

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,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 13,398

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 6th, 2005

Santa Fe, New Mexico

2005 JAN 20 AM 8 10

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 6th, 2005, 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.

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January 6th, 2005
 Examiner Hearing
 CASE NO. 13,398

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APPLICANT'S WITNESS:	
<u>SUSAN P. VIERRA</u> (Landman)	
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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 13,398, the Application of Yates Petroleum Corporation for
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

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

11 EXAMINER CATANACH: Call for additional
12 appearances.

13 (Thereupon, the witness was sworn.)

14 SUSAN P. VIERRA,
15 the witness herein, after having been first duly sworn upon
16 her oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

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

20 A. Susan Vierra.

21 Q. Ms. Vierra, where do you reside?

22 A. Artesia, New Mexico.

23 Q. By whom are you employed?

24 A. Yates Petroleum Corporation.

25 Q. And what is your current position with Yates

1 Petroleum Corporation?

2 A. I'm associate landman.

3 Q. Have you previously testified before the New
4 Mexico Oil Conservation Division?

5 A. Yes, I have.

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

9 A. Yes, they were.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. Yes, I am.

13 Q. And are you familiar with the status of the lands
14 in the subject area?

15 A. Yes.

16 MR. CARR: We tender Ms. Vierra as an expert in
17 petroleum land matters.

18 EXAMINER CATANACH: Ms. Vierra is so qualified.

19 Q. (By Mr. Carr) Would you briefly summarize for
20 the Examiner what it is that Yates seeks with this
21 Application?

22 A. Yates Petroleum Corporation is seeking an order
23 to pool all mineral interests from the surface to the base
24 of the Morrow formation in Eddy County, New Mexico,
25 Township 25 South, Range 26 East, Section 17, in the north

1 half; in the north half for all formations and/or pools
2 developed on a 320-acre spacing, including but not limited
3 to the Chosa Draw-Morrow Gas Pool, Undesignated Sage Draw-
4 Atoka Gas Pool, and Undesignated Sage Draw-Wolfcamp Pool;
5 in the northeast quarter for all formations and/or pools
6 developed on a 160-acre spacing; there are no defining
7 pools; and in the northwest of the northeast quarter for
8 all formations and/or pools on a 40-acre spacing. Again,
9 there are no defining pools.

10 Q. Are there any pools in the area developed on 80-
11 acre spacing?

12 A. No, there are not.

13 Q. And to what well does Yates propose to dedicate
14 these spacing units?

15 A. To the Guitar BFL Com Well Number 1, located 990
16 feet from the north line, 1980 feet from the east line,
17 Unit B of said Section 17.

18 Q. And you're going to drill to the Morrow?

19 A. Yes, we are.

20 Q. And the well will be at a standard location for
21 all formations?

22 A. Yes, it will.

23 Q. Let's go to what has been marked for
24 identification as Yates Exhibit Number 1. I'd ask you to
25 identify that and review this for Mr. Catanach.

1 A. As you'll see, this is the plat of the area where
2 we are looking for this pooling hearing to cover. The
3 green outline -- this is in Eddy County. Again, Township
4 25 South, Range 26 East, Section 17 is identified in the
5 center of the plat.

6 The green outline identifies the north-half 320-
7 acre spacing unit. The red dot in the northwest of the
8 northeast indicates the proposed well location. The 80
9 acres highlighted in orange identify the leases held by --
10 which is a federal lease, held by Yates Petroleum
11 Corporation.

12 Q. And that's 100-percent Yates?

13 A. Yes, it is.

14 Q. Okay, what about the blue tract?

15 A. The blue highlight is held by Murchison Oil and
16 Gas, 120 acres; they own 100 percent of the leases. And
17 the yellow-highlighted 120 acres, Yates Petroleum holds
18 102.5 of the 20 acres. There are 17.5 acres of that 120
19 that we are proposing to have force pooled.

20 Q. Okay. What is the primary objective in the
21 proposed well?

22 A. We are proposing to drill a 12,000-foot Morrow-
23 test well and, if successful, to produce from the Chosa
24 Draw-Morrow Gas Pool.

