?

1 A. Yes, I have; and, yes, they have.

2 Q. Are you familiar with the application filed in
3 this case on behalf of Harvey E. Yates Company?

4 A. Yes, sir.

5 Q. And you're familiar with the subject area and the
6 ownership therein?

7 A. I believe so.

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

9 HEARING EXAMINER: Yes, sir.

10 Q. (By Mr. Carr) Mr. Bell, would you briefly state
11 what HEYCO seeks with this application?

12 A. Harvey E. Yates Company seeks the force pooling
13 of all mineral interests in the southwest northwest quarter
14 of Section 32, Township 18 South, Range 33 East, Lea County,
15 New Mexico. HEYCO proposes to dedicate the referenced
16 pooled acreage to the Atlantic 32 State Number -- Atlantic
17 32 State Number 2 well, to be located in an orthodox
18 location in said Section 32, the subjective depth being the
19 Queen formation.

20 Q. Have you prepared certain exhibits for
21 presentation in this case?

22 A. Yes, sir, I have.

23 Q. Could you identify what has been marked as HEYCO
24 Exhibit Number 1 and review that for the Examiner?

25 A. Exhibit Number 1 is a land plat showing the

1 proposed location, being the southwest of the northwest
2 quarter of Section 32.

3 Q. This also shows the general ownership in the
4 area?

5 A. That's correct.

6 Q. And the dedicated acreage?

7 A. That's correct.

8 Q. You've indicated the primary objective is the
9 Queen formation?

10 A. Yes, sir.

11 Q. Let's go to Exhibit Number 2. Would you identify
12 that?

13 A. Exhibit Number 2 is the Exhibit A to the joint
14 operating agreement for the Atlantic 32 State Number 1,
15 which was also joint operating agreement for Atlantic 32
16 State Number 2. It shows the working interest owners and
17 their proportionate working interest.

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

20 A. Voluntarily, we have 99.998 percent committed to
21 the well.

22 Q. And who has not joined?

23 A. Mr. Edgar J. Braun.

24 Q. Could you identify what has been marked as HEYCO
25 Exhibit Number 3?

1 A. Exhibit Number 3 is an AFE for the Atlantic 32
2 State Number 2 well. It has a dry hole cost of \$153,353.00
3 and a completed well cost of \$366,728.00.

4 Q. Are these costs in line with what's being charged
5 by other operators for similar wells in the area?

6 A. I believe they are.

7 Q. Could you briefly summarize for Mr. Morrow your
8 efforts to obtain the voluntary joinder in this project of
9 Mr. Braun?

10 A. Yes, sir. In July of 1987 Harvey E. Yates
11 Company purchased 92 percent of state lease K-1860, being
12 the north half of Section 32. The other eight percent was
13 owned by 84 individuals. We made several attempts to
14 purchase these interests. To date, we have successfully
15 purchased or have joinder from these individuals with the
16 exception of Mr. Braun.

17 Q. He's the only individual that has not
18 contractually committed to this project?

19 A. That's correct. And we have made several
20 attempts through letters, telephone calls, AFEs, whatnot.
21 Just will not respond favorably to our request.

22 Q. Would you identify Exhibit Number 4 for Mr.
23 Morrow?

24 A. Exhibit Number 4 is a group of letters which we
25 have sent, beginning in October of 1987, to Mr. Braun,

1 asking him to either sell his interest, participate with us,
2 just numerous different options.

3 Q. When was your most recent contact with Mr. Braun?

4 A. I talked with Mr. Braun, oh, let's see, it was
5 probably two months ago.

6 Q. What response did you receive from him at that
7 time?

8 A. He just said that he was not interested in doing
9 anything with Harvey E. Yates Company. Indicated that he
10 was a little more sophisticated than the dumb ranchers and
11 farmers that we were used to working with here in New
12 Mexico.

13 Q. Was it at that time you concluded you had to seek
14 forced pooling?

15 A. Yes.

16 Q. Is Exhibit Number 5 a copy of an affidavit from
17 Campbell & Black confirming that notice of today's hearing
18 has been mailed to Mr. Braun?

19 A. That's correct.

20 Q. Now, attached to that is a copy of a envelope
21 showing that the certified letter was unclaimed; is that
22 right?

23 A. Yes, sir.

24 Q. Is the address to which this certified letter --
25 which this letter was mailed the correct address for Mr.

1 Braun?

2 A. I believe so. On Exhibit Number 4 you see a
3 letter that was also sent to the same address, which he
4 responded negatively to in October of 1987.

