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. 12,596
APPLICATION OF YATES PETROLEUM CORPORATION FOR POOL CONTRACTION, POOL CREATION OR, IN THE ALTERNATIVE, AMENDMENT OF THE SPECIAL POOL RULES AND REGULATIONS FOR THE FEATHER-MORROW POOL, LEA COUNTY NEW MEXICO	)	ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

OIL CONSERVATION DIV.
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BEFORE: DAVID R. CATANACH, Hearing Examiner

February 22nd, 2001

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 22nd, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

February 22nd, 2001
Examiner Hearing
CASE NO. 12,596

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A P P E A R A N C E S

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ALSO PRESENT:

MICHAEL M. GRAY
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Midland, Texas

* * *

WHEREUPON, the following proceedings were had at 10:56 a.m.:

EXAMINER CATANACH: And at this time we'll call Case Number 12,596, the Application of Yates Petroleum Corporation for pool contraction, pool creation or, in the alternative, amendment of the special pool rules and regulations for the Feather-Morrow Pool, Lea County, New Mexico.

Call for appearances in this case.

MR. CARR: May it please the Examiner, my name is William F. Carr with the the law firm Holland and Hart, L.L.P. We represent Yates Petroleum Corporation, and I have two witnesses.

EXAMINER CATANACH: Any additional appearances in this case?

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe, representing Pogo Producing Company.

I have no witnesses. I may have a short statement at the end.

EXAMINER CATANACH: Any additional appearances?

Will the two witnesses please stand to be sworn in?

(Thereupon, the witnesses were sworn.)

MR. CARR: May it please the Examiner, at this time we call Reed Meek.

REED H. MEEK,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Reed H. Meek.

Q. Mr. Meek, where do you reside?

A. I live in Artesia, New Mexico.

Q. By whom are you employed?

A. By Yates Petroleum Corporation.

Q. And what is your position with Yates Petroleum Corporation?

A. I am a geologist.

Q. Have you previously testified before this Division?

A. Yes, I have.

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

A. Yes.

Q. Are you familiar with the Application filed in this case on behalf of Yates Petroleum Corporation?

A. Yes.

Q. Are you familiar with the Feather-Morrow Pool?

A. Yes.

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

A. Yes, I have.

Q. And are you prepared to share the results of that work with the Examiner?

A. Yes.

MR. CARR: Are the witness's qualifications acceptable?

EXAMINER CATANACH: They are.

Q. (By Mr. Carr) Mr. Meek, would you briefly summarize for the Examiner what it is that Yates seeks with this Application?

A. We seek an amendment of the special pool rules and regulations for the Feather-Morrow Pool to provide for a 160-acre spacing and proration units.

MR. CARR: Mr. Examiner, Yates Petroleum Corporation also sought pool contraction and pool extension of the Feather-Morrow Gas Pool. We request that those portions of the case be dismissed. The only thing we intend to pursue with this Application is 160-acre Morrow gas spacing.

Q. (By Mr. Carr) Mr. Meek, when was the Feather-Morrow Gas Pool created?

A. In April 1st of 1982.

Q. And that was by Order R-6923?

A. Yes.

Q. And what are the rules which govern this pool?

A. Special pool rules and regulations for the pool were adopted on December 4th of 1985 by Order Number R-8089, and these rules provide for a limiting gas-oil ratio for the pool of 10,000 cubic of gas per barrel of oil produced.

Q. And that is -- These are the rules that we're now seeking to amend to provide for 160-acre spacing, correct?

A. That's right.

Q. Have you prepared exhibits for presentation here today?

A. Yes, I have.

Q. Let's go first to the land portion of this case. I would ask you to identify and review for Mr. Catanach what has been marked Yates Petroleum Corporation Exhibit Number 1.

A. This is a land map of the Feather-Morrow Pool and surrounding acreage. It shows in yellow acreage held by Yates Petroleum Corporation. There is a heavy red line showing the outline of the Feather-Morrow Pool as it currently is defined. And also within that pool, there are six wells that have been drilled to produce from the Morrow

sand.

Q. Let's go to Exhibit Number 2. What is this?

A. This is the original 320-acre spacing unit proposed by Yates Petroleum for a well that we recently drilled in the northwest quarter.

