

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCE DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF:)
APPLICATION OF YATES ENERGY CORPORATION)
FOR COMPULSORY POOLING, EDDY COUNTY,) CASE NO. 10281
NEW MEXICO.)
-----)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Examiner

May 2, 1991

8:40 a.m.

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on May 2, 1991, at 8:40 a.m. at the Oil Conservation Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Susan G. Ptacek, a Certified Court Reporter No. 124, State of New Mexico.

FOR: OIL CONSERVATION BY: SUSAN G. PTACEK
DIVISION Certified Court Reporter
CCR No. 124

I N D E X

May 2, 1991
 Examiner Hearing
 Case No. 10281

PAGE

APPEARANCES

3

YATES ENERGY WITNESSES:

SHARON R. HAMILTON

Direct Examination by Mr. Padilla

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Examination by Examiner Stogner

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Examination by Mr. Stovall

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Redirect Examination by Mr. Padilla

12

BILL BAKER

Direct Examination by Mr. Padilla

13

Examination by Examiner Stogner

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REPORTER'S CERTIFICATE

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E X H I B I T S

Admtd

YATES ENERGY EXHIBIT

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A P P E A R A N C E S

FOR THE DIVISION:

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EMPLOYEES, LTD., JAMES H. YATES, INC., COLKELAN:

CAMPBELL & BLACK, P.A.
Attorneys at Law
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Santa Fe, New Mexico 87501

* * *

1 EXAMINER STOGNER: I will call next case 10281.

2 MR. STOVALL: The application of Yates Energy
3 Corporation for compulsory pooling, Eddy County, New
4 Mexico.

5 EXAMINER STOGNER: Call for appearances.

6 MR. PADILLA: Mr. Examiner, Ernest L. Padilla, Santa
7 Fe, New Mexico, for the applicant. I have the same two
8 witnesses that I had in the previous case, and I would like
9 the record to reflect that they have been sworn and are
10 qualified.

11 EXAMINER STOGNER: Let the record so reflect that
12 Miss Hamilton's and Mr. Baker's qualifications were
13 accepted and previously sworn.

14 Any other appearances?

15 MR. CARR: May it please the examiner, my name is
16 William F. Carr. Again in this case I would like to enter
17 an appearance on behalf of Spiral, Inc., Explorers
18 Petroleum Corporation, HEYCO Employees, Ltd., and James H.
19 Yates, Inc., and Colkelan.

20 EXAMINER STOGNER: Thank you, Mr. Carr. Any other
21 appearances?

22 Mr. Padilla.

23 MR. PADILLA: I will call Sharon Hamilton at this
24 time.

25 (Whereupon the witnesses were

1 previously duly sworn.)

2 SHARON R. HAMILTON,

3 the Witness herein, having been previosly duly sworn, was
4 examined and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. PADILLA:

7 Q. Miss Hamilton, what is the purpose of this
8 hearing?

9 A. We seek compulsory pooling for a 40-acre spacing
10 proration unit in the southeast quarter of the northeast
11 quarter of Section 12 of 18 South, 31 East.

12 Q. Miss Hamilton, let's get into Exhibit No. 1 and
13 have you identify that for the examiner, please?

14 A. Yes, sir, it's a map plat of the 18 South, 31
15 East.

16 Q. Does that show the proposed proration to be
17 assigned to the well?

18 A. Yes, sir, it's indicated in yellow.

19 Q. Which well is this acreage going to be dedicated
20 to?

21 A. It will be the East Prickly Pear Federal No. 1.

22 Q. And that will be the southeast quarter of the
23 northeast quarter of Section 12, 18 South, 31 East.

24 A. Yes, sir.

25 Q. Is that all you have concerning Exhibit No. 1?

1 A. Yes, sir.

2 Q. Let's go on to Exhibit Number 2 and have you
3 identify that for the examiner, please.

4 A. This is an ownership summary with the first
5 portion indicating the 100 percent ownership; the second
6 portion shows owners that we request forced pooling on.

7 Q. Miss Hamilton, which were the parties that you
8 are force pooling?

9 A. Spiral, Inc., Explorers Petroleum Corporation,
10 HEYCO Employees, Ltd., James H. Yates, Inc., Colkelan
11 Corporation and Chevron USA, Inc.

12 Q. Those parties have not agreed to drill this
13 well?

14 A. No, sir, they have not responded to participate.

15 Q. Miss Hamilton, have you changed the nature of
16 your original proposal to any of these parties in the
17 recent past?

