

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

EXAMINER HEARING

IN THE MATTER OF:

Case 9846

Application of Yates Petroleum  
Corporation for compulsory pooling,  
Eddy County, New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
January 10, 1990

**ORIGINAL**

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

FOR THE OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.  
State Land Office Building  
Santa Fe, New Mexico 87501

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1 MR. CATANACH: Call case 9846.

2 MR. STOVALL: Application of Yates Petroleum  
3 Corporation for compulsory pooling, Eddy County, New  
4 Mexico. Applicant requests this case be continued to  
5 January 24, 1990.

6 MR. CATANACH: Case 9846 is hereby continued  
7 to the January 24, 1990, docket.

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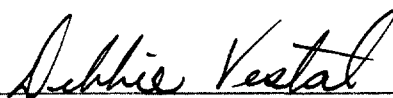
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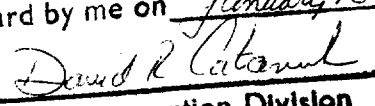
STATE OF NEW MEXICO     )  
                                      ) ss.  
COUNTY OF SANTA FE     )

I, Debbie Vestal, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Examiner of the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; 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 10, 1990.

  
Debbie Vestal  
CSR No. 400

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner's hearing of Case No. 9846, heard by me on January 10, 19 90.  
, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
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7 EXAMINER HEARING  
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9 IN THE MATTER OF:  
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12 Application of Yates Petroleum Case 9846  
13 Corporation for compulsory pooling,  
14 Eddy County, New Mexico.  
15

16 **ORIGINAL**  
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19 TRANSCRIPT OF PROCEEDINGS  
20

21 BEFORE: MICHAEL E. STOGNER, EXAMINER  
22

23 STATE LAND OFFICE BUILDING

24 SANTA FE, NEW MEXICO

25 January 24, 1990

CUMBRE COURT REPORTING  
(505) 984-2244

1 EXAMINER: Call next case No. 9846.

2 MR. STOVALL: Application of Yates  
3 Petroleum Corporation for compulsory pooling,  
4 Eddy County, New Mexico.

5 Applicant requests this case be continued  
6 to February 7, 1990.

7 EXAMINER: Case 9846 will be so continued.  
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18 I do hereby certify that the foregoing is  
19 a complete record of the proceedings in  
the Examiner hearing of Case No. 9846,  
20 heard by me on 24 January 1990.  
21 Michael E. Stovall, Examiner  
Oil Conservation Division  
22  
23  
24  
25


## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 ) ss.  
5 COUNTY OF SANTA FE )

6 I, Diana Abeyta, Certified Shorthand  
7 Reporter and Notary Public, HEREBY CERTIFY that the  
8 foregoing transcript of proceedings before the Oil  
9 Conservation Division was reported by me; that I  
10 caused my notes to be transcribed under my personal  
11 supervision; and that the foregoing is a true and  
12 accurate record of the proceedings.

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

17  
18 WITNESS MY HAND AND SEAL January 31, 1990.

19  
20  
21   
22 DIANA ABEYTA  
CSR No. 267

23 My commission expires: May 7, 1993  
24  
25



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

CASE 9078

CASE 9846

CASE 9847

CASE 9812

CASE 9813

CASE 9850

EXAMINER HEARING

TRANSCRIPT OF PROCEEDINGS

CONTINUED AND DISMISSED CASES

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

December 27, 1989

CUMBRE COURT REPORTING  
(505) 984-2244

1           HEARING EXAMINER: This hearing will come  
2 to order. I'm Michael E. Stogner, appointed Examiner  
3 for today's docket. Note today's date, December 27,  
4 1989.

5           What I'll do first is call all the  
6 continued and dismissed cases. So, we'll start by  
7 calling Case No. 9078, which is in the matter of case  
8 number 9078 being reopened pursuant to the provisions  
9 of Division Order Nos. R-8450.

10           This case will be continued to the  
11 Examiner's hearing scheduled for January 10, 1990.

12                   \*   \*   \*   \*   \*

13           HEARING EXAMINER: Call next case, No.  
14 9846, which is the application of Yates Petroleum  
15 Corporation for compulsory pooling, Eddy County, New  
16 Mexico.

17           At the Applicant's request, this case will  
18 be continued to the Examiner's hearing scheduled for  
19 January 10, 1990.

20                   \*   \*   \*   \*   \*

21           HEARING EXAMINER: Call next case, No.  
22 9847, which is the application of Yates Petroleum  
23 Corporation for an unorthodoxed oil well location, Lea  
24 County, New Mexico.

25           At the Applicant's request, this case will

1 be dismissed.

2 \* \* \* \* \*

3 HEARING EXAMINER: Over to the next page,  
4 I'll call next case, No. 9812, which is the  
5 application of Meridian Oil, Incorporated, on behalf  
6 of El Paso Natural Gas Company, for an unorthodox coal  
7 gas well location, Rio Arriba County, New Mexico.

8 At the Applicant's request, this case is  
9 dismissed.

10 \* \* \* \* \*

11 HEARING EXAMINER: Call next case, No.  
12 9813, which is the application of Meridian Oil  
13 Incorporated, on behalf of El Paso Natural Gas  
14 Company, for an unorthodox coal gas well location, Rio  
15 Arriba County, New Mexico.

16 At the Applicant's request, this case is  
17 also continued to the Examiner's hearing scheduled for  
18 January 10, 1990.

19 \* \* \* \* \*

20 HEARING EXAMINER: Well, we're on the last  
21 page, on page 6, Case No. 9850, which is in the matter  
22 of the hearing called by the Oil Conservation Division  
23 on its own motion for an order extending certain  
24 existing pools in Rio Arriba and San Juan Counties,  
25 New Mexico.