5 Q. Does Harvey E. Yates Company seek to be
6 designated operator of the proposed well?

7 A. Yes, sir, we do.

8 Q. Will you be calling a geological witness to
9 testify about the risks involved in drilling this particular
10 well?

11 A. Yes, sir.

12 Q. Were Exhibits 1 through 5 either prepared by you
13 or compiled under your direction and supervision?

14 A. Yes, they were.

15 MR. CARR: At this time, Mr. Morrow, I would move the
16 admission of HEYCO Exhibits 1 through 5.

17 HEARING EXAMINER: Did you discuss Exhibit 3 any as you
18 went through?

19 THE WITNESS: Exhibit 3, sir, was the AFE for this
20 second well that we have proposed. And we did discuss it
21 briefly; mentioned the dry hole costs and completed well
22 costs. This AFE and the attached letter were sent to Mr.
23 Braun on April the 5th, 1991.

24 HEARING EXAMINER: All right. Exhibits 1 through 5 are
25 admitted.

1 MR. CARR: I have nothing further on direct.

2 HEARING EXAMINER: Mr. Bell, on Exhibit 2, the list of
3 working interest owners includes, I assume from your
4 testimony, some unleased mineral interests; is that correct
5 or not?

6 THE WITNESS: No, sir. The only -- Mr. Braun is the
7 only leasehold interest owner that has not -- is not under
8 contract to participate or farmout or sell. Everyone else
9 has signed their AFE and is willing to participate in the
10 drilling of this well.

11 HEARING EXAMINER: Do you think he acquired that
12 interest as a mineral interest, or did he lease that from
13 the mineral interest owner -- from the royalty owner? Is he
14 a royalty owner as well as a working interest owner?

15 THE WITNESS: Yes, sir. He owns a fraction of the
16 original lease.

17 MR. STOVALL: He doesn't own the fee minerals.

18 THE WITNESS: No. It's a state lease, sir.

19 HEARING EXAMINER: All right. I hadn't picked up on
20 that yet. So then all the royalty is state royalty. I
21 don't have any questions.

22 MR. STOVALL: I do.

23 EXAMINATION

24 BY MR. STOVALL:

25 Q. Mr. Bell, you stated that Exhibit 2 is the

1 Exhibit A off an existing operating agreement; is that
2 correct?

3 A. That's correct.

4 Q. And that existing operating agreement covers this
5 acreage; is that correct?

6 A. Covers the north half of Section 32.

7 Q. And is Mr. Braun not a party to that operating
8 agreement?

9 A. No, sir, he's not. He never signed the operating
10 agreement or the AFE.

11 MR. STOVALL: Nothing further.

12 HEARING EXAMINER: The witness may be excused.

13 MR. CARR: At this time we'll call Mr. Pearcy.

14 DAVID B. PEARCY

15 the witness herein, having been first duly sworn, was
16 examined and testifised as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

19 Q. Would you state your full name for the record,
20 please?

21 A. David B. Pearcy.

22 Q. Where do you reside?

23 A. I reside in Roswell.

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

25 A. I'm chief geologist for Harvey E. Yates Company.

1 Q. Have you previously testified before this
2 division?

3 A. Yes, sir, I have.

4 Q. And at that time were your credentials as a
5 geologist accepted and made a matter of record?

6 A. That's correct.

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

9 A. Yes, I am.

10 Q. Are you familiar with the subject area and the
11 proposed well?

12 A. Yes, sir, I am.

13 MR. CARR: Are Mr. Percy's qualifications accepted?

14 HEARING EXAMINER: Yes, sir.

15 Q. (By Mr. Carr) Mr. Percy, have you prepared
16 certain exhibits for presentation here today?

17 A. Yes, sir. If I can draw your attention to
18 Exhibit Number 6, which is a land plat identifying the
19 producing wells in the vicinity, the subject well is in
20 Section 32.

21 I want to draw your attention to the other Queen
22 producers in the area. There is a Queen gas well in the
23 southeast quarter of Section 30, since been abandoned. And
24 there is another Queen producing -- or abandoned Queen oil
25 well in the southwest -- excuse me, southeast quarter of

1 Section 28, and a third Queen well, also an oil well, in the
2 southeast quarter of Section 33. Within a nine-section area
3 surrounding Section 32, these are the only other Queen
4 producers, with the exception of our Atlantic 32 Number 1 in
5 the northwest quarter of Section 32.

