

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:)
) CASE NO. 13,461
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

ORIGINAL

2005 APR 21 AM 10 10

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

April 7th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, April 7th, 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.

* * *

I N D E X

April 7th, 2005
Examiner Hearing
CASE NO. 13,461

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| <u>SUSAN P. VIERRA</u> (Landman) | |
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* * *

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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

* * *

1 WHEREUPON, the following proceedings were had at
2 9:09 a.m.:

3 EXAMINER JONES: And we'll call Case 13,461,
4 Application of Yates Petroleum Corporation for compulsory
5 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 who needs to be sworn.

11 EXAMINER JONES: Any other appearances?

12 Will the witness please stand to be sworn?

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 Patricia Vierra.

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

22 A. In Artesia, New Mexico.

23 Q. By whom are you employed?

24 A. Yates Petroleum Corporation.

25 Q. What is your current position with Yates?

1 A. I'm an associate landman.

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

4 A. Yes, I have.

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

8 A. Yes, they were.

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

11 A. Yes.

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

14 A. Yes, I am.

15 MR. CARR: Mr. Jones, we tender Ms. Vierra as an
16 expert in petroleum land matters.

17 EXAMINER JONES: Mr. Vierra -- Ms. Vierra is
18 qualified as an expert petroleum landman.

19 Q. (By Mr. Carr) Would you briefly state what it is
20 that Yates seeks with this Application?

21 A. Yates is seeking the approval of an order pooling
22 the mineral interests from the surface through the base of
23 the Morrow formation in the east half of Section 6,
24 Township 19 South, Range 25 East, in Eddy County, New
25 Mexico, the east half to form a standard 320-acre spacing

1 and proration unit for all formations developed on a 320-
2 acre spacing, the southeast quarter to form a standard
3 spacing and proration unit for all formations developed on
4 a 160-acre spacing, and the southwest of the southeast to
5 form a standard spacing and proration unit for all
6 formations developed on 40-acre spacing.

7 Q. And to what well are you proposing to dedicate
8 these units?

9 A. These units are to be dedicated to the Rushing NJ
10 Deep Com Well Number 3, to be drilled at a standard
11 location of 1030 feet from the south and 1650 feet from the
12 east line of Section 6.

13 Q. Could you identify what has been marked Exhibit
14 Number 1 and review it for Mr. Jones?

15 A. Mr. Examiner, Exhibit Number 1 is a plat of
16 Section 6 in Township 19 South, 25 East, Eddy County, New
17 Mexico. The red dot is the proposed well location in the
18 southwest of the southeast quarter. The other dots
19 exhibited on the plat are existing wells. The red outline
20 indicates the east-half 320-acre spacing unit, the green
21 outline indicates the 160-acre spacing unit in the
22 southeast quarter, and the blue outline indicates the 40-
23 acre spacing in the southwest of the southeast quarter.

24 Q. What is the primary objective in this well?

25 A. Yates proposes a 9200-foot Morrow well, to be

1 produced from the Penasco Draw-Morrow Gas Pool.

2 Q. Would you identify Yates Exhibit Number 2 and
3 review that for the Examiner?

4 A. Exhibit Number 2 is a summary of the ownership as
5 for each proration unit. The first three paragraphs on the
6 page indicate the ownership and percentages covered under
7 the operating agreement. Deep rights from 5800 feet to the
8 base of the Morrow, and the shallow rights from 3150 feet
9 to 5850 feet.

10 Q. What interest is subject to pooling in this case?

11 A. The Billy J. Walcott, deceased, is the interest
12 to be pooled.

13 Q. So we have less than one-tenth -- or about one-
14 tenth of one percent that's outstanding?

15 A. That's correct.

16 Q. And all other interests have been voluntarily
17 committed to the well?

18 A. Yes, they have.

19 Q. Would you refer to what's been marked as Yates
20 Exhibit Number 3, identify this and review it for the
21 Examiner?

22 A. Exhibit Number 3 is a summary of the
23 correspondence and contact in the attempt to lease the
24 mineral interest of Billy J. Walcott. The first contact
25 was made with a letter of the well proposal and an AFE on

1 December 17th, 2004. It was our knowledge that Mr. Walcott
2 was deceased and his correspondence was sent in care of his
3 brother, Bobby Walcott, in Albuquerque, New Mexico. The
4 return receipt was signed December 23rd of '04.

5 On January 27th, I held a conversation with Bob
6 Walcott, the brother, confirming that Billy J. Walcott is
7 deceased, leaving no wife, no children and no will. He
8 suggested I contact either sister Gail Scroggins in
9 Alamogordo or Patsy Whitlock in San Jose, California, to
10 see if there was any information concerning a will or
11 estate.

12 I had a conversation on January 28th with Gail
13 Scroggins. At that point her mineral interest was also
14 unleased. An elderly woman, did not want to get involved
15 in the drilling of a well, so we negotiated a lease with
16 her at that time and her interest is now leased.

17 She had no further information on her brother's
18 estate. She suggested I contact Patsy Whitlock, another
19 sister, in San Jose, California.

