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

17 October 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com-	CASE
pany for compulsory pooling, Eddy	8373
County, New Mexico.	

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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

For the Applicant:	Chad Dickerson
	Attorney at Law
	LOSEE, CARSON, & DICKERSON
	Post Office Drawer 239
	Artesia, New Mexico 88210

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MR. QUINTANA: We'll call next Case 8373.

MR. TAYLOR: The application of Harvey E. Yates Company for compulsory pooling, Eddy County, New Mexico.

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson of Artesia, New Mexico, on behalf of the applicant, and we have two witnesses.

MR. QUINTANA: Are there any other appearances in Case 8373?

MR. DICKERSON: One witness, Mr. Examiner, is Mr. Thompson who was previously sworn and testified in the preceding case, and we have one new witness.

MR. QUINTANA: Will the new witness please stand and be sworn in?

(Ms. Avery sworn.)

ROSEMARY AVERY,  
being called as a witness and being duly sworn upon her oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Ms. Avery, will you state your name, your

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occupation, and where you reside, please?

A My name is Rosemary Avery. I'm the Senior Landman for Harvey E. Yates Company and I live in Roswell, New Mexico.

Q And you have previously testified before this Division as a landman and your credentials are a matter of record, are they not?

A Yes, sir.

MR. DICKERSON: Tender this witness as a landman, Mr. Examiner.

MR. QUINTANA: The witness is so considered as a qualified landman.

Q Ms. Avery, will you briefly summarize the purpose of HEYCO's application in Case 8373?

A Our application asks that -- for an order pooling all mineral interest from the surface to the base of the Morrow formation underlying the north half of Section 11, Township 18 South, Range 31 East, but there has been an intervening happening since this order was applied for.

Marathon Oil Company has agreed to sign our operation agreement and our AFE for rights down to the Bone Spring.

So at this time we are asking for compulsory pooling of rights from the base of the Bone Spring to the base of the Morrow formation, and we are -- we plan to re-enter an existing well in the northeast quarter of Section 11 and are asking -- which will be 320-acre spacing, so

1  
2 we're asking the costs of the well, the drilling and comple-  
3 tion of said well be considered and the allocation of the  
4 costs, as well as actual operating costs and charges for  
5 supervision; designation of Harvey E. Yates as operator, or  
6 Harvey E. Yates Company, excuse me, and a charge for risk  
involved in drilling the well.

7 Q Now, Marathon Oil Company is the only  
8 party that you are seeking to pool in this proceeding, is  
9 that right, Ms. Avery?

10 A That's correct.

11 Q Okay, you stated that you were intending  
12 to re-enter a previously drilled well. What does the appli-  
13 cant request that the Division do as far as the possibility  
14 that that will prove impossible; that the re-entry of that  
well will not be feasible?

15 A Are you talking about substituting?

16 Q Uh-huh.

17 A Our operating agreement does have a sub-  
18 stitute well provision in case we're unable to re-enter the  
19 well.

20 Q But we are requesting that the Division  
21 order entered in this proceeding cover any substitute wells  
22 drilled in the eventuality that this re-entry is not feas-  
ible.

23 A That's correct.

24 Q Mrs. Avery, refer to what is marked Exhi-  
25 bit Number One and show or tell the Examiner what that

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shows.

A Exhibit Number One is a land plat with the north half of Section 11 outlined in red and the proposed re-entry indicated in red. This would be our spacing unit.

Q Will you refer to the packet that we have attached as Exhibit Number Two and tell us what that is?

A Exhibit Number Two consists, first, of a summary of the chronology of negotiations on this well, and then attached to that are copies of the correspondence that we have had with Marathon.

Most of our negotiations with Marathon have taken place either in personal visits or by the telephone.

Q Marathon is aware of this hearing scheduled for today, are they not?

A Yes, they are. We -- they have received copies of the application and we have discussed it with them.

Q No, Mrs. Avery, you previously state that Marathon has now agreed to participate in this re-entry or drilling operation as far as zones from the surface to the base of the Bone Springs formation. What is Marathon's present position regarding HEYCO's intention to take this well additionally far enough to test the Morrow formation?

A They are -- they have not given us any indication as to what their plans are, but at this time they

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are not looking favorably on it.

Q So they have not formally either accepted or rejected --

A No, they have not.

Q -- this proposal at this time?

A No, they have not.

Q Refer, Mrs. Avery, to Exhibit Number Three, and state what that is.

A Exhibit Number Three is an Authority for Expenditure covering the re-entry and drilling from the surface to the base of the Morrow in this well.

The dry hole costs are \$178,735; producing well costs are \$555,236.

Q And are these dry hole and completion costs consistent with HEYCO's experience in this area?

A Yes, they are.

Q Turn to Exhibit Number Four and tell the Examiner what that is.

A Exhibit Number Four consists of some pages of the operating agreement covering the rights from the base of the Bone Spring formation to the base of the Morrow formation.

