

NEW MEXICO OIL CONSERVATION COMMISSION
EXAMINER HEARING
SANTA FE, NEW MEXICO
SEPTEMBER 3, 1992 - 8:15 A.M.

NAME	REPRESENTING	LOCATION
William F. Jan	Jan, Jan, Foy + Shindler	Santa Fe
Tom O'Le	Meridian Oil	MIDLAND
DENNIS MAIORINO	Meridian Oil	MIDLAND
Scott Balke	Phillips Petroleum	Odessa
Pam Boring	Phillips Petroleum	Odessa
Randy G Patterson	Yates Petroleum Corp	Artesia
Brent May	Yates Pet	Artesia
MIKE BURCH	"	"
DAVE BONEAU	YATES PETROLEUM	ARTESIA
W Kelbin	Kelbin + Kelbin	Santa Fe
DAVID PARKHURST	Meridian Oil	MIDLAND
Doug J. Schutz	Mike Sherr Sol west	SF, NM
Sam FZ Caudle	Loose Law Firm	Artesia
MARY HUTCHINSON	Yates Petrol.	DENVER
NELSON MUNCY	MYCO	ARTESIA

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SEPTEMBER 3, 1992 – 8:15 A.M.**

[illegible]

NEW MEXICO OIL CONSERVATION DIVISION

STATE OF NEW MEXICO

CASE NO. 10527

IN THE MATTER OF:

The Application of Yates Petroleum
Corporation for a unit agreement,
Eddy County, New Mexico.

BEFORE:

MICHAEL E. STOGNER

Hearing Examiner

September 3, 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:

ROBERT G. STOVALL, ESQ.

General Counsel

State Land Office Building

Santa Fe, New Mexico 87504

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.

Post Office Box 2208

Santa Fe, New Mexico 87504-2208

BY: **WILLIAM F. CARR, ESQ.**

FOR BHP PETROLEUM AMERICAS, INC.:

HINKLE, COX, EATON, COFFIELD & HENSLEY

Post Office Box 2068

Santa Fe, New Mexico 87504-2068

BY: **JAMES BRUCE, ESQ.**

I N D E X

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Appearances

2

WITNESSES FOR THE APPLICANT:

1. MICHAEL BURCH

Examination by Mr. Carr

6

Examination by Examiner Stogner

12

2. BRENT A. MAY

Examination by Mr. Carr

14

Examination by Mr. Bruce

21

Examination by Examiner Stogner

22

Certificate of Reporter

24

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1 EXAMINER STOGNER: With that, this
2 hearing will come to order for Docket No. 29-92.
3 Please note today's date, September 3, 1992. I'm
4 Michael E. Stogner, Appointed Hearing Examiner
5 for today's cases.

6 I'll call the first case, No. 10527.

7 MR. STOVALL: Application of Yates
8 Petroleum Corporation for a unit agreement, Eddy
9 County, New Mexico.

10 EXAMINER STOGNER: Call for
11 appearances.

12 MR. CARR: May it please the Examiner,
13 my name is William F. Carr with the Santa Fe law
14 firm, Campbell, Carr, Berge & Sheridan. We
15 represent Yates Petroleum Corporation, and I have
16 two witnesses.

17 EXAMINER STOGNER: Any other
18 appearances?

19 MR. BRUCE: Mr. Examiner, Jim Bruce,
20 from the Hinkle law firm of Santa Fe,
21 representing BHP Petroleum Americas, Inc. I have
22 no witnesses.

23 EXAMINER STOGNER: Any other
24 appearances?

25 Will the witnesses, please, stand to be

1 sworn at this time.

2 [The witnesses were duly sworn.]