Q. If, in fact, this Application is granted and 160-acre spacing is approved for this pool, Yates would dedicate the northwest quarter of this section; is that correct?

A. That's correct.

Q. And there are three leases within that section?

A. That's right.

Q. If the Application is not granted and the well is developed on 40-acre spacing, two of those leases would expire?

A. That's correct.

Q. Is Exhibit Number 3 an affidavit confirming that notice of this hearing has been provided in accordance with the rules and regulations of the Division?

A. Yes.

Q. And to whom was notice provided?

A. To all operators within the Feather-Morrow Pool.

Q. Were all operators of Morrow wells within a mile of those pool boundaries also notified of this Application?

A. Yes.

Q. Let's now go to the geological portion of the presentation. Could you refer to what has been marked as Yates Exhibit Number 4, identify this and review it for Mr. Catanach?

A. Okay, Exhibit Number 4 is a net-pay isopach of the Feather-Morrow Pool. The map illustrates the outline of the pool, the location of six wells drilled within the pool.

And also indicated with the blue line is the line of cross-section, which is presented as Exhibit Number 5.

Q. Let's go to Exhibit 5 and review the information on the cross-section for the Examiner.

A. Okay, this is a north-to-south cross-section, including six wells. North is on the left side of the page, south is on the right side. The well in question, the Yates Petroleum Red Tail AWR State Number 1 is the second well from the right.

Towards the bottom of the well log you'll notice colored in yellow is the Morrow sands. Also indicated is the perforated interval in that well, as well as all the adjacent wells.

I guess the main point of this cross-section is to illustrate that all wells within the Feather-Morrow Pool produce from a lower Morrow sand that appears to be correlative and continuous throughout the pool area.

Q. Mr. Meek, will Yates call a witness to review the engineering issues presented by this Application?

A. Yes.

Q. Were Yates Exhibits 1 through 5 either prepared by you, or have you reviewed them and can you testify as to their accuracy?

A. Yes.

MR. CARR: Mr. Catanach, at this time we would move the admission into evidence of Yates Exhibits 1 through 5.

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

MR. CARR: And that concludes my direct examination of Mr. Meek.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Meek, when was the Red Tail well drilled?

A. We completed drilling it approximately four weeks ago. I can't give you the exact date, but it's just a recently drilled well.

Q. And the Morrow was the primary objective in that well?

A. That's right.

Q. And the well has been completed and is producing?

A. Yes, we perforated the interval, and it's

producing from the Morrow, although it hasn't been filed for a completion with the State.

Q. And this pool is currently spaced on 40 acres; is that correct?

A. That's correct.

Q. And has been producing for -- was created by R-6923. Do you know what the date of that was?

A. I believe I stated that. Was it 1982? Yeah, April 1st of 1982 was when the pool was originally created.

Q. Do you know what well was the discovery well for that pool?

A. It's one of the three wells north of the Red Tail location. I believe that it's the well designated as UTP State Number 2, which is --

MR. BONEAU: South half, Number 1.

THE WITNESS: Is it the Number 1? Okay, Number 1, south half of Section 21.

EXAMINER CATANACH: Thank you, Mr. Boneau.

I have no further questions of this witness, Mr. Carr.

MR. CARR: Thank you, Mr. Catanach. At this time we call David Boneau.

EXAMINER CATANACH: I'm sorry, did you have any questions, Mr. Bruce?

MR. BRUCE: No, not of Mr. Meek. I may have a

few of Dr. Boneau.

EXAMINER CATANACH: Okay.

DAVID F. BONEAU,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. My name is David Francis Boneau.

Q. And Dr. Boneau, where do you reside?

A. Artesia, New Mexico.

Q. By whom are you employed?

A. I'm employed by Yates Petroleum Corporation.

Q. And what is your position with Yates?

A. I have the title of engineering manager. I'm a reservoir engineer.

Q. Have you previously testified before this Division?

A. Yes, sir.

Q. At the time of that testimony, were your credentials as an expert witness in reservoir engineering accepted and made a matter of record?

A. Yes, sir.

Q. And are you familiar with the Application filed

in this case on behalf of Yates Petroleum Corporation?