1                   This case is also continued to the  
2 Examiner's hearing scheduled for January 10, 1990.

3                   \*   \*   \*   \*   \*

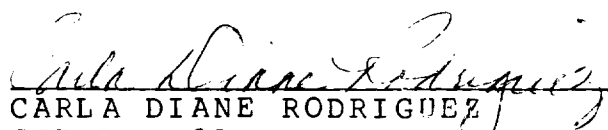
## CERTIFICATE OF REPORTER

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

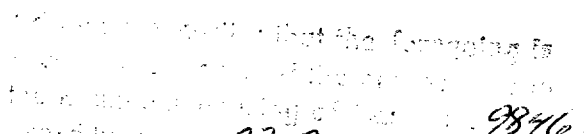
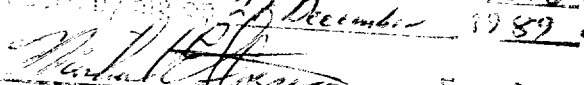
I, Carla Diane Rodriguez Certified  
Shorthand Reporter and Notary Public, HEREBY CERTIFY  
that the foregoing transcript of proceedings before  
the Oil Conservation Division was reported by me; that  
I caused my notes to be transcribed under my personal  
supervision; and that the foregoing is a true and  
accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL December 29, 1989.

  
CARLA DIANE RODRIGUEZ  
CSR No. 91

My commission expires: May 25, 1991

  
Noted by me on 23 December 1989.  
  
Oil Conservation Division, Examiner

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 9846

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Corporation  
for Compulsory Pooling, Eddy County,  
New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

February 7, 1990

**ORIGINAL**

CUMBRE COURT REPORTING  
(505) 984-2244

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

FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Divison  
State Land Office Building  
Santa Fe, New Mexico

FOR THE APPLICANT:

DAVID R. VANDIVER, ESQ.  
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7th & Mahone, Suite E  
Artesia, New Mexico 88210

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1 EXAMINER CATANACH: At this time we'll call  
2 case 9846.

3 MR. STOVALL: Application of Yates  
4 Petroleum Corporation for compulsory pooling, Eddy  
5 County, New Mexico.

6 EXAMINER CATANACH: Appearances in this  
7 case.

8 MR. VANDIVER: Mr. Examiner, David Vandiver  
9 of the Artesia firm of Fisk and Vandiver, appearing on  
10 behalf of the Applicant Yates Petroleum Corporation.  
11 I have three witnesses to be sworn in this case.

12 EXAMINER CATANACH: Any other appearance in  
13 this case? Will the witnesses please stand to be  
14 sworn in.

15 (Thereupon, all witnesses were sworn.)

16 MR. VANDIVER: May I proceed, Mr.  
17 Examiner?

18 EXAMINER CATANACH: Yes, sir.

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

22 EXAMINATION

23 BY MR. VANDIVER:

24 Q. Mr. Cowan, state your full name, your  
25 occupation, and by whom you're employed, please.

1           A.       My name is Cy Cowan. I'm employed by Yates  
2 Petroleum Corporation of Artesia, New Mexico, as a  
3 landman.

4           Q.       You've previously testified this morning as  
5 a petroleum landman and your qualifications were  
6 accepted by the Examiner?

7           A.       That's correct.

8           Q.       Are you familiar with the title to the land  
9 with regard to the ownership of the various interests  
10 within the spacing and proration unit for the well  
11 which is the subject of Yates Petroleum Corporation's  
12 application in this case?

13          A.       Yes, I am.

14                 MR. VANDIVER: I tender Mr. Cowan as a  
15 petroleum landman, Mr. Examiner.

16                 EXAMINER CATANACH: He is so qualified.

17          Q.       Mr. Cowan, summarize the purpose of Yates'  
18 application in Case 9846 on the Clifford well.

19          A.       Yates Petroleum Corporation seeks an order  
20 pooling all mineral interests from the surface to the  
21 base of the Canyon formation underlying the southeast  
22 quarter of Section 35, Township 19 South, Range 24  
23 East, forming a standard 160-acre spacing and  
24 proration unit for any and all formations and pools  
25 developed on 160-acre spacing.

1           Also, under the southeast quarter of the  
2 southeast quarter of Section 35, forming a standard  
3 40-acre spacing unit and proration unit for any and  
4 all formations. Said spacing unit is to be dedicated  
5 to a well to be drilled at a standard location 660  
6 feet from the south and east lines of Section 35.

7           We would like to discuss the costs of  
8 drilling and completing this well and the allocation  
9 of costs, as well as actual operation costs and  
10 charges for supervision, and designation of Applicant  
11 as operator of the well, and charge for risk involved  
12 in the drilling of this well.

13           Q.     Mr. Cowan, identify Exhibit 1 which is the  
14 land plat, and review the information shown on that  
15 exhibit.

16           A.     Exhibit No. 1 is a land plat showing  
17 portions of Township 19 South, Range 24 East, Eddy  
18 County, New Mexico. Outlined in red in the southeast  
19 quarter of Section 35 is 160-acre spacing unit  
20 dedicated to the Clifford "ADD" #1 well. The actual  
21 well site is shown with a red dot in the southeast of  
22 the southeast of that quarter.

23           Q.     What percentage of the working interest and  
24 operating rights within the spacing unit does Yates  
25 Petroleum Corporation and affiliated entities own?

1 A. Approximately 80 percent.

2 Q. Are there other parties were leasehold and  
3 unleased mineral interests within the spacing and  
4 proration unit?

5 A. Yes, there are.

6 Q. Have you contacted all parties with  
7 leasehold or unleased mineral interests and requested  
8 them to join in the proposed well or reach some other  
9 agreement?

10 A. Yes, we have.

11 Q. And they've not all agreed to participate  
12 or otherwise reach an agreement on this?

13 A. That's correct.

14 Q. Which parties have not agreed to  
15 participate or otherwise farm out or lease?

16 A. The parties which haven't responded to our  
17 well proposal are Kathleen Cone and Clifford Cone.

18 Q. How much interest do they own in the--

19 A. Approximately five percent.

20 MR. VANDIVER: Mr. Examiner, Exhibit 2 is  
21 an Affidavit of Mailing prepared by my office pursuant  
22 to Rule 12-07, reflecting that the application of  
23 Yates Petroleum in this case was mailed to, among  
24 other parties, Kathleen Cone and Clifford Cone on  
25 December 4, 1989. And if you will note that the

1 return receipts are attached to that exhibit  
2 reflecting that Kathleen Cone received the letter  
3 December 5, 1989, and Clifford Cone also received  
4 notice December 5, 1989.

