

NEW MEXICO OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

CASE NOS. 10460 and 10461

(CONSOLIDATED)

IN THE MATTER OF:

CASE NO. 10460

The application of Yates Petroleum Corporation for directional drilling and a nonstandard oil proration unit, Eddy and Lea Counties, New Mexico.

- and -

CASE NO. 10461

The application of Yates Petroleum Corporation for directional drilling and a nonstandard oil proration unit, Eddy and Lea Counties, New Mexico.

BEFORE:

DAVID R. CATANACH
Hearing Examiner
State Land Office Building
April 2, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

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FOR THE APPLICANT:

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Post Office Drawer 239

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BY: ERNEST L. CARROLL, ESQ.

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1 EXAMINER CATANACH: At this time we'll
2 call Case 10460.

3 MR. STOVALL: Application of Yates
4 Petroleum Corporation for directional drilling in
5 a nonstandard oil proration unit, Eddy and Lea
6 Counties, New Mexico.

7 EXAMINER CATANACH: Are there
8 appearances in this case?

9 MR. CARROLL: Yes, Mr. Examiner. I'm
10 Ernest Carroll of the Artesia law firm of Losee,
11 Carson, Haas & Carroll. And I'm here today
12 representing Yates Petroleum Corporation, and I
13 will have two witnesses.

14 EXAMINER CATANACH: Okay.

15 MR. CARROLL: Mr. Examiner, I would
16 suggest, and I would make a motion, that for
17 purposes of taking evidence, that Cases 10460 and
18 10461 be consolidated.

19 By way of explanation, and I will put
20 on evidence as to the necessity and why, Yates
21 has proposed these two locations as
22 alternatives. We do not, at least at this time,
23 intend to drill both wells. But we have not made
24 up our mind as to which one of the two we wish to
25 drill.

1 One is considerably more expensive and
2 riskier because instead of a directional hole to
3 a direct offset, it is a directional offset and
4 ups the cost. And the only reason that we're
5 drilling a directional hole is to salvage or save
6 a farmout that is going to run out at the end of
7 the month.

8 So I think for purposes of expediting
9 today's hearing and to protect the correlative
10 rights of other applicants here and prevent
11 wasting the time of the Commission, we would move
12 to consolidate these things.

13 EXAMINER CATANACH: Okay. We'll go
14 ahead and do that. We'll consolidate and go
15 ahead and call Case 10461 at this point.

16 MR. STOVALL: Also the application of
17 Yates Petroleum Corporation for directional
18 drilling and a nonstandard oil proration unit,
19 Eddy and Lea Counties, New Mexico.

20 EXAMINER CATANACH: Any other
21 additional appearances in this case?

22 Okay. Will the witnesses, please,
23 stand and be sworn in.

24 MR. CARROLL: I have three witnesses.
25 I don't know, I may have misspoken.

1 [The witnesses were duly sworn.]

2 ROBERT H. BULLOCK

3 Having been duly sworn upon his oath, was
4 examined and testified as follows:

5 EXAMINATION

6 BY MR. CARROLL:

7 Q. Would you, please, state your name and
8 address?

9 A. My name is Robert Bullock, and my
10 address is Artesia, New Mexico.

11 Q. Mr. Bullock, by whom are you employed?

12 A. Yates Petroleum.

13 Q. In what capacity?

14 A. As a landman.

15 Q. Mr. Bullock, have you had occasion to
16 testify as a petroleum landman before the Oil
17 Conservation Division?

18 A. Yes, I have.

19 Q. Have you had your credentials as a
20 petroleum landman accepted?

21 A. Yes.

22 MR. CARROLL: Mr. Catanach, I would
23 tender Mr. Bullock as an expert in the field of
24 petroleum land management.

25 EXAMINER CATANACH: Mr. Bullock is so

1 qualified.

2 Q. (BY MR. CARROLL) Mr. Bullock, before
3 we turn to your exhibits, would you please
4 briefly state for the Examiner the purpose in
5 Yates making the two applications that are now
6 before the Examiner?

7 A. Yates is seeking approval to
8 directionally drill the Bonneville AKK No. 2 and
9 the Bonneville AKK No. 3. And the location for
10 those two wells is Section 19 of 21 South, 32
11 East, Lea County.

12 Q. That would be the bottom-hole location?

13 A. That is correct.

14 Q. Okay. Why is it necessary to drill two
15 deviated or to drill deviated holes with respect
16 to Section 19?

17 A. Yates sought approval to drill vertical
18 holes in Section 19, and the approval was denied
19 because of potash reasons.

20 Q. Mr. Bullock, Yates' right to drill
21 within the entire south half of Section 19 is
22 governed by a farmout agreement; is that correct?

23 A. Yes, that is correct.

24 Q. Would you describe for the Examiner the
25 terms of that farmout agreement so that he can

1 understand the time frame and problems that Yates
2 Petroleum is experiencing?

3 A. We negotiated a farmout agreement with
4 Bonneville Fuels in January of 1992. It called
5 for the spudding of a Delaware test on or before
6 March 3, 1992, at a legal location in Section
7 19. The farmout agreement covered the entire
8 south half.

9 Yates was granted one extension on
10 this, and that extension is to April 30 of 1992.
11 So we're under a contractual obligation to spud a
12 well on these lands prior to April 30 of 1992.

13 Q. After the initial -- and let me ask you
14 this question. I apologize. Section 19 is
15 federal acreage, is it not?