A. I'm familiar with that, yes, sir.

Q. And are you familiar with the Feather-Morrow Pool?

A. I'm familiar with the Feather-Morrow Oil Pool, yes, sir.

Q. And have you made an engineering study of the area which is the subject of this Application?

A. Yes.

Q. Are you prepared to share the results of that work with Mr. Catanach?

A. Yes, sir.

MR. CARR: Are the witness's qualifications acceptable?

EXAMINER CATANACH: They are.

Q. (By Mr. Carr) Dr. Boneau, initially, could you summarize for us what is the purpose of your testimony here today?

A. The purpose is to present data on the reservoir to show that one well will drain more than the 40 acres and that 160-acre spacing rules would best fit the technical information on this pool. So I have a little background information and basically a calculation of drainage areas of the wells where there's enough data to do that.

Q. And we're seeking 160-acre oil-well spacing; is

that correct?

A. Yes, sir.

Q. Let's go to what has been marked as Yates Petroleum Corporation Exhibit Number 6. Would you identify that and review the information on this exhibit for for Mr. Catanach?

A. Exhibit Number 6 says "Feather-Morrow Pool Rates", and its purpose is to introduce the six wells in the pool. There are -- Best put is three old wells and three new wells, I think is the simplest way to say it.

The new wells are listed 1 through 3 at the top there. There's a Pogo well, Pluma 29 State Number 1, that was drilled about a year ago, and it has produced through the year 2000, and it's now making about 500 MCF a day, and it's accumulated going on 200 million by now.

The second item there is Pluma 29 State Number 2, another Pogo well, also in Section 29. And it's listed as drilling, which really means it's not completed. It was spudded in July and TD'd in October, and we don't know exactly its situation, but somebody at Pogo told me it's making about 2 million a day. Anyway, I think it is producing now, but just recently.

The third item, the Red Tail AWR State Number 1 is the Yates well. It's listed as drilling. It was spudded around November 1st and completed around -- a

little after the first of the -- well, completed -- in a position to produce, about the middle of January. And actually, the next exhibit I'll show what production data we have on that well, but it's a brand-new well.

Then there's the three old wells, and they're listed aas items 4, 5 and 6. The discovery well, the UTP Number 1, is operated by Santa Fe Energy, and it started production in December of 1981. It's now producing about 100 MCF a day. But it has produced about 1.6 BCF of gas and 195,000 barrels of oil. So quite a good producer.

The second well, the UTP Number 2 in the north half of 21, which was the second well in the pool, started production in August of 1983. When you -- It kind of hit the edge of the pool, and it produced from 1983 to 1988, when it was shut in and recompleted to the Wolfcamp. Through its life it produced about 300 million cubic feet and 42,000 barrels of oil, and it's no longer active in the Morrow.

And the last of the old wells, item number 6, is the UTP Number 3 in Section 16. It began production in September of 1984 and it's still producing a little, but it's the best producer in the pool. It has produced over 3 BCF of gas and about 167,000 barrels of oil.

So the old wells, there's two really good producers, a third well that was kind of decent and then

was abandoned, and then the three new wells.

Q. All right, let's go to Exhibit Number 7 and review the information on the Red Tail AWR State Com Number 1 well.

A. Okay. When we made this Application, we didn't know if it was a gas well or an oil well, via the rules, and that's why the convoluted Application.

Exhibit 7 shows what production data we have from the Red Tail on a daily basis since February 3rd, and the well has produced about 50 barrels of oil and say 1400 MCF a day of gas. It has a GOR in the 20,000 to 30,000 range, and according to the rules it looks like an oil well. And so we think it's an oil well, we think it's an oil pool, we think it's an oil pool that should be spaced on 160s.

Q. Let's go and look at the production histories on certain wells in the pool, and start with Exhibit Number 8 and review the production history on the UTP Number 1.

A. Okay, the rest of my presentation is a calculation of drainage areas, and there's various components that need to go into that, including the amount of production, the hydrocarbon pore volume in the logs, the gas analysis. So that's where we are, we're starting that.

So Exhibit 8 is a production history of the discovery well, the UTP Number 1. And again, it's produced over 1.6 BCF of gas. It's still producing about 100 MCF a

day, and I've extrapolated its future production via some lines that you can barely see on the right-hand side of the exhibit.

