

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
CHAVES COUNTY, NEW MEXICO)

CASE NO. 13,254

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, JR., Hearing Examiner

RECEIVED

May 13th, 2004

MAY 27 2004

Santa Fe, New Mexico

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, May 13th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

May 13th, 2004
Examiner Hearing
CASE NO. 13,254

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<u>CHARLES E. MORAN</u> (Landman)	
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* * *

E X H I B I T S

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

ALSO PRESENT:

DAVID R. CATANACH
Petroleum Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 8:21 a.m.:

3 EXAMINER BROOKS: Call Case Number 13,254,
4 Application of Yates Petroleum Corporation for compulsory
5 pooling, Chaves County, New Mexico.

6 MR. CARR: May it please the Examiner, my name is
7 William F. Carr with the Santa Fe office of Holland and
8 Hart, L.L.P. We represent Yates Petroleum Corporation in
9 this matter, and I have one witness.

10 EXAMINER BROOKS: Will the witness be sworn?
11 (Thereupon, the witness was sworn.)

12 CHARLES E. MORAN,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your full name for the record,
18 please?

19 A. My name is Charles Moran.

20 Q. Mr. Moran, where do you reside?

21 A. Artesia, New Mexico.

22 Q. By whom are you employed?

23 A. Yates Petroleum Corporation as a landman.

24 Q. And have you previously testified before this
25 Division?

1 A. Yes, I have.

2 Q. At the time of that testimony, were your
3 credentials as an expert in petroleum land matters accepted
4 and made a matter of record?

5 A. Yes, they were.

6 Q. Are you familiar with the Application filed in
7 this case?

8 A. Yes, I am.

9 Q. And are you familiar with the status of the lands
10 in the area that is the subject of this Application?

11 A. Yes, I am.

12 MR. CARR: Are Mr. Moran's qualifications
13 acceptable?

14 EXAMINER BROOKS: They are accepted.

15 Q. (By Mr. Carr) Would you briefly summarize for
16 the Examiner what it is that Yates Petroleum Corporation
17 seeks with this Application?

18 A. Yates Petroleum Corporation is seeking to pool
19 the interests in the east half of Section 2, Township 8
20 South, Range 26 East, for all formations produced on a 320-
21 acre basis, primarily being the Silurian, Devonian, the
22 Cisco and the Wolfcamp formations, for its Value "BCV"
23 State Number 1 well, drilled at a location of 990 from the
24 south, 1980 from the east of Section 2, 8-26.

25 Q. If you are successful -- or not successful in

1 making a well in the formation developed on 320-acre
2 spacing, but in fact complete a well in a formation spaced
3 on 160s or 80s or 40s, pooling isn't necessary in those
4 circumstances; is that correct?

5 A. Correct. Based off the land ownership in the
6 east half of Section 2, the participants that have not
7 voluntarily agreed to join in the drilling of this well
8 would not be included in the spacing unit, other than
9 smaller than a 320-acre basis.

10 The interests that are not committed are in the
11 southwest of the northeast of Section 2, and the well
12 completed on a 160-acre basis would be dedicated to the
13 southwest quarter.

14 Q. And 100 percent would be committed?

15 A. And 100 percent would be committed.

16 Q. Let's go to what's been marked Yates Exhibit
17 Number 1. Would you identify that, please?

18 A. Yates Exhibit Number 1 is a plat of the area
19 centered around the proposed well in Section 2 of Township
20 8 South, Range 26 East.

21 Q. The well is indicated by the red dot?

22 A. The well is indicated by the red dot there in the
23 section.

24 Q. And the yellow block is the east-half 320 acre
25 spacing --

1 A. -- is the east-half 320 acre spacing unit, yes.

2 Q. What is the primary objective in this proposed
3 well?

4 A. The Silurian, Devonian or Ordovician formation.

5 Q. And what pool? Is that within an established
6 pool?

7 A. It's the Foor Ranch Precambrian --

8 Q. Pre-Permian?

9 A. -- Pre-Permian Pool.

10 Q. And are there secondary objectives?

11 A. The secondary objectives would be the Wolfcamp
12 formation and possibly the Cisco formation.

13 Q. Mr. Moran, what interests have not voluntarily
14 committed to this well?

15 A. There are essentially three interests, two of
16 those interests represented by the same party,
17 noncommitted.

18 Q. Are these unleased minerals or uncommitted
19 leasehold interests?

20 A. They are uncommitted leasehold interests
21 reflected, as I previously stated, off the leasehold on the
22 southwest quarter of the northeast quarter of Section 2.

23 Q. And so what percentage of the working interest is
24 voluntarily committed to the well?

25 A. My memories were right at 99 percent committed to

1 the well. These are very small interests that are not
2 committed.

3 Q. Could you summarize the efforts you have made to
4 obtain the voluntary participation of each of the interests
5 not currently committed?

6 A. Upon the determination that we were going to
7 proceed with the drilling of the well, I contacted by mail
8 offering to allow all parties to participate in the
9 drilling of the well. And the three entities involved
10 here, that being Greg Vujocich, John Cadigan and the Estate
11 of Linda Cadigan, were included in that invitation.