3 EXAMINER STOGNER: With that, Mr. Carr,
4 you may proceed.

5 **MICHAEL R. BURCH**

6 Having been duly sworn upon his oath, was
7 examined and testified as follows:

8 EXAMINATION

9 BY MR. CARR:

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

12 A. My name is Mike Burch.

13 Q. Where do you reside?

14 A. Artesia, New Mexico.

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

17 A. I'm employed by Yates Petroleum
18 Corporation as a landman.

19 Q. Mr. Burch, have you previously
20 testified before this Division?

21 A. Yes, I have.

22 Q. At that time of that testimony, were
23 your credentials as a landman accepted and made a
24 matter of record?

25 A. Yes, they were.

1 Q. Are you familiar with the application
2 filed in this case on behalf of Yates Petroleum
3 Corporation?

4 A. Yes, I am.

5 Q. Are you familiar with the proposed said
6 unit?

7 A. Yes, I am.

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

10 EXAMINER STOGNER: Are there any
11 objections? Mr. Burch is so qualified.

12 Q. Mr. Burch, briefly state what Yates
13 seeks with this application.

14 A. With this application Yates Petroleum
15 Corporation seeks approval of a voluntary unit
16 called the Sedge Unit for an area compromising
17 1,304.48 acres, more or less, of state and
18 federal lands in Sections 18 and 19 of Township
19 22 South, Range 23 East in Eddy County, New
20 Mexico.

21 MR. CARR: Mr. Examiner, the
22 application was originally filed in the case
23 advertised including Section 30. Section 30 is
24 not in the proposed unit, and we would request
25 permission to amend our application to delete

1 that one section.

2 EXAMINER STOGNER: Thank you, Mr.
3 Carr. So noted. However, I don't see any
4 problem with the advertisement, which did include
5 Section 30 as being a problem, since it is less.

6 You may continue.

7 MR. CARR: And the correct number of
8 acres now, Mr. Stogner, are 1304.

9 EXAMINER STOGNER: 1304.48?

10 MR. CARR: Right.

11 EXAMINER STOGNER: More or less?

12 THE WITNESS: More or less.

13 Q. (BY MR. CARR) Mr. Burch, have you
14 prepared certain exhibits for presentation here
15 today?

16 A. Yes, I have.

17 Q. Would you refer to what has been marked
18 as Yates Exhibit No. 1, identify that, and review
19 it for the Examiner?

20 A. Exhibit No. 1 is a unit agreement for
21 the development of operation of our proposed
22 Sedge Unit.

23 Q. Is this on the state form for a
24 voluntary unit?

25 A. That's correct.

1 Q. And have any amendments been made to
2 this form by the Bureau of Land Management?

3 A. No, they have not.

4 Q. Let's move to Exhibit No. 2. Would you
5 identify this and then review what this shows for
6 Mr. Stogner?

7 A. Exhibit No. 2 is a plat of our proposed
8 Sedge Unit area containing four tracts of land,
9 three federal tracts and one state land. The
10 three tracts consisting of 1,221.28 acres, which
11 represents 94 percent of the proposed unit; one
12 state acreage tract that consists of 83.20 acres,
13 which consists of 6 percent of the proposed
14 unit.

15 Q. Let's move to Yates Exhibit No. 3, and
16 would you review the status of the ownership and
17 the proposed unit for Mr. Stogner?

18 A. Exhibit No. 3 is an ownership outline
19 of the four tracts, the first three federal
20 tracts, like I stated, consisting of 1,221.28
21 acres. And the breakdown of the ownership is
22 owned by Yates Petroleum Corporation, Yates
23 Drilling, MYCO Industries, and Abo Petroleum,
24 just outlines the ownership. Then also Tract 4,
25 the state land, shows the ownership being BHP

1 Petroleum.

2 Q. What acreage has been voluntarily
3 committed to this proposed unit?

4 A. Voluntary commitment has been made of
5 the 1,221.28 acres, which represents the 94
6 percent of the unit area.

7 Q. At this point in time, the state tract
8 has not been voluntarily committed?

9 A. That's correct. That has not been
10 voluntary committed.

11 Q. And the lessee of that tract is BHP?

12 A. That's correct.

13 Q. Have they been given an opportunity to
14 participate in this unit?

15 A. They've been notified and given the
16 opportunity of that.

17 Q. At this point in time, 94 percent of
18 the interest has been committed; correct?

19 A. Yes, sir.

20 Q. And that will give Yates effective
21 control of unit operations?

22 A. Yes, sir.

23 Q. Has the proposed unit area been
24 designated by the Bureau of Land Management as an
25 area logically suited for development under the

1 unit plan?

2 A. Yes, it has.

3 Q. And is Exhibit No. 4 a copy of a letter
4 from the Department of the Interior indicating
5 that they have so designated this proposed unit?