16 A. Yes, it is.

17 Q. So an application for a permit to drill
18 has to be approved by the BLM; is that correct?

19 A. That's correct.

20 Q. Now, after the original vertical hole
21 applications were disapproved in Section 19, did
22 you seek an additional extension of the April
23 30th farmout deadline from Bonneville Fuels?

24 A. Yes. We sought additional time to give
25 us time to try to work some things out here, and

1 that request was denied by Bonneville. They were
2 insistent that we spud the well on or before
3 April 30th with no further extensions.

4 Q. Now, with respect to both of the
5 applications, the surface location is the same;
6 is that correct?

7 A. That's correct. The surface location
8 is, in each case, is 200 feet from the east line,
9 660 from the south line in Section 24 of 21-31,
10 which Yates is the operator of that lease.

11 Q. Yates Petroleum has just recently
12 completed several Wolf wells that are located not
13 only in the east half of Section 24 but also the
14 east half of Section 25; is that correct?

15 A. Yes, that is correct.

16 Q. And those well locations were approved
17 by the BLM?

18 A. Yes.

19 Q. And apparently did not cause any
20 objection to be given from the potash companies;
21 is that correct?

22 A. Yes.

23 Q. Now, at the present time you have
24 pending the deviated-hole applications for these
25 two wells, as you've just previously described,

1 with the BLM?

2 A. That is correct.

3 Q. Have you had any indication whether or
4 not those APDs will be approved or disapproved?

5 A. Not as of this date, we do not.

6 Q. Therefore, the two applications that
7 you now have before the OCD are or will be and
8 Yates Petroleum understands they will be subject
9 to the granting of APDs by the BLM?

10 A. That's correct.

11 Q. All right. Mr. Bullock, why don't we
12 turn to your Exhibit 1, which is comprised of
13 actually two pages, which are nominated Exhibit 1
14 and Exhibit 1-A. Would you describe or identify
15 them for the record and then describe what is
16 depicted?

17 A. These are the land plats showing the
18 oil and gas operators in the pertinent sections.
19 And we have also depicted on this the surface
20 location of Exhibit 1 and 1-A, the surface
21 locations of our two wells and, additionally, the
22 bottom-hole locations of each well.

23 Q. All right. Now, with respect to the
24 giving of notice of this hearing, with respect to
25 the south half of Section 19, Yates Petroleum has

1 the operator rights pursuant to the farmout
2 agreement that you earlier described; is that
3 correct?

4 A. Yes, that's correct.

5 Q. The north half of Section 19 is Texaco;
6 is that correct?

7 A. Yes.

8 Q. The east half of Section 24 is Yates
9 Petroleum due to a farmout from the Diane R. Wolf
10 and the drilling of the Wolf wells; is that
11 correct?

12 A. Yes, that's correct.

13 Q. And with respect to the east half of
14 Section 25, likewise, Yates Petroleum is the
15 operator due to the drilling farmout and drilling
16 of several Wolf wells, which though they are not
17 depicted on Exhibit 1 and 1-A, they will be shown
18 in the geological exhibits?

19 A. That's correct.

20 Q. And then all, or at least all of the
21 pertinent part of Section 30 is held by Texaco;
22 is that correct?

23 A. Yes, that's correct.

24 Q. All right. Is there anything else that
25 you wish to discuss with respect to Exhibits 1

1 and 1-A, Mr. Bullock?

2 A. No.

3 Q. Exhibit 2, would you describe what that
4 Exhibit 2 and 2-A -- and I might for just record
5 purposes, Mr. Examiner, we combined our exhibits
6 because we anticipated the consolidation of the
7 cases. The Exhibit 1 deals with the Bonneville
8 AKK Federal No. 3, which is Case No. 10460.
9 Exhibit 1-A would be the Bonneville AKK Federal
10 No. 2, which is Case No. 10461.

11 If you'll turn then again to our
12 Exhibit No. 2 and 2-A, would you describe what
13 they are?

14 A. Okay. Exhibit 2 is Yates' APD on the
15 Bonneville AKK Federal No. 3. It shows, in
16 addition to the application to drill, also is
17 attached the well location acreage dedication
18 plat to the Bonneville AKK Federal No. 3.

19 Exhibit 2-A is the same thing with
20 regard to the Bonneville AKK Federal No. 2, the
21 APD, and the acreage dedication plat for that
22 well.

23 Q. Now, Exhibits 2 and 2-A are the most
24 recent applications or APDs submitted to the
25 Bureau of Land Management, which you just

1 testified to, that you have had no response back
2 as to whether or not they will be approved or
3 disapproved, to which the Commission's granting
4 the right to drill a directional hole will be
5 subject to; is that correct?

6 A. That's correct. At this date we do not
7 have approval.

8 Q. All right. If you would turn to
9 Exhibit 9, which is the final exhibit in our
10 package of exhibits, what is Exhibit 9?

11 A. Exhibit 9 is a Certificate of Mailing
12 in compliance with Rule 1207. And we have
13 submitted the applications for these deviated
14 holes to the State Land Office, the Bureau of
15 Land Management, and to Texaco, Inc., certified
16 mail.

17 Q. With respect to the rules of the OCD,
18 Yates Petroleum was required to send notice to
19 all offset operators. And the only other offset
20 operator other than Yates Petroleum was Texaco,
21 Inc.?

