

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, )  
LEA COUNTY, NEW MEXICO )

CASE NO. 12,582

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 25th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV.  
01 FEB -7 PM 3:05

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 25th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Pacheco, Room 102, 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

January 25th, 2001  
 Examiner Hearing  
 CASE NO. 12,582

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

FOR THE APPLICANT:

HOLLAND & HART, L.L.P.  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   9:07 a.m.:

3           EXAMINER STOGNER: At this time I will call Case  
4   Number 12,582, which is the Application of Yates Petroleum  
5   Corporation for compulsory pooling.

6           At this time I'll call for appearances.

7           MR. CARR: May it please the Examiner, my name is  
8   William F. Carr with the Santa Fe office of the law firm  
9   Holland and Hart. We represent Yates Petroleum  
10   Corporation, and I have two witnesses.

11          EXAMINER STOGNER: Any other appearances?

12          Okay, will the witnesses please stand to be  
13   sworn?

14          (Thereupon, the witnesses were sworn.)

15          MR. CARR: May it please the Examiner, I have  
16   discovered that the case has been advertised to pool from  
17   the surface to the base of the Morrow, but the well is  
18   intended to go deep enough to test the top of the  
19   Mississippian. I request permission, at the conclusion of  
20   the testimony, to have the case continued for four weeks  
21   while I file an amended Application to pick up the top of  
22   the Mississippian formation.

23          EXAMINER STOGNER: Let's see, that would be for  
24   the second hearing in March; is that -- No, February. Is  
25   that correct?

1 MR. CARR: Yes, sir.

2 EXAMINER STOGNER: Which is what day? February  
3 22nd?

4 MR. CARR: 22nd, I believe.

5 EXAMINER STOGNER: And you just discovered this?

6 MR. CARR: I discovered it yesterday afternoon in  
7 preparing for today's hearing with the witness.

8 EXAMINER STOGNER: Okay, now the Application  
9 shows for Morrow, so there wasn't a mistake on our end?

10 MR. CARR: No, it was not --

11 EXAMINER STOGNER: Oh, okay.

12 MR. CARR: -- I filed it incorrectly, and I cut  
13 it off at the Morrow. It should have picked up the top of  
14 the Mississippian.

15 EXAMINER STOGNER: All right, so this case will  
16 be heard today but continued and readvertised for the 22nd  
17 of February.

18  
19 BILL OWEN,  
20 the witness herein, after having been first duly sworn upon  
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

24 Q. Would you state your full name for the record,  
25 please?

1 A. Bill Owen.

2 Q. Mr. Owen, where do you reside?

3 A. Roswell, New Mexico.

4 Q. By whom are you employed?

5 A. David Petroleum Corporation.

6 Q. What is the relationship between David Petroleum  
7 Corporation and Yates Petroleum Corporation as it relates  
8 to the proposed Chevy AWV State Com Well Number 1?

9 A. We are both working interest partners on this  
10 well and this acreage.

11 Q. Have you been involved in the efforts to put  
12 together the spacing unit for the development of this  
13 acreage?

14 A. Yes.

15 Q. Have you previously testified before the New  
16 Mexico Oil Conservation Division?

17 A. Yes.

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

21 A. Yes.

22 Q. Are you familiar with the Application filed in  
23 this case?

24 A. Yes.

25 Q. Are you familiar with the status of the lands in

1 the area which is the subject of this Application?

2 A. Yes.

3 MR. CARR: Mr. Stogner, we tender Mr. Owen as an  
4 expert witness in petroleum land matters.

5 EXAMINER STOGNER: Mr. Owen is so qualified.

6 Q. (By Mr. Carr) Mr. Owen, would you initially  
7 summarize what it is that David Petroleum Corporation and  
8 Yates Petroleum Corporation seek with this Application?

9 A. We seek an order to pool all the minerals from  
10 the surface to the base of the Mississippian formation  
11 underneath the certain spacing units in Section 13,  
12 Township 15 South, Range 34 East.

13 The south half is the primary proration unit we  
14 are anticipating, the south half of Section 13, to form a  
15 320-acre unit for the undesignated Morton-Morrow Gas Pool.  
16 Southwest quarter would actually be a 160-unit that we  
17 would pool, should the formation that we would encounter be  
18 required to have the 160 spacing.

19 Q. When we look at the exhibit and the Application,  
20 you've also sought pooling for 80-acre and 40-acre spacing  
21 units; is that correct?

