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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. 11,066
)
APPLICATION OF YATES ENERGY)
CORPORATION)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 18, 1994

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, August 18, 1994, at Morgan Hall, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

August 18, 1994
 Examiner Hearing
 CASE NO. 11,066

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* * *

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FOR THE APPLICANT:

PADILLA LAW FIRM, P.A.
1512 South St. Francis Drive
P.O. Box 2523
Santa Fe, New Mexico 87504-2523
By: ERNEST L. PADILLA

* * *

1 WHEREUPON, the following proceedings were had at
2 8:53 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,066, Application of Yates Energy Corporation for a unit
5 agreement, Eddy County, New Mexico.

6 Are there appearances in this case?

7 MR. PADILLA: Mr. Examiner, Ernest L. Padilla,
8 Santa Fe, New Mexico, for the Applicant.

9 I have two witnesses to be sworn.

10 EXAMINER CATANACH: Any additional appearances?
11 Will the two witnesses please stand and be sworn
12 in?

13 (Thereupon, the witnesses were sworn.)

14 SHARON R. HAMILTON,
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. PADILLA:

19 Q. Ms. Hamilton, for the record would you please
20 state your name?

21 A. Sharon Hamilton.

22 Q. Ms. Hamilton, have you testified before the Oil
23 Conservation Division previously and had your credentials
24 accepted as a matter of record?

25 A. Yes, I have.

1 Q. And you're a petroleum landman?

2 A. That's correct.

3 Q. And you've testified in that capacity before?

4 A. Yes, I have.

5 Q. Can you tell us whether you're familiar with the
6 land matters associated with this Application?

7 A. Yes, I am.

8 Q. And have you followed up with the various
9 agencies regarding the approval process for the unit
10 agreement under consideration today?

11 A. Yes, we have.

12 MR. PADILLA: Mr. Examiner, we tender Ms.
13 Hamilton as an expert petroleum landman.

14 EXAMINER CATANACH: Ms. Hamilton is so qualified.

15 Q. (By Mr. Padilla) Ms. Hamilton, would you briefly
16 tell the Examiner what this Application concerns?

17 A. We're requesting approval to form a 1623.82-acre
18 federal exploratory unit that includes 40 acres of state
19 land and 40 acres of fee land.

20 Q. Ms. Hamilton, does this exploratory unit involve
21 royalty owners?

22 A. No, sir, it's a working-interest unit.

23 Q. So it does not affect the ownership of the
24 various royalty owners or overriding royalty owners
25 underlying the various leases committed to the unit

1 agreement; is that --

2 A. No, it does not.

3 Q. Okay. Let's turn to what we have marked as
4 Exhibit Number 4, Ms. Hamilton, and have you identify that
5 for the Examiner, please.

6 A. This is the form of unit agreement that the
7 Bureau of Land Management required that includes the state,
8 federal and fee type of lands.

9 Q. Ms. Hamilton, what exhibits are attached to
10 Exhibit Number 4, to the unit agreement?

11 A. There's the -- Exhibit A is the plat of the unit
12 outline. Exhibit B is the scheduled leases. Exhibit C is
13 the tract participation schedule. And then there are
14 several ratifications that we've received for the unit.

15 Q. Ms. Hamilton, you've also prepared other exhibits
16 that are essentially -- or correspond to the exhibits
17 attached to the unit agreement; is that right?

18 A. That's correct.

19 Q. Okay. So that we won't be too redundant on this
20 thing, I'll jump from -- into Exhibits 4, 5, 6 and 7 as we
21 go along and as you feel necessary that we should do so.

22 Let's start out with the table of contents on the
23 Exhibit Number 4. Let me have you look at item number 2,
24 which is the unit area. Can you identify the unit area on
25 Exhibit -- let's see, Exhibit Number 5?

1 A. Yes, sir, the unit area on the first page of
2 Exhibit 5 is the computerized map that shows the outline of
3 the unit, and then the second page is a map plat that
4 indicates the unit outline and the acreage involved.

5 Q. Ms. Hamilton, can you tell the Examiner whether
6 any of those leases committed to that unit agreement are
7 near expiration or require some kind of expeditious action
8 in terms of approval of this Application?