6 Q. Does this exhibit also contain a trace for a
7 subsequent cross-section?

8 A. Yes, it does; that's cross-section A-A'.

9 Q. Are you ready to move to Exhibit Number 7?

10 A. Yes, sir, I am.

11 Q. Could you identify that for the Examiner, please?

12 A. Exhibit Number 7 is a structure map on the top of
13 the Penrose sand, a member of the Queen formation. I
14 contoured this on a 20-foot contour interval. Notice the
15 subject well and its relationship to the Atlantic Number 1.
16 And we have very little control to tell us which way to go
17 here for the Queen production.

18 I want to point out that there is quite a bit of
19 structure in this immediate area which will account for
20 different oil, water and gas well contacts, as well as major
21 stratigraphic changes within the Queen -- the Penrose zone
22 that is our objective. I just want to indicate that because
23 of the complexity of the structure here, we do encounter
24 some additional risks in drilling the subject well.

25 Q. Let's move down to Exhibit Number 8. Would you

1 review that and identify it for us, please?

2 A. Exhibit 8 is my cross-section, showing generally
3 running east to west. On the left-hand side you'll see that
4 the Queen gas well, Robert Enfield's Hudson Number 1, was
5 completed in the stratigraphic equivalent -- on the
6 left-hand side you see the Enfield gas well is completed in
7 the stratigraphic equivalent of the Penrose zone that our
8 HEYCO Atlantic 32 Number 1 is also completed in. However,
9 it is a gas-bearing zone, and we do not believe it's in
10 communication. I want to point out this gas well produced
11 just under 200 million cubic feet, which would be uneconomic
12 by today's standards.

13 As you head to the southeast, there is one well,
14 the Southland Royalty Querecho Number 2, which we do not
15 believe would be productive in this Queen zone, and then
16 proceeds on to the Pan American Buffalo Fed Unit Number 6,
17 which was also completed as an oil well in this Penrose sand
18 interval. This well was subeconomic and made only 1,000
19 barrels.

20 Q. Mr. Percy, let's now move to Exhibit 9, your
21 isopach map. I'd ask you to review that for Mr. Morrow.

22 A. Mr. Morrow, I believe the isopach map indicates
23 the particular problems of risk that we have, with the
24 nature of this Penrose sand being quite spotty through the
25 area. Again, looking at the gas well which is located in

1 the southeast quarter of Section 30, there was a direct
2 north offset drilled to that well in 1987, which was dry.
3 As a matter of fact, the pay zone was a water wet in that
4 well, so it shows no pay. The major contour interval
5 through the middle of the map is based primarily on 19 feet
6 of pay that we believe we have in our number one well, and
7 there's some indications of potential pay both to the north
8 and south, but, again, having some major questions on the
9 quality of that because it has not been tested in many of
10 those other wells.

11 Up on the right-hand side in Sections 28 and 33
12 you will notice that the wells -- the other Queen wells on
13 the east edges of each of those sections did have some pay
14 that numbered from slightly under five feet up to 20 feet,
15 but an intervening well, the one in the northeast quarter of
16 Section 33, was dry in the Queen. Although you might have
17 expected just to straight-line on these things and put some
18 of the regional trends in through there, that well should
19 have been productive. So based on this map, I think we have
20 a strong case for showing that the Queen pay sand is quite
21 spotty and unpredictable, and I believe we will encounter
22 some major risks in drilling this subject well.

23 Q. In this nine-section area, you have nine dry
24 holes; is that right?

25 A. That's correct. In this nine-section area there

1 are nine dry holes, eight of which were drilled specifically
2 for the Queen.

3 Q. Are you prepared to make a recommendation to the
4 Examiner as to the risk penalty that should be assessed
5 against Mr. Braun?

6 A. Yes, sir, I am.

7 Q. What is that?

8 A. That would be 200 percent.

9 Q. Do you believe there's a chance you could drill a
10 well at the proposed location that would not, in fact, be a
11 commercial success?

12 A. Exactly. I've pointed out already the gas well
13 which was drilled in 1970 of Enfield's which produced under
14 200 million cubic feet, the Pan American Number 6 well that
15 I referred to earlier, which is in Section 33, which made
16 only 1,000 barrels. One of the earlier discoveries in the
17 well, the new area of the well in Section 28, produced what
18 would be a marginal 22,000 barrels by today's standards. So
19 of all the other Queen wells in this area, none of them
20 would really be considered barnburners or something that
21 you'd really want to start a drilling program for.