18 A. Yes, sir. We originally proposed this well as a
19 6100-foot test.

20 Q. To what formation?

21 A. We wanted to drill down through the base of the
22 Delaware.

23 Q. And what has been your most recent change?

24 A. We have revised our total depth to 4600 feet.

25 Q. What's your primary objective at this time?

1 A. I believe we tend to drill just into the top of
2 the San Andres.

3 Q. Why have you made -- changed your proposal?

4 A. There is a well that Meridian has drilled in the
5 northwest quarter of the southeast quarter, a direct offset
6 of this property, and in that drilling they -- we now
7 determined that there's no necessary need to drill to the
8 6100-foot.

9 Q. Miss Hamilton, do you wish to dismiss that
10 portion of the application that would go beyond 4100 feet?

11 A. 4600 feet.

12 Q. 4600 feet.

13 A. Yes, sir, we do.

14 Q. You don't want to go all the way down -- to
15 force pool all the way down to the base of the Delaware
16 formation; is that correct?

17 A. No, sir, we do not.

18 MR. PADILLA: Mr. Examiner, at this point we would
19 move dismissal of the application from approximately 4600
20 feet to the base of the Delaware.

21 EXAMINER STOGNER: The way I understand it, and I will
22 have Mr. Baker verify that, the 4600 depth is the top of
23 the San Andres?

24 THE WITNESS: I believe we are just going to drill
25 into the top.

1 EXAMINER STOGNER: I will consider your motion
2 Mr. Padilla. Thank you.

3 Q. (By Mr. Padilla) Let me show you or hand you
4 what we have marked as Exhibit No. 3 and have you identify
5 that, please.

6 A. It's a summary of the telephone conversations
7 and letters that have been directed to the owners in this
8 property.

9 Q. When did you start those telephone conversations
10 and correspondence?

11 A. We had been attempting to negotiate a farmout in
12 this area for some time, but this well was proposed in
13 February.

14 Q. And what results have you obtained?

15 A. We have -- Harvey E. Yates Company is
16 participating in the well but the other owners have at this
17 time not elected to participate.

18 Q. Let me show you Exhibit No. 4, and I want you to
19 tell the examiner what that is and what that contains.

20 A. These are copies of the letters that have been
21 sent to the participants in this property. As I said,
22 there's letters where we have attempted to negotiate
23 farmout, and then the letters where we proposed the well,
24 and then the letter where we advised them of the revised
25 drilling depth.

1 Q. In your opinion, have you exhausted your efforts
2 to get voluntary participation in this well?

3 A. Yes, sir, we feel we have.

4 Q. And you forced pool those same parties in the
5 past in this area?

6 A. Yes, sir, we have.

7 Q. As you previously testified in the case just
8 ahead of this, you had the same kind of experience in that
9 case -- in those cases as in this case?

10 A. Yes, sir.

11 Q. Let me show you Exhibit No. 5 and have you
12 identify that for the examiner, please?

13 A. That is an AFE that we proposed that indicates
14 that we wish to drill to the depth of 4600 feet.

15 Q. And that changes from -- that reflects a change
16 from the base of the Delaware to a higher --

17 A. Yes, sir.

18 Q. -- objective? Shallower objective?

19 A. Shallower objective.

20 Q. And in your opinion, is that fair -- does that
21 AFE show fair and reasonable estimated well costs?

22 A. Yes, sir, we feel it does.

23 Q. Let me show you what we have marked as Exhibit
24 No. 6 and have you tell the examiner what that is.

25 A. It's the Ernst & Young survey results for

1 overhead rates. We're requesting for this depth 3,000
2 monthly drilling rate and a \$300 a month producing rate.

3 Q. And do those differ from, for example, the case
4 right before this one?

5 A. Yes, sir. They do because this is a shallower
6 depth.

7 MR. PADILLA: Mr. Examiner, Exhibit No. 7 is again my
8 affidavit together with copies of the notice and the return
9 receipts indicating that the parties who have -- or
10 indicating that the parties that are being forced pool
11 received notice. That's all I have for this witness,
12 Mr. Examiner.

13 EXAMINER STOGNER: I have no questions of
14 Miss Hamilton at this time. Are there any other questions?

15 MR. STOVALL: Just a minute. I might. Let me take a
16 minute to look at your affidavit here, Mr. Padilla.

17 EXAMINATION

18 BY MR. STOVALL:

19 Q. Miss Hamilton, I believe that you testified that
20 from Exhibit 2 that all of the parties listed on the
21 exhibit, the lower half under the "forced pool parties" are
22 the ones you are seeking forced pooling?