9 A. Yes, sir, we have one federal lease that's due to
10 expire September 30th, and so we intend to commence
11 drilling operations prior to that date.

12 Q. So holding that lease is not necessarily
13 dependent on approval of the unit agreement; but in terms
14 of considering that well as a unit well, you would like to
15 have the unit approved before commencement of the well; is
16 that --

17 A. Yes, that's -- We would prefer that.

18 Q. Which is the lease that is going to expire on
19 September 30th?

20 A. It's in Section 14, there in the northeast
21 quarter.

22 Q. And is that a federal lease?

23 A. That's a federal lease.

24 Q. And you've discussed the federal leases with the
25 Bureau of Land Management?

1 A. Yes, we have.

2 Q. Let's look at the second part of that Exhibit
3 Number 5 and have you identify that for the Examiner.

4 A. That's a map plat of the unit that has the
5 different types of acreage colored.

6 Q. So essentially you only have two 40-acre tracts
7 that are non-federal?

8 A. That's correct.

9 Q. One fee and one state?

10 A. Yes.

11 Q. Ms. Hamilton, let's look at item number 3 of the
12 unit agreement, which applies to unitized lands and
13 unitized substances. Can you tell us what is the vertical
14 extent of the unit?

15 A. The unit would cover all formations.

16 Q. What is your primary objective in the first -- of
17 the initial well for the unit?

18 A. We're obligated to drill through and test the
19 upper Penn Canyon formation.

20 Q. And that is what you're going to test?

21 A. Yes.

22 Q. How about unit operators? Is Yates Energy
23 proposing to be the unit operator?

24 A. Yes.

25 Q. Let's go now to what we have marked as Exhibit

1 Number 6 and have you identify that, please.

2 A. Exhibit 6 is the lease schedule of the unit
3 agreement that lists the individual leases involved.

4 Q. And that's the same schedule that's attached to
5 the unit agreement?

6 A. Yes, it is.

7 Q. Is there anything significant about this? Now,
8 this shows all of the interest owners; is that correct?

9 A. Yes, it does.

10 Q. Now, let's look at Exhibit Number 7 in
11 conjunction with Exhibit Number 6, and that is a schedule
12 of tract participation; is that correct?

13 A. Yes, it is.

14 Q. Now, you've changed Exhibit Number 7 slightly
15 from what's attached to the unit agreement. Will you
16 explain what changes you've made to Exhibit Number 7 that
17 are not included with the exhibit to the unit agreement?

18 A. I've gone in and listed the parties that have
19 either verbally committed or have committed and also
20 executed the ratification forms.

21 Q. Can you give the Examiner what the status of
22 commitment to the unit agreement is by the working interest
23 owners?

24 A. We've had 100-percent verbal commitment and 90
25 percent of the owners have signed off already.

1 Q. By when do you expect to have a full written
2 commitment?

3 A. Within the next two weeks.

4 Q. Ms. Hamilton, let's turn on to Exhibits 8 and 9,
5 please, and have you identify those for the Examiner,
6 please.

7 A. Exhibit 8 is the unit designation letter received
8 from the Bureau of Land Management, and Exhibit 9 is the
9 preliminary approval from the State Land Office.

10 Q. What does Exhibit 8 essentially say, in a
11 nutshell?

12 A. It establishes the unit outline of the 1623.82
13 acres, and the unit designation is in place for a one-year
14 term.

15 Q. In other words, you have to drill the first well
16 within one year?

17 A. Well, I believe we'd have one year to finalize
18 the unit.

19 Q. Okay. How about Exhibit Number 9?

20 A. Exhibit Number 9 is the preliminary approval from
21 the State Land Office.

22 Q. Ms. Hamilton, in your opinion, from a land
23 standpoint, is this a logical unit area for development, at
24 least of the initial prospect?

25 A. Yes, sir, we feel that it's the practical method

1 to avoid waste, and for the development of this area.

2 Q. Ms. Hamilton, do you have anything further to add
3 to your testimony?

4 A. No, sir.

5 MR. PADILLA: Mr. Examiner, we tender Exhibits 4
6 through 9.

7 EXAMINER CATANACH: Exhibits 4 through 9 will be
8 admitted as evidence.

9 MR. PADILLA: And we'll pass the witness.

10 EXAMINER CATANACH: Mr. Padilla, I notice in the
11 advertisement for this case we have it listed as the unit
12 area comprising 1543.82 acres, as opposed to your 1623.82.
13 But I also see that you filed your Application right; that
14 was our mistake. So... I don't think that has any real
15 effect.