5 Q. Mr. Cowan, identify the packet of  
6 correspondence we've submitted as Applicant's Exhibit  
7 3 in this case, and review that correspondence and  
8 other material for the Examiner, please.

9 A. Exhibit No. 3 is a packet of correspondence  
10 between working interest owners, and on referring to  
11 the Clifford "ADD" #1 well, I would like to start at  
12 the back of this packet, if I may.

13 Q. If I could ask you one question. Going  
14 back to the interest of the parties who have not  
15 agreed to participate, what type of interest do  
16 Clifford Cone and Kathleen Cone own in the lands in  
17 the proposed spacing unit?

18 A. They have a mineral interest.

19 Q. If you would start at the back of Exhibit 3  
20 and describe the information contained there?

21 A. The very last sheet in Exhibit 3 are  
22 landman's notes and scribbles. And the main point I  
23 wanted to point out, these notes were written on  
24 September 10, 1987, and they're referring to acreage  
25 in Section 35, of 19/24, the acreage in question

1 today. Then there's a quick plat, a page or two of--

2 Q. What do these notes depict?

3 A. They depict the different acreage that  
4 we're trying to get the Cones to join us in, and their  
5 interest in the acreage.

6 Q. Were you trying to drill a well at this  
7 time or obtain an oil and gas lease from the Cones?

8 A. I believe we were just trying to obtain an  
9 oil and gas lease back in 1987.

10 Q. All right. Go ahead.

11 A. If you'll move a couple of pages ahead,  
12 you'll see a letter from Douglas L. Cone to Mr.  
13 Beardemphl, our landman at this time. I believe this  
14 is around September of 87. Briefly, the letter says  
15 that Doug Cone wants to join in the well when  
16 proposed, but is not interested in leasing at this  
17 time.

18 The next letter forward is dated September  
19 23, 1987, from Tom R. Cone, again to Mr. Beardemphl,  
20 regarding acreage which includes this Section 35, the  
21 southeast quarter, and Mr. Beardemphl is trying to  
22 lease acreage from Mr. Cone at this time. And Mr.  
23 Cone is asking for more terms and information on the  
24 offer.

25 Q. What's the significance of letters from

1 Douglas Cone and Tom R. Cone? You were trying to  
2 lease all the Cone interests?

3 A. Yes, we were, and we were trying to lease  
4 other acreage in that section, also.

5 Q. Go ahead with Exhibit 3.

6 A. Okay. The next letter is dated May 2,  
7 1989. This is an offer. We've gone from leasing  
8 their acreage to offering to buy their acreage, and  
9 this was sent to the Cone family on May 2, 1989.

10 Q. What are the terms of the offer to  
11 purchase?

12 A. We're offering them \$40,000 for their 35.6  
13 net mineral interest, and we gave them, I believe, the  
14 standard time to respond back to us, which was May 20,  
15 1989, and are asking them to please reply to us.

16 Q. All right.

17 A. The next letter is dated October 24, 1989,  
18 to all working interest owners. This is the actual  
19 proposal to drill the Clifford "ADD" #1 well in  
20 Section 35, southeast quarter of Township 19 South,  
21 Range 24 East. It briefly discusses what Yates wants  
22 to do, the formations, the approximate AFE costs for  
23 dry hole and completed well, and also states that we  
24 enclose two copies of the AFE and one copy of the  
25 operating agreement for the working interest owners to

1 sign. And there's a note that we're asking people to  
2 please work with us. And, if they don't want to join  
3 the well, we'll be glad to talk with them on any other  
4 options they might wish.

5 Q. All right. What's the next correspondence?

6 A. The next letter is dated November 3, 1989,  
7 the working interest owners, regarding the Clifford  
8 "ADD" #1 well. This letter briefly summarizes that  
9 we're starting to receive responses from other working  
10 interest owners, and we're asking those who have not  
11 responded to please do so at their earliest  
12 convenience.

13 The next letter is dated December 1, 1989,  
14 to the working interest owners, and this is just a  
15 brief letter outlining who hasn't joined, and asking  
16 these people to respond. And also we'll be willing to  
17 discuss either leasing or farming out their acreage  
18 under this proposed well.

19 And the last letter is dated December 13,  
20 1989, to the working interest owners, and it states  
21 everyone has responded but three people have not  
22 responded, and the three people are Kathleen Cone and  
23 Clifford Cone, and since this letter one of the other  
24 working interest owners has responded; therefore, the  
25 Cones are the only ones who have not responded.



1 Q. If I could summarize Exhibit 3, you began  
2 trying to lease the Cone mineral interests in 1987,  
3 and then offered to purchase in May 1989, and then  
4 proposed drilling the well in October 1989, and the  
5 Cones have not agreed to participate or lease or farm  
6 out?

7 A. That is correct.

8 Q. Now, if I could ask you to identify  
9 Applicant's Exhibit 4, the Joint Operating Agreement,  
10 and review that agreement for the Examiner?

11 A. Exhibit 4 is a standard form A.A.P.L. Form  
12 610, 1977 Model Form Operating Agreement for the  
13 Clifford "ADD" #1 well. The Operating Agreement is  
14 dated October 24, 1989, designating Yates Petroleum  
15 Corporation as the operator of this well. And the  
16 contract area is Section 35, the southeast quarter of  
17 Township 19 South, Range 24 East, in Eddy County, New  
18 Mexico.

19 Q. If you would please refer to Exhibit A of  
20 the Joint Operating Agreement and review the  
21 information briefly on that exhibit?

22 A. Exhibit A shows the working interest owners  
23 and their proportionate share of costs that they will  
24 share in the drilling of this well.

25 Q. Now, if I could refer to Exhibit C of the

1 Joint Operating Agreement, the COPAS accounting  
2 procedure form, and point out for the Examiner the  
3 overhead or supervision rates requested by Yates  
4 Petroleum Corporation for operations in connection  
5 with drilling and producing the Clifford "ADD" #1  
6 well?