6 A. That's correct.

7 Q. Could you identify what has been marked
8 as Yates Exhibit No. 5?

9 A. Exhibit No. 5 is from the State of New
10 Mexico, the Commissioner of Public Lands, giving
11 preliminary approval to the Sedge Unit as in
12 regards to the state lease.

13 Q. Does Yates desire to be designated
14 operator of this unit?

15 A. Yes, we do.

16 Q. Does the unit agreement provide for
17 periodic filings of plans of development?

18 A. Yes, sir, it does.

19 Q. Does it provide that these plans will
20 be filed with the Oil Conservation Division as
21 well as with other state agencies?

22 A. Yes, sir.

23 Q. How often are these plans to be filed?

24 A. Six months after the first well is
25 drilled and then every twelve months thereafter.

1 Q. Will Yates also call a geological
2 witness to review the technical background for
3 this proposal?

4 A. Yes, sir, we'll provide that.

5 Q. Were Exhibits 1 through 5 prepared by
6 you or compiled under your direction?

7 A. Yes, sir, they were.

8 MR. CARR: Mr. Stogner, at this time we
9 move the admission of Yates Exhibits 1 through 5.

10 EXAMINER STOGNER: Exhibits 1 through 5
11 will be admitted into evidence.

12 MR. CARR: That concludes my direct
13 examination of Mr. Burch.

14 EXAMINATION

15 BY EXAMINER STOGNER:

16 Q. Mr. Burch, looking at Exhibit No. 3,
17 Tract No. 4 -- oh, I'm sorry. Before I go, Mr.
18 Bruce, do you have any questions?

19 MR. BRUCE: No questions, Mr.
20 Examiner.

21 Q. Anyway, referring to Exhibit No. 3, I
22 look down at Tract 4, and if I look over there to
23 the serial number and expiration date of lease
24 column, I go down and I show that lease to be
25 held by production. That's that state lease,

1 that state acreage. Could you elaborate a little
2 bit on that?

3 A. Well, it's not held by a well on that
4 tract. I'm not aware of where their production
5 is that's going to hold that.

6 Q. But, as far as this being a part of any
7 proration unit at this time, you don't know if
8 that's so or not?

9 A. That's correct.

10 Q. In your research do you know how big
11 that lease was?

12 A. No, sir, I don't.

13 Q. In looking at Exhibit No. 4, this is
14 the letter from the BLM office in Roswell. When
15 did you file your application with the BLM?

16 A. It was in -- our application was filed
17 July 31.

18 Q. Okay. Now, when I look at Exhibit No.
19 5, when was this application filed with the State
20 Land Office?

21 A. I'm not sure of the exact date that
22 that was filed. I can provide that information.

23 Q. If you would, I would appreciate it --

24 A. I sure will.

25 Q. -- by a copy of a letter, and that will

1 be a supplement to Exhibit No. 5.

2 A. Okay.

3 Q. I notice that the dates, return dates,
4 differ somewhat inasmuch as the date of the
5 letter is September 2 from the Commissioner of
6 Public Lands and August 19 from the BLM.

7 A. Okay. I can provide you that.

8 EXAMINER STOGNER: Are there any other
9 questions of this witness? If not, he may be
10 accused.

11 Mr. Carr.

12 MR. CARR: At this time we call Mr.
13 May.

14 **BRENT A. MAY**

15 Having been duly sworn upon his oath, was
16 examined and testified as follows:

17 EXAMINATION

18 BY MR. CARR:

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

21 A. Brent May.

22 Q. And where do you reside?

23 A. With Yates Petroleum -- oh, excuse me.
24 In Artesia with Yates Petroleum. I'm a petroleum
25 geologist.

1 Q. Did they let you out?

2 A. Every now and then. Not too often,
3 though.

4 MR. STOVALL: I've always heard Mr.
5 Patterson was a hard driver.

6 Q. Mr. May, have you previously testified
7 before this Division?

8 A. Yes, I have.

9 MR. STOVALL: That was the last time
10 you got out.

11 THE WITNESS: That's true.

12 Q. And at the time of that prior
13 testimony, were your credentials accepted and
14 made a matter of record?

15 A. Yes, they were.

16 Q. And how were you qualified at that
17 time?

18 A. As a petroleum geologist.

19 Q. Are you familiar with the application
20 filed in this case?

21 A. Yes, I am.

22 Q. Have you made a geological study of the
23 area surrounding the proposed Sedge Unit?

24 A. Yes, I have.

25 MR. CARR: Are the witness'

1 qualifications acceptable?