16 Would you think that we could proceed with the
17 case and not have to readvertise it for that reason?

18 MR. PADILLA: I hope -- I don't see any problem,
19 especially considering the commitment.

20 And we've also -- let me -- In conjunction with
21 that, let me hand you my affidavit of mailing and
22 certificate of service.

23 We mailed that to royalty owners as well, and we
24 have not received any objection, even though it didn't
25 apply to royalty owners.

EXAMINATION

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BY EXAMINER CATANACH:

Q. Ms. Hamilton, who are you still waiting on in terms of a written commitment?

A. On Exhibit 7, the owners that have not formally signed are Santa Fe Energy. Union Oil and Arco are under farmout and have indicated that they'll execute the unit agreement. And then the Tom Brown, Inc., interest is being sold to David Fasken, and then that interest has indicated that they'll sign off on the unit.

Q. Now, this unit agreement doesn't affect royalty interest owners; is that correct?

A. Right.

Q. How do the royalty owners share in the production?

A. On a lease basis, as they're drilled.

Q. Do the working interest owners share in the production?

A. Yes, the working interest owners are -- on the unit basis, would share in all the production.

Q. Unit basis. You've got some fee acreage in here?

A. There's one 40-acre fee tract in Section 11.

Q. And you're the leasehold owner of that tract?

A. Yes, we are.

Q. Have you had any contact with the royalty

1 interest owners?

2 A. No, sir. We haven't had any correspondence with
3 them.

4 Q. They're just not affected by this at all?

5 A. No, sir.

6 Q. Do you know where your first well is going to be
7 located, Ms. Hamilton?

8 A. We're going to -- On the second page of Exhibit
9 Number 5, the well location is marked in the northwest
10 quarter of the southwest quarter of Section 12.

11 EXAMINER CATANACH: I have nothing further of the
12 witness, Mr. Padilla. She may be excused.

13 MR. PADILLA: We'll call Kirk Ross at this time.

14 KIRK ROSS,

15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. PADILLA:

19 Q. Mr. Ross, for the record, please state your name.

20 A. Kirk Ross.

21 Q. Where do you live?

22 A. Roswell.

23 Q. Who do you work for?

24 A. Yates Energy Corporation.

25 Q. In what capacity?

1 A. As a petroleum engineer.

2 Q. Mr. Ross, have you previously testified before
3 the New Mexico Oil Conservation Division and had your
4 credentials accepted as a petroleum engineer?

5 A. No, sir.

6 Q. Mr. Ross, would you please tell us where you were
7 educated, whether an advanced degree?

8 A. Yes, I have a bachelor of science in mechanical
9 engineering from Oklahoma State University.

10 Q. Since that time, what experience do you have in
11 the oil and gas industry?

12 A. I have 14 years' experience in the oil and gas
13 industry as a petroleum engineer.

14 Q. Can you be more specific with whom you have
15 worked and in what capacity and that sort of thing?

16 A. I have worked for Sun Exploration and Production
17 Company in Abilene, Texas, as a production engineer for a
18 period of five years. I've worked for Terra Resources in
19 Wichita Falls, Texas, for a period of three years as a
20 drilling and production engineer. I have three years'
21 experience with Grand Banks Energy out of Midland, Texas,
22 as a production and reservoir engineer, two years
23 experience with Hondo Oil and Gas in Roswell as a drilling
24 and production engineer, and then my two years' employment
25 with Yates Energy in the same capacity.

1 Q. Mr. Ross, have your duties for any of these
2 companies dealt with exploration activities to where you're
3 required to do geologic interpretations --

4 A. Yes, I have.

5 Q. -- and investigations?

6 Have you made geologic investigations concerning
7 this hearing, in the matters concerning the prospect that
8 you are attempting to drill initially for the unit?