7 A. On Exhibit C, page 3, under "Overhead," the  
8 drilling well rate is \$3,500 a month and the producing  
9 well rate is \$350 a month. These rates are comparable  
10 to drilling a Cisco Canyon well to this depth in this  
11 area, and these are Yates Petroleum Corporation's  
12 standard overhead rates for this area.

13 Q. You've drilled numerous Canyon wells in  
14 this area, Mr. Cowan?

15 A. Yes, that is correct.

16 Q. These rates are consistent with the rates  
17 you've charged for other wells and the rates that  
18 other operators charge?

19 A. Yes.

20 Q. In the area for wells of this depth?

21 A. I believe they might even be a little bit  
22 lower than some of the other companies that are  
23 operating in this area.

24 Q. This Joint Operating Agreement was  
25 submitted to all the other working interest owners

1 owning working interests, leasehold interests or  
2 unleased mineral interests in the proposed spacing  
3 unit, and has been approved and executed by all those  
4 parties?

5 A. That is correct.

6 Q. Now, if I could refer you to Applicant's  
7 Exhibit 5 in this case and ask you to identify and  
8 describe its contents?

9 A. Exhibit No. 5 is Yates Petroleum  
10 Corporation's authority for expenditure for the  
11 Clifford "ADD" #1 well in Eddy County, New Mexico,  
12 which will be an 8100 foot Canyon well. At the bottom  
13 it breaks out the dry hole costs, being \$241,000, and  
14 a completed well at \$539,000. It also breaks out the  
15 working interest owners and their working interest  
16 percentages.

17 Q. And the interests of Kathleen Cone and  
18 Clifford Cone are shown on this AFE?

19 A. Yes, that is correct.

20 Q. Are the costs reflected on this AFE those  
21 obtained by Yates' experience in drilling Canyon wells  
22 in this area?

23 A. Yes, they are.

24 Q. Those costs are reasonable and necessary  
25 costs to drill a Canyon well at this time in this area

1 as determined by the Yates engineering department?

2 A. Yes, that is correct.

3 Q. Mr. Cowan, were Exhibits 1 through 5 either  
4 prepared by you or under your direction or supervision  
5 or taken from the business records maintained by Yates  
6 Petroleum Corporation?

7 A. Yes, they were.

8 MR. VANDIVER: Mr. Examiner, I'll move the  
9 admission of Applicant's Exhibits 1 through 5, and I  
10 have no further questions of the witness.

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

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Cowan, can you describe for me exactly  
16 what acreage is owned by Kathleen and Clifford Cone,  
17 or where that is located?

18 A. They own mineral interests in the southeast  
19 quarter at Section 35, Township 19 South, Range 24  
20 East. This is shown in the Unit Operating Agreement  
21 as part of Exhibit A.

22 MR. VANDIVER: I believe it's number 5  
23 listed on Exhibit A of the Operating Agreement, or  
24 Exhibit A-1. I'm sorry.

25 Q. Do you know which quarter/quarter section

1 that may be in, Mr. Cowan?

2 A. I believe the minerals are just spread  
3 throughout.

4 MR. STOVALL: If I may rephrase the  
5 question for the Examiner?

6 EXAMINATION

7 BY MR. STOVALL:

8 Q. Is it your understanding that their  
9 interests are an undivided fee mineral interest in the  
10 entire southeast quarter portion of that?

11 A. Yes.

12 Q. Mr. Cowan, with respect to the Cone  
13 interests, you've indicated that only the two Cones  
14 have not agreed to join or lease their interests.  
15 Have all of the other Cone interests somehow committed  
16 to this production unit, is that correct?

17 A. That is correct.

18 Q. Is that by lease or have they joined in as  
19 working interest owners and fee mineral owners?

20 A. They're working interest owners and fee  
21 mineral owners.

22 Q. Let me go back to Exhibit A-1 for a minute  
23 and make sure I'm clear what you're doing. Number 4  
24 on A-1, Cathy Cone Auvenshine, is she leased to Yates  
25 or is she participating? It appears on the exhibit

1 that it's a lease. Do you know whether that is  
2 correct or not?

3 A. May I talk to David for a second? I don't  
4 show her under the working interest owners under  
5 Exhibit A.

6 MR. VANDIVER: Number 4 is a lease.

7 A. It's a lease. She's leased to us.

8 Q. Then under number 5 you've listed all the  
9 other Cones, and we would refer to Exhibit A to  
10 determine if they're working interests, is that  
11 correct?

12 A. Yes.

13 Q. Their interest, is it participating as 100  
14 percent working interest or is it participating as a  
15 fraction working interest with a portion of their  
16 interest attributed to a royalty type of interest?

17 A. Yes. A portion of it goes to a royalty  
18 interest and then the rest of it is as a working  
19 interest.

20 MR. VANDIVER: That's under the terms of  
21 the Operating Agreement. Exhibit B contains an oil  
22 and gas lease, and as to unleased mineral interests  
23 it's deemed to be leased under the form attached as  
24 Exhibit B, which contains a 3/16th royalty, and then  
25 the balance is treated as a working interest. And I

1 believe that's under Article III(A) of the Operating  
2 Agreement.

3 Q. And you understand that under State  
4 statute, if we pool the Kathleen Cone--and which is  
5 it, Clifford Cone?

6 A. Clifford Cone.

7 Q. --and Clifford Cone, that those will be  
8 treated as one-eighth royalty, seven-eighths working  
9 interest?

10 A. Yes.

11 Q. You understand that?

12 A. Yes, sir.

13 Q. Have you dealt with the Cones previously?

14 A. I personally have not.

15 Q. The reason I ask that question is I know  
16 we've had forced-pooling cases before the Division  
17 involving the Cones before. I say that on the record  
18 primarily for the purpose of establishing that they do  
19 have some knowledge of their interest in the oil and  
20 gas minerals in Southeast New Mexico.

21 MR. STOVALL: I have no further questions.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Cowan, these overhead rates, you've  
25 utilized in this area before, is that correct?

