

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

21 October 1981

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates
Company for statutory unitization,
Eddy County, New Mexico.

CASE
7391

BEFORE: Richard L. Stamets

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Robert Strand, Esq.
Harvey E. Yates Company
Roswell, New Mexico

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MR. STAMETS: We'll call next Case 7391.

MR. PEARCE: Application of Harvey E. Yates Company for statutory unitization, Eddy County, New Mexico.

MR. STRAND: Mr. Examiner, I'm Robert Strand, attorney from Roswell, appearing for the applicant.

Mr. Examiner, I have three witnesses who need to be sworn.

(Witnesses sworn.)

GEORGE YATES

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

DIRECT EXAMINATION

BY MR. STRAND:

Q. Please state your name and where you reside.

A. My name is George Yates. I'm from Roswell, New Mexico.

Q. Mr. Yates, what is your position with the applicant, Harvey E. Yates Company?

A. I'm president.

Q As president of Harvey E. Yates Company are you responsible for all exploration and production activities?

A. I am.

Q Have you previously testified before the Commission with regard to such matters as risk and non-consent penalties?

A. I have.

MR. STRAND: Mr. Examiner, are Mr. Yates' qualifications for that purpose satisfactory?

MR. STAMETS: They are.

Q Mr. Yates, are you familiar with the application in Case Number 7391?

A. Yes, I am.

Q Will you briefly state the purpose of the application?

A. We're requesting an order by the Conservation Commission for statutory unitization of our proposed Travis Penn Unit for secondary recovery purposes.

Q Would you please state for the record what lands are proposed to be included in the unit area?

A. The unit area includes in 18 South, Range 28 East, Eddy County, New Mexico, the south half of the southeast of Section 12; the north half and the north half

1 southwest of Section 13.

2 Q. What is the mineral ownership underlying
3 these lands?

4 A. 50 percent Federal, 50 percent State of
5 New Mexico.

6 Q. Mr. Yates, would you state just generally
7 what formation is proposed to be unitized and what type of
8 enhanced recovery operations are we proposing?

9 A. The formation unitized is the Travis
10 Canyon zone in the Canyon formation. It's a -- it's a Penn-
11 sylvanian limestone, and it's defined in the agreement as
12 the Canyon formation found in the No. 2 Travis Well.

13 Q. And, Mr. Yates, generally what type of
14 secondary recovery operation are you contemplating?

15 A. We're contemplating a waterflood.

16 Q. Would you just briefly describe the
17 history of development of the Travis Upper Penn Pool, the
18 Cisco Canyon formation to date?

19 A. The Canyon discovery was -- was made
20 initially by us as operator in 1978. The Canyon since has --
21 Canyon Field has been developed with six wells completed or
22 drilled through the Canyon in anticipation of a Canyon com-
23 pletion, with one well presently drilled.

24 Q. Mr. Yates, did the Division enter an
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1
2 order in 1978 defining the Travis Upper Penn Pool and esta-
3 blishing special pool rules for it?

4 A. Yes, that's correct.

5 Q. And do these rules provide for 80-acre
6 well spacing for a period of one year?

7 A. Yes.

8 Q. Were these spacing rules extended subse-
9 quent to hearing for an additional period of time?

10 A. They were extended for an additional
11 period of time subject to our recommending a secondary recovery
12 project. Subject to our plans for instituting a secondary
13 recovery project, I should say.

14 Q. Mr. Yates, has Harvey E. Yates Company
15 since that time designed and proposed such a plan of enhanced
16 recovery?

17 A. Yes, we have. We hired Ralph Viney as
18 a consulting engineer approximately a year ago. Also, to come
19 up with a report the purpose of which was to recommend a
20 secondary recovery project.

21 About the same time we began circulating
22 an agreement, a unit agreement, which would -- which would
23 result in our being able to go forward with a secondary pro-
24 ject.