The rest of it is a copy of our joint operating agreement covering the drilling of a well from the -- well, the re-entry of this well from the surface to the -- to 9200 feet in the Bone Spring.

The reason that we did not submit two

1  
2 complete joint operating agreements was that they are the  
3 same except for these pages.

4 Q So I understand you have two separate  
5 operating agreements, one covering surface to the base of  
6 the Bone Springs and one covering base of the Bone Springs  
7 to the base of the Morrow formation.

8 A This is true.

9 Q Identical in all respects except for the  
10 pages that you have shown here.

11 A This is true.

12 Q Okay.

13 A Correct.

14 Q Would you direct the Examiner's attention  
15 to the portion of this operating agreement which sets forth  
16 the interest of the parties and the manner in which this  
17 cost will be borne?

18 A Yes. Exhibit A attached to the operating  
19 agreement sets out the working interest owners and their  
20 working interests, the percentage of their participation.

21 Q What provision in this operating agree-  
22 ment governs the -- or covers the questions of HEYCO's  
23 charges as operator for supervision of this well?

24 A This is Exhibit C at page three where we  
25 have drilling well rates at \$4350 and producing well rates,  
\$435.

Q And have those rates been agreed to by  
the parties who have agreed to participate in this venture?

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A Yes, they have.

Q What provision in this operating agreement governs nonconsent penalties imposed on the parties in the event of operations by less than all parties?

A That would be Article VI, and the nonconsent penalty listed in here is 300 percent.

Q Which would be equivalent to the statutory risk factor imposed in compulsory pooling cases of 200 percent, would it not?

A That's correct.

MR. DICKERSON: Mr. Examiner, move admission of Applicant's Exhibits One through Five, or One through Four.

Excuse me, Mr. Examiner, I have one other exhibit.

Q Ms. Avery, refer to Exhibit Number Five and tell the Examiner what that is.

A Exhibit Number Five is a schedule showing allocation of the cost between the so-called shallow operating agreement, which would be from the surface to the base of the Bone Spring, and the so-called deep, which would be from the base of the Bone Spring to the base of the Morrow.

Q So to summarize this exhibit, what does HEYCO request, or how does HEYCO request that the allocation of costs between the Bone Springs and the Morrow portions of this drilling be allocated as far as total well cost is concerned?

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A Fifty percent to each zone.

Q So for the purpose of pooling Marathon's interest below the base of the Bone Springs in the event they elect not to participate in that portion of the venture, HEYCO requests that fifty percent of the total cost of actual well costs incurred be allocated as far as for the purpose of the imposition of a risk penalty.

A This is correct.

MR. DICKERSON: Mr. Examiner, move admission of Exhibits One through Five at this time.

MR. QUINTANA: Exhibits One through Five will taken into evidence.

MR. DICKERSON: And I have no further questions of this witness.

#### CROSS EXAMINATION

BY MR. QUINTANA:

Q Is it Miss Avery?

A Yes, Mrs. Avery.

Q Mrs. Avery.

A Yes.

Q Mrs. Avery, would you please explain again on -- on Marathon's position on pooling or what they've agreed to compared to what you want?

A Marathon has agreed to sign the operating agreement and the AFE covering the re-entry as far as the Bone Spring.

1  
2 They have not agreed to sign the opera-  
3 ting agreement for the Morrow test.

4 Q Do you foresee -- do you foresee them  
5 signing the Morrow in the near future, to include the Mor-  
6 row?

7 A I have no way to know, sir.

8 MR. DICKERSON: We think they  
9 are going to decline to participate in the Morrow --

10 A Yes.

11 MR. DICKERSON: -- test.

12 Q And again looking at Exhibit Number Five,  
13 could you explain those costs again versus -- deep unit ver-  
14 sus the shallow?

15 A Yes. The last column sets it out, I  
16 think, pretty well.

17 The first column shows the interests as  
18 they would be in the Bone Spring well.

19 Q All right.

20 A The second column shows the interests as  
21 they would be in the Morrow well, and this is assuming com-  
22 pulsory pooling of Marathon, which is why they have the  
23 zero.

24 The third column shows the ownership af-  
25 ter payout of a farmout that we have taken from the owner of  
the northeast quarter on the -- on the deep line.

The fourth column shows the interest af-  
ter all payout, meaning the compulsory pooling and the farm-

1  
2 out.