22 Q. Have you made an estimate of the overhead and
23 administrative costs associated with the drilling of this
24 well, not only while drilling but also while producing the
25 well?

1 A. Yes, sir, I have.

2 Q. And what are those figures?

3 A. We used the Ernst & Young tables for 1990, and
4 based on a TD of fifty-one fifty, we would want to assess a
5 monthly drilling well rate of \$4,000.00 per month and a
6 producing well rate, assuming that it is a Queen producer,
7 of \$300.00 per month.

8 Q. Do you recommend that these figures be
9 incorporated into any order which results from this hearing?

10 A. Yes, I do.

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

14 A. That's correct.

15 Q. Were Exhibits 6 through 9 prepared by you?

16 A. Yes, they were.

17 MR. CARR: At this time, Mr. Morrow, we'd move the
18 admission of Harvey E. Yates Company Exhibits 6 through 9.

19 HEARING EXAMINER: 6 through 9 are admitted.

20 MR. CARR: That concludes my direct examination of Mr.
21 Pearcy.

22 HEARING EXAMINER: Mr. Pearcy, the Queen gas well in
23 Section 30 is abandoned at this time?

24 THE WITNESS: That's correct.

25 HEARING EXAMINER: The number 19 in Section 32, is that

1 a reentry? Or what is the situation?

2 THE WITNESS: That's correct. The 19 represents the
3 fee of net pay that we have from two casehole logs on that
4 well, that is, the Atlantic 32 State Number 1 well. That
5 was a Morrow well at one time which HEYCO purchased the 92
6 percent on it, as you previously heard. And we have made a
7 recompletion into the Queen zone.

8 HEARING EXAMINER: It's recompleted only in the Queen?

9 THE WITNESS: That's correct. At this point, it's only
10 in the Queen. It did have some brief production from the
11 Bone Springs, but that had to be abandoned for mechanical
12 reasons.

13 HEARING EXAMINER: So it's produced in the Morrow, and
14 the Bone Springs is currently producing?

15 THE WITNESS: Correct.

16 HEARING EXAMINER: The total depth of your proposed
17 well is what?

18 THE WITNESS: Fifty-one fifty, as stated on the AFE,
19 sir.

20 HEARING EXAMINER: And the depth of the Queen from the
21 --

22 THE WITNESS: The Penrose formation will be around
23 4,400 feet at this point. Again, we did have fragmentary
24 logs on the Atlantic 32 Number 1, which did nonetheless
25 indicate some productive possibilities for the sands down

1 through what's shown on the cross-section as the Loco Hills
2 zone. So we elected to take this number 2 well down to Loco
3 Hills and get a modern log look at that zone too.

4 HEARING EXAMINER: I don't have anything else.

5 MR. STOVALL: No questions.

6 HEARING EXAMINER: The witness may be excused.

7 MR. CARR: We have nothing further.

8 HEARING EXAMINER: Case 10315 will be taken under
9 advisement.


10 (The foregoing hearing was adjourned at the
11 approximate hour of 10:12 a.m.)
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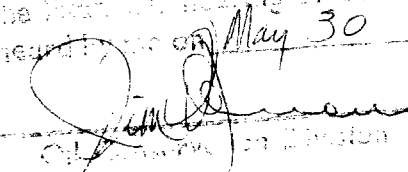
1 STATE OF NEW MEXICO)
2 :
3 COUNTY OF SANTA FE)

4 I, FREDA DONICA, RPR, a Certified Court Reporter, DO
5 HEREBY CERTIFY that I stenographically reported these
6 proceedings before the Oil Conservation Division; and that
7 the foregoing is a true, complete and accurate transcript of
8 the proceedings of said hearing as appears from my
9 stenographic notes so taken and transcribed under my
10 personal supervision.

11 I FURTHER CERTIFY that I am not related to nor employed
12 by any of the parties hereto, and have no interest in the
13 outcome hereof.

14 DATED at Santa Fe, New Mexico, this 30th day of
15 June, 1991.

16 
17 Freda Donica
18 Certified Court Reporter
19 CCR No. 417

20 I do hereby certify that the foregoing is
21 a correct and true transcript of the proceedings in
22 the hearing of Case No. 10315,
23 heard by me on May 30, 1991.
24 
25