The next exhibit, if I can go to that for Mr. Carr --

Q. Yes, sir.

A. -- Number 9, shows the production history of the UTP Number 2, and again it began producing in 1984 and actually produced fairly strongly for 1984 and 1985 and then just kind of fell off and was abandoned with cumulative production of 327 million and 42,000 barrels of oil.

Q. Exhibit 10 is the UTP Number 3?

A. It's the UTP Number 3, yes, sir. And this, again, is the best producer in the pool. It began production in 1984. At the start of 2000 it was producing about 150 MCF a day. There's a big break around 1984 when there were some leaks in the casing that were repaired, and the well really hasn't done quite so well since then, but you see that break about 1984 -- 1994, 1995. That's a casing leak and some remedial work there. But the Number 3 has produced over 3 BCF and quite a lot of oil.

Q. And then go to Exhibit Number 11.

A. And Exhibit Number 11 is what production data we have on the year-old Pogo well, the Pluma 29 State Number

1. It was making about 500 MCF a day and a cum of 134 million as of the middle of last year, which is the last data, and then there's my estimate of what it would produce in the future. That is just my estimate.

Q. Okay, let's go to Exhibit Number 12, the production forecast. Would you explain the source of the information you've used and then what this exhibit shows?

A. Okay, so what we're doing when we finally get to the end, what you'll see is a calculation of a drainage area for the production to date, and then another number for the ultimate drainage area when the additional production I forecast for the wells might actually come to happen.

So Exhibit Number 12 are the computer-generated forecasts from myself on the future production of these wells, and I really don't think that you want to see any of the numbers on it, it's just -- I showed the lines on my prediction of production on the previous exhibits, and here we just calculate year by year into the future what additional production will get. So -- well --

Q. There it is.

A. There it is. Page 2 says that UTP Number 1 will produce an additional 397 million cubic feet of gas, and page number 4 says that UTP 3 will produce an additional 430 million cubic feet of gas, and page 6 says that the

Pluma well will produce an additional 471 million cubic feet of gas. They're just numbers.

Q. All right, let's talk about the gas analysis, and let's move to Exhibit Number 13.

A. Okay, so we have pretty solid numbers on what the wells have produced to date, and then just my estimates of what they will produce in the future.

To calculate drainage areas, you need to know what kind of gas you're producing. And Exhibit 13 is a gas analysis taken by Yates for the Red Tail AWR State Number 1. It's 81 percent methane and about 10 percent ethane, it's fairly rich gas. And the presentation here calculates the critical pressure and temperature of the gas in the bottom left corner. They have to be using the calculations, and the critical pressure for the gas is 670 p.s.i., and the critical temperature is 387 degrees R.

Q. The next several exhibits are log analysis, Exhibits 14 through 16. Would you review those for Mr. Catanach?

A. Yes, surely. Exhibit 14 is my analysis of the porosity, resistivity and eventually the hydrocarbon pore volume in the discovery well, the UTP State Number 1. This is a well that has produced about 1.6 BCF. It has the best logs of the wells, it has the best logs.

In the lower middle of the page, you can see the

average of this like 20-foot zone is 13.3 percent, fairly low water saturation of 24 percent. In the way lower right-hand corner I calculate hydrocarbon pore volume in this well of 1.826 feet. That's another number that goes into the calculation.

Likewise on Exhibit 15 is the log analysis of the UTP Number 2. That's the well that produced for four or five years and then was abandoned. It also has about a 20-foot zone but it has low porosity, average porosity of about seven or eight percent. And I calculate hydrocarbon pore volume for this well of 0.905 feet, so about half of the Number 1 well.

And Exhibit 16 is the same kind of calculation for the best producer, the UTP State Number 3, and here the zone is maybe 25 feet thick. But again, the porosity is really fairly low for such great production. The average porosity is only about 8 percent, and I calculate hydrocarbon pore volume of 1.068 in the lower right-hand corner for this well. And those hydrocarbon pore volume numbers then go into the drainage area calculation. That's coming up.

Q. Let's go to the calculation, Exhibit 17.

A. So Exhibit 17 outlines and shows the details of the calculations. As you know, it involves gas properties, temperatures, pressures, recovery factors, hydrocarbon pore

volumes, et cetera.