25 We had an operator's meeting subsequent

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2 to our sending our initial draft out. We had an operator's
3 meeting in February of this year at which approximately 80
4 percent of the working interest owners were present. We dis-
5 cussed the agreement, provisions in the agreement, and also
6 the recommendation for a waterflood, which was the recommenda-
7 tion which came out of our engineering study.

8 Q Mr. Yates, has that plan of -- written
9 plan of recovery that you described been submitted to all of
10 the working interest owners under the proposed unit area?

11 A Yes. Yes.

12 Q Has the Division in Cases Numbers 7044
13 and 7320 previously entered orders approving the Travis Penn
14 Unit Agreement and authorizing injection of water into the
15 proposed unitized interval --

16 A Yes.

17 Q -- the Upper Canyon?

18 A Yes.

19 MR. STRAND: Mr. Examiner, I would re-
20 quest that Orders R-6502 and R-6765, and the supporting
21 testimony and exhibits be made a part of this case.

22 MR. STAMETS: Those orders and the ap-
23 propriate cases and all the transcripts and supporting docu-
24 mentation will be made a part of this record.

25 MR. STRAND: Thank you.

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2 Q Mr. Yates, you've briefly described the
3 unit agreement that has been submitted to the interest owners
4 under the proposed unit area. Have you also prepared and sub-
5 mitted a proposed unit operating agreement to the working
6 interest owners?

7 A We have.

8 Q Mr. Yates, I've handed to the Examiner a
9 unit operating agreement and unit agreement, which are desig-
10 nated as Exhibits One and Two. Are you familiar with these
11 agreements?

12 A Yes, I am.

13 Q Do these agreements set out the ownership
14 of the various tracts underlying the proposed unit area as
15 to both royalty, overriding royalty, and working interests?

16 A Yes, they do.

17 Q Again, have these agreements been pro-
18 vided to all working interests, or at least the unit agreement,
19 excuse me, been provided to all the working interests, royalty
20 and overriding royalty, and other interest owners?

21 A Yes.

22 Q Mr. Yates, you've already described the
23 operator's meeting that was held in February. Would you
24 also describe any other efforts that Harvey E. Yates Company
25 as proposed operator has undertaken to secure voluntary

unitization of the unit area?

A. Yes. In fact, at the operator's meeting last February we received unanimous verbal approval for the unit itself, the methodology of secondary recovery, the method of secondary recovery. We received verbal approval for the provisions of the agreement.

We've gone forward since then in providing all of the working interest owners with a unit agreement as it was revised in accordance with that meeting. We've also submitted schedules of allocation of production based on our allocation formula. We've, of course, responded and discussed the various provisions of that agreement with -- with several of the working interest owners.

Now, I'd like to emphasize that we've received verbal agreement from 100 percent of the working interest owners in the unit. We, however, lack ratifications presently under 12 percent of the unit.

Under 5 percent of that 12 percent it's supposed to be signed and on its way to us, but we lack 7 percent of the working interest owners committed. That interest is owned by a company that at our operator's meeting expressed support for the unit agreement and for the method of secondary recovery.

Q. Mr. Yates, the original unit agreement

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2 that was submitted to the interest owners, as I remember,
3 covered 400 acres, is that correct?

4 A. That's correct.

5 Q And subsequently have you drilled an
6 additional well out there and added an additional 80 acres?

7 A. We have. We have. In the interest of
8 time we added another 80-acre tract. We have had several
9 deadlines for completion of the unit. Unfortunately because
10 of the slow return of paperwork covering the unit we found
11 that time outran us. We drilled an additional well and we
12 had the Canyon zone in that well, and so we expanded the unit
13 plus the exhibits and the allocations to include 480 acres.

