

REGISTER

JANUARY 11, 2001

EXAMINER HEARING

NAME	COMPANY	LOCATION
V. Kellerman	Kellerman & Kellerman	San Antonio
R. Bullock	Yates Petroleum	Artesia
William J. Day	Holland & Hart	San Antonio
Deborah Manning	OCC	Houston TX
Ramiro Reyes	Heyco	Roswell
Gregg Loper		
Vernon Dyer		
Dick Jones		
James H. Kellerman	Kellerman & Kellerman	San Antonio
Anna (Baker)	Baker Petroleum	Marathon
William J. Kellerman	Baker Petroleum	Marathon
Michael Senora	Baker Petroleum	Marathon TX
ERIC MORGAN	Yates Petroleum	Artesia, NM
Frank Scheubel	Yates Petroleum Corp	Artesia, NM
MARTIN HAWLEY	MATADOR	DALLAS TX
MIKE WOOD	MATADOR	DALLAS, TX
Mark Vincent	Matador	Dallas, TX
Philip White	Blanca	San Antonio
Bill Baker	Artesia	Marathon TX

REGISTER

JANUARY 11, 2001
EXAMINER HEARING

NAME	COMPANY	LOCATION
W Keluhin	Keluhin-Keluhin	Santa Fe
R. Bullock	Yates Pet. Corp.	Artesia
William J. Jay	Holland + Hart	Santa Fe
Derick Manning	OCEAN	Harroton TX
Ramon Reyes	Hayco	Roswell
Egbert Silver	"	Harroton
Vernon Dyer	"	"
Dale Jones	"	"
Michael H. Feldewert	Holland & Hart and Campbell & Co.	Santa Fe
ANDY BUCKSON	BWB PARTNERS I	MIDLAND, TX
WILLIAM H. BENNETT	BWB PARTNERS I	MIDLAND, TX
MICHAEL SENECH	BWB PARTNERS I	MIDLAND, TX
ERIC CUMMINS	Yates Petroleum	Artesia, NM
Frank Scheubel	Yates Pet. Corp	Artesia, NM
MARTIN ENIGBY	MATADOR	DALLAS, TX
MIKE WOOD	MATADOR	DALLAS, TX
Mark Vivant	MATADOR	Dallas - TX
Philip White	Blanco	Santa Fe
Bill Baker	ARROWSTON	MIDLAND TX

TOWNSHIP 18 SOUTH, RANGE 30 EAST, NMPM

Section 24: SE/4

- (aa) EXTEND the North Shugart-Morrow Gas Pool in Eddy County, New Mexico to include:

TOWNSHIP 18 SOUTH, RANGE 31 EAST, NMPM

Section 6: E/2

- (bb) EXTEND the Turkey Track-Morrow Gas Pool in Eddy County, New Mexico to include:

TOWNSHIP 19 SOUTH, RANGE 29 EAST, NMPM

Section 12: N/2

- (cc) EXTEND the Willow Lake-Bone Spring Pool in Eddy County, New Mexico to include:

TOWNSHIP 24 SOUTH, RANGE 28 EAST, NMPM

Section 26: W/2

IN THE ABSENCE OF OBJECTION, THIS CASE WILL BE TAKEN UNDER ADVISEMENT.

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 HARVEY E. YATES COMPANY)
FOR COMPULSORY POOLING, EDDY COUNTY,)
NEW MEXICO)

CASE NO. 12,570

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 11th, 2001
Santa Fe, New Mexico

OIL CONSERVATION DIV
01 JAN 24 PM 4:00

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday January 11th, 2001, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

January 11th, 2001
Examiner Hearing
CASE NO. 12,570

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, CAMPBELL & CARR, P.A.
 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: MICHAEL H. FELDEWERT

FOR OXY USA, INC. and EOG RESOURCES, INC.:

KELLAHIN & KELLAHIN
 117 N. Guadalupe
 P.O. Box 2265
 Santa Fe, New Mexico 87504-2265
 By: W. THOMAS KELLAHIN

ALSO PRESENT:

MICHAEL E. STOGNER, NMOCD Hearing Examiner

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

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

3 EXAMINER CATANACH: Call the hearing to order
4 this morning for Docket Number 1-01. I will call the
5 continuances and dismissals first.