12 And then upon providing the AFE in a small time
13 period, I started contacting all parties to see whether
14 they were going to participate and made contact with Greg
15 Vujocich. He indicated to me that he wanted to
16 participate, and I told him all he needed to do was send
17 back the paperwork. He's never returned the paperwork.
18 And Mr. Cadigan has never returned a telephone call to me.
19 And I tried throughout the month of March to have contact
20 with these people.

21 Q. Mr. Cadigan, in fact, did approve changes in the
22 joint operating agreement for the property; is that not
23 correct?

24 A. Yes, in Exhibit 2 in the back, I have a letter
25 from Mr. Cadigan in March where I -- I had some title

1 problems, and I had to revise Exhibit A to the operating
2 agreement. It did not affect either of these two parties,
3 but he sent back a letter where he accepted the revised
4 proposed changes to the operating agreement.

5 Q. How often did you attempt to contact each of
6 these individuals in the last 45 days?

7 A. I looked back at my notes this morning, and it
8 appears I made -- attempted contact three times in the
9 month of March. The well commenced drilling in early
10 April, and once I had to start messing with the well I did
11 not have contact with him, but -- I've always been willing
12 to talk to him, but at three nonreturned telephone calls I
13 had trouble.

14 Mr. Vujocich had gotten on the list for receiving
15 information and I did talk to him, and then he knew he was
16 -- or I take that back, I even contacted him the first week
17 in April, I think, is what my memory is right now.

18 Q. Is Exhibit 2 copies of the letters you referenced
19 in your --

20 A. Yes.

21 Q. -- prior testimony concerning attempts to reach
22 voluntary agreement?

23 A. Yes.

24 Q. What is Exhibit 3?

25 A. Exhibit 3 is the AFE for the drilling of the

1 well, showing a dryhole cost of \$402,600 and a completed
2 well cost of \$741,100.

3 Q. Are these costs in line with what is charged by
4 other operators in the area for similar wells?

5 A. Yes, they are.

6 Q. And these are consistent with costs that Yates
7 has actually incurred for similar wells?

8 A. Yes.

9 Q. Is Exhibit Number 4 a copy of the operating
10 agreement for the well with the attached accounting
11 procedures for joint operations?

12 A. Yes, it is. This is the agreement agreed to by
13 all parties voluntarily agreeing.

14 Q. The accounting procedures, this is the COPAS
15 form, correct?

16 A. Yes.

17 Q. And it provides for periodic adjustment of
18 overhead and administrative charges?

19 A. Yes, it does.

20 Q. Do you request that the overhead and
21 administrative costs approved by this order also be
22 adjusted in accordance with the COPAS procedures?

23 A. Yes.

24 Q. Have you made an estimate of these overhead and
25 administrative costs?

1 A. Based on what we proposed on the operating
2 agreement for depth -- for the well drilled to this depth,
3 we proposed \$4000 daily and \$400 a month operating.

4 Q. These are the figures that are in the JOA?

5 A. They are the figures in the JOA.

6 The JOA has a sliding scale for depth of well for
7 the overhead cost, but for this well proposed to the depth
8 reflected on the AFE at 5900 feet it falls in the range
9 between 4000 and 8000 foot.

10 Q. Mr. Moran, what percentage of the working
11 interest in the well is actually owned by Yates or related
12 entities?

13 A. The Yates entities themselves own -- what would
14 be 7/8 of the spacing unit, of the well.

15 Q. And these interests will also be charged this
16 \$4000/\$400 --

17 A. Yes, they will.

18 Q. -- overhead charge?

19 Do you recommend these figures be incorporated
20 into the order that results from this hearing?

21 A. Yes, I do.

22 Q. Does Yates request to be designated operator of
23 the proposed well?

24 A. Yes, Yates Petroleum Corporation requests to be
25 operator of the well.

1 Q. Does Yates request that the order that results
2 from this hearing impose the maximum charge for risk
3 authorized by Division Rules of 200 percent on each
4 interest owner not voluntarily committed?

5 A. Yes.

6 Q. Would you identify Yates Exhibit Number 5?

7 A. Yates Exhibit Number 5 is the affidavit of
8 mailing of notice of this hearing to all parties.

9 Q. And attached are return receipts showing that
10 each of these individuals, in fact, received this notice;
11 is that correct?

12 A. Yes.

13 Q. Were Exhibits 1 through 5 either prepared by you
14 or compiled at your direction?

15 A. Yes, they were.

16 Q. Can you testify to their accuracy?

17 A. Yes, I can.

18 MR. CARR: Mr. Examiner, at this time we'd move
19 the admission into evidence of Yates Exhibits 1 through 5.

20 MR. BROOKS: Admitted, 1 through 5.

21 MR. CARR: That concludes my direct examination
22 of Mr. Moran.

23 EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. Okay. Well, Mr. Moran, I will bear in mind that

1 when you call me about an AFE that I have to return the
2 third call.