14 Q Mr. Yates, you requested the interest
15 owners to ratify this amendment in the unit agreement?

16 A. Yes, we have.

17 Q And have you received ratification from
18 the majority of the interest owners to date?

19 A. Yes, we have. Yes, we have.

20 Q Mr. Yates, in the original unit operating
21 agreement, which is Exhibit Number Two, there was no provision
22 in there for non-consent operations. Was this at the request
23 of the interest owners at the meeting in February?

24 A. It was. At that time, as I said, we had
25 unanimous support of the group with the unit. We didn't anti-

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2 cipate any non-consent operations.

3 Q Mr. Yates, it's my understanding under
4 the statutory unitization provisions of New Mexico law that
5 if any order is entered in this matter it will be required
6 that a -- that provisions be included in that order relating
7 to the recovery of costs from parties who do not consent to
8 operations under the unit and also a provision relating to
9 the interest of such parties being assigned as to the other
10 parties until such costs are recovered.

11 Do you have any recommendations for the
12 Division as to non-consent provisions for additional drilling
13 on the unit and any penalties or additional charges for
14 operating as to non-consent owners?

15 A I would recommend that the agreement
16 have a non-consent provision, which is identical to the
17 working interest unit that most of the acreage is subject to.
18 And that is a 300/100 percent non-consent provision for ad-
19 ditional drilling.

20 I would further recommend that in the
21 case of surface equipment, operating costs, that are required
22 for the secondary project that -- that the -- that there be
23 a charge over and above the recovery of costs, of interest
24 to finance those -- those expenditures of primary plus two
25 percent in addition to the standard operating costs, as pro-

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2 vided by the agreement.

3 Q You refer to standard operating costs,
4 you're really referring to overhead rates?

5 A Overhead rates under the accounting pro-
6 cedure.

7 Q In the unit operating agreement?

8 A That's correct.

9 Q Mr. Yates, have the unit agreement and
10 unit operating agreement been submitted to the United States
11 Geological Survey and the Commissioner of Public Lands in
12 the State of New Mexico for their approval?

13 A Yes.

14 Q And have they informed the applicant
15 that they will not approve these agreements formally until
16 we have all of the ratifications in or that an order is
17 entered in this matter?

18 A Yes, that's correct.

19 Q Were Exhibits One and Two prepared by
20 Harvey E. Yates Company's attorneys at your direction?

21 A Yes.

22 MR. STRAND: I have no further questions
23 of Mr. Yates at this time.
24
25

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Yates, I wish you would clarify the non-consent provisions. You've said that those should be the same as something that's already applicable in this area, and I didn't catch that.

A The lands that are now part, or will be part of the proposed Travis Penn Unit, were subject to an operating agreement in a working interest unit, the Travis Deep operating agreement, and in that operating agreement we had a 300 percent penalty for non-consent drilling operations. That's the agreement to which I refer.

Q Okay, now that -- that would be applicable to everything that's in the unit presently.

A That's correct. Now we do not anticipate drilling operations under lands that are committed to the unit; however, it's possible that based on engineering data that might be forthcoming in the future we would recommend infill drilling or smaller spacing under the tracts that are committed to the unit.

Q There will be some costs of unit operation, though, regardless of whether additional wells would be drilled. Does the same 300 percent apply to those costs?

A In our operationg agreement, no, our

operating agreement has an interest penalty provision but the operating agreement was not set up, of course, to cover secondary operations.

Q. You would wish an order which would allow you to collect the costs of these operations from those people who do not choose to pay their share.

A. That's correct, plus interest that we have to pay to represent their share.

Q. Okay, and I presume we will be getting some information later on which will represent what the various shares are to the interest owners in the proposed compulsory pooled unit.

A. Yes.

Q. Okay. Now, the law does require that we have a provision in the order for carrying any working interest owner limited, carried, or net profits basis payable at production upon such terms and conditions determined by the Division to be just and reasonable and allowing appropriate charged interest for such service payable out of the owner's share of production.

What would that interest rate be?