22 A. That's correct.

23 Q. And their notice was sent to them?

24 A. That is correct.

25 Q. Have you received any notification from

1 Texaco that they oppose this objection --

2 A. No.

3 Q. -- I mean these applications in any
4 manner?

5 A. No, I have not.

6 MR. CARROLL: Mr. Examiner, I would
7 move for admission of Yates Petroleum's Exhibits
8 1, 1-A, 2, 2-A, and Exhibit 9.

9 EXAMINER CATANACH: Exhibits 1, 1-A, 2,
10 2-A and Exhibit 9 will be admitted as evidence in
11 this case.

12 MR. CARROLL: Mr. Examiner, I have no
13 further questions of Mr. Bullock at this time.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Bullock, do you anticipate any
17 problems with BLM approving your APDs?

18 A. It's a possibility.

19 Q. Do you know of any problems at this
20 point.

21 A. Not at this point, I don't.

22 Q. Okay. Yates has run into the situation
23 before where you've had to drill directionally
24 because of potash. Hasn't BLM gone along with
25 generally your proposal in those cases?

1 A. Yes.

2 Q. Is there any problem at all with
3 drilling from the surface location in Section 24?

4 A. We have been restricted to this
5 location. We're on the east edge of the Wolf 7
6 pad. And to our knowledge that is the only
7 surface location we can access in Section 24.

8 Q. Due to what?

9 A. Due to the potash.

10 Q. So you believe that you will be able to
11 drill from that surface location?

12 A. Yes, they have indicated they will
13 allow us to do that.

14 Q. "They" being BLM?

15 A. "They" being New Mexico Potash
16 Corporation.

17 EXAMINER CATANACH: I see. I believe
18 that's all we have. The witness may be excused.

19 BRENT MAY

20 Having been duly sworn upon his oath, was
21 examined and testified as follows:

22 EXAMINATION

23 BY MR. CARROLL:

24 Q. Would you, please, state your name and
25 address for the record, sir?

1 A. Brent May, Artesia, New Mexico.

2 Q. What is your occupation?

3 A. I'm a geologist with Yates Petroleum in
4 Artesia.

5 Q. Mr. May, have you had an occasion to
6 testify as a geologist before the Oil
7 Conservation Division prior to this time?

8 A. Yes, I have.

9 Q. Have you had your credentials as a
10 petroleum geologist accepted by the Division?

11 A. Yes, I have.

12 MR. CARROLL: Mr. Catanach, I tender
13 Mr. May as an expert in the field of petroleum
14 geology.

15 EXAMINER CATANACH: He is so qualified.

16 Q. (BY MR. CARROLL) Mr. May, you are
17 familiar with the two applications that are now
18 being considered by the Examiner which deal with
19 the Bonneville AKK Federal Well No. 3 and the
20 Bonneville AKK Federal Well No. 2?

21 A. Yes.

22 Q. And you have performed certain
23 geological studies with respect to those two
24 proposed wells, have you not?

25 A. Yes, I have.

1 Q. Mr. May, you have prepared certain
2 exhibits for presentation including Exhibit No.
3 3; is that correct?

4 A. That's correct.

5 Q. And Exhibit 3 is basically a summary of
6 what you intend to testify to; is that correct?

7 A. Yes. It's basically a brief
8 description of the geologic figures I'm going to
9 present. They consist of two vertical section
10 diagrams showing proposed kickoff points and the
11 position of marker 126, stratigraphic
12 cross-section showing the producing zone, a
13 structure map showing the dip of a shell marker
14 just above the main pay zone, and a net porosity
15 map showing the extent of the net pay reservoir.

16 Q. If you would, then, why don't you
17 explain to the Commission, as you understand it
18 from a geological standpoint, what Yates
19 Petroleum is seeking. And if you will, as you go
20 through your discussion, as you turn to each
21 exhibit, if you would, please, so advise me as
22 you get to them and we so that we can properly
23 identify it in the record?

24 A. Okay. I'd like to go to Exhibit No.
25 4. Exhibit No. 4 is two vertical section

1 diagrams, one for the Bonneville AKK Federal No.
2 2, and one for the Bonneville AKK Federal No. 3.
3 They show the projected angle at which the
4 borehole will be deviated. The main purpose for
5 these diagrams is to show the relationship
6 between the kickoff points and marker 126.

7 Order R-111-P states that a wellbore
8 may be deviated after completely penetrating
9 marker 126. Kickoff point of wellbore deviation
10 starts at a depth of 2800 feet for the Bonneville
11 No. 2 and 3200 feet for the Bonneville No. 3,
12 well below marker 126, which the BLM, which is
13 the Roswell office that I contacted, has
14 determined to be at a depth of 1900 feet.

15 This leaves us a minimum of 900 feet
16 for the No. 3 and 1300 feet for the No. 2. So we
17 should be well below marker 126 before we start
18 deviating our holes.

19 I'd now like to go to Exhibit No. 5.

20 MR. STOVALL: Big sheet No. 5.

21 A. This is a cross-section -- excuse me.
22 Go ahead.

23 MR. STOVALL: No. Go ahead.

24 A. This is a cross-section A-A prime.
25 It's a south-north cross-section. The

1 cross-section is hung on the top of a shell
2 marker that's consistent throughout the area.
3 Correlations of the Cherry Canyon and Brushy
4 Canyon formations are shown along with perforated
5 intervals that are open at this time in these
6 wells.

7 The main pay zone is colored orange
8 along with three secondary pay zones. I'd like
9 to point out, too, that I have IPs at the bottom
10 of each well and that the Wolf 7 was just
11 recently completed for an IP, if I can find
12 that. It was completed before we -- completed
13 after we constructed this exhibit.

14 It IP'd for 131 barrels of oil per day,
15 68,000 cubic feet of gas per day, and 321 barrels
16 of water per day. And that was last week. As of
17 Tuesday of this week, the 31st of March, it was
18 producing 242 barrels of oil per day, plus 91,000
19 cubic feet of gas, and 239 barrels of water per
20 day.