23 A. Yes, sir.

24 Q. But not all of those parties were given notice
25 according to Mr. Padilla's affidavit. Is there a reason

1 for the discrepancy, explanation for the discrepancy?

2 A. Let me review that. Let's see, Colkelan
3 Corporation and James H. Yates, Inc., received their
4 interest just recently from Mr. W. T. Wynn, and I believe
5 we sent notice but -- we haven't received formal
6 notification of the transfer of ownership. We've just been
7 verbally informed that his interest has been reassigned.

8 Q. Mr. Wynn didn't receive notice either according
9 to this. Somehow those interests did not receive notice;
10 is that correct?

11 A. It's my understanding that they had received
12 notice.

13 Q. Let's put it this way, there is no record of
14 their receiving notification?

15 A. There is no record of it here. They indicated
16 when I've spoken to them that they were aware of the
17 proceedings so I had assumed that they had received notice.

18 MR. STOVALL: Mr. Examiner, I recommend we keep the
19 record open to clarify the notice issue.

20 THE WITNESS: May I see the documents from the other
21 case? I think maybe that's been --

22 EXAMINER STOGNER: This is the case file in the
23 previous case, 10295.

24 THE WITNESS: I think maybe the numbers have been
25 switched. I believe the other one would have the full --

1 EXAMINER STOGNER: Let's go off the record.

2 (Discussion off the record.)

3 EXAMINER STOGNER: Hearing will come to order.

4 MR. PADILLA: Mr. Examiner, we have determined we have
5 Exhibit No. 7 in case 10295 and in case 10281 switched.

6 MR. STOVALL: The correct exhibit for this case at
7 this time -- this is 295. Let's get that in the correct
8 case file which I believe you have.

9 MR. PADILLA: This is 295.

10 EXAMINER STOGNER: Exhibit 7, and I am now changing
11 the number of the exhibit -- or not the number of the
12 exhibit. It's still number Exhibit 7 but reference to the
13 case, 295. So we have case number 295 all in order?

14 MR. PADILLA: Yes, sir.

15 MR. STOVALL: And 281.

16 REDIRECT EXAMINATION

17 BY MR. PADILLA:

18 Q. Okay, Miss Hamilton, let me try to correct the
19 record here. You gave notice in case 281 -- or I gave
20 notice to the parties as shown on Exhibit No. 7; is that
21 correct?

22 A. Yes, sir, you did.

23 Q. And those are the parties that match with your
24 Exhibit No. 2 which shows -- which are the nonconsenting
25 parties; is that correct?

1 A. Yes, sir, with the exception of Harvey E. Yates
2 Company, who has not signed an agreement to participate.

3 MR. STOVALL: Let the record also reflect that
4 Mr. Carr has entered an appearance for James H. Yates,
5 Inc., and Colkelan, so if there were any problems, it would
6 be resolved by that entry of appearance. Just get the
7 exhibits in the right file.

8 MR. PADILLA: That's all I have. I have already
9 messed up the record enough I think, so I better keep
10 quiet.

11 MR. STOVALL: Do we have the exhibits for the 281
12 file, Mr. Padilla? I don't think we've got those at this
13 point.

14 EXAMINER STOGNER: You mean 281?

15 MR. STOVALL: Yes.

16 EXAMINER STOGNER: Are there any other questions of
17 Miss Hamilton?

18 MR. STOVALL: I don't have any more.

19 EXAMINER STOGNER: She may be excused.

20 MR. PADILLA: I will call Mr. Baker back at this time.

21 BILL BAKER,
22 the Witness herein, having been previously first duly
23 sworn, was examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. PADILLA:

1 Q. Mr. Baker, let me hand you Exhibit No. 8, or you
2 have it there before you, please tell the examiner what
3 that is.

4 A. Exhibit No. 8 is a structure map on the top of
5 the Grayburg formation. The primary objective of the East
6 Prickly Pear Federal No. 1 is the Loco Hills sand of the
7 Grayburg formation. What this particular map shows right
8 here is the regional structure on the Grayburg formation.
9 I've also indicated all the wells in the area that either
10 produced or had shows from the Loco Hills sand. Also
11 indicated on this map is a cross section, A to A prime,
12 which will be Exhibit No. 10 that I will get to in a little
13 bit. This particular map indicates that our proposed
14 location will be a direct northeast offset to what is
15 really the Meridian Comanche Federal No. 1. It's located
16 in the northwest of the southeast and it will basically
17 along the structural strike in the Grayburg formation for
18 this particular well.

