

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 MCKAY OIL CORPORATION FOR ) CASES NO. 12,546  
 AN UNORTHODOX INFILL GAS WELL LOCATION, )  
 CHAVES COUNTY, NEW MEXICO )  
 )  
 APPLICATION OF MCKAY OIL CORPORATION FOR ) and 12,547  
 AN UNORTHODOX INFILL GAS WELL LOCATION, )  
 CHAVES COUNTY, NEW MEXICO )  
 ) (Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 7th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.  
00 DEC 21 PM 10:21

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 7th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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## I N D E X

December 7th, 2000  
 Examiner Hearing  
 CASE NOS. 12,546 and 12,547 (Consolidated)

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APPLICANT'S WITNESS:	
<u>BILL MILSTEAD</u> (Landman; vice-president, McKay Oil Corporation)	
Examination by Examiner Catanach	5
REPORTER'S CERTIFICATE	15

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## A P P E A R A N C E S

## FOR THE DIVISION:

LYN S. HEBERT  
 Attorney at Law  
 Legal Counsel to the Division  
 2040 South Pacheco  
 Santa Fe, New Mexico 87505

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:18 a.m.:

3           EXAMINER CATANACH: Call the hearing to order  
4 this morning for Docket Number 35-00. Go ahead and call  
5 the continuances and dismissals first.

6           (Off the record)

7           EXAMINER CATANACH: At this time we'll call first  
8 case on the docket, Case 12,546 which is the Application of  
9 McKay Oil Corporation for an unorthodox infill gas well  
10 location, Chaves County, New Mexico.

11           We'll call for appearances in this case.

12           MR. MILSTEAD: Bill Milstead.

13           EXAMINER CATANACH: Any additional appearances?

14           Mr. Milstead, why don't you come up here and be  
15 seated up here, if you would?

16           MR. MILSTEAD: Before I do, I need to give you  
17 these affidavits of publication.

18           EXAMINER CATANACH: Okay, sir, these are what,  
19 now?

20           MR. MILSTEAD: They're affidavits of publication  
21 for the newspaper in Roswell.

22           EXAMINER CATANACH: Mr. Milstead, are you  
23 prepared to testify in these cases or --

24           MR. MILSTEAD: Yes, sir.

25           EXAMINER CATANACH: -- make a statement or --

1 MR. MILSTEAD: I can answer whatever questions  
2 you might have, sir.

3 EXAMINER CATANACH: Mr. Milstead, we have two  
4 cases here. You're seeking an unorthodox location in both  
5 of these cases; is that correct?

6 MR. MILSTEAD: Yes, sir.

7 EXAMINER CATANACH: Okay, the first well is the  
8 Five Mile Tank "B" Federal Well Number 5, and that's to be  
9 drilled 1760 from the south, 588 from the west line of  
10 Section 17?

11 MR. MILSTEAD: Yes, sir.

12 EXAMINER CATANACH: And that's an infill well for  
13 the existing 160-acre standard proration unit?

14 MR. MILSTEAD: Yes, sir.

15 EXAMINER CATANACH: And can you explain, sir, why  
16 that is to be drilled at an unorthodox location?

17 MR. MILSTEAD: The location sits right on the  
18 edge of a freshwater draw. If we were to move our location  
19 to a 660-foot legal location, we would infringe severely  
20 into that draw and have to actually redirect it almost with  
21 our drilling and producing location.

22 EXAMINER CATANACH: Mr. Milstead, before we  
23 proceed, let us go ahead and swear you in.

24 MR. MILSTEAD: Okay.

25 (Thereupon, the witness was sworn.)

1                                    BILL MILSTEAD,

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

4                                    EXAMINATION

5        BY MR. CATANACH:

6            Q.     Mr. Milstead, you've submitted this information,  
7        I take it, administratively?

8            A.     Originally, yes, sir.

9            Q.     And you were advised that it would be necessary  
10       to have a hearing on this matter?

11          A.     Yes, sir.

12          Q.     Okay.

13          A.     I believe it's under the rules that were  
14       established for this infill program when it was authorized  
15       by the Oil Conservation Division.

16          Q.     Okay. On the well in Section 17, there's an  
17       existing well already on that unit, right?

18          A.     Yes, sir, there is.

19          Q.     That's at a standard location?

20          A.     Yes, sir.

21          Q.     And you're seeking to drill in the quarter  
22       section just to the west of there --

23          A.     Yes, sir.

24          Q.     -- the quarter-quarter section?

25                Why is it necessary, sir, to drill in that

1 quarter-quarter section to the west? Are there not any  
2 standard locations in the south half of the southwest  
3 quarter?