6 (Off the record)

7 EXAMINER CATANACH: And we'll proceed a little
8 bit out of order. The two Ocean cases and the Yates case
9 will be consolidated and heard at the end of today's
10 docket.

11 And at this time we will call first case, Number
12 12,570, the Application of Harvey E. Yates Company for
13 compulsory pooling, Eddy County, New Mexico.

14 Call for appearances in this case.

15 MR. FELDEWERT: Michael Feldewert with the law
16 firm of Holland and Hart and Campbell and Carr for the
17 Applicant in this case, Harvey E. Yates Company, and I have
18 two witnesses.

19 EXAMINER CATANACH: Any additional appearances?

20 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
21 the Santa Fe law firm of Kellahin and Kellahin, appearing
22 on behalf of OXY USA, Inc. and EOG Resources, Inc.

23 EXAMINER CATANACH: Will the two witnesses please
24 stand to be sworn in?

25 (Thereupon, the witnesses were sworn.),

1 VERNON DUANE DYER,

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

4 DIRECT EXAMINATION

5 BY MR. FELDEWERT:

6 Q. Mr. Dyer, would you please state your full name
7 for the record?

8 A. Vernon Duane Dyer.

9 Q. And where do you reside?

10 A. Roswell, New Mexico.

11 Q. And by whom are you employed, and what is your
12 current position?

13 A. Harvey E. Yates Company, I'm the land manager.

14 Q. Have you previously testified before this
15 Division?

16 A. Yes, I have.

17 Q. At the time of that testimony, were your
18 credentials as an expert in petroleum land matters accepted
19 and made a matter of public record?

20 A. Yes, they were.

21 Q. And are you familiar with the Application that's
22 been filed in this case?

23 A. Yes, I am.

24 Q. And are you familiar with the status of the lands
25 in the subject area?

1 A. Yes.

2 MR. FELDEWERT: Mr. Examiner, I would tender Mr.
3 Dyer as an expert witness in petroleum land matters.

4 EXAMINER CATANACH: Mr. Dyer is so qualified.

5 Q. (By Mr. Feldewert) Mr. Dyer, would you please
6 briefly tell the Examiner what Heyco seeks with this
7 Application?

8 A. Heyco is seeking an order pooling all the
9 minerals from the surface to the base of the Morrow
10 formation in the south half of Section 31, Township 17
11 South, 31 East, and in the following manner:

12 The south half of all formations or pools to be
13 developed on a 320 spacing, which has already been set in
14 some of the pools in the area there;

15 The southeast quarter for all formations or pools
16 developed on a 160 spacing;

17 The south half of the southeast quarter for all
18 formations or pools developed on 80-acre spacing;

19 And on the southeast of the southeast quarter for
20 all formations or pools developed on 40-acre spacing;
21 again, there is about five or six pools already designated
22 that in the area.

23 And we'd like to dedicate the Power "31" Fed Com
24 Well Number 1 to be drilled at a standard location at 660
25 from the south and east line of Section 31.

1 Q. Okay, and why don't you identify and review for
2 the Examiner Heyco Exhibit Number 1?

3 A. Heyco Exhibit 1 is the land map with the red
4 outline in Section 31 showing the 320-acre proration unit,
5 the yellow is the -- colored in yellow, and also we have
6 the red dot indicating the location of the well.

7 Q. And what is the status of the acreage in the
8 south half of Section 31?

9 A. It is all federal acreage under lease.

10 Q. And what is the primary objective of your
11 proposed well?

12 A. It's a Morrow target, lower Morrow.

13 Q. Okay, why don't you now turn to Heyco Exhibit
14 Number 2, identify it and review it for the Examiner?

15 A. Heyco Exhibit Number 2 is an ownership breakdown
16 showing the owners in the land, or in the 320 acres, and
17 their percentage of working interest within that unit. And
18 it would be the same all the way through, because they've
19 signed an operating agreement.