22 A. Yes, we've applied for that, although the 80-acre  
23 and the 40-acre would not require any special pooling. The  
24 80 acres, of course, would be just the north half of the  
25 southwest quarter, which we own 100 percent, as well as the

1 40 acres where the well is actually located.

2 Q. So you now have all interests on the 80-acre and  
3 40-acre unit voluntarily committed to the well?

4 A. That's correct.

5 Q. What is the name and location of the well to  
6 which you propose to dedicate the pooled unit?

7 A. The name of the well is the Chevy AWV State Com  
8 Well Number 1, and that's located 1650 feet from the south  
9 and west lines in Section 13.

10 Q. Let's go to what has been marked for  
11 identification as your Exhibit Number 1. Would you first  
12 identify this and review it for Mr. Stogner?

13 A. This exhibit outlines, obviously, a lot of  
14 acreage in Township 15 South, Range 34 East, and in 15  
15 South, 35 East, highlighting the south half of Section 13  
16 of 15-34, which is primarily made up of one state lease  
17 that is owned by Yates Petroleum and David Petroleum and  
18 their partners, covering the north half of the southwest  
19 quarter, the west half of the southeast quarter and the  
20 southeast-southeast quarter.

21 Also identified with the red hachmarks is an old  
22 Chevron HBP state lease, covering the south half, southwest  
23 quarter and the northeast of the southeast quarter.

24 Q. Both of those tracts are controlled by Chevron?

25 A. That's correct.

1 Q. And this is state land?

2 A. Yes, sir.

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

4 A. The Morrow formation.

5 Q. Could you summarize for us the status of the  
6 ownership in both the 320-acre unit and the 160-acre unit?

7 A. In the 320-acre unit there's -- 62 1/2 percent of  
8 that tract is owned by Yates and David and their partners.  
9 The 37-1/2-percent ownership is owned by Chevron, which is  
10 the old state HBP lease, which is what we are seeking to  
11 pool.

12 Q. On 160-acre spacing, what are the percentages?

13 A. The percentages there would be 50 percent for  
14 each group.

15 Q. Okay. And the 62.5 percent has been voluntarily  
16 committed to the well?

17 A. Yes, sir, it has.

18 Q. How many interest owners are actually subject to  
19 this pooling Application?

20 A. Thirteen.

21 Q. And how many of those interest owners are now  
22 voluntarily committed?

23 A. All 13.

24 Q. What about -- Who are we pooling?

25 A. We're pooling Chevron.

1 Q. Let's go to Exhibit Number 2, and I'd ask you to  
2 refer to that and, using this exhibit, summarize for Mr.  
3 Stogner the efforts that have been made to obtain voluntary  
4 participation of Chevron in this well.

5 A. As of the end of last summer, August 31st, is  
6 when my initial contact took place with Chevron. It was a  
7 phone conversation with Denise Beckham followed by a letter  
8 from me to Chevron, based on that conversation, wherein we  
9 asked for a term assignment from them.

10 And then as part of the same exhibit, September  
11 12th, is a letter from Chevron back to us restating what we  
12 requested and then indicating that they had no desire at  
13 all to grant a term assignment, sale or farmout of the  
14 acreage at this time.

15 The next piece of correspondence is dated  
16 November the 10th. This is a letter from Yates Petroleum  
17 to Chevron wherein they actually proposed the drilling of  
18 the well, indicating what their interest is and what our  
19 interest was. That letter was sent, of course, certified.

20 And then on December the 14th, the next letter in  
21 the correspondence is a letter back from Chevron again  
22 indicating that they were not interested in the proposal at  
23 that particular time.

24 And then on December the 20th Yates had followed  
25 up with one other letter to Chevron, again just amending

1 the previous location to a different footage location, and  
2 that was the last piece of formal correspondence we have as  
3 far as any written correspondence.

4 Q. Have you talked with Chevron?

5 A. Yes, we have talked to Chevron. They are -- As  
6 many people are aware, they are in a situation due to  
7 mergers and other business dealings, that they are just not  
8 able to make any decisions, whether to participate in a  
9 well or otherwise, and they are aware that the force-  
10 pooling procedure is going forward and did not have any  
11 problems with it.

12 Q. Let's go to what has been marked as Yates Exhibit  
13 Number 3. What is this?

14 A. Yates Exhibit Number 3 is our AFE, indicating our  
15 dryhole and completed well cost.

16 Q. And what are those costs?

17 A. The dryhole is \$740,500, and a completed well  
18 would be \$1,241,300.

19 Q. Have Yates and David Petroleum Corporation  
20 participated in the drilling of other wells to test the  
21 Morrow and Mississippian formations in this area?