20 Unable to locate a phone number, I sent her by
21 certified mail a request for information, and she responded
22 my on February 3rd, again reaffirming that he was never
23 married, no wife, no children, no will, and she also
24 included an additional copy of his death certificate, and
25 the -- copies of that information is included in this

1 exhibit.

2 Q. Have you made a good faith effort to find Billy
3 J. Walcott?

4 A. Yes, I have.

5 Q. Any production proceeds that would be attributed
6 to this interest would be escrowed in the bank in the
7 county where the well is actually located --

8 A. Yes, they will.

9 Q. -- is that correct?

10 What is Exhibit Number 4?

11 A. Exhibit Number 4 is a copy of the AFE, Number
12 04-608-0, dated December 2nd of '04, to drill the Rushing
13 NJ Deep Com Number 3 at a depth of 9200 feet.

14 Q. And would you just review the dryhole and
15 completed well costs as set forth on this exhibit?

16 A. Projected dryhole cost of \$767,000, completed
17 well cost, \$1,349,500.

18 Q. Are these costs in line with actual costs
19 incurred by Yates in drilling similar wells in this area?

20 A. Yes, they are.

21 Q. Is Exhibit Number 5 a copy of the joint operating
22 agreement for the well?

23 A. Yes, it is.

24 Q. And does this operating agreement contain the
25 COPAS accounting procedures for joint operations?

1 A. Yes, they are contained in Exhibit C.

2 Q. And do these provisions provide for the periodic
3 adjustment of overhead and administrative costs?

4 A. Yes, they do.

5 Q. Do you request that the order entered in this
6 case also provide for the adjustment of these costs?

7 A. Yes, I do.

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

11 A. Yes, the estimated drilling well rate is \$5400,
12 and the estimated producing rate is \$540 per month.

13 Q. Have the parties who've agreed to participate in
14 the well also accepted these overhead and administrative
15 costs?

16 A. Yes, they have.

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

19 A. Yes, I do.

20 Q. Does Yates Petroleum Corporation request that in
21 accordance with Division Rules the maximum charge for risk
22 of 200 percent be imposed on the interest of Mr. Walcott?

23 A. Yes, we do.

24 Q. Does Yates Petroleum Corporation seek to be
25 designated operator of the well?

1 A. Yes.

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

6 A. Yes.

7 Q. And what is the status of the well at this time?

8 A. We are currently drilling this well.

9 Q. Is Exhibit Number 6 an affidavit with attached
10 letters confirming that we've attempted to provide notice
11 to Mr. Walcott?

12 A. Yes, it is.

13 Q. And is there a notice of publication also
14 attached to this exhibit?

15 A. Yes, there is.

16 Q. Were Exhibits 1 through 6 prepared by you or
17 compiled at your direction?

18 A. Yes, they were.

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

22 EXAMINER JONES: Exhibits 1 through 6 will be
23 admitted into evidence in this case.

24 MR. CARR: And that concludes my direct
25 examination of Ms. Vierra.

1 EXAMINER JONES: Thank you, Mr. Carr.

2 EXAMINATION

3 BY EXAMINER JONES:

4 Q. Ms. Vierra, the -- it looks like you're going
5 mainly for the Morrow and with the bailout zones. I guess
6 the biggest question I've got is the bailout zone in the
7 San Andres-Yeso Pool, so I'm trying to figure that one out.
8 It looks to me like that's a nonstandard location in that
9 pool, unless there's been some --

10 MR. CARR: If we happen to get to that point and
11 have to be bailed out in that interval, we would at that
12 time file an administrative application seeking approval of
13 the Application.

14 EXAMINER JONES: Okay. Okay, we can do that.
15 But you still want to compulsory pool that 40 acres?

16 MR. CARR: Yes, sir, we do.

17 EXAMINER JONES: Okay.

18 Q. (By Examiner Jones) Okay, that's -- So \$5400 and
19 \$540, and it's -- it's a mixture of fee, state and federal
20 minerals?

21 A. Yes, it is.

22 Q. It's been a lot of work to put this one together,
23 it looks like?

24 A. Yes, it was.

25 EXAMINER JONES: Mr. Walcott died too soon, it

1 looks like. Okay. Well, thank you very much, Ms. Vierra.

2 THE WITNESS: Thank you.

3 MR. CARR: That concludes our presentation in
4 this case.

5 EXAMINER JONES: Thank you, Mr. Carr. With that,
6 we'll take Case 13,461 under advisement.

7 (Thereupon, these proceedings were concluded at
8 9:21 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. _____
heard by me on _____
_____, Examiner
Oil Conservation Division

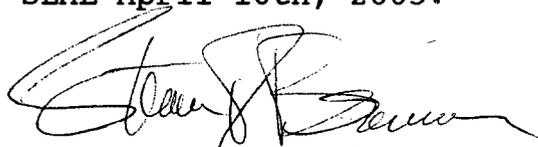
CERTIFICATE OF REPORTER

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 April 10th, 2005.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006