And rather than go through it, the equation for the drainage area is about 2 inches from the bottom in bold print, A equals 1.748, et cetera, where it depends on how much gas is produced, and that's a thing called G_p, and it depends on the hydrocarbon pore volume, which is the brackets that say "[H*Phi*Sg]". That whole mess is hydrocarbon pore volume.

Then at the very bottom, the last several lines is a sample calculation for the Number 1 well current drainage area. With the amount of gas it's produced I calculate 172 acres as that drainage area, as an example. And all the results are shown on Exhibit 18, which is the end.

So on Exhibit 18, I have mostly results, but the results are for the UTP Number 1, 2, 3 and also the Pluma 29 Number 1 well, the year-old well. And like I tried to say, I've calculated a drainage area for actual production through the end of 2000, and then another number for what would be the drainage area eventually when all the gas I predict would actually be produced from the well. And there's not a whole lot of differnce, but we'll go through those.

So the answers are in the bold black. So for the UTP Number 1, I calculate present drainage area, 172 acres,

and and ultimate drainage area of 211 acres. For the UTP Number 2, current drainage area of 69 acres, and since the well is not producing anymore, that's all you're going to get, is 69 acres.

The UTP Number 3 is the super well in production, over 3 BCF and not that great a log, and the calculations say it is draining 525 acres and eventually will drain maybe 600 acres.

In the far right column, the Pluma 29 Number 1, it's only produced for about a year. In that year I calculated it drained 31 acres, and my estimate for its ultimate would show a drainage of 96 acres.

So I guess the point is, you get a variation in these calculated drainage areas, but they're all quite a bit bigger than 40. In fact, you just can't get enough gas in 40 acres to pay for drilling a Morrow well.

So these are the drainage areas of the wells where there's enough data and...

Q. Summarize your conclusions, the conclusions you can reach from these drainage calculations.

A. Well, the conclusions are, 40 acres is way too small for a drainage area for these kind of wells. In my opinion, 160 is the number that works, and that's the number that we're seeking.

And if you look at Exhibit 1, I mean you can see

that the people that drilled back in the 1980s were smarter than some of us, and they actually drilled the wells on 160s, if you just look at them. There's one well on 160.

Q. If the pool rules are changed to 160 spacing, it would, in fact, be consistent with how the reservoir has been developed; is that correct?

A. That's my opinion. And the only exception to that is that Pogo has actually drilled two wells on the northeast quarter of Section 29, and that would be an inconsistency with the statement you and I are making.

MR. CARR: One of the Pogo wells has mechanical problems and has a tiny liner down through the Morrow, and I think -- I've heard it's not producing anymore, I don't know.

But anyway, it's probably not a significant producer, and so I kind of think that Pogo really has one real well on theirs and is not that much an exception to what we're saying.

The other part of the Pogo story, I think, would be, if we go to 160 acres, then our assumption, at least, is that the depth bracket allowable would be taken out of the rule book, and that says 650 barrels of oil, and with the 10,000 GOR, that would mean 6.5 million would be the allowable, which is pretty high and should give -- I think is way higher than Pogo can produce, and hopefully is no

problem to Pogo.

Q. So you see, if we use the standard depth bracket allowable, no problem for other operators in the reservoir; is that correct?

A. That's correct. 160 fits what's happened, and I think 160 fits even the recent wells.

Q. What would be the impact n Yates if this Application were denied?

A. Well, if this Application is denied, then two of our leases go away, I think is the -- the real purpose were here is to save those leases, or the motivating force in getting us to look at this was to save those leases. And it looks to me like the data says 160-acre spacing would be reasonable, and it just so happens that 160-acre spacing would save Yates' leases.

Q. If those leases, the other leases, expire, because the Application was denied, what would be the potential for future development in that portion of this pool?

A. Well, if those leases expired and the Feather-Morrow Oil Pool remains on 40s, there's a good chance somebody would buy those leases and drill 40-acre offsets and just plain overdrill the pool.

Q. In your opinion, is that development pattern justified by any of the information you have seen?

A. No, it would be totally -- misapplication of the whole idea.

Q. And if development was, in fact, on 40 acres, in your opinion would that result in a wasteful drilling practice?

A. Very much so, yes, total waste there.

Q. In your opinion, would approval of the Application be in the best interest of conservation, the prevention of waste and the protection of correlative rights of all owners in this pool?