25 Q. Ms. Vierra, would you identify and review for Mr.

1 Catanach Exhibit Number 2?

2 A. In Exhibit 2 on the left column, left-side column
3 list, there are 10 mineral owners to be pooled, listed on
4 the left. The second column identifies the net acreage per
5 owner and the working interest per owner. The third column
6 identifies, again, their net acres and their working
7 interest per 160-acre spacing. And the column to the far
8 right identifies the net acres and working interest per
9 owner on a 40-acre spacing.

10 Looking across the bottom at the totals, in a
11 320-acre spacing the unleased mineral owners own 5.46875
12 percent of the working interest, in 160 acres 10.9375
13 percent of the working interest, and on a 40-acre spacing
14 14.5836 percent of the working interest.

15 Q. And all other interests are voluntarily committed
16 to the well?

17 A. Yes, they are.

18 Q. Would you just identify what is contained in
19 Exhibit Number 3?

20 A. Exhibit 3 contains ten sections, 3-A through 3-J.
21 The first page of each package contains a summary of all
22 contacts and correspondence that Yates Petroleum
23 Corporation has executed in trying to renew leases and
24 notify them of our intent to drill a well, to extend the
25 opportunity to participate in the well through notification

1 of this hearing.

2 Q. Ms. Vierra, when did Yates first start to put
3 together the acreage for the well that's the subject of
4 today's hearing?

5 A. These well -- the lease-negotiation proceedings
6 all began in February-March, seven months prior to the
7 expiration of each lease. There is exception with one of
8 these; the lease-negotiation procedures began five months
9 prior to lease, so these all began in February, 2004.

10 Q. With one exception, and that started in May?

11 A. May.

12 Q. And this is just copies of all the correspondence
13 which reflects your efforts to reach voluntary agreement
14 with these interest owners?

15 A. Yes.

16 Q. In your opinion, have you made a good-faith
17 effort to identify each interest owner in these spacing
18 units and reach a voluntary agreement with them for the
19 drilling of this well?

20 A. Yes, I do believe that. As a note, there were 29
21 fee owners in this area. We did negotiate leases with 16
22 of those. Three we have not negotiated leases yet, however
23 their leases are due to expire the end of this month, so
24 they are still currently under their prior lease
25 obligations. And then the 10 interests to be pooled.

1 Q. What is Exhibit Number 4?

2 A. Exhibit 4 is a copy of the authority for
3 expenditure to drill the Guitar BFL Com Number 1 well.

4 Q. And would you review the total set out on that
5 exhibit?

6 A. The total dryhole cost for this well, \$1,341,000
7 and total completed projected cost, \$1,864,500.

8 Q. Are these costs in line with what has been
9 incurred by other operators in the area for drilling wells
10 to similar depths?

11 A. Yes, they are.

12 Q. Are they consistent with the actual costs
13 incurred by Yates for drilling similar wells in the area?

14 A. Yes, they are.

15 Q. Is Yates Exhibit Number 5 the operating agreement
16 that has been circulated to and executed by interest owners
17 voluntarily joining in the well?

18 A. Yes, it is.

19 Q. Does this operating agreement contain the COPAS
20 accounting procedures for joint operations, addressing
21 overhead and administrative costs for the well?

22 A. Yes, it does. Towards the back of the agreement,
23 under Roman numeral number III, Overhead, Section 1.A,
24 paragraph (3).

25 Q. Do these procedures provide for the periodic

1 adjustment of these costs?

2 A. Yes, they do.

3 Q. And does Yates request that any order resulting
4 from this hearing provide for the same adjustment in the
5 costs as they apply to the interests subject to pooling?

6 A. Yes, we do.

7 Q. Have you made an estimate of these overhead and
8 administrative costs while drilling the well and also while
9 producing it, if it is successful?

10 A. Yes, we estimate that the overhead and
11 administrative costs while drilling to be \$5450 per month
12 and, if successful, while producing, \$540 per month.

13 Q. And these are figures that have been agreed to by
14 other interest owners committing their interests to the
15 well?