21 The primary objective of the proposed
22 well is to test the basal Cherry Canyon sands and
23 the hydrocarbon reserves of the entire south half
24 of Section 19. Yates has acquired this lease
25 through a farmout agreement, which expires April

1 30, 1992, which was stated before. Consequently,
2 if a well is not spudded before that date, Yates
3 will lose all rights to the lease.

4 Yates is willing to drill a possibly
5 uneconomic or marginally-economic deviated well
6 to preserve rights to the hydrocarbon potential
7 on all of the lease.

8 Now, I'd like to go to Exhibit No. 6.
9 Exhibit 6 is a structure map, at the top of the
10 Cherry Canyon shell marker as a datum. It shows
11 east to southeast dip in the North Livingston
12 Ridge area.

13 I'd like to point out the Wolf 7 is in
14 the southeast-southeast of Section 24, and the
15 Wolf 5 is in the southeast of the northeast of
16 25, and the Wolf No. 4 is in the northeast of the
17 southeast of 25. Locations circled in green are
18 the bottom-hole locations. And the surface
19 location is 130 feet east of the Wolf 7, which is
20 in Section 24 of 21 South, 31 East.

21 I'd like to point out, too, that our
22 target zones, which will be approximately
23 vertical depth of 7,000, 7,100 feet should be
24 close to the center of each of those 40s that
25 those bottom-hole locations will be located in.

1 Proposed locations on most of the south
2 half of 19 are situated up-dip or on-strike with
3 the established production in the Livingston
4 ridge and loss tank pools; thus, the oil-water
5 contact should not be encountered in the south
6 half of Section 19.

7 I'd like to go to Exhibit 7, I guess it
8 is, next. This is a net porosity map that shows
9 the limits of what I call the main -- oh, I'm
10 sorry.

11 MR. STOVALL: Let's stop. Off the
12 record.

13 [A discussion was held off the record.]

14 EXAMINER CATANACH: You may proceed.

15 THE WITNESS: The net porosity map
16 shows the limits of what I call the main pay
17 reservoir. The map is an isopach of density
18 porosity of 15 percent or greater in thickness of
19 feet. Our experience has indicated that vertical
20 wells with porosities of 15 percent or greater
21 will produce commercial amounts of oil from this
22 zone.

23 The depositional environment present in
24 this area is represented by channels within and
25 channels feeding a submarine fan system. The

1 general north-south trending channels that carry
2 sand throughout the system are represented on the
3 map.

4 This map indicates that the south half
5 of Section 19 should have sufficient amount of
6 porosity to establish good production and the
7 four most westerly wells and possibly also in the
8 two locations that will be on the east side of
9 the lease.

10 That's all the exhibits I have, but I'd
11 like to make a little summary statement. In
12 summary, two deviated boreholes have been
13 proposed. The test along with most of the south
14 half of Section 19 should encounter the main pay
15 zone and several secondary pay zones.

16 The pay zone should be up-dip of or
17 on-strike with producing wells, and the thickness
18 and quality of reservoir encountered should be
19 sufficient to produce economic vertical wells.
20 The Delaware wells of this area have a potential
21 cumulative production of 125,000 barrels of oil
22 per well.

23 Yates' reservoir engineers computed the
24 rate of return for vertical and deviated wells in
25 this area. A vertical well should bring a rate

1 of return on the original investment of 85
2 percent. A deviated well to a direct offset has
3 a rate of return of 20 percent. And a deviated
4 well to a diagonal offset has a rate of return of
5 zero.

6 Yates does not expect to produce a good
7 economic deviated well. The extra costs of
8 drilling, completing, and producing a deviated
9 well at this depth negates a potential economic
10 gain.

11 Yates is willing to drill a deviated
12 well to secure long-term rights to the said lease
13 and its potential. By drilling one marginally
14 economic deviated well, the lease can be saved
15 and Yates will have time to negotiate for five
16 vertical wells that have the potential to produce
17 as much as 625,000 barrels of oil.

18 Q. (BY MR. CARROLL) Mr. May, in your
19 expert opinion as a petroleum geologist, do you
20 feel that the granting of these two applications
21 by the Division would be within standard
22 conservation practices and would promote the
23 protection of correlative rights and the
24 prevention of waste?

25 A. Yes, I do.

1 MR. CARROLL: Mr. Examiner, I would
2 move admission of Exhibits 3, 4, 5, 6, and 7.

3 EXAMINER CATANACH: Exhibits 3 through
4 7 will be admitted as evidence.

5 MR. CARROLL: I have no further
6 questions of this witness at this time.

7 EXAMINATION

8 BY EXAMINER CATANACH:

9 Q. Okay. Mr. May, the main objective is
10 the Cherry Canyon?

11 A. The basal Cherry Canyon. And then
12 there are a few secondary pays in the base of the
13 Cherry Canyon and one secondary pay in the base
14 of the Brushy.

15 Q. Your porosity map just summarizes the
16 Cherry Canyon?

17 A. Yes. It is just for the main -- what I
18 call the main pay zone on the cross-section. I
19 did not make any maps separately for the
20 secondary pays, but that potential is definitely
21 there.

22 Q. Okay. Geologically what is the better
23 location in Section 19?

24 A. Geologically, as I've got shown on my
25 map, I've got the, I believe it's the No. 2,

1 which is in the southwest-southwest of Section 19
2 as showing in the thicker part of the porosity
3 versus the No. 3, which is in the northwest of
4 the southwest. So I'd have to say geologically
5 probably the No. 2, but I think they're very
6 similar.