20 Q. What percentage of the working interest is
21 voluntarily committed to this well?

22 A. Approximately 35 percent have already signed the
23 operating agreement and is ready to go.

24 Q. Okay, so how many interest owners, then, on this
25 Exhibit Number 2 are subject to this pooling Application?

1 A. Well, actually there's five subject to the
2 pooling order.

3 Q. Okay, why don't you identify them for the
4 Examiner?

5 A. Okay, it's -- Counting down from the top, it's
6 the seventh one, Yates McMinn Drilling Venture 1984-2. I'm
7 sorry the one above it, Yates Energy also, Yates Energy
8 Corporation. And down at the very last two, EOG Resources,
9 Inc., and Devon Energy Production Company. And then on the
10 EOG we also have Burlington Resources involved.

11 Q. Okay. Now, why did you have Burlington Resources
12 involved?

13 A. Because of public record, everything is in
14 ownership of Burlington Resources, and when we notified
15 Burlington and sent everything to them, they notified us at
16 that time that they had sold it to EOG, and then everything
17 was transferred to EOG. But there has been nothing placed
18 of record showing the transfer of ownership -- of public
19 record, transferring the ownership from Burlington to EOG.

20 Q. Did you give notice to both EOG and Burlington?

21 A. Yes, we did.

22 Q. Okay. Are there any owners here that you have
23 been unable to locate?

24 A. No, we have found and talked to all the owners
25 involved.

1 Q. Okay. Why don't you briefly summarize for the
2 Examiner your efforts to obtain voluntary joinder of the
3 interest owners shown on Exhibit Number 2?

4 A. The first thing we did was send written contact
5 dated October the 20th of 2000. We sent letters to all of
6 the working interest owners, and then we have called and
7 talked to the people personally, in person. And actually,
8 we have reached a verbal agreement with all of the people
9 we have listed in the force pooling, but we do not have
10 written agreements or signed agreements from them at this
11 time.

12 Q. Mr. Dyer, in your opinion have you made a good-
13 faith effort to obtain voluntary joinder of all the working
14 interest owners shown on Exhibit 2?

15 A. Yes, we have.

16 Q. Okay. Why don't you identify and review for the
17 Examiner what's been marked as Heyco Exhibit Number 3?

18 A. Exhibit Number 3 is the original letter we sent
19 to all the parties, offering them the right to join -- or
20 proposing the well, with an AFE attached, and we invited
21 them to participate in the well or to farm out to us at
22 that point.

23 Q. Okay, and would you identify and review for the
24 Examiner Heyco Exhibit Number 4?

25 A. Number 4 is the AFE that we furnished with the

1 letter to all the partners at the time, showing the dryhole
2 cost and the completion cost estimates, and it was prepared
3 by our office and sent to all the partners, potential
4 partners.

5 Q. Has Heyco drilled other Morrow wells in the
6 immediate area?

7 A. Yes, we have.

8 Q. And are the costs that are shown on Exhibit
9 Number 4 in line with what has been charged recently by
10 Heyco and other operators in the area for similar wells?

11 A. Yes, it is.

12 Q. Is Heyco Exhibit Number 5 an affidavit with the
13 attached letters giving notice of this hearing?

14 A. Yes, it is.

15 Q. Mr. Dyer, have you made an estimate of the
16 overhead and administrative costs while drilling this well
17 and also while producing this well if it is successful?

18 A. Yes, we have. It's \$7000 per month drilling and
19 \$700 per month producing. And so far, everybody that has
20 signed the operating agreement has agreed to it, and the
21 parties that we have verbal agreements from have the
22 operating agreement in hand, and they have not made any
23 objection to it.

24 Q. Do you recommend that these figures be
25 incorporated into any order that results from this hearing?

1 A. Yes, I do.

2 Q. Now, you mentioned that there's a JOA that has
3 been executed by some interest owners for this property?

4 A. That is correct.

5 Q. Okay. Are there COPAS guidelines that are
6 attached to that JOA?

7 A. Yes, there is.

8 Q. Do you request that the overhead figures approved
9 by the Division be subject to adjustment in accordance with
10 the COPAS guidelines applicable to other interest owners in
11 the well?