A. Mr. Examiner, I would recommend that we base it on a prime rate plus two percent. The reason for that is that the operator pays interest on a floating basis,

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2 as do most companies today, and so I would suggest that we
3 base it on some floating rate, and my suggestion, prime plus
4 two, fits the category of roughly the range of interest that
5 we presently pay and would foresee paying under the terms
6 of this agreement -- under the term of the agreement.

7 Q This two percent, would you see that as
8 a service charge?

9 A Well, no, I would not. It's -- we are
10 presently not paying that rate of interest, however, if in-
11 terest rates subside we very well might be. Some -- some out-
12 standing credit arrangements we have require us to pay
13 slightly more than prime.

14 I would not say it would be a penalty
15 since it would represent approximately the interest rate
16 that most well secured borrowers are borrowing at. But what
17 it does is it would anticipate the -- a small fluctuation in
18 the credit markets.

19 MR. STAMETS: Any other questions of
20 this witness? He may be excused.

21
22 JOE HALL

23 BEING called as a witness and being duly sworn upon his oath,
24 testified as follows, to-wit:
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DIRECT EXAMINATION

BY MR. STRAND:

Q State your name for the record and your place of residence.

A My name is Joe Hall. I live in Roswell, New Mexico.

Q Mr. Hall, what is your position with the applicant, Harvey E. Yates Company?

A I'm employed as the attorney for Harvey E. Yates Company.

Q Mr. Hall, are you familiar with the application in Case Number 7391?

A Yes, sir, I am.

Q Are you also familiar with the proposed Travis Penn Unit agreement and unit operating agreement, the provisions contained therein, and have you assisted in preparing these agreements?

A Yes, sir, I have.

Q Mr. Hall, were these agreements generally based on the American Petroleum Institute model forms for voluntary unitization, being revised to fit certain circumstances in this case?

A Yes, sir, they were.

Q Were they also based to some degree on

1
2 other unit agreements and unit operating agreements for
3 secondary recovery operations that are presently in force
4 in southeastern New Mexico?

5 A. They were.

6 Q. Mr. Hall, referring to page two of Exhibit
7 Number One, which is the unit agreement, would you please read
8 for the record the definition of the unitized formation?

9 A. All right. Unitized formation is Section
10 2, subsection (h).

11 "Unitized formation" shall mean that sub-
12 surface portion of the unit area commonly known as the Cisco
13 Canyon formation, which is that continuous stratigraphic
14 interval that was encountered between the log depths of 9815
15 feet and 9935 feet in Harvey E. Yates Company's Travis Deep
16 Unit No. 2 Well, as shown on the CNL Density Radioactive log
17 of said well, dated June 23rd, 1977, which well is located
18 1980 feet from the north line and 1780 feet from the east
19 line of Section 13, Township 18 South, Range 28 East, Eddy
20 County, New Mexico.

21 Q. Mr. Hall, referring to page five of the
22 unit agreement, Sections 6, 7, and 8, do these provide provi-
23 sions for designation of a unit operator, resignation or re-
24 moval of the unit operator, and appointment of a successor
25 operator?

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2 A. Yes, sir, they do.

3 MR. STRAND: Mr. Examiner, I don't pro-
4 pose to go into detail on these particular provisions unless
5 you wish me to. There are matters that are mentioned in the
6 statute as being required as a part of your order.

7 MR. STAMETS: Right. That's fine.

8 Q. Mr. Hall, referring to page eight, Sec-
9 tion 13 of the unit agreement, I would again like you to read
10 for the record the allocation formula for tract participation.

11 A. All right. Section 13 is entitled Tract
12 Participation.

13 In Exhibit "C" attached hereto there are
14 listed and numbered the various tracts within the unit area,
15 and set forth opposite each tract are figures which represent
16 the tract participation if all tracts in the unit area qualify
17 as provided herein. The tract participation of each tract,
18 as shown in Exhibit "C", were determined in accordance with
19 the following parameters:

20 A. The net porosity feet of pay with
21 porosity above a four percent cutoff shall be determined from
22 interpretation of generally accepted calibrated electric log
23 surveys of the qualifying wells through the unitized formation.
24 The net porosity feet so determined at each well in the forma-
25 tion to be unitized shall be plotted on a map at the respective

well locations and an isopachous map constructed.