3 And the last column is the before payout  
4 interest for each party allocated on the basis of 50-50.

5 Q I see. Thank you, Mrs. Avery.

6 MR. QUINTANA: Are there any  
7 other questions of the witness? If not, the witness may be  
8 excused.

9  
10 RODNEY THOMPSON,  
11 being called as a witness and being previously sworn upon  
12 his oath, testified as follows, to-wit:

13 DIRECT EXAMINATION

14 BY MR. DICKERSON:

15 Q Mr. Thompson, you were previously sworn  
16 and testified in the preceding case, were you not?

17 A Yes, sir.

18 Q Will you refer to what we have submitted  
19 as Exhibit Number Six and tell the Examiner what that is?

20 A Mr. Examiner, Exhibit Number Six is a  
21 structure map contoured on the top of the Morrow limestone.

22 Our subject well is indicated by arrow in  
23 Section 11, northeast quarter. The control in the area is  
24 shown on this map. We have the Cedar Lake-Jackson Field to  
25 the north of the proposed location approximately three miles  
and we have the Shugart Field approximately two and a half

1  
2 miles south of the proposed location.

3           These two fields both produce gas out of  
4 the Morrow sands and we have additional information in re-  
5 cently drilled wells in Section 4 of 18 South, 31 East, and  
6 Section 34 of 17 South, Range 31 East -- Township 17 South,  
7 Range 31 East.

8           Now, I'd also like to refer at the same  
9 time to Exhibit Number Seven, which is an Isolith map of  
10 these Morrow sands in the area.

11           Under our projected location, which the  
12 well was TD'ed in the Atoka formation, which is above our  
13 objective formation, and as was stated earlier, we intend to  
14 deepen this well and test the Morrow sands in the area.

15           We have control of these sands to the  
16 northwest, north, and south, and from this control we have  
17 drawn up the map shown in Exhibit Number Seven, and this map  
18 indicates we expect to encounter some 100 feet of net Morrow  
19 sand under our proposed location.

20           Q           What is the nature in general terms of  
21 the geologic risk involved in seeking these Morrow sands?

22           A           The Morrow is definitely a very risky  
23 formation to drill for. We're looking at fluvial channels  
24 that are present in the area, which tend to be very elusive  
25 when you drill for them but very economic when you encounter  
26 them drilling, and we -- we feel like there is a very large  
27 element of risk in this area.

28           Q           Based on that risk, what recommendation

1  
2 do you have for the Division as far as the percentage of  
3 risk to be imposed on Marathon if it elects not to partici-  
4 pate in the Morrow test?

5 A I recommend that the maximum element of  
6 risk be applied to this well, which is 200 percent.

7 MR. DICKERSON: Mr. Examiner, I  
8 move admission of Applicant's Exhibits Six and Seven at this  
9 time and I have no further questions of this witness.

10 MR. QUINTANA: Exhibits Six and  
11 Seven will be admitted into evidence.

12 CROSS EXAMINATION

13 BY MR. QUINTANA:

14 Q Mr. Thompson.

15 A Yes, sir.

16 Q In the area of your proposed well loca-  
17 tion, what wells have been drilled to encounter the Morrow  
18 formation and have been dry holes?

19 A Sir, the -- there's a well to the east in  
20 Section 6, or excuse me, in Section 8 that has been drilled  
21 through the Morrow formation and was found to be noncommer-  
22 cial. This well was drilled by Amoco.

23 There is another well that was a dry  
24 hole, roughly three miles southeast, drilled by ARCO in Sec-  
25 tion 20 of Township 18 South, Range 32 East.

Now the wells with the subsea numbers on  
this section in other -- or on this map, in other words the

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wells that are circled, all had penetrated the Morrow. The ones with the gas indication are completed in the Morrow sands.

Now these sands vary and very few of them I would call as being -- are indicated as being the same sand. I believe there is a multiplicity of reservoirs in the area.

Q Do you have any -- is it possible for you to submit an Isolith map and a structure map on the top of the Bone Spring?

MR. DICKERSON: Mr. Examiner, there is no question of risk or anything. It's just Bone Springs because all the parties have agreed on the participation attempt in the Bone Springs.

He has that information but we --

A Yes, sir.

MR. DICKERSON: -- withdrew it and did not intend to submit it since Marathon committed yesterday to participate in the Bone Springs.

Q So I take it you're proposing your risk factor be based only on the Morrow.

A Yes, sir.

MR. DICKERSON: That's correct, or anything between the base of the Bone Springs and the base of the Morrow.

A Yes, sir.

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Q Thank you, Mr. Thompson.

A You're welcome.

MR. QUINTANA: Any further questions of Mr. Thompson?

Are there any other -- is there anything further in Case 8373?

In that case, Case 8373 will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division 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 Executive Hearing of Case No. 8373, heard by me on Oct. 17 1984.

Gilbert P. Quintana Examiner  
Oil Conservation Division

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

12 December 1984

COMMISSION HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com-      CASE  
pany for compulsory pooling, Eddy      8373  
County, New Mexico.

BEFORE: Richard L. Stamets, Chairman  
Commissioner Ed Kelley

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation  
Division:

For the Applicant:

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MR. STAMETS: Call next Case  
8373. Application of Harvey E. Yates Company for compulsory  
pooling, Eddy County, New Mexico.

At the request of the applicant  
this case will be dismissed.

(Hearing concluded.)

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C E R T I F I C A T E

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

Sally W. Boyd CSR