A. Yes, sir, definitely.

Q. Were Yates Exhibits 6 through 18 preparead by you or compiled under your direction?

A. They were prepared by me, yes, sir.

Q. Does Yates request that the order in this case be expedited to the extent possible?

A. That would help us out actually, yes.

MR. CARR: Mr. Catanach, at this time we move the adamission into evidence of Yates Petroleum Corporation Exhibits 6 through 18.

EXAMINER CATANACH: Exhibits 6 through 18 will be admitted as evidence.

MR. CARR: And that concludes my direct examination of Dr. Boneau.

EXAMINER CATANACH: Mr. Bruce, do you have any

questions?

MR. BRUCE: Just a couple of questions.

CROSS-EXAMINATION

BY MR. BRUCE:

Q. Dr. Boneau, what was the depth of the discovery well, the perforations? Do you recall?

A. All the wells are -- well, about that same depth. It's 12,300-something.

Q. Okay. And you are proposing to retain that same GOR, the 10,000-to-1, that's currently in place?

A. Yes, sir.

Q. And then just one other question on your production chart on UTP Number 1. I think it's your Exhibit 8.

A. Okay.

Q. That well was declining, and then it increased in production in 1994 and flattened out. Do you know why that occurred?

A. No, I don't. I did not find anything in the file that explains that.

MR. BRUCE: That's all I have, Mr. Examiner.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Boneau, if those two leases expire, certainly Yates has the opportunity to reacquire those leases; is

that correct?

A. I think that's correct, that's almost always correct, yes.

Q. There appears to be some considerable difference in at least the UTP Number 1 and 3, the drainage areas for those two wells, compared to the newer wells to the south -- well, the Pluma 29 Number 1. Did you see any -- What are the differences that can be attributed to those differences in drainage areas?

A. A number of factors. Well, the UTP Number 1 has 160, 200 acres. They'd all be my friend if they were all like UTP Number 1.

The UTP Number 3, the real high-productivity well, just doesn't have that great a log, and it -- in my head, it must be a better reservoir real close by, so that I really don't think it's draining 600 acres. I think it's draining, you know, 400 acres or 300 acres or some smaller number.

The other main point, the newer wells have some pressure depletion. Okay. This is actually relatively important. The original pressure, bottomhole pressure, in the discovery well, the Number 1 well, was like 5480 pounds. A couple years later, when the Number 3 well was drilled, the bottomhole pressure was 4850 pounds. A little drop, but not much.

Our well, the Red Tail, where we have actually measured the pressure, the original pressure there was 3501 pounds, and I'm almost sure that that huge decline is not due to the Pluma 29-1. I think it's due mostly to production from those UTP wells over the 15 years.

And so there is that pressure evidence that, well, the pressures have moved over those areas, which says 40 acres is too little, another way of saying 40 acres is too little.

But it also means that the newer wells are not going to produce as much as the older wells, because some of their pressure and their reserves has been taken away, and that then factors into the drainage-area calculations for the newer wells.

So you maybe have lost a third of the gas, and so you've lost a third of the drainage area, so that my 96 or whatever I get for the Pluma, if it had been drilled 15 years ago, would go to 150 acres if it could capture the gas that has moved to those UTP wells.

So my two factors were, the one huge number, I think, just has got to have better reservoir nearby. And my other factor was, the pressure depletion over the years has reduced the amount of gas available to the newer wells and thereby reduced the drainage areas of the newer wells.

Q. Okay. The Red Tail Number 1, you don't believe

you have enough data at this point to calculate a drainage area?

A. No, I don't.

Q. Well, let me ask you this. How does the initial producing rate of the Red Tail Number 1 compare to some of these other wells?

A. Well, you look, the initial rate is in line with the rates of other wells. We've only got two weeks of data, and I don't know if it's going to hold up there or not.

The other wells, the original wells, held at fairly high rates for, you know, eight to ten years, and I just am quite sure that ours won't do that, but I sure hope it would.

Q. But you're averaging, I believe you said, 50 barrels a day and --

A. 1400 MCF a day, I said, yeah.

Q. So you're saying those rates compare the same, basically, to the other producing wells?

A. Yeah, the other wells completed for less than 2 million gas. This well had made 3 BCF, completed for less than 2 million, with more oil than 50, with a couple hundred barrels of oil. And that's comparable to the kind of gas we're getting out of our wells.