B. The productive net porosity acre feet for each qualifying tract shall be determined by planimeter methods from the constructed isopachous net porosity feet of unitized formation.

C. The tract participation of each qualifying tract will be the ratio of the individual tract net porosity acre feet volume divided by the summation of the net porosity acre feet volumes of all qualifying tracts.

In the event that less than all tracts are qualified on the effective date hereof, the tract participations shall be calculated on the basis of all such qualified tracts rather than all tracts in the unit area.

Q. Mr. Hall, are these allocations you've testified to reflected in Exhibit C to the unit agreement, which shows the interests of the various parties thereto?

A. Yes, sir, Exhibit C was prepared based on the tract participation figures.

Q. And these are based on the 480 acres which Mr. Yates testified are now to be included in the unit area.

A. Yes, sir, they are.

Q. Mr. Hall, referring to Exhibit Number Two, the unit operating agreement, does this agreement con-

tain an investment adjustment provision relating to personal property owned by the unit interest?

A. Yes, sir, they do under Article 10, page six.

Q Does this operating agreement under Article 4 also describe provisions relating to voting procedures among the working interest owners?

A. Yes, sir, they do, on page three.

Q Mr. Hall, does Harvey E. Yates Company request that these provisions you have testified to and all other provisions of Exhibits One and Two, including the exhibits thereto, be approved by the Division and incorporated in any order entered in this matter?

A. Yes, sir, we do.

Q In addition, does Harvey E. Yates Company request that it be designated as operator of the Travis Penn Unit?

A. Yes, sir, we do.

MR. STRAND: I have no further questions for Mr. Hall.

CROSS EXAMINATION

BY MR. STAMETS:

Q Mr. Hall, is there anything contained

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2 in the unit agreement and the unit operating agreement, to
3 your knowledge, are any of the items in there contrary to
4 the requirements of the Statutory Unitization Act?

5 A. Not to my knowledge, no, sir.

6 Q. Is there anything which is required by
7 the Statutory Unitization Act that should be in there and is
8 not in there?

9 A. Not to my knowledge.

10 Q. Okay.

11 MR. STRAND: Mr. Examiner, I would point
12 out the non-consent provisions that we -- Mr. Yates testified
13 to earlier, which are not in the unit operating agreement.

14 MR. STAMETS: Yes, very good.

15 Any other questions of this witness? He
16 may be excused.

17
18 RALPH H. VINEY

19 being called as a witness and being duly sworn upon his oath,
20 testified as follows, to-wit:

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22 DIRECT EXAMINATION

23 BY MR. STRAND:

24 Q. Please state your name and place of
25 residence.

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2 A. My name is Ralph Viney. I reside in
3 Midland.

4 Q. What is your occupation, Mr. Viney?

5 A. Engineering consultant.

6 Q. Petroleum engineering consultant?

7 A. Yes.

8 Q. Have you been retained by the applicant,
9 Harvey E. Yates Company, to prepare certain material and to
10 testify at this hearing?

11 A. Yes, sir.

12 Q. Have you previously testified before the
13 Division and are your qualifications as a petroleum engineer
14 a matter of record?

15 A. Yes, sir, I believe they are.

16 MR. STRAND: Mr. Examiner, are Mr. Viney's
17 qualifications acceptable?

18 MR. STAMETS: They are.

19 Q. Mr. Viney, are you familiar with the
20 application in Case Number 7391?

21 A. Yes, sir.

22 Q. Mr. Yates testified as to the engineering
23 study which was prepared relating to the Travis Upper Penn
24 Pool. Did you personally prepare this engineering study or
25 was it prepared under your supervision?