1           A.       Yes.

2                   EXAMINER CATANACH:   That's all the  
3 questions I have.   The witness may be excused.

4                   THE WITNESS:   Thank you.

5                               RAY BECK

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

8                               EXAMINATION

9 BY MR. VANDIVER:

10           Q.       Mr. Beck, state your full name, your  
11 occupation and by whom you're employed, please?

12           A.       Ray Beck, geologist, Yates Petroleum.

13           Q.       Mr. Beck, you've previously testified on  
14 numerous occasions before the Oil Conservation  
15 Division and had your qualifications as a petroleum  
16 geologist accepted, and your qualifications are a  
17 matter of record, are they not?

18           A.       That's right.

19           Q.       Have you made a study of the available  
20 geological data in the area of Yates' proposed well in  
21 this case for the purpose of presenting evidence  
22 relating to the risk involved in drilling this well  
23 and recommending to the Examiner a risk factor  
24 penalty?

25           A.       Yes, I have.



1 Q. And you've also prepared certain exhibits  
2 which you will refer to in connection with your  
3 testimony?

4 A. Yes, that's true.

5 MR. VANDIVER: Mr. Examiner, I'll tender  
6 Mr. Beck as an expert petroleum geologist.

7 EXAMINER CATANACH: He is so qualified.

8 Q. Mr. Beck, is there risk involved in  
9 drilling Canyon wells in this area?

10 A. Yes, there is.

11 Q. And, in particular, this well?

12 A. This well is at risk like all the other  
13 wells.

14 Q. All right. In order to illustrate some of  
15 the factors relating to the risk involved, I would ask  
16 that you refer to Applicant's Exhibit 6 and identify  
17 that and describe it, and then we'll discuss the  
18 information contained in that exhibit.

19 A. Exhibit No. 6 is a map of a large portion  
20 of Dagger Draw Upper Penn North Oil Field. Dagger  
21 Draw Upper Penn North produces oil, sour gas and  
22 brackish sulphur water from a combined stratigraphic  
23 and hydrodynamic trap consisting of a band of  
24 partially porous and permeable dolomite pinching out  
25 updip into tight sealing limestone. Downdip economic

1 production is limited by water. There is no  
2 water-free production in this field; however, there is  
3 a hydrodynamically northeast tilted surface below  
4 which the dolomite reservoir is virtually all  
5 water-filled. This water-filled part of the reservoir  
6 is referred to as the big water by Yates, and most  
7 operators try to perforate above the big water.

8           This exhibit is a combined Canyon or Upper  
9 Penn dolomite isolith and top-of-dolomite structural  
10 map. Solid contours are 100-foot contours of the net  
11 Canyon dolomite thickness and show the net dolomite to  
12 range from zero to a little over 300 feet. Dotted  
13 contours show the structural configuration of the top  
14 of the Canyon dolomite in 100-foot contours and it can  
15 be seen that generally the dolomite body dips to the  
16 east and east/southeast. It is porous and permeable  
17 zones in this body of Canyon dolomite that constitutes  
18 the producing reservoir in Dagger Draw Upper Penn  
19 North Field.

20           Circled well spots are Canyon or deeper  
21 penetrations. Green-colored well spots are Dagger  
22 Draw Upper Penn North producers. The one red spot is  
23 a Canyon sour gas well. It can be seen that 13  
24 producers have been plugged in the area mapped.  
25 Uncolored circled gas well spots indicate gas

1 production from zones stratigraphically lower than the  
2 Canyon, such as the Strawn, Atoka and Morrow.

3           According to the map, the proposed Clifford  
4 "ADD" #1 in the Southeast of the Southeast of Section  
5 35 of 19 South, 24 East, should encounter  
6 approximately 150 feet of net Canyon dolomite and  
7 should hit the top of the dolomite at about a minus  
8 4030 subsea all of which will hopefully result in an  
9 economically successful oil, sour gas and water well.  
10 However, let me hasten to say that the Dagger Draw  
11 reservoir is a carbonate reservoir, and like virtually  
12 all carbonate reservoirs it is complex in geometry and  
13 variable in reservoir quality from place to place.  
14 That is, there is always geological risk in drilling  
15 for and developing carbonate reservoirs. The  
16 carbonate reservoir may abruptly thin or change from  
17 porous and permeable rock to tight and impermeable  
18 rock, resulting in a so-called inside location  
19 becoming an uneconomic well.

20           Examples of four wells will be presented to  
21 show geological risk in drilling the Dagger Draw Upper  
22 Penn North Field. These four wells are marked by  
23 orange arrows on the map. This is, of course, a  
24 currently developing field with a number of recently  
25 completed wells with little production history, and it

1 must be remembered that the wells produce not only oil  
2 but sour gas and large amounts of water. Therefore,  
3 there's always a risk that a number of wells will turn  
4 out to be uneconomic. Another Yates witness will  
5 testify in more detail about high drilling, equipping  
6 and lease operations costs in this field.

7           Starting from the north part of the map,  
8 the first of the four examples that show geological  
9 risk is the Hanks Molly #1 located 990 feet from the  
10 south and east of Section 13 of 19/24, which  
11 encountered a respectable 142 feet of Canyon  
12 dolomite. This well was completed in December of 76  
13 for an IPP of 45 barrels of oil per day plus 299  
14 barrels of water per day. It was plugged in 79 with a  
15 final uneconomic cumulative production of 2,594  
16 barrels of oil, plus almost 21 Mmcft and 24,000 barrels  
17 of water. Yet, the Hanks Molly is only 467 feet  
18 northwest of a later drilled well, the Yates Molly  
19 "QD" #1, which is one of the best wells in the field.

20           Moving to the south and the third well, to  
21 show the geological risk, is the Conoco--excuse me.  
22 The second example is the ARCO Cone Federal #1 located  
23 660 feet from the north and east lines of 24, of  
24 19/24, which cut 171 feet of Canyon dolomite and is  
25 surrounded by five good, excellent Canyon producers.

1 But the Cone Federal was completed on 11/12/64 and was  
2 plugged in 66, with a final, uneconomic cumulative  
3 production of 4168 barrels of oil.