4 A. Just immediately south of this location is a  
5 county road. To move the location down again we have two  
6 impediments:

7 We have the draw to the east that would preclude  
8 us from moving it to the east because of the freshwater  
9 draw.

10 And immediately south, if we put it in a legal  
11 location just south of there, is a county road, and we  
12 would be moving fairly close to that county road, if not  
13 building almost on top of it.

14 Q. Have you personally or has your company actually  
15 attempted or tried to locate that well in that south half  
16 of the southwest quarter?

17 A. No, sir, we did not. This was a location we  
18 picked, and did not move it down.

19 Q. Were there any geologic considerations in wanting  
20 to drill in that quarter-quarter section?

21 A. Yes, sir, there are. The existing well is a --  
22 probably has produced 500 million cubic feet of gas.

23 There is a well to the southwest of this in  
24 Section 19, in the northeast quarter. That well was  
25 drilled approximately the same time as the offset well to

1 this one, the original well in the southwest of 17, and  
2 it's probably produced maybe 250 to 300 million.

3 So we wanted to get and move this well or put  
4 this well within -- geologically, within a reasonable  
5 distance of that well, so that we could be ensured of some  
6 good geological information, good geological formation.

7 Q. The advertisement for this case, Mr. Milstead,  
8 seeks your input on a proposed Five Mile Tank "B" Federal  
9 Well Number 3, which was apparently -- an APD was filed for  
10 that well at a standard location 880 feet from the south  
11 line and 1760 feet from the east line, which would be in  
12 Unit N of this section.

13 A. Yes, sir.

14 Q. Do you have any knowledge of that location or --

15 A. Yes, sir --

16 Q. -- that well?

17 A. -- I do.

18 Q. Can you elaborate on that for us?

19 A. The Five Mile Tank "B" Fed Number 3, sir?

20 Q. Yes, sir.

21 A. I did not bring anything with me. I do have  
22 knowledge of it. It's another infill location between the  
23 Five Mile Tank Number 5, the Federal Number 5 and the  
24 Federal Number 3 wells.

25 Q. Was there an APD filed for this Federal Well

1 Number 3?

2 A. Yes, sir.

3 Q. So obviously it's possible to locate a well at a  
4 standard location in this quarter section; is that correct?

5 A. In the southwest of 24?

6 Q. No, sir --

7 A. I mean 17, I'm sorry, sir.

8 Q. Right.

9 A. Yes, sir, it is -- The Five Mile Tank "B" Federal  
10 Number 3 location, geologically, is not as good as moving  
11 it to the west.

12 As far as geological determinations from our  
13 geologist and our engineers, the formation is not as  
14 prominent there as where we propose to drill.

15 Q. But you don't have any evidence -- you don't have  
16 any geologic evidence to present here today?

17 A. No, sir, I don't. And I apologize, I should have  
18 brought some.

19 Q. Mr. Milstead, with respect to the well that you  
20 propose in 18, the Snakeweed Federal "B" Well Number 4,  
21 that's to be drilled 880 from the south line and 588 feet  
22 from the east line?

23 A. Yes, sir.

24 Q. And can you elaborate on the necessity for that  
25 unorthodox location?

1           A.    There are several reasons.  There are two  
2 pipelines that run through there -- one of them is ours --  
3 that, if we were to move it to a legal location, would be  
4 right on top of our pipeline.

5           And also, attached with this Application is an  
6 archeological survey that was done on that pipeline, and  
7 that survey shows that there are a number of archeological  
8 sites that we would have to avoid because of those sites.  
9 The BLM would not allow us to drill anywhere close to those  
10 sites.

11          Q.    Okay, I show a site that is -- Where is that site  
12 in relationship to your well?

13          A.    The largest of the sites is right on or fairly  
14 close to the southwest corner of our location, probably 100  
15 feet to the southwest from our location.  And as you can  
16 see on that, there are a number of smaller sites that run  
17 right along the west side.

18          Q.    Okay, so the existing well in that quarter  
19 section, the Snakeweed Federal Number 4, is located, I  
20 guess, to the north and to the west of your proposed well?

21          A.    Yes, sir, I believe it's 1980 from the south line  
22 and 1980 from the west line -- or the east line, I'm sorry.

23          Q.    Is there any geologic consideration as to why  
24 you're drilling in that particular quarter-quarter section?

25          A.    Again, geologically and engineeringwise, it

1 appears that that is an optimum location to place a well.

2 Q. Mr. Milstead, are you encroaching on any -- Let's  
3 see. Well, the standard location for this pool would be  
4 660 setback?