7 EXAMINER CATANACH: I believe that's
8 all I have of the witness.

9 MR. STOVALL: I do have a couple
10 questions.

11 EXAMINATION

12 BY MR. STOVALL:

13 Q. Where would you drill? Does the
14 farmout include the whole south half of 19?

15 A. Yes, it does.

16 Q. What are your limitations actually as
17 far as going in and drilling other wells?

18 A. From what I understand we have asked
19 for locations on the southwest-southwest, the
20 northwest-southwest, and were denied both of
21 those locations for vertical holes. And we have
22 put in a location for vertical hole on the
23 northeast of the southwest.

24 And have you heard anything back from
25 them?

1 A. No, we haven't.

2 MR. CARROLL: Mr. Stovall, if I might
3 explain, we were totally caught by surprise
4 because we drilled the seven Wolf wells that are
5 all along this section line of 24 and 25 without
6 any opposition.

7 Section 19 has no potash lease on it.
8 In January, all of a sudden we were told, "You're
9 not going to drill any more wells." They
10 included -- and we do not know how much of
11 Section 19 is in an LMR, plus they asked it to be
12 put up for lease.

13 So, you know, I think you might well
14 understand that we feel like we're played games
15 with since there's not even a potash lease, and
16 we have no way of even knowing how far this LMR
17 extends at this point in time.

18 So we had to do -- and I might also --
19 at this point the only other statement I'd make,
20 and I can make it now, is that Yates is in the
21 proverbial "between the rock and the hard place"
22 position here.

23 We thought we had no problems with
24 getting our locations out here. We accepted some
25 short-term farmouts. We completed our Wolf

1 wells, which Bonneville Fuels now realizes are
2 excellent wells, as you can tell from this week's
3 production from the Wolf 7, which is where we're
4 just drilling just a few hundred -- slightly over
5 a hundred feet off of.

6 They have no interest in allowing us to
7 extend that farmout. We must be drilling by
8 April 30th or we lose all the rights that we have
9 done and the reason we drilled all these wells
10 and spent the money to develop this area. And
11 so, you know, we are going -- and then the potash
12 company actions have been -- totally have taken
13 us by surprise because we had no idea that they
14 would, after granting wells between the -- to the
15 west of this is the actual New Mexico potash
16 mine.

17 And we had no idea that they would let
18 us drill here and object to wells that are on the
19 other side of already drilled wells. So we are
20 very much at a loss as to why these things are
21 taking place. And this was our only response
22 that we are quite capable that we could determine
23 we could make.

24 Hopefully, because we are so close to
25 the Wolf 7, they can't make a claim that we're

1 going to waste any more potash because we're
2 almost in the same area where we've drilled a
3 well, and we are in hopes they will approve it.
4 But it does need to be approved very rapidly
5 because we have that April 30th.

6 And because of the good success with
7 the Wolf 7, we are frankly convinced that
8 Bonneville will not grant us any more
9 extensions. It's not in their interest to. This
10 is an economic game, and we were dealt a very
11 tough hand. And we expect it to be played out as
12 anybody else would.

13 So that's why it's happened this way.
14 That's why we're making the application. And
15 that's why we're asking for expedited orders on
16 it.

17 MR. STOVALL: I understand all that.
18 What I was more concerned with is if you drill
19 this and hold the lease, are you going to be able
20 to develop that farmout? That would be my
21 question.

22 MR. CARROLL: We will gain the whole
23 19.

24 MR. STOVALL: Let me stop you here and
25 ask is there an ongoing drilling obligation? I

1 don't know if you can answer it or if Mr. Bullock
2 has to answer it.

3 MR. BULLOCK: There's an ongoing
4 drilling obligation. 120 days between wells.

5 MR. STOVALL: And I guess that's
6 Yates. See, I don't know that it really is a
7 major concern to the Division as far as these
8 applications, but obviously it's a concern to
9 Yates.

10 MR. BULLOCK: Surely.

11 MR. STOVALL: How do you meet the next
12 well obligation?

13 MR. MAY: But it does at least buy us
14 that much time.

15 MR. CARROLL: We have plans with
16 respect to the federal issue to pursue that, too,
17 Mr. Stovall. It's just --

18 MR. STOVALL: Well, let me point you in
19 another direction and review our 111-P. Who
20 could approve a well in Section 19 if there's no
21 lessee?

22 MR. CARROLL: That is an issue which we
23 are -- quite frankly, one of our options is Yates
24 Petroleum to go out and lease that acreage, and
25 we may do that.

1 MR. STOVALL: Okay. But at this time
2 there really isn't -- it would have to be the BLM
3 that would approve it because they actually own
4 the mining rights to the potash?

5 MR. CARROLL: That's correct. And
6 there has been a request to place this up for
7 bid. And we understand it will be bid sometime
8 in late April, at least that was the last word
9 that we had, though it has not been confirmed.

10 MR. STOVALL: Let me ask you another
11 question with respect to the timing on this.
12 Assuming that you do get an order that is
13 approved and you say you've got a 30-day drilling
14 obligation -- or yeah, I mean you've got the end
15 of the month?

16 MR. MAY: Yes.

17 MR. STOVALL: Given the circumstances
18 of this particular case, I'd kind of be inclined
19 to recommend to the Examiner to not have an
20 open-ended approval on it. Any comment on that
21 in terms of putting an expiration date on the
22 order approval? Certainly we would want it to be
23 long enough to give you time -- if you've got
24 some options to go forward.