4 The third well to show geological risk is  
5 the Conoco (formerly the Ralph Nix) Debbie #1, located  
6 1980 from the south, 660 from the east of Section 11  
7 of 20/24, which encountered 307 feet of Canyon  
8 dolomite of which 174 feet was above the big water.  
9 The Debbie well was originally completed in May of  
10 1982 by Ralph Nix, for an IPP of 55 barrels of oil and  
11 162 barrels of water per day. Later, when Nix wished  
12 to plug the well, Conoco took over operations in an  
13 attempt to improve the production. Conoco then  
14 finally plugged the well in November of 86 with a  
15 final cumulative uneconomic production of 5496 barrels  
16 of oil, 28 Mmcf of gas, and 211,000 barrels of water.

17 The fourth well to show geological risk is  
18 the Yates Cacti "AGB" State #1 in Section 2 of 20  
19 South, 24 East, which will be discussed with the next  
20 exhibit, a cross-section whose trace is shown on this  
21 map exhibit.

22 Q. Now, Mr. Beck, if I could refer you to  
23 Applicant's Exhibit 7, the cross-section, I would ask  
24 you to identify that and describe the information  
25 contained in that exhibit.

1           A.       Exhibit No. 7 is a Northwest to Southeast  
2 structural cross-section depicting the depth dimension  
3 across the southern part of Dagger Draw Upper Penn  
4 North Oil Field. The compensated neutron-density  
5 porosity logs are hung on a minus 3500 feet below sea  
6 level datum. Vertical scale is two and a half inches  
7 is equal to 100 feet, and the horizontal distance  
8 between wells is only proportional to map distances.

9               Shown is the top of the Canyon limestone,  
10 called Upper Penn by some workers. Also shown is the  
11 limits of the dolomite reservoir facies and the  
12 hydrodynamically tilted "big water" contact.

13               In order to have a chance at finding  
14 commercially economic hydrocarbons in Dagger Draw  
15 Field, one must encounter adequate porous and  
16 permeable dolomite reservoir facies above the tilted  
17 "big water" contact below which the dolomite reservoir  
18 facies is almost all water-filled.

19               The fourth well from the left on the  
20 cross-section, the Yates Cacti "AGB" State #1, cut 116  
21 feet of section between the top of the dolomite to the  
22 "big water." However, 52 feet of the middle of that  
23 section was not dolomite reservoir but a tight  
24 interval of interbedded shale and lime. This Cacti  
25 well is currently producing from the and will later be

1 perforated at Canyon dolomite. However, it is  
2 possible that this well will not be an economically  
3 commercial producer from the Dagger Draw Upper Penn  
4 North Field because of the 52-foot tight interval.

5           The point is that the proposed Clifford  
6 "ADD" #1 which appears at first to be an inside  
7 location, is at some risk to encounter an inadequate  
8 amount of porous and permeable dolomite reservoir  
9 facies above the "big water," much like or worse than  
10 the Cacti well.

11           The graphic example of the Yates Cacti only  
12 reiterates the common experience that geologists have  
13 with carbonate reservoirs, which is that they are  
14 complex bodies of rock which may thicken or thin  
15 erratically or change facies erratically from porous,  
16 permeable reservoir rock to impermeable rock. There  
17 is always that risk in drilling for carbonate  
18 reservoirs.

19           Q.     Mr. Beck, based upon your study of this  
20 area and your review of this data, do you have a  
21 recommendation to make to the Examiner with regard to  
22 a risk factor penalty to be ordered in this case?

23           A.     I recommend a risk penalty of 200 percent.

24           Q.     Mr. Beck, in your opinion, will the  
25 granting of this application be in the interest of

1 conservation of oil and gas, the prevention of waste  
2 and the protection of correlative rights?

3 A. Yes, I do.

4 Q. Were Exhibits 6 and 7 in this case prepared  
5 by you or under your direction and supervision?

6 A. Yes, they were.

7 MR. VANDIVER: Mr. Examiner, I move the  
8 admission of Applicant's Exhibits 6 and 7 in this  
9 case, and I have no further questions of the witness.

10 EXAMINER CATANACH: Exhibits 6 and 7 will  
11 be admitted as evidence.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Beck, on your Exhibit No. 6, the two  
15 economic wells you've shown to the north, you said  
16 those were located in close proximity to pretty good  
17 wells, is that correct?

18 A. Yes. They're the first two?

19 Q. Right. The top two.

20 A. Okay.

21 Q. What was the difference between the  
22 uneconomic wells and the good producing wells?

23 A. Well, it's difficult to say because they  
24 were kind of old wells, but they were perforated in  
25 adequate amounts of dolomite. They, somehow or



1 another, got too much water for them in those days and  
2 they didn't stay with it very long and that's why they  
3 got the low reservoir cumulatives.

4 Q. Both those wells produced a lot of water?

5 A. That's right. All the wells in the field  
6 produced a lot of water. Evidently, when they  
7 perforated, they reached into too much water or, for  
8 other reasons unknown to me, they didn't make enough  
9 of a well to be economical.

10 Q. You didn't go into any detail on the Yates  
11 Cacti State. What was the story with that well?

12 A. Well, that was the well that was on the  
13 cross-section, Exhibit 7.

14 Q. Oh, okay.

15 A. That well is currently a Morrow well.  
16 However, on the logs it shows that 52-foot interval  
17 right in the middle of the carbonate--of the dolomite  
18 section, was shale and also had facies going from  
19 dolomite to shale and limestone, which shale and  
20 limestone is not productive. And there is some  
21 question about whether this well will be economic. If  
22 it were just drilled for the Canyon reservoir, Canyon  
23 dolomite, it was a facies change there that's working  
24 against it.

25 Q. Do you have any indication that your

1 proposed well is going to encounter any of these  
2 geologic problems?