12 A. Yes, we do.

13 Q. And does Harvey E. Yates Company seek to be
14 designated the operator of the proposed well?

15 A. Yes, we do.

16 Q. Mr. Dyer, were Exhibits 1 through 5 prepared by
17 you or compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. FELDEWERT: Mr. Examiner, at this time I
20 would then move the admission into evidence of Heyco
21 Exhibits 1 through 5.

22 EXAMINER CATANACH: Exhibits 1 through 5 will be
23 admitted as evidence.

24 MR. FELDEWERT: I have no further questions.

25 EXAMINER CATANACH: Mr. Kellahin, do you have any

1 questions?

2 MR. KELLAHIN: No, Mr. Examiner, I do not.

3 EXAMINATION

4 BY EXAMINER CATANACH:

5 Q. Mr. Dyer, your advertisement for this case does
6 include a provision for 80-acre spacing, for an 80-acre
7 proration unit. Do you know if there's any 80-acre pools
8 in this area?

9 A. No, I do not. I do not know of any.

10 EXAMINER CATANACH: Okay. Unless you want to
11 readvertise, I think we'll probably have to leave the 80-
12 acre pooling clause out of the order, Mr. Feldewert.

13 MR. FELDEWERT: Let's do that.

14 Q. (By Examiner Catanach) Did you say that there
15 were five parties that had not agreed yet? I thought you
16 said there were five, but then you only --

17 A. Yes.

18 Q. -- named four.

19 A. Well, the other one being -- the four I named
20 there, plus the EOG Resources was one, but Burlington slash
21 is also in there because they're the ones of record,
22 although we have not -- For some reason, I don't know why
23 it would ever be, that it doesn't -- the EOG deal falls
24 through now, and it goes through, we'd still like to go
25 ahead.

1 Q. Uh-huh.

2 A. But we've got a verbal agreement with EOG, and
3 they've assured us that they've purchased it, Burlington
4 has assured us that they've purchased it, but still of
5 record, in all the public record, Burlington is the owner.
6 And we notified Burlington of the hearing also.

7 Q. And when did you first contact EOG about the
8 situation?

9 A. Well, as soon as we sent the letters out in
10 October we got a call from Burlington, and they said they
11 thought they'd sold it to EOG. And at that time we said,
12 well, how can we check? So it was in that same month,
13 before the end of the month --

14 Q. Oh, okay.

15 A. -- because we turned around and called Pat Tower
16 with EOG at that time and advised him of what the situation
17 was.

18 Q. Okay, so they've been involved all along?

19 A. Yes.

20 Q. Okay. So Yates Energy, Yates McMinn Drilling,
21 EOG and Devon have not committed in writing to the --

22 A. In writing, yes. They've all committed
23 verbally --

24 Q. Okay.

25 A. -- but not in writing.

1 Q. And the other interest owners that you have
2 listed here have all signed the JOA?

3 A. Yes, they have all signed the JOA and the AFE.

4 Q. With the \$7000 overhead charges in that JOA?

5 A. Yes, sir.

6 EXAMINER CATANACH: Do you have any questions?

7 MR. STOGNER: Yes, sir, Mr. Examiner, I have a
8 question.

9 EXAMINATION

10 BY MR. STOGNER:

11 Q. Do you know the relationship between the Yates
12 McMinn, Ltd., and the Jalapeno Corporation?

13 A. Yes, sir. Jalapeno Corporation is Harvey E.
14 Yates, Jr. And then Yates McMinn is Harvey Yates, Jr.,
15 plus one of the McMinn's that has passed away, and that it
16 is in a trust now, and Harvey is the trustee of the Yates
17 McMinn Trust, the limited partnership there. So that's the
18 relationship.

19 Q. Okay, but the Jalapeno Corporation, which is
20 Harvey E. Yates, Jr. --

21 A. Junior.

22 Q. -- has signed?

23 A. He has signed that. He just has not signed the
24 Yates McMinn because he was dealing with the -- because
25 he's being Harvey. He just -- We are negotiating with him,

1 and we have made an agreement with him. But as in the
2 past, we've made agreements with him and he's never signed
3 anything, so we have to do this.