2 EXAMINER STOGNER: Are there any
3 objections?

4 EXAMINER STOGNER: Mr. May is so
5 qualified.

6 Q. Mr. May, what horizons are being
7 unitized in the Sedge Unit?

8 A. All of the horizons.

9 Q. Was the primary objective in this unit?

10 A. Primary objective is to -- the primary
11 objective of the initial test well, which is
12 located 1980 from the north line and 660 from the
13 east line in Section 18, Township 22 South, Range
14 23 East, will be drilled to a projected depth of
15 approximately 9700 feet to test the sands of what
16 I term the Morrow Clastics section.

17 Q. And in what pool are you projecting
18 this?

19 A. This would be in the Indian
20 Basin-Morrow.

21 Q. And what are the spacing requirements
22 in that?

23 A. Three hundred and twenty, I believe.

24 Q. Are there secondary objectives in this
25 well?

1 A. Yes, there are. Potential pay zones
2 include the Lower Morrow, Upper Morrow, Atoka,
3 Cisco Canyon, Wolfcamp, and Yeso.

4 Q. Have you prepared certain exhibits for
5 presentation here today?

6 A. Yes, I have.

7 Q. Let's refer to what has been marked as
8 Yates Exhibit No. 6. Would you identify this and
9 then review it for Mr. Stogner?

10 A. This is cross-section A-A prime. It's
11 a stratigraphic cross-section through the Lower
12 Pennsylvanian section. It's a south to north
13 cross-section. The location of the map is in the
14 lower right corner. It's showing the tops of the
15 Atoka, the Morrow, the Morrow Clastics, the Lower
16 Morrow, and the base of the sand.

17 These sands are highlighted in yellow,
18 and they are thought to represent fluvial deltaic
19 deposits generally trending in a
20 northwest-southeast direction.

21 You might note that on the Coquina well
22 and also the Sun well there were a few DSTs that
23 were performed in the Morrow, and most of those
24 DSTs were tight in nature with the exception of
25 the one Sun well in the Lower Morrow, which

1 produced water.

2 Q. Let's move on now to Yates Exhibit No.
3 7, your structure map. Would you review that for
4 Mr. Stogner?

5 A. This is a structure map with the top of
6 the Lower Morrow as a datum. Shows a structural
7 high to the east of the proposed unit. The
8 outline, the unit outline is in red. And the
9 proposed initial location is the green dot. The
10 proposed unit is located on the western flank of
11 this structural high with the initial test well
12 positioned structurally higher than any other
13 possible location within the proposed unit.

14 If structurally too low, there's a
15 possibility of encountering water in both the
16 Morrow Clastics and Lower Morrow sections. The
17 gas-water contact is unknown in this area.

18 You might note that the well, the Sun
19 well that I pointed out on the cross-section, is
20 in Section 6, and our proposed location should be
21 up-dip from that.

22 Q. In fact, the proposed initial test well
23 is at the highest structural point within the
24 unit; is that not correct?

25 A. That is correct.

1 Q. That will keep you away from the water?

2 A. We hope so, yes.

3 Q. Let's move on to Exhibit No. 8, your
4 isolith map. Again I'd ask you to explain to Mr.
5 Stogner the significance of this exhibit.

6 A. The isolith map represents sands of the
7 Morrow Clastics. It shows the limits of the sand
8 deposition. The isolith map is a, quote, "clean
9 sand map," with a gamma ray cutoff of 50 API
10 units or less. This map shows a sand thick
11 trending through the area of proposed unit. This
12 is highlighted in yellow.

13 The cutoff of 30 feet was used in
14 determining the limits of the potential
15 reservoir. Excuse me, that part is highlighted
16 in yellow. The cutoff value was based on the
17 amount of net sand in the surrounding wells and
18 the quality of the reservoir that they
19 encounter.