16 A. Yes, they have.

17 Q. Do you recommend that these figures be
18 incorporated into the order which results from today's
19 hearing?

20 A. Yes, we do.

21 Q. Ms. Vierra, does Yates Petroleum Corporation
22 request that, in accordance with the Division Rules, the
23 maximum charge for risk of 200 percent be imposed on each
24 working interest not voluntarily committed to the well?

25 A. Yes, we do.

1 Q. Does Yates Petroleum Corporation seek to be
2 designated operator of this well?

3 A. Yes, we do.

4 Q. In your opinion, will the granting of this
5 Application and the drilling of the proposed well be in the
6 best interest of conservation, the prevention of waste and
7 the protection of correlative rights?

8 A. Yes.

9 Q. How soon does Yates propose to spud the well?

10 A. We're currently building a location.

11 Q. Is Exhibit Number 6 an affidavit with attached
12 publication notice and letters and return receipts
13 confirming that notice of this hearing has been provided in
14 accordance with the rules of the Division?

15 A. Yes, it is.

16 Q. Were Yates Exhibits 1 through 6 prepared by you
17 or compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. CARR: Mr. Examiner, at this time we'd move
20 the admission into evidence of Yates Petroleum Corporation
21 Exhibits 1 through 6.

22 EXAMINER CATANACH: Exhibits 1 through 6 will be
23 admitted.

24 MR. CARR: That concludes my direct examination
25 of this witness.

1 EXAMINER CATANACH: Okay, Mr. Carr.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Ms. Vierra, has Murchison signed on?

5 A. Yes, they have.

6 Q. Okay. And I believe you testified that you've
7 already -- you've gotten 16 interest owners to lease?

8 A. Yes, we've renewed 16 of the 29 mineral owners.

9 Q. Okay. Were the terms of the lease that you've
10 leased similar to the ones that you're proposing to the
11 other interest owners that have not signed?

12 A. Yes, they were. They had asked for further
13 stipulations and amendments to the lease that Yates
14 management was not willing to accept.

15 Q. So at this point you don't anticipate any of the
16 interest owners signing on?

17 A. No, I don't. There's been several contacts.

18 Q. And do you anticipate any of the interest owners
19 participating in the well?

20 A. No, I don't.

21 Q. Do you know what the problem was with these
22 interest owners?

23 A. I think the deal breaker is, they were looking
24 for a one-year cumulative shut-in provision that Yates'
25 management was not willing to accept.

1 Q. And the initial letter offering to allow these
2 interest owners to participate in the well was sent in
3 November of this year -- I mean in November of last year?

4 A. An offer letter to renew the lease?

5 Q. No, an offer letter to allow them to participate
6 in the drilling of the well.

7 A. Yes, November 10th, those were mailed.

8 Q. November 10th. Have you been in correspondence
9 with the interest owners after that date?

10 A. Been in written correspondence, yes, we sent the
11 AFE, received their certified receipts, had several various
12 phone calls from those that were -- are not real
13 knowledgeable in the oil-producing industry asking, you
14 know, what their options were at that point.

15 On November 30th, a final letter was sent to the
16 remaining unleased mineral interests explaining their
17 options. We did one last lease offer extension to them at
18 that point, just a basic lease, the terms were not -- were
19 no further negotiable at that point. But they did have the
20 option to lease or to participate in the drilling of the
21 well, or they were notified that we intended to force pool
22 their interests. And I've had no response, correspondence
23 or phone call.

24 Q. Okay. And your proposed overhead rates are \$5400
25 drilling?

1 A. Yes, they are.

2 Q. And \$540 producing?

3 A. Yes.

4 EXAMINER CATANACH: Okay. I believe that's all I
5 have of this witness, Mr. Carr.

6 MR. CARR: That concludes our presentation in
7 this case.

8 EXAMINER CATANACH: Okay, there being nothing
9 further in this case, Case 13,398 will be taken under
10 advisement.

11 MR. CARR: Thank you, Mr. Catanach.

12 (Thereupon, these proceedings were concluded at
13 8:34 a.m.)

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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. 1338,
heard by me on January 6, 2005.
David R. Catanach, 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 January 6th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006