19 Q. Can you elaborate just a little bit on why the
20 change from the deeper formation was made to the shallower
21 formation?

22 A. Yes, at the time the prospect was originally
23 proposed we had anticipated going all the way through the
24 Delaware formation. Although the Loco Hills was the
25 primary objective, at this particular location no one had

1 gone through the Delaware sands and tested both the San
2 Andres and the Delaware as objectives. But with the
3 drilling of the Meridian well, which was just drilled about
4 a month ago, they tested the San Andres and the Delaware
5 formation and found the Delaware to be tight and the
6 Delaware -- excuse me -- San Andres was tight and the
7 Delaware formation was wet or water bearing.

8 And with the fact that we're basically going to
9 be structurally along strike, we did not see that there was
10 any need to go to this 6100-foot depth. Since they did not
11 encounter any economic or commercial shows in those lower
12 zones, then we decided to back up to where we're just going
13 to test through the Grayburg formation, test the Loco Hills
14 and Premier sand and stop right in the very top of the San
15 Andres formation.

16 Q. So what is the total depth you want to go to?

17 A. The total depth to test Loco Hills and the
18 Premier should take us at a depth of about 4600 feet.

19 Q. So essentially you want to amend your
20 application to say from the surface to the base of the --
21 to 4600 feet?

22 A. Yes, sir. The base of the Grayburg formation,
23 the top of the San Andres.

24 Q. What's Exhibit No. 9?

25 A. Exhibit No. 9 is an isopach of the primary

1 objective for the East Prickly Pear, which has, as I
2 mentioned earlier, is the Grayburg Loco Hills sand. This
3 particular sand is an east-west oriented strand line sand.
4 You can tell from the isopach numbers that it's got a
5 strong east-west orientation, and it is approximately half
6 a mile wide. It reaches a maximum thickness of 26 feet of
7 greater than 10 percent porosity. This particular map
8 indicates that our proposed location we expect to encounter
9 between 10 and 15 feet of Loco Hills sand with greater than
10 10 percent porosity in it.

11 Q. Are you done with Exhibit No. 9?

12 A. Yes, sir.

13 Q. Let's go to Exhibit No. 10 and have you identify
14 that for the examiner.

15 A. Exhibit No. 10 is a three-well cross section --
16 excuse me, two well cross section and the proposed well.
17 Starting from left to right, you move through the HEYCO
18 Taylor Deep 12 Federal No. 1Y. That is a structural cross
19 section. I've indicated Loco Hills Grayburg section here
20 on the compensating neutron density log. This particular
21 log, the HEYCO Taylor Deep 12 Federal No. 1 is what set
22 this entire prospect up. This is currently a Bone Springs
23 producer. In the drilling of the Bone Springs test they
24 encountered this Loco Hills sand with excellent mudlog
25 shows through it. It's what set the subsequent drilling

1 program up. This particular sand in this well has not been
2 tested at this time. As I mentioned, it's still a Bone
3 Springs producer.

4 As you move to the right you encounter the
5 Meridian Comanche Federal No. 1. This well was drilled to
6 a depth of 6100 feet just about 30 days ago. It
7 encountered about 24 feet of the Loco Hills sand. It has
8 been perforated, acidized and fracked, and it's currently
9 producing about 30 barrels of oil a day plus 200 barrels of
10 water. They most recently have got most of their frac
11 fluid back, but they're testing the well. I don't believe
12 they have officially IP'd the well at this time.

13 As you move to the right, you see our proposed
14 location. I have indicated that we will basically along
15 strike from a structural standpoint. The sand is thin. We
16 hope to encounter about 10 to 15 feet of the porous
17 Grayburg Loco Hills sands.

18 Q. Your proposed location, at the bottom of that,
19 you have PTD 6100. That's no longer true; correct?

20 A. Yes, sir. That is no longer true. At the time
21 these exhibits were prepared we'd still anticipated going
22 to a depth of 6100 feet. It's only been in the last week
23 that we have revised that to 4600 feet.

24 Q. What kind of risk are you recommending to the
25 division based on your testimony?

1 A. Well, based on the current production figures of
2 the Meridian well, we have to assume this is still
3 relatively high risk from an economic standpoint, so we're
4 recommending the maximum risk.

5 Q. Mr. Baker, in your opinion, would the approval
6 of this application be in the best interest of conservation
7 of oil and gas?