25 MR. CARROLL: I would think my next

1 witness, who is our drilling -- responsible for
2 the drilling engineering of this well could
3 probably better answer that question as to the
4 time frame. I think everything is moving
5 forward, and there's evtends at this point in time.

18 So we had to do -- and I might also --
ot concerned about

8 that. I was thinking --

9 MR. CARROLL: He can tell you how long
10 it would take.

11 MR. STOVALL: I'm not concerned how
12 long it would take to drill. I'm talking about
13 as far as spudding, if something happened.

14 MR. CARROLL: That's what I'm referring
15 to, Mr. Stovall.

16 MR. STOVALL: If you didn't get it
17 spudded and the deal with whatchamacallit fell
18 apart.

19 MR. MAY: Bonneville.

20 MR. STOVALL: Bonneville, right. I'm
21 just assuming that that whole thing fell apart,
22 would there be any utility to having an
23 outstanding order that would still permit this
24 well or something?

25 MR. CARROLL: It might, Mr. Stovall.

1 In fact, I would ask that we not have a limited
2 one just because this is a continuing issue. I
3 mean it's a continuing battle, I suppose, that
4 we're amassing or gearing up for right now.

5 MR. STOVALL: Okay. I have nothing
6 further.

7 MR. CARROLL: Any other questions, Mr.
8 Catanach, of this witness?

9 EXAMINER CATANACH: No, Mr. Carroll.

10 TIM BUSSELLS

11 Having been duly sworn upon his oath, was
12 examined and testified as follows:

13 EXAMINATION

14 BY MR. CARROLL:

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

17 A. My name is Tim Bussells. I live in
18 Artesia, New Mexico.

19 Q. By whom are you employed?

20 A. Yates Petroleum Corporation.

21 Q. And in what capacity are you employed
22 by Yates Petroleum?

23 A. I am an assistant drilling
24 superintendent.

25 Q. How long have you been involved with

1 the drilling department of Yates Petroleum
2 Corporation?

3 A. I've been in it for ten years.

4 Q. Mr. Bussells, you have not had an
5 occasion to testify before the Division prior to
6 this day, have you?

7 A. I have not had occasion.

8 Q. Briefly, Mr. Bussells, as I understand
9 it, you are not a degreed engineer, though you do
10 have a college education; is that correct?

11 A. That's correct.

12 Q. And for the last ten years you have
13 been working within the drilling department and
14 have been trained within the Yates Petroleum
15 drilling department with respect to the duties
16 that you now hold?

17 A. That is correct.

18 Q. Would you describe for Mr. Catanach
19 basically the duties and responsibilities that
20 you have with Yates Petroleum and have had for
21 the last ten years?

22 A. My duties are to plan and execute the
23 drilling of straight and directional wells.

24 Q. Mr. Bussells, have you had occasion,
25 besides in-house training, to attend other

1 schools and, I guess, seminars with respect to
2 the drilling of straight and directional holes
3 within southeastern New Mexico?

4 A. Yes.

5 Q. And, Mr. Bussells, have you in fact
6 designed and supervised the actual drilling of
7 both straight and directional holes in
8 southeastern New Mexico prior to this date?

9 A. Yes, I have.

10 Q. Mr. Bussells, are you familiar with the
11 two applications now presently pending before the
12 Division?

13 A. I am.

14 Q. And have you in fact not participated
15 in the designing of the drilling procedures for
16 those two wells?

17 A. Yes, I have.

18 MR. CARROLL: Mr. Catanach, I would
19 tender Mr. Bussells as a practical drilling
20 engineer for purposes of giving testimony before
21 the Division.

22 EXAMINER CATANACH: He is so
23 qualified.

24 Q. (BY MR. CARROLL) Mr. Bussells, let's
25 turn now to your two exhibits, which are Exhibits

1 8 and 8-A, and if you would go over those and
2 describe the actual procedure which you have
3 determined would be appropriate for drilling of
4 the two wells. And if you would identify which
5 exhibit you're talking about and which well
6 before you begin with each discussion.

7 A. Okay. Exhibit 8 addresses the
8 Bonneville AKK Federal No. 3. And it is the well
9 that would have the longer directional kick. It
10 would be a diagonal offset rather than a direct
11 offset.

12 The general procedure would be to move
13 in-rig up our rotary tools, set 13-3/8 surface
14 casing at a depth of approximately 850 feet.
15 After we wait on cement, we'll go in the hole
16 and drill a straight hole to a measured depth of
17 3200 -- excuse me, 2800 feet on this particular
18 well.

19 At that point, we will drop a
20 multi-shot survey to survey from 3200 feet back
21 up to surface casing. From surface casing back
22 up to the surface of the well will be measured
23 with the gyro survey. After we've done our
24 survey, then we'll go in the hole with a
25 high-speed downhole motor and nonmagnetic drill

1 collar to start our kickoff procedure.

2 We'll kick the well off and build angle
3 to 3-1/2 to 4-1/2 degrees from vertical. At that
4 point we'll trip out of the hole, pick up an
5 angle-building assembly, continue to build angle
6 until we are at 25.4 degrees at approximately
7 4160 feet.

8 When we have built our angle, we'll
9 trip out of the hole, pick up a holding assembly,
10 and maintain that angle to a true vertical depth
11 of 4350 feet, where we will again survey the new
12 portion of the hole that we've drilled with a
13 multi-shot survey and trip out of the hole to run
14 our 8-5/8-inch casing.