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2 A. Yes, sir, it was.

3 Q. Have you previously testified as to the
4 results of this study in Cases Numbers 7044 and 7320, and has
5 this written been admitted into evidence in those cases?

6 A. Yes, sir, it has.

7 Q. Mr. Viney, would you describe very briefly
8 the geological and engineering characteristics of the pro-
9 posed unitized formation?

10 A. Yes, sir. If I may quote from previous
11 things, the Canyon reservoir in the Travis Upper Penn Pool is
12 actually a shallow water shelf edge bioherm.

13 The structural change through the log
14 portions or the available logs, indicates approximately about
15 134 to 135 feet of structural growth in that reef.

16 The porosities and the pay zones are
17 actually included in three to four separate stages, which may
18 or may not be connected back in the matrix of the reservoir.
19 There is evidence of good pressure transmissibility between
20 wells and again we cannot determine at this time whether the
21 porosity zones that exist in all wells are continuous between
22 all wells, nor are they, or may they be connected within the
23 matrix portion of the reservoir.

24 Performance to date would suggest that
25 there is communication. Where, I cannot definitely state.

Q Mr. --

A Now, let me finish. You asked about the porosity.

The porosity, as measured in this particular study, was dependent entirely upon empirical methods since log -- I mean cores were not available. You will recall in earlier testimony that attempts were made to core these wells and the cores of the pay sections were lost and consequently, we had to develop the porosities from the empirical -- using empirical methods from the logs.

Porosities range anywhere from 2 percent as high as possibly 12 to 14 percent. The average in the range of probably 6 to 8 percent.

Q In your prior testimony in Cases 7044 and 7320 have you testified in some detail as to the methodology of your study and your conclusions as to the present state of the reservoir?

A Yes, sir, we did.

MR. STRAND: Mr. Examiner, with your leave, we won't go into any further detail on that. It's already a matter of record.

MR. STAMETS: That's fine.

Q Based on your study, Mr. Viney, have you reached a conclusion as to what enhanced recovery method

1
2 would be most effective in the Travis Upper Penn Pool?

3 A. Yes, sir, we have -- we looked at two or
4 three enhanced recovery methods and due to availability and
5 economics indicated that water would possibly be the most ef-
6 ficient at this time.

7 Q. Mr. Viney, is it your opinion that unit-
8 ization or unitized management, operation, and development of
9 the Travis Upper Penn Pool is reasonably necessary in order
10 to effectively carry out this waterflood program you've re-
11 commended?

12 A. It would be best and probably the most
13 beneficial way to handle the production of these wells.

14 Q. And, repeating my question, do you feel
15 that unitization is necessary?

16 A. Yes, sir, I would, because of the loca-
17 tion of these wells, yes, sir.

18 Q. Do you propose to use certain of these
19 wells as injection wells?

20 A. Yes, sir.

21 Q. Do you feel that this proposed unitiza-
22 tion and waterflood program would substantially increase the
23 ultimate recovery of oil and gas from the proposed unitized
24 formation?

25 A. Yes, sir, we do.

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2 Q Andis that detailed in your study as
3 to what your opinions are as to that increase?

4 A Yes, sir, they are set out in that filed
5 with the Commission.

6 Q Is it further your opinion that the
7 proposed unitized method of operation is feasible and will
8 prevent waste and protect correlative rights and will result,
9 with reasonable probability, in such increased recovery?

10 A Yes, sir.

11 Q Did your study also cover the costs
12 involved in the proposed waterflood operation as opposed to
13 the increased revenue which might be generated from the pro-
14 gram?

15 A Yes, sir, we made estimates of installa-
16 tion and operating costs thereof.

17 Q Is it your opinion that the cost of
18 conducting such operations would not exceed the value of the
19 additional oil and gas recovered plus a reasonable profit
20 resulting from the operations?