9 A. Yes, I have.

10 Q. Have you prepared certain exhibits for
11 introduction here today?

12 A. Yes, I have.

13 MR. PADILLA: Mr. Examiner, we tender Mr. Ross as
14 an expert in petroleum exploration.

15 EXAMINER CATANACH: Mr. Ross is so qualified.

16 Q. (By Mr. Padilla) Mr. Ross, let's have you turn
17 to what we have marked as Exhibit Number 1 and have you
18 identify that for the Examiner, please.

19 A. Exhibit 1 is a stratigraphic cross-section from
20 west to east on the upper Penn interval. The cross-section
21 is located on wells from Section 3 to Section 1, which lies
22 just north of the prospect area.

23 Q. Mr. Ross, perhaps it might be easier for you to
24 also explain at this time what Exhibits 2 and 3 are.

25 A. Exhibit 2 is an isopach map of the Upper Penn C-3

1 interval, which is the primary prospective interval for
2 unitization purposes.

3 Exhibit --

4 Q. What -- Go ahead.

5 A. Exhibit 3 is a geological discussion on this
6 interval and its justification for the unit outline.

7 Q. Exhibit Number 2 contains the line of cross-
8 section for the cross-section which is --

9 A. Yes, A to A'.

10 Q. Okay. Tell the Examiner what is that yellow
11 dashed line there, or the yellow area --

12 A. Okay, there is an existing --

13 Q. -- on Exhibit 2.

14 A. Yes, on Exhibit 2 there is an existing unit
15 consisting of 640 acres for the -- originally, the Gulf
16 Hackberry Hills well, which was drilled in 1961, in Section
17 1.

18 This well was completed in 1961 and established
19 as the discovery well for the Hackberry Hills Canyon field.
20 This is the same prospective -- This well produces out of
21 the same prospective zone that we would like to have the
22 unit designation for.

23 Q. Okay, let's go back to the cross-section, and
24 tell us how that applies to --

25 A. Okay, this cross-section shows a little bit --

1 the basic geology of the area.

2 In Section 3, marked by "A" on the cross-section,
3 shows a significant bioherm, which is an algal bioherm to
4 the west of the prospect area. This is a reef complex. As
5 -- Progressing to the east of the prospect area, you come
6 out of the reef complex into an area where biograinstone
7 aprons are draped onto the flanks of the reef, on the basin
8 side of the reef, out into deeper water.

9 The bioherm which is to the west does not produce
10 -- does not develop significant porosity or does not have
11 hydrocarbons present. The biograinstones that are aproned
12 onto the flanks of the reef develop porosity and has served
13 as a trap for hydrocarbons.

14 There are three of these intervals in the -- that
15 are flanked onto the eastern side of the reef, and in the
16 third one what we designate the C-3 interval is what is
17 produced out of the Gulf Hackberry Hills Number 1 in
18 Section 1.

19 Q. Mr. Ross, is it your opinion that this line of
20 cross-section extends southward into the unit area?

21 A. Yes, it is.

22 Q. Now, where would your initial well be located in
23 terms of -- in going from A to A' here?

24 A. Okay, our well will be located south of the
25 cross-section in Section 12 at a location in the northwest

1 quarter of the south -- I mean -- yeah, the southwest
2 quarter.

3 Q. Is that a nonstandard location?

4 A. Yes, it is, it is an unorthodox location.

5 Q. Have you received approval for that location?

6 A. Yes, we have. We have received an administrative
7 approval for the unorthodox location.

8 Q. Okay. So where would your well lie in terms of
9 the cross-section?

10 A. In terms of the cross-section, just to the south
11 of it.

12 Q. I understand that. But if you assume that you
13 have similar geology, where --

14 A. Oh --

15 Q. -- between what wells in the cross-section?

16 A. Between the two on the right, the Brady Federal
17 Number 1 and the Hackberry Hills Federal Number 1.

18 Q. Do you have anything else to tell us about the
19 cross-section?

20 A. No, I don't.

21 Q. How about the isopach?

22 A. Well, the isopach shows how the upper Canyon C-3
23 interval has been mapped and justifying the outline of the
24 unit area.

25 The wells -- The reef wells shown on the western

1 side of the prospect area where this upper Canyon C-3
2 interval does not develop, we have very little control in
3 the prospect area, but there are control wells to the east
4 in Section 15 and in Section 7 and 6 of 22-26. We also
5 have a well in Section 23 of 22-25 that serves as a control
6 well.