The original wells did not fall very much over

five to ten years. And our well, if you look at the numbers, maybe has fallen a couple hundred MCF in two weeks. So it hopefully is too early to say.

No, I don't expect our well to produce 3 BCF, but I don't know what it will produce.

Q. And you just can't -- With the data available, you just can't speculate on the drainage area for the Red Tail well at this point?

A. I can speculate on anything, but I really -- I really don't think there's enough data there to have calculated a number for you, and I did not calculate a number for you.

Q. Okay. For the ultimate drainage area, what end point did you use for those, Dr. Boneau, as far as production rate? Do you recall?

A. Yeah, I used when they became uneconomic with operating costs of $1500 and gas prices of three dollars, so that's -- I can look here. So at the end, they're producing about 30 MCF a day, when I stopped their production.

Q. The northwest quarter of Section 28, that would be all, as far as you know, that's commonly owned at this point; is that --

A. Yeah, the yellow shows the leases that were Yates', but there's an agreement with Concho whereby we

have common ownership in the west half of 28. So in the northwest quarter of 28 Yates owns 75 percent and Concho 25 percent throughout there.

Q. And that interest ownership is not going to change, regardless if it's spaced on 40 or 160?

A. If it's spaced on 40, Yates would still own 75 percent of the well, even though it looks like the well location is on a white square.

Q. Okay, and Concho would still own a percentage of that?

A. Would still own -- Yes.

Q. And you mentioned the other Pogo well is -- That's currently being drilled?

A. Well, it was spudded last July or August, and latest information from PI is, it was a TD in October. I think it's Mr. Meek that told me he thought it was making about 2 million a day, but that's just geology talk.

(Laughter)

Q. Mr. Boneau, upspacing a pool certainly brings into play some possible scenarios that --

A. Yes, I think we're -- I mean, we're fortunate in this case that the three old wells are really drilled on 160-acre leases. We've got our problem leases for our Red Tail, and the Pogo wells are drilled on a lease that's the whole Section 29, so they should have common ownership.

The only little bad thing in that scenario is that Pogo has those two wells. And we have lots of places where we have two wells on a spacing unit making one allowable, for example, Dagger Draw. And so I think -- Well, I didn't know if they would be here to protest or not, and they're not protesting too seriously, so I think they would be okay.

(Laughter)

Q. Well, certainly you're not testifying that the three -- the two Pogo wells in the north -- I'm sorry, the wells in the north, the UTP wells, it's not your testimony that if we change the spacing to 160 those interests will be the same as they were if they were spaced on 40? I mean, there may be some difference in interest that will be now included in a 160 that didn't participate in the 40 acres.

A. I do not know that that's not true, yes.

Q. And certainly -- I mean, as far as downspacing, that's certainly one of the reasons the Division doesn't like to downspace a pool, is because of that reason. It creates inequities like that.

I don't know what the effect of upspacing a pool like this would be on those interest owners to the north there, and that's certainly a concern.

A. All we can say is that we noticed them, and they

did not respond.

Q. Well, you noticed the operators of those wells.

A. Yes.

EXAMINER CATANACH: Certainly the interests that were not participating in the wells were not notified.

I believe that's all the questions I have.

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

EXAMINER CATANACH: Mr. Bruce, do you have anything further?

MR. BRUCE: No, Mr. Examiner. We weren't exactly sure -- Pogo wasn't exactly sure what Yates was proposing today and is just here to preserve its rights.

MR. GRAY: Mr. Catanach?

EXAMINER CATANACH: Yes, sir.

MR. GRAY: I'm Mike Gray with Concho Resources in Midland, and I have a letter that's addressed to Mr. Carr regarding this case, and Concho wishes to express its support for the Yates Application.

We're a working interest owner in the well, and we also own offsets to the south and southeast, direct offsets to the proposed 160.

And we just wish to express our support for the 160-acre spacing proposed by Yates.

EXAMINER CATANACH: Okay, thank you, sir.

Anything else?

There being nothing else in this case, Case 12,596 will be taken under advisement.

(Thereupon, these proceedings were concluded at 11:45 a.m.)

* * *

I hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12596 heard by me on February 22 19 2001.

David R. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 26th, 2001.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002