21 A Yes, sir, there would be a substantial
22 profit, or should be a substantial profit.

23 Q Mr. Viney, did you assist in developing
24 the tract participation formula previously testified to by
25 Mr. Hall and read into the record?

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A. Yes, sir, we did.

Q. Would you explain this formula and particularly explain its applicability to the particular unitized interval we're talking about?

A. Yes, sir. Basically, at the operator's meeting in February of 1981 it was decided and generally agreed upon that the unitized sections and parameter participations would be calculated using porosity above a four percent cutoff as indicated on acceptable electric logs of the wells to participate.

Further, the water saturations being empirical in nature were not to be included in that parameter. To provide weighting -- to provide weighting for porosity intervals, the areas above four percent, having porosities exceeding that, were planimetered and the average porosity of the zones in each well was then calculated giving the rating for the better porosities and overall general averages that appeared.

This material when related to a porosity foot basis was then plotted on a surface map at the location of each well and an Isopachous map constructed using the data, and that -- that Isopach prepared was then planimetered to arrive at the volume of each porosity feet beneath each tract and those values then summated and divided by the ap-

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2 appropriate totals and tract totals to arrive at the parameters
3 or the participation for each tract.

4 Q Mr. Viney, is it your opinion that this
5 formula allocates the unitized substances we anticipate to
6 produce to the tracts in the unit in a fair and equitable
7 and reasonable basis?

8 A That is as fair as we have with the logs
9 available, yes, sir.

10 Q And do you feel that this tract partici-
11 pation formula will adequately protect correlative rights?

12 A Yes, I do.

13 Q Mr. Viney, it is it further your opinion
14 that this unitization and waterflood operations you've talked
15 about will benefit the working interest, royalty, and other
16 oil and gas -- and other owners of oil and gas rights in the
17 unitized interval?

18 A Yes, sir, by the increase of revenues
19 and protection afforded thereby.

20 MR. STRAND: I have no further questions
21 of Mr. Viney.

22 MR. STAMETS: Are there questions of
23 Mr. Viney? He may be excused.

24 MR. STRAND: Mr. Examiner, I move the
25 admission of Exhibits One and Two.

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2 MR. STAMETS: These exhibits will be ad-
3 mitted.

4 The only question I believe I have is to
5 Mr. Yates, who testified earlier.

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7 GEORGE YATES
8 being recalled as a witness, testified as follows, to-wit:

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10 RECROSS EXAMINATION

11 BY MR. STAMETS:

12 Q We are required to make a finding that
13 the operator has made a good faith effort to secure voluntary
14 unitization within the pool or portion thereof affected.

15 Could you just kind of briefly run
16 through the history of this thing again for the record, and
17 make certain that we do have a bona fide voluntary unitiza-
18 tion effort?

19 A. We first communicated --

20 MR. STRAND: Mr. Examiner, we have a
21 series of letters if you would like those submitted.

22 A. We first corresponded with the unit about
23 secondary recovery more than a year ago. In fact, I believe
24 it was November of last year when we got our first unit
25 agreement for discussion purposes into the hands of the other

working interest owners.

We followed that up. We responded to suggestions by the rest of the unit owners and felt that we -- we had our agreement to a point that it could be acceptable by all parties. To speed up the process we had an operator's meeting in Midland that was well attended. In fact, those parties who have not ratified the unit agreement were represented at that meeting and did respond at that meeting, did make suggestions, which, when there was unanimous agreement, those suggestions were complied with.

All parties at that unit meeting, operators meeting, indicated their support for the unit agreement and support for the operations for the method of secondary recovery.

Since that time we've talked to -- to the working interest owners that have not ratified the unit almost on a weekly basis; almost on a weekly basis. We first had a deadline for injection of water of the 1st of June. We now have a deadline of 1st of November. We're in constant communication with all of our working interest owners and right now we've been pressing them to sign and return and the kinds of excuses that we get from the one party who's outstanding are in our minds not reasonable because they -- they raise very small issues and it looks more like delaying

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2 tactics than anything. But we've made a bona fide effort,
3 as good an effort as anybody could make, I believe, because
4 we've been in weekly communication with -- with all the parties
5 that have not signed it. I don't know what else could be
6 done.