4 Q. Okay. Because I notice that the same address was
5 used for both --

6 A. Yes.

7 Q. -- mailings.

8 A. Yes, he is the trustee for the Yates McMinn
9 Drilling Fund.

10 EXAMINER STOGNER: Okay. No other questions of
11 Mr. Dyer.

12 FURTHER EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Dyer, the overhead rates that you've proposed
15 seem a little bit high. Are you currently using those in
16 this area or other areas?

17 A. With the acceleration of some of the wells in
18 there, it has gone to this. The acceleration clause of
19 every April, that has gone to that rate.

20 Q. Do you know of any other operators that are using
21 these rates?

22 A. Devon now is using higher. They inherited the
23 stuff that they got from Santa Fe Corporation, Santa Fe
24 Energy, that they moved into there --

25 Q. Uh-huh.

1 A. -- it would be Devon and Santa Fe Operating
2 Company now. They have higher rates. They're using as
3 high as \$8900, is what they're proposing. And on some of
4 them they're actually using them. That's what they're
5 charging us.

6 EXAMINER CATANACH: Okay, I have no further
7 questions.

8 MR. FELDEWERT: Thank you.

9 RAMON G. REYES,
10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. FELDEWERT:

14 Q. Mr. Reyes, would you please state your full name
15 and place of residence?

16 A. My name is Ramon Reyes, and I live in Roswell,
17 New Mexico.

18 Q. And by whom are you employed and in what
19 capacity?

20 A. I'm employed by Harvey E. Yates Company, and I'm
21 a geologist.

22 Q. Have you previously testified before this
23 Division or one of its Examiners as a petroleum geologist?

24 A. Yes, I have.

25 Q. And were your credentials as a petroleum

1 geologist accepted and made a matter of public record?

2 A. Yes, they were.

3 Q. And are you familiar with the Application that's
4 been filed in this case?

5 A. Yes, I am.

6 Q. Have you made a technical study of the area which
7 is the subject of this Application?

8 A. Yes, I have.

9 Q. And are you prepared to share the results of your
10 work with the Examiner?

11 A. Yes, I am.

12 MR. FELDEWERT: Are the witness's qualifications
13 acceptable?

14 EXAMINER CATANACH: Mr. Reyes is so qualified.

15 Q. (By Mr. Feldewert) Mr. Reyes, has Harvey E.
16 Yates Company drilled other Morrow wells in or around the
17 area that is the subject of this Application?

18 A. Yes, we have.

19 Q. And have you prepared exhibits for the
20 presentation in this case?

21 A. Yes, I have.

22 Q. Okay. What is the primary target for the
23 proposed well?

24 A. The proposed target is a lower Morrow sand well
25 that we're proposing to drill.

1 Q. Do you have a secondary target?

2 A. A middle Morrow and anything in Bone Spring,
3 anything up above that as well.

4 Q. Okay, and why don't you turn to Heyco Exhibit
5 Number 4, identify it and review it for the Examiner,
6 please?

7 A. Exhibit -- Which is Number 4?

8 Q. I'm sorry, Number -- Exhibit Number 6.

9 A. Exhibit Number 6, okay. Exhibit Number 6 is on a
10 production map. It's just a reference to show Mr. Examiner
11 what area we're talking about and identifying all the wells
12 in the area. It also has cumulative productions, also
13 whether the wells are active or inactive. And for
14 simplicity all I'm showing are wells that have penetrated
15 the Morrow, which is our target zone of interest that we're
16 trying to drill.

17 Q. Okay. Now, your proposed well, where is that in
18 relationship to the field?

19 A. Our proposed well would be in the north end of
20 the field that's currently being developed.

21 Q. Do you have much control to the north of your
22 proposed location?

23 A. No, not -- Some, limited. The nearest wells to
24 the north are roughly about a mile north of our proposed
25 location.

1 Q. Okay, and what is -- You show a well up in the
2 northwest corner of the map, Odessa Natural?

3 A. Right, that's a well that was drilled down to the
4 Morrow and produced out of the middle Morrow section. It
5 has been inactive since 1970. It produced a combined total
6 of 104 million cubic feet of gas, which -- It's not a very
7 good well.

8 There's also another well to the northeast in
9 Section 29 that also was drilled to -- was produced out of
10 the middle Morrow sand, also inactive since 1998. It only
11 produced 23 million.