3 A. I'm just trying to point out that even  
4 though it would appear to be an inside location,  
5 you've got a well here that's eight-tenths of a mile  
6 to the southwest, the Cacti well, which may not have  
7 the reservoir to make a good well, and that could  
8 happen to the Clifford. We hope it won't, but there's  
9 always that risk. And I think there should be a  
10 charge for that risk when we take on these other  
11 people's interest.

12 EXAMINER CATANACH: That's all the  
13 questions I have of this witness. You may be  
14 excused.

15 DAVID FRANCIS BONEAU  
16 the witness herein, after having been first duly sworn  
17 upon his oath, was examined and testified as follows:

18 EXAMINATION

19 BY MR. VANDIVER:

20 Q. Dr. Boneau, please state your full name,  
21 your occupation and by whom you're employed.

22 A. My name is David Francis Boneau. I work as  
23 an engineer for Yates Petroleum Corporation in  
24 Artesia, New Mexico.

25 Q. You have previously testified before the

1 Oil Conservation Division as an engineer on numerous  
2 occasions, have you not, and had your qualifications  
3 accepted and your qualifications are a matter of  
4 record?

5 A. Yes, sir.

6 Q. Have you made an engineering study of the  
7 area surrounding Yates' proposed Clifford "ADD" #1  
8 well in this case?

9 A. Yes, sir, I have done that, and I hope to  
10 be able to present some numbers that maybe will make  
11 Mr. Beck's arguments a little more tangible.

12 Q. You've prepared certain exhibits to  
13 illustrate your testimony in this case?

14 A. Yes, sir, I have done that.

15 MR. VANDIVER: Mr. Examiner, I would tender  
16 Dr. Boneau as an expert petroleum engineer.

17 EXAMINER CATANACH: He is so qualified.

18 Q. Your testimony will also be for the purpose  
19 of recommending a risk factor penalty in this case?

20 A. That's correct.

21 Q. If I could refer you to Applicant's Exhibit  
22 8 in this case and ask you to identify that and  
23 describe the information shown?

24 A. Yes. Exhibit 8 is a map of the area of the  
25 Dagger Draw Upper Penn North where I have listed, next

1 to the well locations, what I call current oil rate in  
2 barrels of oil per day. There are 28 wells there and  
3 17 of them are operated by Yates, and Conoco and  
4 Texaco are the other major operators in the field.

5 Current oil rate means January numbers for  
6 the Yates wells and it means the most current C-115  
7 that I could obtain, which was October of 1989, for  
8 the other people's wells. It's an attempt to tell you  
9 what the oil rate is of the wells in that area.

10 The wells offsetting the Clifford--well,  
11 the Clifford is in southeast, southeast of Section 35  
12 of 19/24, as indicated by the red dot. The wells  
13 offsetting it, the Roden #4, makes 18 barrels of oil a  
14 day, the State CO #3 makes 26 barrels of oil a day.  
15 The State CO #2 is a real good well at 293 barrels of  
16 oil per day. The southeast offset, the Foster AN #1,  
17 makes 126 barrels of oil a day, and two wells a little  
18 to the west make 18 and 41 barrels of oil per day.

19 A recurrent theme is going to be that these  
20 are not normal wells. You need like a  
21 100-barrel-a-day well to make money because of the  
22 huge costs that are involved. Let's go on from there,  
23 but you might expect the Clifford to be anywhere from  
24 a 20 barrel of oil per day to a 2- or 300 barrel of  
25 oil per day well, based on these numbers. My point is

1 going to be that 20 barrels a day is a big loser.

2 Q. What are some of the costs involved in  
3 these wells?

4 A. Two factors lead to big costs in these  
5 wells. The gas is very sour and requires treating  
6 before it can be sold. The sour gas causes corrosion  
7 and operational problems. The other factor is that  
8 the wells produce lots of water and the water requires  
9 big casing when you drill the wells. It requires  
10 submersible pumps to lift all the fluid, and requires  
11 an extensive water disposal system and associated  
12 costs to dispose of that water.

13 Q. Now, if I could ask you to identify Exhibit  
14 9 in this case and ask you to describe its contents,  
15 please?

16 A. Exhibit 9 is similar to Exhibit 8, but it  
17 lists the water cut of that same group of wells in the  
18 Dagger Draw Upper Penn North, and is my attempt to  
19 give you an idea of how much water these wells make.  
20 Most of the water cuts are in the 85 to 95 percent  
21 range. The wells offsetting the Clifford location  
22 make the 93 percent water, 93 percent water, 57  
23 percent water in that real good well, and 89 percent  
24 water. Just an attempt to give you an idea of the  
25 kind of water that we're producing, so that a kind of

1 typical well is 100 barrels of oil a day and 1000  
2 barrels of water a day and sour gas.

3           The operating costs are typically \$30,000 a  
4 month a well. You're spending on the order of \$10,000  
5 a month on electricity for a submersible pump. You're  
6 spending on the order of \$10,000 a month for water  
7 disposal. You've got two to three percent H2S in this  
8 gas, and severe corrosion, so you're replacing pumps  
9 and cables and tubing and well heads and that sort of  
10 thing. It's not a typical kind of operation. You  
11 need, like I say, you need a 100-barrel-a-day well to  
12 be in the range of economic.

13           My point is kind of that there's what I  
14 call a system risk. You've got to install all this  
15 expensive system to handle these unwanted products to  
16 get at the oil and the salable gas.

17           Q.     Now, if I could ask you to identify  
18 Applicant's Exhibit 10 in this case and review that  
19 for the Examiner, please?

20           A.     Applicant's Exhibit 10 is a map of the area  
21 on which has been drawn the water gathering lines that  
22 Yates has installed and the gas gathering lines that  
23 Yates has installed.

24           Yates has installed approximately 25 miles  
25 of gas gathering lines for this Dagger Draw project,

1 and there are about 15 miles of water lines that have  
2 been installed as a part of this project. Yates had  
3 some operations in this area, so not exactly  
4 everything in this map is brand-new, but most of it is  
5 brand-new to this project, and there have been some  
6 expensive additions up to the northeast where our  
7 original shallow production and our shallow gathering  
8 system was.