7 Q. Mr. Ross, do you have anything further concerning
8 any of these three exhibits?

9 A. I would like to point out in Exhibit 3 a
10 typographical error.

11 Q. Where is that?

12 A. In the third paragraph, at the end of the
13 paragraph, there's a date which is the cumulative date of
14 production of the initial well. It is stated in the
15 exhibit that it is through October of 1994, and that's --
16 that should be October of 1993.

17 Q. Mr. Ross, in your opinion would approval of this
18 Application be in the best interests of conservation?

19 A. Yes, I believe it would.

20 Q. In terms of your geologic discussion here today,
21 is this a logical unit area?

22 A. Yes, it is.

23 Q. And would it promote, in your opinion, orderly
24 development of these oil and gas leases that are committed
25 to the unit area?

1 A. Yes, it would.

2 MR. PADILLA: Mr. Examiner, we have nothing
3 further. We tender Exhibits 1 through 3.

4 EXAMINER CATANACH: Exhibits 1 through 3 will be
5 admitted as evidence.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Ross, the Gulf well in Section 1, is that the
9 southernmost well producing from the field?

10 A. Yes, it is, and it is -- actually, it's -- There
11 is only one other well producing from the well [sic], and
12 that is a Mewbourne well located in Section 6, just to the
13 east of that well.

14 Q. There's been no production established to the
15 north?

16 A. There have been tests made in that zone, and my
17 geological discussion, Exhibit 3, goes into more detail.

18 But tests were made in Section 1 in that well to
19 the north of the original well. That's the Amoco Brady
20 Federal Number 1. And the well located in section 36, just
21 to the north of that, was drill stem tested but is
22 currently producing out of the Morrow formation.

23 Q. Did you say that you had well control on the east
24 and west?

25 A. Yes, as you'll notice there in the north half of

1 Section 13 --

2 MR. PADILLA: You're looking at the isopach map?

3 THE WITNESS: Yes, I'm looking at the isopach
4 map. There is a well that penetrated this interval that
5 had 12 feet of net clean carbonate. It is felt like that
6 well did not develop enough of a carbonate to be
7 productive. It was a dryhole in the Morrow -- in all
8 formations, but it did develop carbonate in this zone, but
9 it was felt like 12 feet was not enough for commercial
10 production.

11 The other control wells we have are in Section 10
12 and 15, which were deep enough to penetrate the upper Penn
13 Canyon interval. However, it was -- those wells were --
14 penetrated the reef formation, and not the porous aprons
15 that are flanked on the sides of it.

16 There is a dashed line on the west-hand side --
17 on the western side of the isopach that indicates the base
18 of the reef, which is what we're going to have as a cutoff
19 of possible porosity in the upper C-3 Canyon.

20 Q. (By Examiner Catanach) What other formations do
21 you have above the Penn that are potentially productive?

22 A. We have numerous formations in the wellbore.
23 Above the Penn, we'll be penetrating -- mainly the Delaware
24 is a prospective in this area.

25 Below the Penn interval we'll have, you know, a

1 potential for Strawn and Atoka, and an excellent potential
2 for development of Morrow gas formations.

3 There is also -- I guess I should also indicate
4 that there could be some Bone Spring.

5 Q. The primary objective is the Penn?

6 A. The primary objective is the Penn. We'll be
7 drilling the well to the Morrow formation.

8 EXAMINER CATANACH: I have nothing further, Mr.
9 Padilla.

10 MR. PADILLA: We have nothing further.

11 EXAMINER CATANACH: There being nothing further
12 in this case, Case 11,066 will be taken under advisement.

13 (Thereupon, these proceedings were concluded at
14 9:24 a.m.)

15 * * *

16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. 11066,
heard by me on August 18 1987.
21 David R. Clark, Examiner
22 Oil Conservation Division
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CERTIFICATE OF REPORTER

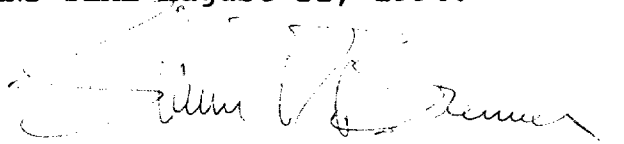
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STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

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 August 21, 1994.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1994