7 Q Do you believe that the U. S. Geological
8 Survey and State Land Office will approve the unit?

9 A Yes, we --

10 Q With production of an order issued by
11 this Division?

12 A Yes, I believe so.

13 MR. STAMETS: Any other questions of
14 this witness?

15 MR. PEARCE: Mr. Examiner, if I may.

16
17 CROSS EXAMINATION

18 BY MR. PEARCE:

19 Q If the numbers were mentioned before, I
20 apologize for having missed them.

21 Section 70-7-8 requires 75 percent of
22 the people that are going to pay the cost to have approved
23 in writing. We heard one discussion of about 80 percent and
24 then I heard the word "majority" mentioned another time.

25 Sometime in the future could you provide

1
2 us with a tabulation of the percentage ownership of everyone
3 who has ratified the unit agreement?

4 A. If I might clarify that, the original
5 agreement had an allocation provision in it. We have an
6 agreement and then we have a subsequent agreement where all
7 parties agreed to our interpretation of the allocation pro-
8 vision.

9 In other words, the original agreement
10 has an allocation provision that defines what each well will
11 represent, the formula itself, net porosity feet, and so
12 forth. But then we have to calculate porosities off the
13 well logs and submit that data to the working interest owners.

14 Now even though they'd previously agreed
15 to the -- to the agreement, we still need them to ratify the
16 allocation. Now, the agreement itself has -- has been rati-
17 fied by 87 percent of the working interest owners. Another
18 5 percent of the working interest owners, another 5 percent
19 is represented by a company who says it's in the mail. So
20 there's really only 7 percent outstanding if that's true.

21 Now, when we sent out -- now what we
22 have majority approval on is the allocation provision where
23 we took the -- the provision for allocation of interest in
24 the unit agreement and calculated the log porosity feet, and
25 so forth, and requested that the -- the unit ratify that

specific allocation.

Now at the same time we sent out a slightly, a recommended change, slight change in wording in the allocation provision, because we -- we agreed with some comments that were made by other -- by other people in the unit that additional language could -- could make that definition more clear.

Now, that's -- that's the instrument that we have majority approval on, not the 87 percent.

MR. STRAND: Mr. Yates, do you anticipate getting more than 75 percent approval of the instruments we're submitted as Exhibits Number One and Number Two, which are the final forms of these agreements?

A. Yes, certainly do.

MR. STRAND: Mr. Yates, just one more question.

From an operational standpoint do you feel it's imperative that we get this operation off the ground as soon as possible?

A. I certainly do. I think that we're -- of course, we're losing production right now. We're at the bubble point. We should have been injecting several months ago. We did not anticipate the kinds of delays that we're encountered. We may be losing ultimate reserves today as a

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2 result of our not repressuring the reservoir. We're con-
3 cerned.

4 MR. STAMETS: Any other questions of
5 this witness? He may be excused.

6 Anything further in this case?

7 MR. PEARCE: Mr. Examiner, if I may,
8 I would like for this record to reflect that a formal entry
9 of appearance by the State Land Office has been filed with
10 the Commission in this proceeding and they are therefor a
11 party of record to this proceeding for any future proceeding
12 that may be necessary.

13 MR. STRAND: Fine.

14 MR. STAMETS: If there is nothing fur-
15 ther, the hearing -- the case will be taken under advisement.

16
17 (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 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

SALLY W. BOYD, C.S.R.

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I do hereby certify that the foregoing is
a correct record of the proceedings in
the hearing of Case No. 7391,
held on 10-31-81.
Richard L. Starn, Examiner
Oil Conservation Division