15 Casing will be ran and cemented. The
16 deviated part shall be centralized every joint of
17 casing back up to the straight part of the hole
18 to ensure a better cement job. After we set our
19 casing, nipple up the BOPs and test them and wait
20 the prescribed WOC time, we'll go in the hole
21 with another angle-building assembly -- excuse
22 me, this will be a hold assembly, and maintain
23 our angle at 25.4 degrees to a true vertical
24 depth of 8500 feet. And that is the procedure
25 for the Bonneville No. 3.

1 Q. Now, that is basically what you have
2 just testified to as outlined on the first page
3 of Exhibit 8?

4 A. Correct.

5 Q. Now, the second page of Exhibit 8,
6 would you explain what is that?

7 A. Yes. That's a vertical section plan.
8 It shows you in relative terms where the wellbore
9 will deviate at, how much displacement you will
10 encounter at the potential pay zone of 7,000
11 feet. It would be deviated 1587 feet from
12 vertical. And at the projected true vertical
13 depth of 8500 feet, the well would be deviated
14 2299 feet from vertical.

15 Q. There's a third page to this. Is that
16 just a continuation, or what is that?

17 A. This is the directional well plan, also
18 it's a continuation. It summarizes at different
19 depths, if the well goes as planned, what our
20 angles and our rectangular coordinates would be.

21 Q. All right. Go to your Exhibit 8-A
22 then.

23 A. Exhibit 8-A is much the same thing as I
24 have just expounded on, except that it addresses
25 the Bonneville AKK Federal No. 2. Drilling

1 procedure would be much the same. The only thing
2 that would change our kickoff point on this well
3 would be 3200 feet; whereas, we were kicking off
4 at 2800 feet on the Bonneville No. 3 well. The
5 plans would address the same information.

6 Q. Okay. The subsequent pages to Exhibit
7 8-A would provide the same information?

8 A. Would provide the same information in
9 respect to the No. 2 wellbore.

10 Q. All right. Mr. Bussells, in your
11 opinion, as a practical drilling engineer, do you
12 feel that either of these two proposed wells and
13 drilling plans as you have discussed, do you feel
14 that they are at least appropriate with respect
15 to the knowledge that is available to any
16 operator having to drill a well within this
17 general area?

18 A. Yes, I believe they are appropriate
19 well plans.

20 Q. And they're consistent with industry
21 standards --

22 A. Yes, they are.

23 Q. -- that have been established for this
24 kind of well drilling. Mr. Bussells, with
25 respect to the plans, as I understand it, Yates

1 Petroleum does intend to begin immediate work as
2 soon as they receive the applications, the APDs
3 or approval; is that correct?

4 A. That's correct.

5 Q. With respect to -- you have no idea at
6 this point in time as to when those APDs will be
7 received by you; is that correct?

8 A. That is correct.

9 Q. So you do not know and have no idea of
10 how much leeway or time you're going to have
11 between the granting of the APD and the actual
12 have-to spud date of April 30th of this year?

13 A. That's correct.

14 Q. So -- and I'm making reference to Mr.
15 Stovall's question a moment ago -- would it be
16 Yates' preferred request or preferred position
17 that the application to drill a deviated hole be
18 granted without time limitations?

19 A. I believe it would.

20 Q. All right. Mr. Bussells, are you aware
21 of any problems in this area that have been
22 encountered in any of the drilling -- I take it
23 you've been involved in the drilling of the Wolf
24 wells and other wells in this vicinity, have you
25 not?

1 A. Yes.

2 Q. Are you aware of any encountered
3 subsurface condition which would make it unwise
4 to drill a deviated hole in this area?

5 A. Not drilling from the Wolf pad. We
6 feel we have enough information and control of
7 that area that we can safely drill a well.

8 MR. CARROLL: Mr. Examiner, I would
9 move admission of Mr. Bussells' Exhibits 8 and
10 8-A.

11 EXAMINER CATANACH: Exhibits 8 and 8-A
12 will be admitted as evidence.

13 MR. CARROLL: Mr. Examiner, I have no
14 further questions of this witness at this time.

15 EXAMINATION

16 BY EXAMINER CATANACH:

17 Q. Mr. Bussells, Yates has drilled several
18 deviated wells in the past, have they not?

19 A. Yes, sir, we have. We've drilled four,
20 all due to potash constraints.

21 Q. And these are basically in line with
22 the same procedures used in the previous wells?

23 A. Yes, sir, they are. The previous four
24 wells were deeper wells and encountered longer
25 displacements, so we feel like these wells will

1 be relatively less trouble in relation to the
2 ones we've drilled.

3 EXAMINER CATANACH: Okay. I have no
4 further questions, Mr. Carroll.

5 MR. CARROLL: Thank you, Mr. Examiner.
6 I have no further witnesses or exhibits to
7 present. I would just remind the Examiner again
8 of my earlier statement, because of our time
9 frame that we would ask that if you could, if you
10 would give us expedited consideration.

11 EXAMINER CATANACH: Okay. Mr. Carroll,
12 I'm curious, did you or did somebody testify that
13 this Section 19 or the south half of them was in
14 an LMR?

15 MR. CARROLL: We have been told -- we
16 have been advised in our conversations with the
17 potash companies and the BLM -- because no one
18 will tell us; that is secret information under
19 the procedures that now stand -- and we have been
20 advised that it has been included in New Mexico
21 Potash Corporation's LMR and that it was done as
22 of January.

23 The procedure under R-111-P is that the
24 potash companies can redesignate their LMRs in
25 January of each year, and apparently that's

1 what's done. Apparently the BLM, or the ones
2 that know, when they denied our straight or
3 vertical holes agreed. And we were told that the
4 reason we were denied those in Section 19 was
5 because it is now in an LMR.