12 There's also some other unsuccessful wells in the
13 area, one in particular in Section 6, in the northwest
14 quarter. It was drilled back in the 1970s, if I recall; I
15 have to look at my cross-section.

16 Also most recently in this field, another dry
17 hole in Section 7, in the B spot. Mewbourne drilled -- was
18 proposing, or drilled the well with the same target zone
19 that we are currently trying to -- hope to drill, and were
20 unsuccessful.

21 We also drilled another well in Section 4, which
22 is on the right side of the map. It's called the Hondo 4
23 Federal Number 1. We production tested at both the lower
24 and the middle, if I recall, and we were not successful.
25 They were wet and tight.

1 Q. Why don't you turn now to Heyco Exhibit Number 7,
2 identify and review that for the Examiner, please?

3 A. Exhibit Number 7 is -- all it is is a structure
4 map hung on the lower Morrow show marker, a marker that we
5 use in house to identify and differentiate the different
6 sands in the area from the middle and the lower, and also
7 showing just the regional dip of the area from the
8 northwest to southeast. And also this is a horizon that
9 was used to hang the cross-sections that we'll be talking
10 about later on in this examination.

11 Q. Okay, why don't you turn to Heyco Exhibit Number
12 8, identify it and review it for the Examiner?

13 A. Exhibit Number 8 is an isopach map that was done
14 on the lower Morrow sand package, the different colorations
15 showing where the thicks are and where it thins out. The
16 bright yellow, kind of, what you see in the middle, is the
17 thicker part of the channel, showing the -- a north-south
18 trend on these channels. Hopefully, with all this recent
19 activity we've been able to better identify and map this
20 map a little bit to our liking, to be able to want to
21 offset it to a well to the north.

22 Q. Has Heyco had any difficulty hitting this lower
23 Morrow sand in this area?

24 A. Yes, we have. We drilled a well in Section 5,
25 which is right pretty much in the middle of this map.

1 We're hoping to find the lower sand that was found and
2 produced to the well to the south, which is a Mewbourne
3 well, the Fren "8" Federal Number 1. We felt that having a
4 north offset to it would put us right in the channel and
5 hopefully find that sand.

6 We did drill this well. We only found two feet
7 that were -- that correlate to that sand, but we were
8 fortunate enough to find the middle Morrow sand and are
9 currently producing from the middle Morrow sand.

10 Q. Now, you're talking about the well that's in the
11 gray with a little red "2" by it in Section 5?

12 A. Correct.

13 Q. Okay.

14 A. It's kind of a weird-looking map, but if you look
15 at it, it's surrounded by wells that are currently
16 producing from this lower sand, and then ours is right in
17 the middle. And even then, with that much control, you're
18 still capable of missing the channel altogether. So
19 it's...

20 Q. Okay. Now, the lower Morrow sand is your primary
21 target; is that correct?

22 A. Yes, it is.

23 Q. Okay. Why don't you turn to Heyco Exhibit Number
24 9, identify that and review it for the Examiner?

25 A. Exhibit Number 9 is also an isopach map on the

1 middle Morrow sands. This is our secondary objective in
2 this well, if we're lucky to get it.

3 This map is sort of on the optimistic side as far
4 as on the northwest side, you'll see another thickening
5 channel going north and south. But that's there because
6 there's not really a whole lot of control over there.

7 The only recent well that was drilled on this
8 west side was an EOG well called the Sibyl Number 1 in
9 Section 1. They found 22 feet of sand, but they're also
10 producing it from the lower as well, so they've got a
11 multi-pay on that well. And so that kind of gives you the
12 idea that there's another channel on the west side of this,
13 and the thicker sands off to the east.

14 And right towards the middle you can see where
15 we've not had a whole lot of success looking for that
16 middle Morrow sand. So this is going to be more of a risky
17 objective to find in this area.

18 Q. Okay, why don't you turn now to your first cross-
19 section, which has been marked as Heyco Exhibit Number 10?
20 If you can you identify that and review that for the
21 Examiner.

22 A. Okay. Exhibit 10 is a cross-section that is
23 A-A'. It goes from west to east. It has a broad cross-
24 section showing all the wells in the area, giving you a
25 good indication of how these sands can be easily missed.