22 A. Yes, sir, we have.

23 Q. And are these costs in line with the costs that  
24 have been incurred in those other operations?

25 A. Yes, they are.

1 Q. Is Exhibit Number 4 an affidavit confirming that  
2 notice of today's hearing has been provided to Chevron in  
3 accordance with the rules and regulations of the Oil  
4 Conservation Division?

5 A. Yes, sir.

6 Q. Have you made an estimate of the overhead and  
7 administrative costs to be incurred while drilling the well  
8 and also while producing it if, in fact, it is a successful  
9 well?

10 A. Yes, we have.

11 Q. And what are those figures?

12 A. It's \$5400 while drilling and \$540 while  
13 producing.

14 Q. Are these costs in line with what has been  
15 charged for other, similar wells in this area?

16 A. Yes, sir, they are.

17 Q. These are the standard costs that have been  
18 charged for other Yates wells in which you're participated  
19 in this area?

20 A. Yes, sir, they are.

21 Q. In your correspondence you reference the joint  
22 operating agreement.

23 A. Yes, sir.

24 Q. Is there a joint operating agreement between  
25 David Yates and your partners?

1 A. Yes, sir.

2 Q. Does this operating agreement provide that the  
3 administrative and overhead charges will be increased in  
4 accordance with COPAS procedures?

5 A. Yes, sir.

6 Q. And is that COPAS bulletin or memorandum attached  
7 to the JOA?

8 A. Yes, sir.

9 Q. Do you request that the administrative and  
10 overhead rates set as a result of this hearing also be  
11 adjusted in accordance with established COPAS procedures?

12 A. Yes, sir.

13 Q. Will Yates Corporation actually be the operator  
14 of this well?

15 A. Yes.

16 Q. Were Exhibits 1 through 4 either prepared by you,  
17 or have you reviewed them and can you testify to their  
18 accuracy?

19 A. Yes.

20 Q. Will you also be calling a geological witness to  
21 review the risk associated with this well?

22 A. Yes, sir.

23 MR. CARR: Mr. Examiner, at this time we would  
24 move the admission into evidence of Yates Petroleum  
25 Corporation Exhibits 1 through 4.

1 EXAMINER STOGNER: Exhibits 1 through 4 will be  
2 admitted into evidence.

3 MR. CARR: And that concludes my direct  
4 examination of Mr. Owen.

5 EXAMINATION

6 BY EXAMINER STOGNER:

7 Q. Mr. Owen, Exhibit Number 2 --

8 A. Yes, sir.

9 Q. -- this was the first written communication to  
10 Chevron?

11 A. Yes, sir.

12 Q. How did Exxon-Mobile play into this? I refer to  
13 subparagraph 1.

14 A. That is what you might call a typographical  
15 error, sir.

16 Q. Oh, Yates would call it that; Chevron would  
17 probably call it something else.

18 A. Actually, I understand how that happened. We  
19 were communicating with them on another tract relatively  
20 close to the same area.

21 But I can assure you, Mr. Examiner, that there  
22 has been a number of different conversations between us and  
23 Chevron, and they are very much aware of which tract we're  
24 speaking of.

25 Q. Okay, so along these same lines, then, it's my

1 understanding that Marbob would be the operator -- oh, I'm  
2 sorry, Yates would be the operator; is that correct?

3 (Laughter)

4 A. Yes, sir, that's correct.

5 Q. Okay. The Chevron acreage, are these -- that  
6 80-acre -- When I refer to Exhibit Number 1, you have that  
7 south half of the southwest quarter, and then the northeast  
8 of the southeast quarter. Is this one Chevron lease, or is  
9 that two separate leases?

10 A. It's one Chevron lease.

11 Q. One Chevron lease. And do you know if this -- Is  
12 this a portion of one lease, or is it one that's --

13 A. It's a portion of a larger lease, that's correct.

14 Q. Okay.

15 EXAMINER STOGNER: I have no other questions of  
16 Mr. Owen. You may be excused. Thank you, sir.

17 THE WITNESS: Thank you.

18 MR. CARR: May it please the Examiner, at this  
19 time we call Eric Cummins.

20 ERIC CUMMINS,

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

23 DIRECT EXAMINATION

24 BY MR. CARR:

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

1 A. Eric Cummins.

2 Q. Where do you reside?

3 A. Artesia, New Mexico.

4 Q. By whom are you employed?

5 A. Yates Petroleum Corporation.

6 Q. What is your position with Yates Petroleum

7 Corporation?

8 A. Geologist.

9 Q. Mr. Cummins, have you previously testified before  
10 this Division?

11 A. Yes, I have.

12 Q. At the time of that testimony, were your  
13 credentials as an expert witness in petroleum geology  
14 accepted and made a matter of record?