6 That's the only true indication. And,
7 you know, I think that should be taken as a valid
8 one, because if it was not in an LMR, there would
9 have been no grounds to disapprove it, especially
10 since they had just given us permission on all of
11 the Wolf wells.

12 EXAMINER CATANACH: Does R-111-P not
13 stipulate that the area designated in an LMR has
14 to be leased by a potash company?

15 MR. CARROLL: It does not. That's one
16 of the problems with the -- let's say it's
17 ambiguous at best with respect to that issue.
18 That is one of the questions we have raised, and
19 I think that is one of the reasons New Mexico
20 Potash immediately requested that that area and
21 some other areas be put up for lease.

22 And, of course, the potash companies
23 have always taken the procedure, whatever they do
24 grandfathers back, so they think that if they can
25 get it leased now, that it will justify it. And

1 that's been the reasoning that their counsel, who
2 seems to -- Mr. High, who seems to represent the
3 potash companies as a group, that's been his
4 posture, both in conversations, I think, before
5 the Oil Division and personal conversations I've
6 had with him.

7 MR. STOVALL: I don't know what
8 questions you've asked, but I've got a couple
9 more that have come up. New Mexico Potash
10 designated the LMR; is that correct?

11 MR. CARROLL: That is our information,
12 yes, because their mine, as we understand it, and
13 again we have no -- they don't even give us the
14 actual mine workings. They have indicated that
15 it is just to the west of our Wolf 7 mine -- I
16 mean, Wolf 7 well.

17 And, again, that's supposition, and
18 they've indicated that's where it is. They've
19 taken a map and shown us; they won't let us copy
20 it. And it's just based on some of our land
21 peoples' best recollections on what they were
22 briefly shown.

23 But up until January, and at least in
24 the latter part of last year when they decided to
25 approve all of these Wolf wells, they had no

1 intention of including that in an LMR. And that
2 was what they expressed to us when they met and
3 worked out, because these were all compromised,
4 because that's a county line.

5 And right out there, the LMR did extend
6 into the Wolf 7 area, somewhere in there and,
7 again, I don't know. All these wells were
8 compromised locations that they agreed to allow
9 us to drill on. And after that we just assumed
10 we would have no further problems going back to
11 the east, but then all of a sudden we encountered
12 it.

13 MR. STOVALL: If Yates were successful
14 in buying the potash lease, is it your opinion,
15 Mr. Carroll, that you could then undesignate an
16 LMR as the lessee?

17 MR. CARROLL: I think if we can't -- I
18 think that we can request that New Mexico
19 Potash's LMR be removed, and we can designate it
20 as one. But then we can also, because we are the
21 owner of it, can agree to drill on it. So that
22 puts us in the driver's seat, and that's --
23 either way I think we would be successful in
24 gaining the upper hand.

25 MR. STOVALL: If -- and I'm playing a

1 little speculation with you again --

2 MR. CARROLL: I understand that.

3 MR. STOVALL: -- I'm not sure that this
4 is directly relevant to this particular
5 application. Let's assume you were successful
6 purchasing the potash lease for Section 19 and
7 gave yourself permission to drill on it, would
8 you not still have to get the BLM concurrence?
9 BLM would be both the lessor of both the potash
10 and the oil and gas.

11 MR. CARROLL: I agree with you, but I
12 think it's the BLM's position up to this point in
13 time is they don't object. They leave that up to
14 the actual lessee of the potash and go along with
15 whatever the actual lessee -- and quite frankly,
16 because of the differential in the royalties
17 between the oil and the potash, I think the
18 federal government would be much happier to have
19 oil production right now than potash production.

20 MR. STOVALL: I think I can safely say,
21 although I can't speak for the State Land Office,
22 I think we've heard Mr. Zaebo say the State Land
23 Office leans in that direction as well.

24 MR. CARROLL: Yes, sir.

25 MR. STOVALL: To the best of your

1 knowledge, is there any criteria for the defining
2 of an LMR? I think we've discussed this before
3 in other cases --

4 MR. CARROLL: There isn't.

5 MR. STOVALL: -- other than a line on a
6 piece of paper?

7 MR. CARROLL: We cannot find criteria
8 in the present orders -- well, we do find
9 criteria. We do not think it's being adhered
10 to. And the potash companies have taken the
11 position that it's whatever they -- and we're
12 talking about the criteria being commercial
13 deposits -- they have taken the position it's
14 whatever they say it is.

15 And that, I think, is the base
16 problem. There are no real definitive guidelines
17 right now determining the difference between
18 leasable potash and commercial potash.

19 MR. STOVALL: Looks like fun and full
20 employment in the future, doesn't it, Mr.
21 Carroll?

22 MR. CARROLL: It is. It is, Mr.
23 Stovall, it really is. It's going to keep us
24 busy for a while.

25 EXAMINER CATANACH: There being nothing

1 further in Case 10460 and 10461, these cases will
2 be taken under advisement.

3 [And the proceedings were concluded.]
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14 I do hereby certify that the foregoing is
15 a complete record of the proceedings in
16 the Examiner hearing of Case No. 10460 & 10461
17 heard by me on April 2 1992

18 David L. Colamb, Examiner
19 Oil Conservation Division
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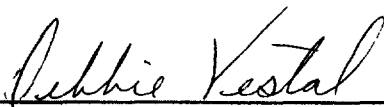
CERTIFICATE OF REPORTER

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

I, Debbie Vestal, 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 April 11,
1992.



DEBBIE VESTAL, RPR
NEW MEXICO CSR NO. 3