3 Okay, that aside, the AFE identifies this well as
4 the Value "BCV" State Com Number 1. Is this a com?

5 A. Yes, it will be com for the deep formations.

6 Q. Now, is this federal or state land?

7 A. State land.

8 Q. Is the whole thing state?

9 A. Yes, the whole state acreage is state -- or --
10 both leases involved in the communitization are state.

11 Q. Yeah. Okay. Now, is -- You said you had
12 unleased interests, didn't you?

13 A. No, undedicated leasehold interests.

14 Q. Okay, so these are leased interests --

15 A. Yeah.

16 Q. -- not unleased mineral interests?

17 A. Yeah, they are off of -- and I can't see the --
18 State Lease LG-1459, if you will look, is also in the west
19 half of Section 2.

20 Q. Is there a map showing leases --

21 A. Yes, it's on the plat, on the front plat.

22 Q. On Exhibit 1?

23 A. Exhibit 1.

24 Q. Yeah, it's too small for me to read.

25 A. Okay, there are two state leases involved, one

1 being the -- 7/8 of the spacing unit in Section 2 is
2 V-5534 --

3 Q. Yeah, I can see that.

4 A. -- and then the other lease is over -- the name
5 for the other lease is up in the top part of the northwest
6 quarter. It's LG-1459.

7 Q. Oh, okay, and then that one angles in from the
8 west half?

9 A. Right.

10 Q. That one covers the southwest of the northeast?

11 A. Correct.

12 Q. Okay.

13 A. And that interest derives from the Donald Stevens
14 Bankruptcy, and these are some of the derivative people out
15 of that.

16 Q. Yeah, and that's where the pooled -- the interest
17 you're requesting to be pooled is?

18 A. Yes.

19 Q. Okay.

20 A. It was messy title, and it took a little bit to
21 get this one cleaned up.

22 Q. The Pre-Permian -- you said the Foor Ranch Pre-
23 Permian Pool, the objective formation -- is that called the
24 Pre-Permian?

25 A. Well, the field I recognize to be called up is

1 the Pre-Permian Penn, but the geologist has explained it to
2 me, we are drilling the wells to the basement, as deep as
3 we can, down to the Precambrian, and our target formation
4 is usually the Ordovician, right in there. And the other
5 objectives are secondary objectives out there.

6 Q. Yeah, you all usually drill to the base of that,
7 you know, just kind of a company policy?

8 A. It's -- We go there when we can.

9 Q. And \$4000 and \$400, I may have misheard you, but
10 I thought you said -- I think you said \$4000 drilling, and
11 I thought you said \$400 daily, which sounded a little high.

12 A. No, it's \$400.

13 Q. \$400 for producing?

14 A. Right.

15 Q. \$4000 for drilling.

16 A. If you will look on page 3 of the COPAS --

17 Q. Yeah, and are you requesting that those be
18 adjusted according to the COPAS?

19 A. Yes.

20 EXAMINER BROOKS: Okay, Mr. Carr, I notice that
21 your notice letter doesn't apprise the people that the
22 hearing will be at 8:15 a.m. in Porter Hall...

23 Well, no, it does say 1220 South St. Francis, it
24 just doesn't say 8:15 a.m., which is -- I'm not going to
25 draw a bead on that, but I would be obliged if you'd

1 correct your forms.

2 MR. CARR: Okay, I will do that.

3 EXAMINER BROOKS: I don't think we really have to
4 say Porter Hall. I think -- It might even be confusing,
5 because there's no sign that says Porter Hall.

6 MR. CARR: I think there is.

7 EXAMINER BROOKS: Is there?

8 MR. CARR: Because I bought it.

9 EXAMINER CATANACH: It's on the door.

10 MR. CARR: I bought it at the request of Nancy
11 Porter.

12 EXAMINER BROOKS: I guess I ought to come down
13 here more often.

14 (Off the record)

15 EXAMINER BROOKS: Very good, if there's nothing
16 further -- Oh, one other question I had for you, Bill --

17 MR. CARR: Yes, sir.

18 EXAMINER BROOKS: -- given that I'm probably
19 going to be writing this up without the benefit of the
20 transcript, is there anything that's changed from what's in
21 your Application?

22 MR. CARR: No, there isn't. And we can probably
23 use the shell Order for --

24 EXAMINER BROOKS: Case Number 13,254 will be
25 taken under advisement.

1 MR. CARR: Thank you.

2 EXAMINER BROOKS: And if there's nothing further,
3 we'll stand adjourned.

4 (Thereupon, these proceedings were concluded at
5 8:38 a.m.)

6 * * *

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13254
heard by me on May 13 2004.
David K. Bush Examiner
Oil Conservation Division

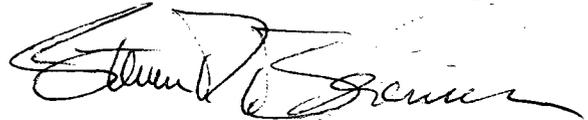
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; 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 May 13th, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006