15 A. Yes, they were.

16 Q. Are you familiar with the Application in this  
17 case?

18 A. Yes.

19 Q. Have you made a technical review of the area  
20 which is the subject of this Application?

21 A. Yes.

22 Q. Are you prepared to share the results of that  
23 work with Mr. Stogner?

24 A. Yes, I am.

25 MR. CARR: Are Mr. Cummins' qualifications

1 acceptable?

2 EXAMINER STOGNER: They are.

3 Q. (By Mr. Carr) Mr. Cummins, you've prepared an  
4 exhibit for presentation in this case?

5 A. Yes, I have.

6 Q. Let's go to that -- it's marked as Yates Exhibit  
7 Number 5 -- and first would you identify it, explain the  
8 color code and then review the information on this exhibit  
9 for Mr. Stogner?

10 A. Sure. Exhibit Number 5 is a time-structure map  
11 on top of the Mississippian limestone. The red outline you  
12 see on the map is actually Section 13, 15 South, 34 East.

13 The color bar to the right gives you an  
14 indication of the time-structure in the area. The blues  
15 are deep, grading up into the reds, which are high. And  
16 the yellows on the southern half of the map are high.

17 It also shows the location of the Chevy State AWW  
18 Number 1, 1650 feet from the south and west lines of the  
19 section.

20 The key thing to note here is that the proposed  
21 location is in a structural low.

22 Q. And that is what you're targeting when you  
23 attempt to develop these formations, based on your seismic  
24 work?

25 A. That's correct, we are targeting these 3-D lows,

1 structural lows, for the accumulation of Morrow sands.

2 Q. Mr. Cummins, are you prepared to make a  
3 recommendation to the Examiner concerning the risk  
4 associated with this well?

5 A. Yes, I am.

6 Q. And what is that?

7 A. Two hundred percent.

8 Q. Explain to the Examiner the risk associated with  
9 the development of this prospect.

10 A. We've been using this technique in this area and  
11 targeting these structural lows for the Morrow sand  
12 accumulations. These are all done by 3-D seismic, and  
13 while we believe that we absolutely have to be in the  
14 structural lows in order for sand to accumulate, there's no  
15 guarantee that we'll have sufficient thickness of  
16 reservoir-quality sand in those lows to make an economic  
17 completion at this time.

18 Q. How many Morrow wells has Yates drilled in this  
19 area?

20 A. We have drilled -- using this technique only,  
21 recently drilled four wells, using this 3-D seismic  
22 technique.

23 Q. And you've been able to make a well each time,  
24 have you not?

25 A. Yes, we have.

1 Q. How does the information which you are able to  
2 generate from your seismic work compare to what you're  
3 actually encountering when you get --

4 A. The basic interpretation is that we're trying to  
5 hit the deepest part of the low, or as close as possible to  
6 the deepest part of the structural low. However, we have  
7 had surprises. There is a case of a well actually we're  
8 drilling right now that while we thought it was a better-  
9 looking location based on an offset well, it turns out that  
10 we had actually less sand in that location.

11 Q. So you can find the low?

12 A. We can find the low fairly easily and with fairly  
13 good confidence using the 3-D seismic, that's correct, but  
14 we cannot image the sands.

15 Q. In your opinion, is it possible that a well at  
16 this location could not, in fact, be an economic success?

17 A. Yes, absolutely.

18 Q. And that is what you're basing your request for  
19 the risk penalty on; is that right?

20 A. That is correct.

21 Q. In your opinion, will granting this Application  
22 be in the best interest of conservation, the prevention of  
23 waste and the protection of correlative rights?

24 A. Yes.

25 Q. Was Exhibit 5 prepared by you?

1 A. Yes, it was, under my direction.

2 MR. CARR: Mr. Examiner, at this time we would  
3 move the admission into evidence of Yates Petroleum  
4 Corporation Exhibit 5.

5 EXAMINER STOGNER: Exhibit Number 5 will be  
6 admitted into evidence at this time.

7 MR. CARR: That concludes my direct examination  
8 of Mr. Cummins.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Okay, Mr. Cummins, this well is going how deep?  
12 Around 13,000; is that correct?