1 You can see in the middle of a cross-section our Heyco
2 Parker "5" 1, which identified in this lower Morrow map
3 that we only find a couple feet of sand.

4 And on either side of this well you'll see the
5 Pogo Shugart "6" Number 1 that found a significant amount
6 of sand, and they're currently producing out of it, making
7 roughly just under 5 million a day.

8 And then to the east, on the other side of our
9 location, is the Magnum "5" Federal Number 1, which also
10 finds about the same amount of sand and also is currently
11 producing from that interval, making 2 million a day. But
12 I'd like to point out that it's also making 500 barrels of
13 water. These wells that have been drilled on the east side
14 of this field tend to be thick, and they are -- you can
15 find them, and they are thick and they're developed better,
16 but you also run the risk of being wet and, at times,
17 tight.

18 The last well on the right, the Hondo "4" Federal
19 Number 1, is a well that we drilled back in the middle
20 1980s. We did find those sands. They were tested, but
21 without much success. We were fortunate enough to go up
22 the hole and made a Bone Spring producer out of it.

23 On the other side of this cross-section would
24 be -- in cross-section A, the first well is that Sibyl well
25 that I talked about earlier. You can see that they found

1 four different sands, three of them in the middle part of
2 the section and the bottom -- the lower sand. They've
3 currently perforated all the zones, so we really don't know
4 which one of the sands are actually making all of the
5 production, if not all of them.

6 This was just completed last month, so there's
7 not a whole lot of public information to know exactly what
8 all has been done in this well.

9 But this cross-section A again just shows you how
10 easily these sands can be missed, even though you're
11 surrounded by wells with significant sands and good
12 producers.

13 Q. Okay, why don't you turn to, then, Heyco Exhibit
14 Number 11, identify that and review it for the Examiner,
15 please.

16 A. Exhibit 11 is a B-B' cross-section. This one is
17 built going north to south. I just did this to show you
18 what we're targeting for and how we feel that a north
19 location to this Shugart well that was recently drilled by
20 Pogo, we feel we have a good chance of picking up that
21 sand.

22 We just feel that it's -- It thickens to the
23 north. We think it's developing and getting thicker by
24 showing the isopach map, kind of identifying that we've got
25 a nice landing area there to be able to -- those sands, to

1 develop there.

2 And again showing the correlation, where the sand
3 is going from north to south. The well to the right of
4 Fren "8" Number 1, which is really the well that kind of
5 started this recent activity, found that lower sand.
6 They've already made a little over a B.

7 I believe their main objective in drilling this
8 well was, they were drilling for the middle Morrow sand,
9 which you can see they picked up very little of it, and it
10 was -- What's there is real dirty.

11 Again, our Parker well right next -- or the Neste
12 well also was trying to chase that lower sand. They were
13 fortunate enough to pick about 20 feet of it and also were
14 able to find a little bit of that middle Morrow sand, and
15 they're currently producing out of both sands.

16 And so this trend continues up, so that's how we
17 feel that this trend has a north-south orientation, and we
18 feel pretty good about our location.

19 Now, the well at the very end, on the left side
20 of the left side of the cross-section, is another well we
21 drilled that's called the Power Deep "32" Number 1. That
22 was drilled also in the early 1980s.

23 At the time, the geologist that was doing this
24 prospect felt that they were out of the Morrow section into
25 the Miss, and felt that they had gone deep enough. And

1 unfortunately, it looked like we could have gone another
2 couple hundred feet to really know that that sand was
3 there. But again, not having all those wells currently
4 there to help us identify the field a little bit better, we
5 fell short of doing that.

6 Q. Mr. Reyes, are you prepared to make a
7 recommendation to the Examiner as to the risk penalty that
8 should be assessed against the nonconsenting interest
9 owners?

10 A. Yes, I am.

11 Q. And what is that?

12 A. 200 percent.

13 Q. And upon what do you base this 200-percent
14 recommendation?

15 A. Just the risk factor involved, just the fact that
16 these are Morrow wells, we're at the edge of a field, we're
17 extending the field, hopefully. We could easily miss our
18 main target. We've proven that by recent well that we've
19 drilled in the area. There's always again the water factor
20 or the sand being tight.