9           The gas goes two places. It goes to a  
10 Transwestern sweetening plant, which is in Section 26  
11 of 18/25, about an inch from the top and two or three  
12 inches from the right-hand side. There's a  
13 Transwestern sweetening plant with a capacity of  
14 7,000,000 cubic feet per day. The gas goes there and  
15 is sweetened and is sold. As this field has  
16 developed, that plant is totally inadequate. We have  
17 permits in to build a 20,000,000 cubic feet per day  
18 plant that would be located at the same site. We've  
19 been working on the permits for a year, so it's moving  
20 along slowly. Our other outlet is we have built a  
21 pipeline from that location in Section 26, five miles  
22 east, over towards the little town of Dayton. That's  
23 an 8-inch steel pipeline, special metallurgy to handle  
24 the H<sub>2</sub>S. We had the pipe specially made and specially  
25 welded, all that stuff.

1           The point there, it takes gas that the TW  
2 plant cannot handle, compresses it over to a sour gas  
3 line operated by Northern Natural, which moves the gas  
4 80 miles east to Hobbs, where it is sweetened. We've  
5 installed gas gathering facilities which are now  
6 handling about 19,000,000 cubic feet a day of sour  
7 gas.

8           On the water disposal, we have developed  
9 for this project four water disposal wells, and  
10 they're indicated by black dots on the figure 10.  
11 There's one in 21 of 19/25, and one in 36 of 19/24,  
12 and two are down there in 20/24. Those wells have all  
13 been developed specifically to handle this water, and  
14 they're handling about 10- to 12,000 barrels of water  
15 a day. Some of the water goes all the way across this  
16 map to the northeast over to Dayton, where we have  
17 another disposal well, an older disposal well.

18           Q.       Now, if I could ask you to refer to Exhibit  
19 11 and review the information contained in that  
20 exhibit?

21           A.       Exhibit 11 simply says that we have spent  
22 \$6 million developing gas and water lines to handle  
23 the developments in Dagger Draw. \$1.5 million of that  
24 has gone for the water disposal system and \$4.5  
25 million for the gas gathering system.



1           In addition to Exhibit 11, we are beginning  
2 construction of a 12-mile gas gathering line that's  
3 listed as proposed on Exhibit 10. That's going to  
4 cost another \$1.5 million. So, the \$6 million  
5 includes no well costs, and we're in the process of  
6 spending another \$1.5 million now, and we're going  
7 ahead with this sweetening plant down the road et  
8 cetera.

9           There's a lot of money being risked, is  
10 what I'm saying, on this development which you're  
11 calling a development program, but these wells have  
12 got to produce oil and gas in acceptable quantities to  
13 pay out this big-time investment we've been making in  
14 Dagger Draw.

15         Q.     If I could digress just a minute and ask  
16 you if you had reviewed Applicant's Exhibit 5 in this  
17 case, the AFE?

18         A.     Yes, sir, I have seen that, and I have  
19 looked that over in some detail.

20         Q.     Are the costs shown on that AFE comparable  
21 to the costs of other Canyon wells drilled in the area  
22 by Yates Petroleum Corporation?

23         A.     Those costs are very similar to the costs  
24 of other wells that we have drilled in this area, and  
25 they're in line with the costs charged by other

1 operators, and are perhaps a little smaller.

2 Q. In your opinion, are those reasonable and  
3 necessary costs for the drilling of this well?

4 A. Yes, sir, those are reasonable costs for  
5 the drilling of this well. The big cost is that  
6 seven-inch casing that has to be installed to total  
7 depth in order to have big enough tubulars to lift all  
8 the fluids.

9 Q. Dr. Boneau, based upon your testimony and  
10 review of the exhibits and the fact that so much water  
11 is produced with this oil and so much sour gas, and  
12 the amount of production that's required to make an  
13 economic well, do you have a recommendation as to the  
14 risk factor penalty to be ordered in this case?

15 A. My recommendation is that the risk factor  
16 penalty be the 200 percent.

17 Q. And, in your opinion, will the granting of  
18 this application be in the interest of conservation of  
19 oil and gas, the prevention of waste and the  
20 protection of correlative rights?

21 A. Yes, sir.

22 Q. Were Exhibits 8 through 11 prepared by you  
23 or under your direction and supervision?

24 A. Yes, sir, they were.

25 MR. VANDIVER: Mr. Examiner, I would move

1 the admission of Applicant's Exhibits 8 through 11 and  
2 I have no further questions of this witness.

3 EXAMINER CATANACH: Exhibits 8 through 11  
4 will be admitted as evidence. I have no questions of  
5 the witness. He may be excused. Is there anything  
6 further in this case?

7 MR. VANDIVER: That concludes my  
8 presentation in this case, Mr. Examiner.

9 EXAMINER CATANACH: Case 9846 will be taken  
10 under advisement. Let's take about a 10-minute  
11 break.

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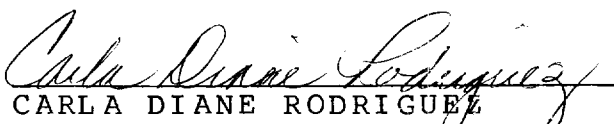
CERTIFICATE OF REPORTER

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

I, Carla Diane Rodriguez, Certified  
Shorthand Reporter and Notary Public, HEREBY CERTIFY  
that the foregoing transcript of proceedings before  
the Oil Conservation Division was reported by me; that  
I caused my notes to be transcribed under my personal  
supervision; and that the foregoing is a true and  
accurate record of the proceedings.

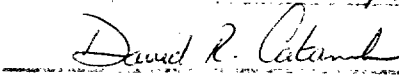
I FURTHER CERTIFY that I am not a relative  
or employee of any of the parties or attorneys  
involved in this matter and that I have no personal  
interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 24, 1990.

  
CARLA DIANE RODRIGUEZ  
CSR No. 91

My commission expires: May 25, 1991

I hereby certify that the foregoing is  
a true and accurate transcript of the  
proceedings before the Oil Conservation Division.  
February 7, 1990

  
David R. Catamb, Examiner  
Oil Conservation Division

CUMBRE COURT REPORTING  
(505) 984-2244