8 A. Yes, sir.

9 MR. PADILLA: Mr. Examiner, I have nothing further and
10 I would offer Exhibits 1 through 10.

11 EXAMINER STOGNER: Exhibits is 1 through 10 will be
12 admitted in evidence.

13 (Yates Energy Exhibits 1 through 10
14 were admitted in evidence.)

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Our records show, Mr. Baker, that the Grayburg
18 is the Shugart pool, and the Shugart pool takes in all of
19 Section 12.

20 A. Yes, sir.

21 Q. However, essentially the northern portion of
22 Section 12 was not according to your Exhibit No. 9 been
23 thoroughly -- Exhibits 8 and 9 -- been thoroughly drilled
24 and looks like it runs out of porosity according to your
25 isopach map; is that correct?

1 A. Yes, sir. Obviously at this time that's still
2 somewhat interpretative. The northeast quarter of Section
3 12 has not been drilled for the Grayburg. At this time I'm
4 using a regional picture that I have worked up on the area
5 basically to get my orientation, but just from the regional
6 picture it indicates for the Grayburg, the northern half of
7 Section 12 will probably not have porosity greater than 10
8 percent, which we believe you need to make a commercial
9 procedure.

10 Q. You're skirting that area, are you not?

11 A. Yes, sir.

12 Q. Even though it's in the pool, you're still
13 seeking 200 percent risk penalty?

14 A. Yes, sir, I think based on the riskiness of the
15 sand and the fact the economic criteria in which we need
16 and the fact that the Comanche well is testing pretty
17 poorly at this time, I believe we still need to seek the
18 maximum penalty.

19 Q. Are there any producing wells that produce
20 higher up in the Shugart pool in the Yates and Seven Rivers
21 in this area in Section 12?

22 A. In the Queen, yes, sir, which is considered part
23 of that Shugart pool. All the other oil wells that you see
24 here, on here, Mr. Stogner, were all Queen producers that
25 were produced back in the '50s and up through -- currently

1 there is still a couple of those wells. It's under a dump
2 flood right now. There's a couple of those wells that are
3 producing at four to five barrels of oil a day. I do not
4 believe the Yates or the Seven Rivers are prospective in
5 here. I have not seen anything to indicate the type of
6 porosity that you need for the Yates or Seven Rivers to be
7 productive but the Queen is.

8 Q. But there are no Queen, Yates or Seven Rivers
9 wells in the northeast quarter essentially, is there?

10 A. No, sir. There is one dry hole which was
11 drilled in 1940 or '47 as I recall. It was for the Queen
12 formation, the same as the rest of the Shugart wells were,
13 and there was no electric log on that well. All there was
14 was a scout ticket. I suspect from my mapping on the Queen
15 that it was tight. But for the most part the northeast
16 quarter of Section 12 has not been adequately tested.

17 Q. So in that aspect you're still being offset by a
18 plugged and abandoned well back in the '40s?

19 A. Yes, sir.

20 Q. And essentially no production to the north?

21 A. Yes, sir.

22 EXAMINER STOGNER: Are there any other questions of
23 Mr. Baker? If not, he may be excused. Anything further.

24 MR. PADILLA: Nothing further, Mr. Examiner.

25 MR. STOVALL: In that case, case 10281 will be taken

1 under advisement.

2 (Whereupon, the hearing was concluded at the
3 approximate hour of 9:05 a.m.)

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1 STATE OF NEW MEXICO)
2) SS.
3 COUNTY OF SANTA FE)

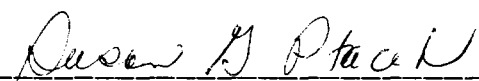
4 REPORTER'S CERTIFICATE

5 I, Susan G. Ptacek, a Certified Court Reporter and
6 Notary Public, do HEREBY CERTIFY that I stenographically
7 reported the proceedings before the Oil Conservation
8 Division, and that the foregoing is a true, complete and
9 accurate transcript of the proceedings of said hearing as
10 appears from my stenographic notes so taken and transcribed
11 under my personal supervision.

12 I FURTHER CERTIFY that I am not related to nor
13 employed by any of the parties hereto, and have no interest
14 in the outcome thereof.

15 DATED at Santa Fe, New Mexico, this 7th day of June,
16 1991.

17
18 My Commission Expires:
19 December 10, 1993



SUSAN G. PTACEK
Certified Court Reporter
Notary Public

20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
the Examiner hearing of Case No. 10281,
23 heard by me on 2 May 1991.

24  Examiner
Oil Conservation Division
25