5 A. Yes, sir.

6 Q. So in this particular instance on the Snakeweed  
7 Federal "B" Number 4, you're encroaching to the east?

8 A. Yes, sir.

9 Q. And are there any offset operators that are  
10 affected by this Application?

11 A. The only one that would be affected by it is a  
12 diagonal in Section 16, a company named Pecos River  
13 Operating Company. The other acreage around it is owned or  
14 controlled by McKay Oil Corporation.

15 Q. They're in Section 16, did you say?

16 A. Yes, sir.

17 Q. So are you testifying that the acreage in 17 is  
18 McKay?

19 A. Yes, sir.

20 Q. And how about --

21 A. And in 18.

22 Q. 17 and in 18?

23 A. Yes, sir. And in 19 too, sir.

24 Q. Do you have knowledge about Section 20?

25 A. Hold on just a second. Section 20, I'm sorry.

1 Section 20 is the Pecos River, 16 is McClellan, a small  
2 part, and the balance of it McKay.

3 Q. So Section 20 is the interest of Pecos River?

4 A. Yes, sir, it is.

5 Q. But you're not really encroaching towards their  
6 acreage?

7 A. No, sir, we're not. And they have provided a  
8 letter to the OCD saying that they didn't object to the  
9 location.

10 Q. Is that included in your package of --

11 A. No, sir, but I do have copies of their letter  
12 here if you would like.

13 Q. Okay, if I could get you to submit that.

14 A. Okay.

15 Q. What about the other application? We didn't talk  
16 about offset operators?

17 A. Same offset operator. And certainly not  
18 encroaching on them, at least as far as closeness in  
19 location to their acreage.

20 Q. Okay, so the Five Mile Tank Federal "B", you're  
21 moving towards the west?

22 A. Yes, sir.

23 Q. And so McKay owns all the acreage in Section 18  
24 towards which this well is encroaching?

25 A. Yes, sir.

1 Q. Okay. So there is no notice to any offset  
2 operators that you have to deal with.

3 A. No, sir.

4 Q. Mr. Milstead, we're a little concerned. What we  
5 were talking about is, you gave publication notice, you  
6 actually published something in the newspaper --

7 A. Yes, sir.

8 Q. -- which you're not really required to do under  
9 the rules.

10 But there was a mistake in your ad which stated  
11 that the hearing was to be held on December 5th.

12 A. Yes, sir.

13 Q. The Division publishes notice of this case, and I  
14 would assume that we published the correct notice in this  
15 case, the date of the hearing.

16 To your knowledge, you don't know of anybody who  
17 would have come in or opposed you or had any concerns about  
18 your locations --

19 A. No, sir.

20 Q. -- that you're aware of?

21 A. (Shakes head)

22 Q. Certainly to my knowledge, we didn't have anybody  
23 come in on December 5th to show up for a hearing.

24 A. I think I publicized December the 5th after --  
25 and may have misunderstood you in a telephone conversation

1 early in November about the hearing being on December the  
2 5th.

3 Q. Okay. Well, I don't think this is grounds for  
4 continuance. I'm just going to set that aside for now.

5 I'm going to ask you, however, to supplement the  
6 record in this case. I would like you guys to submit some  
7 geologic discussion --

8 A. Okay.

9 Q. -- on why the wells are located in the quarter-  
10 quarter sections that they are.

11 A. Okay.

12 Q. And if you have any geologic maps or anything  
13 like that, that would help us to determine that where  
14 you're drilling is the most prudent location, any  
15 information that would help us make that determination that  
16 this location is necessary --

17 A. Yes, sir.

18 Q. -- would be beneficial to us. And hopefully we  
19 can have enough information in this record to make a  
20 decision on these cases. So I would ask you to supplement  
21 that within, say, two weeks after the hearing, after this  
22 hearing --

23 A. Yes, sir.

24 Q. -- submit that to us here, and we'll go and make  
25 that determination.

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A. Okay.

EXAMINER CATANACH: And I think that's all we have.

If there's nothing further, Case 12,546 and 12,547 will be taken under advisement.

MR. MILSTEAD: Thank you.

(Thereupon, these proceedings were concluded at 8:42 a.m.)

\* \* \*

*Handwritten:* December 7 12546 12547  
*Signature:* Daniel P. Catanch

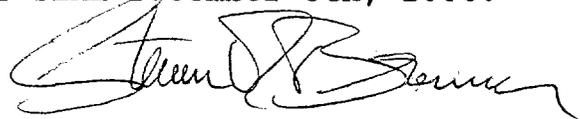
## CERTIFICATE OF REPORTER

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 December 8th, 2000.




---

STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002