21 It's -- Not having any real good control to the
22 north and not having any very good, successful wells to the
23 north, we seem to think that we're getting close to the
24 edge of the reservoir, and with those recommendations is
25 how I feel about that.

1 Q. So in your opinion do you think there's a chance
2 you could drill a well at your proposed location that would
3 not be a commercial success?

4 A. Yes, I do.

5 Q. And in your opinion, will granting this
6 Application be in the best interests of conservation, the
7 prevention of waste and the protection of correlative
8 rights?

9 A. Yes, I do.

10 Q. How soon does Harvey E. Yates Company plan to
11 spud this well?

12 A. We are currently drilling the Bone Spring well.
13 We're anticipating to be done by the end of this month and
14 hoping to move this rig over to this location, and so we
15 have a pretty short fuse on it. So we're asking that we
16 get an expedited -- a quick decision on this because of our
17 time frame.

18 Q. Mr. Reyes, were Exhibits 6 through 11 prepared by
19 you or compiled under your direction and supervision?

20 A. Yes, they were.

21 MR. FELDEWERT: Mr. Examiner, I would move into
22 evidence Heyco Exhibits Number 6 through 11.

23 EXAMINER CATANACH: Exhibits 6 through 11 will be
24 admitted as evidence.

25 MR. FELDEWERT: And that's all the questions that

1 I have at this time.

2 EXAMINER CATANACH: Any questions, Mr. Kellahin?

3 MR. KELLAHIN: No, sir.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Reyes, do you have an estimate on how much
7 sand you would need in each of these zones to make an
8 economic well?

9 A. In this particular field?

10 Q. Yeah, in the lower.

11 A. In the lower? I know you can get as few as eight
12 or ten feet and have a very productive well, and you can
13 also have as much as 50, 60 feet and have the opposite.
14 Not necessarily because it's thick does it mean it could be
15 a better well. It just depends on the reservoir rock and
16 where you're situated in the channel, and hope you get
17 lucky.

18 Q. Have you seen any water in the middle section?

19 A. In the middle section? Not in the immediate
20 area. There is some to the east. But most of the problems
21 we're having with the water situation, it would be in the
22 lower.

23 Q. Now, you said that's mostly to the east side of
24 the field. Do you guys expect any water in the lower
25 section?

1 A. There's a good possibility because of this recent
2 well that was drilled by Gruy in Section 5. It had a
3 great-looking lower sand, it looked great on the porosity
4 log, the resistivity indicated that it was wet. And they
5 went ahead and perforated that lower part of that sand, and
6 it's showing that it's making 2 million a day and also
7 making 500 barrels of water, so there's always that
8 possibility.

9 You want to be structurally higher, get above the
10 water-gas contact. But again, there's not a whole lot of
11 dip shown in that structure map, you're not gaining a whole
12 lot of structure. So there's always that possibility.

13 Q. On your Exhibit Number 9 for the middle Morrow
14 section, I'm just curious on what data you based that
15 buildup in Section 31 where you show 40 feet of sand. Was
16 there some data to the north that justified that?

17 A. No, sir. It's more of an optimistic map, you
18 know, just trying to make it look better. There could be a
19 possibility that there's another channel going in there;
20 there's not any wells there to indicate there wouldn't be.
21 But that is a little bit over-optimistic, and like I
22 indicated when I was talking about this, it should have
23 probably been a little bit thinner and make that not look
24 as good as it obviously looks, because you would have
25 thought you would drill something on the north end of the

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section.

Q. Uh-huh.

A. But that's yet to be proven.

EXAMINER CATANACH: We have no further questions.
This witness may be excused.

Anything further, Mr. Feldewert?

MR. FELDEWERT: No, Mr. Examiner, that concludes
our presentation.

EXAMINER CATANACH: If there's nothing further,
Case 12,570 will be taken under advisement.

(Thereupon, these proceedings were concluded at
9:00 a.m.)

* * *

I do hereby certify that the foregoing is
a true and correct record of the proceedings
the examination hearing of Case No. 12570,
heard by me on January 11, 2001.
David R. Catnach
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 11th, 2001.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002