20 These wells encountered generally 26
21 net feet of sand or less and were unproductive
22 due to poor porosity and permeability. The
23 thicker sand section within the proposed unit
24 should allow for better porosity and permeability
25 since this represents the area of highest energy

1 within the channel sands.

2 Q. Basically what does your geologic study
3 of the area tell you about the Morrow in the
4 proposed unit?

5 A. I believe there's a thick running
6 through the unit, and these -- typically the
7 Morrow thicks give you a better chance for the
8 better reservoir quality that you need to have an
9 economic well.

10 Q. Is this sand thick a geological feature
11 that can be appropriately developed under unit
12 planning?

13 A. Yes, it is.

14 Q. How soon do you plan to spud the
15 initial test well on this acreage?

16 A. Before October 1, 1992, since the lease
17 expires before then.

18 Q. You therefore request that the order be
19 expedited to the extent possible?

20 A. Yes, we do.

21 Q. In your opinion will approval of this
22 application be in the best interests of
23 conservation, the prevention of waste, and the
24 protection of correlative rights?

25 A. Yes, it will.

1 Q. Is Exhibit No. 9 a written summary of
2 your geological presentation?

3 A. Yes, it is.

4 Q. Were Exhibits 6 through 9 prepared by
5 you?

6 A. Yes, they were.

7 MR. CARR: Mr. Stogner, at this time we
8 would move the admission of Yates Exhibits 6
9 through 9.

10 EXAMINER STOGNER: Exhibits 6 through 9
11 will be admitted into evidence, if there are no
12 objections.

13 MR. CARR: That concludes my direct
14 examination of Mr. May.

15 EXAMINER STOGNER: Your witness, Mr.
16 Bruce.

17 EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. May, the well in Section 6, when
20 was that drilled?

21 A. That was, I believe, in the early 60s.
22 It's an older well.

23 Q. What did it produce, if you have that
24 data?

25 A. They initially IB'd it in the Atoka, I

1 believe, but it never actually produced very
2 much. I think they temporarily abandoned it.
3 And this map -- I think the well is actually
4 abandoned now, so it may be incorrectly marked on
5 this map.

6 Q. On this whole map are there any Morrow
7 wells that produce in paying quantities?

8 A. Not to my knowledge.

9 MR. BRUCE: That's all I have, Mr.
10 Examiner.

11 EXAMINER STOGNER: Thank you, Mr.
12 Bruce.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. You mentioned that this would be down
16 in the Indian Basin-Morrow area. Where is the
17 Indian Basin-Morrow Pool in reference to this
18 area?

19 A. It would be to the north, I believe, up
20 in probably Township 21-23.

21 Q. Do you know what the nearest Morrow --
22 Indian Basin-Morrow well is out here?

23 A. Producer, there is a well -- it's up to
24 the north up in, I believe, Township 21-23. None
25 of the wells on the map I have presented are

1 actually producing from the Morrow or have
2 produced commercial quantities of gas from the
3 Morrow, that I'm aware of. Most of the wells
4 that are producing now are out of the Indian
5 Basin-Upper Penn.

6 EXAMINER STOGNER: Are there any other
7 questions of Mr. May? If not, he may be
8 excused.

9 Mr. Carr.

10 MR. CARR: Nothing further, Mr.
11 Stogner.

12 EXAMINER STOGNER: Does anybody else
13 have anything further in Case No. 10527? If not,
14 this case will be taken under advisement.

15 [And the proceedings were concluded.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10527,
heard by me on 3 Sept. 1992.

Michael E. Stogner, Examiner
Oil Conservation Division

1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Debbie Vestal, Certified Shorthand
7 Reporter and Notary Public, HEREBY CERTIFY that
8 the foregoing transcript of proceedings before
9 the Oil Conservation Division was reported by me;
10 that I caused my notes to be transcribed under my
11 personal supervision; and that the foregoing is a
12 true and accurate record of the proceedings.

13 I FURTHER CERTIFY that I am not a
14 relative or employee of any of the parties or
15 attorneys involved in this matter and that I have
16 no personal interest in the final disposition of
17 this matter.

18 WITNESS MY HAND AND SEAL OCTOBER 3,
19 1992.

20
21
22 
23 _____
24 DEBBIE VESTAL, RPR
25 NEW MEXICO CSR NO. 3