13 A. We're taking this about -- probably a little more  
14 than 13,000 feet.

15 Q. Okay. Now, there were two wells up in the north.  
16 Were these Morrow tests?

17 A. They actually were not, no.

18 Q. No. What was their deepest test?

19 A. I believe those were actually Atoka tests, but I  
20 would have to check that for the record.

21 Q. Atoka. I take it Yates didn't drill these wells?

22 A. That's correct, we did not.

23 Q. What's the nearest Morrow production, if I refer  
24 to Exhibit Number 1. This was the overall area map.

25 A. If you look just to the south, in Section 25 of

1 15-34 up in the northeast quarter, you'll see the Arreguy  
2 well. That's a well that we have just recently drilled.  
3 And just immediately north of that, in the southeast of  
4 Section 24, that's the well that we are currently drilling.  
5 But the first Arreguy well, the first one I mentioned, is  
6 producing now.

7 Q. Now, those two wells that you refer to in  
8 Sections 24 and 25, they mirror your prospect?

9 A. Yes, they do.

10 Q. Exhibit Number 5?

11 A. Yes, they do.

12 Q. That looks like an odd structure. I'm used to  
13 seeing channel-type deposits. What am I looking at on  
14 Exhibit Number 5?

15 A. Well, what you're seeing here, just immediately  
16 to the north in this area is the Morton Field. It's a  
17 structural high.

18 What you're seeing there with the structure just  
19 north of the Chevy location where you have the contours  
20 heading north and then abruptly swinging east-west and then  
21 back down to the south, that is actually the head of a  
22 structural low as it terminates up against the Morton  
23 structure.

24 Q. What created such a phenomenon?

25 A. Well, we believe for the most part that these --

1 well, not reflected on the structure map, but most of these  
2 lows are fault-bounded. So when the Morton Field was  
3 uplifted, there were faults radiating from that structure.  
4 We believe these fault-bounded lows is where we're finding  
5 the sands, and the Chevy location is just located at the  
6 head of one of these structural low canyons, if you will,  
7 that terminate against the Morton high.

8 Q. Would this faulting have occurred during the time  
9 of deposition or sometime after or before?

10 A. Well, it's my belief that it occurred somewhat  
11 prior to deposition, so there was actually a structural low  
12 there acting as a pathway for these sands to accumulate.

13 Q. Then these lows would have filled up pretty  
14 quickly. Are you seeing fairly good consolidated deposits  
15 in there or --

16 A. Well, while we don't believe there's a -- in a  
17 lot of these areas there's not an incredible amount of  
18 vertical separation on these faults. It was, however,  
19 sufficient enough to provide a structural low that acted as  
20 a pathway for this deposition and for -- and while we see  
21 that they're not always completely filled with sand, no, we  
22 do find reservoir-quality sand in a good number of these  
23 structural lows.

24 However, as far as the depositional environment,  
25 they appear to be some sort of an alluvial-type deposition

1 from erosion off the structural high, in this case to the  
2 north.

3 EXAMINER STOGNER: I have no other questions for  
4 this witness. You may be excused. Thank you, sir.

5 MR. CARR: Mr. Stogner, that concludes our  
6 presentation in this case.

7 With your permission, I will file an amended  
8 Application so that it can be included on the February 22nd  
9 docket, and in that Application I'll include the  
10 Mississippian. I'll delete the 80-acre and 40-acre  
11 spacings.

12 EXAMINER STOGNER: Case Number 12,582, which was  
13 heard today, will be continued and readvertised for the  
14 February 22nd docket, and you will provide the proposed  
15 advertisement to Ms. Davidson?

16 MR. CARR: Yes, I will. Thank you.

17 EXAMINER STOGNER: Thank you, Mr. Carr.

18 (Thereupon, these proceedings were concluded at  
19 9:30 a.m.)

20 \* \* \*

21  
22 I hereby certify that the foregoing  
23 is a true and correct copy of the proceedings  
24 taken at the hearing of Case No. 12582  
25 held by me at 15 January 2001  
Oil Conservation Division

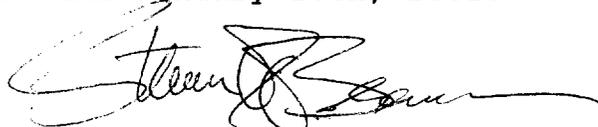
## CERTIFICATE OF REPORTER

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 26th, 2001.




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STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002