1	STATE OF NEW MEXICO
2	ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3	OIL CONSERVATION DIVISION
4	CASE 9860
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8	EXAMINER HEARING
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10	IN THE MATTER OF:
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12	Application of Yates Petroleum Corporation
13	for Compulsory Pooling, Eddy County,
14	New Mexico
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17	TRANSCRIPT OF PROCEEDINGS
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19	BEFORE: DAVID R. CATANACH, EXAMINER
20	
21	STATE LAND OFFICE BUILDING
22	SANTA FE, NEW MEXICO
2 3	February 7, 1990
2 4	
25	ORIGINAL

# APPEARANCES ROBERT G. STOVALL FOR THE DIVISION: Attorney at Law Legal Counsel to the Divison State Land Office Building Santa Fe, New Mexico FOR THE APPLICANT: DAVID R. VANDIVER, ESQ. Fisk & Vandiver 7th & Mahone, Suite E Artesia, New Mexico 82210

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EXAMINER CATANACH: At this time we'll call the hearing back to order and call Case 9860.

MR. STOVALL: Application of Yates

Petroleum Corporation for compulsory pooling, Eddy

County, New Mexico.

EXAMINER CATANACH: Appearances in this case.

MR. VANDIVER: Mr. Examiner, I'm David
Vandiver from the Artesia law firm of Fisk and
Vandiver, appearing on behalf of the Applicant, and I
have three witnesses who have previously been sworn
this morning.

EXAMINER CATANACH: Okay.

MR. STOVALL: Mr. Vandiver, do you want to move to incorporate the previous case?

MR. VANDIVER: Yes, sir. Mr. Examiner, the Dagger "ZW" well in Case No. 9860 is in close proximity to the Clifford "ADD" #1 well in Case 9846, which was heard previously this morning.

The same parties are not being forced-pooled, but the well is within a mile of the Clifford well and large portions of the testimony are identical to the testimony in Case 9846. We would request that we just be allowed to point out the differences between the testimony in the two cases and

- 1 | incorporate the testimony mainly of Mr. Beck and Dr.
- 2 | Boneau, the geologist and the engineer. We would like
- 3 | to put on a little testimony with regard to the land
- 4 | situation.
- 5 EXAMINER CATANACH: Okay. The record in
- 6 | Case 9846 will be incorporated into this case, Case
- 7 9860.
- 8 MR. VANDIVER: May I proceed?
- 9 EXAMINER CATANACH: Yes.
- 10 CY COWAN
- 11 | the witness herein, after having been first duly sworn
- 12 upon his oath, was examined and testified as follows:
- 13 EXAMINATION
- 14 BY MR. VANDIVER:
- Q. Mr. Cowan, state your full name, occupation
- 16 and by whom are you employed?
- 17 A. My name is Cy Cowan. I'm a landman for
- 18 | Yates Petroleum Corporation.
- 19 Q. You were previously sworn this morning, you
- 20 testified as a petroleum landman this morning and had
- 21 | your qualifications as a landman accepted, is that
- 22 | correct?
- 23 A. Yes.
- Q. Are you familiar with the title to the land
- 25 | surrounding the proposed spacing unit for the well

which is the subject of Yates' application in this case?

A. Yes, I am.

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

EXAMINER CATANACH: He is so qualified.

- Q. Summarize the purpose of Yates Petroleum Corporation's application in Case 9860, please, sir.
- A. Yates Petroleum Corporation seeks an order pooling all mineral interests from the surface to the base of the Canyon Formation, underlying the southeast quarter of Section 25, Township 19 South, Range 24

  East, forming a standard 160-acre spacing and proration unit for any and all formations and/or pools developed under this 160-acre spacing unit, and the northeast quarter of the southeast quarter of Section 25, forming a standard 40-acre oil spacing and proration unit, for any and all formations and/or pools developed on a 40-acre spacing unit.

The spacing unit will be dedicated to the Dagger "ZW" #2 well to be drilled at a standard location 1980 feet from the south line and 660 feet from the east line of Section 25. We also discuss the cost of drilling and completing this well, and the allocation of costs thereof, as well as actual

- 1 operating costs and charges for supervision,
- 2 designation of Yates Petroleum Corporation as operator
- of the well, and a charge for risk involved in
- drilling this well.

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- 5 Q. Now, Mr. Cowan, identify Applicant's Exhibit 1 in this case, the land plat, and review the 6 information shown on that exhibit, please.
- 8 Α. Exhibit No. 1 is a land plat showing 9 portions of Township 19 South, Range 24 East. I would 10 like to direct your attention to Section 25, the southeast quarter, which is outlined in red. This is 11 12 the proposed proration unit for the Dagger "ZW" #2 well. The actual well location is denoted by the red 13 dot in the northeast of the southeast quarter of 14 Section 25.
  - What percentage of the working interest and 0. operating rights does Yates Petroleum Corporation and its affiliated entities own in the proposed spacing and proration unit for the Dagger "ZW" well?
    - Approximately 54 percent. Α.
- There are other parties with leasehold or 21 0. 22 unleased mineral interests in this spacing unit?
  - Α. Yes, there are.
- 24 Have you contacted all parties with Q. 25 leasehold or unleased mineral interests and requested

- 1 | them to join in your proposed well or enter into a
- 2 | farm out agreement or some other contractual
- 3 | arrangement?
- 4 A. Yes, we have.
- Q. Have all parties agreed to participate in 6 your proposed operation?
- A. No, sir. Kenneth Cone has not responded to our requests to participate in this well.
- 9 Q. What percentage of the working interest in 10 this spacing unit does Kenneth Cone own?
- 11 A. Six-tenths of one percent.
- 12 Q. All other parties have agreed to join or 13 farm out?
- 14 A. Yes, that is correct.
- 15 Q. Is Mr. Cone's interest a leasehold interest

  16 or an unleased mineral interest?
- 17 A. Mr. Cone's interest is a leasehold 18 interest.
- MR. VANDIVER: Mr. Examiner, Exhibit 2 is
- 21 to Rule 12-07 reflecting that the application of Yates

an Affidavit of Mailing prepared by my office pursuant

- 22 in this case was mailed to Kenneth Cone on January 3,
- 23 | 1990. You'll note there is a return receipt
- 24 reflecting that Mr. Cone received this notice of the
- 25 | hearing January 14, 1990.

- Q. Mr. Cowan, Marathon Oil Company also was given notice of this hearing, were they not?
  - A. That is correct.
    - Q. Has Marathon agreed to join in your well?
- A. Marathon has agreed earlier this week to join us in this well, and we do have a FAX'd signed copy of an AFE from Marathon, but we do not have an originally signed AFE as yet.
  - Q. They FAX'd you an AFE?
- 10 A. That's right.

- 11 Q. You don't have an original AFE or signed 12 operating agreement?
- 13 A. That is correct.
  - Q. Now, refer to Applicant's Exhibit 3 in this case, which is a packet of correspondence, and review that correspondence briefly for the Examiner.
  - A. I would like to ask you to turn to the back. We'll start at the back of the correspondence packet. The first letter is dated July 31, 1989, to working interest owners. This is our initial letter proposing to drill the Dagger "ZW" #2 well in Section 25 of 19 South, Range 24 East. It also states the two copies of the AFE and an operating agreement were enclosed with this proposal letter.
    - Q. Next letter is dated August 4, 1989?

- A. The next letter is August 4, 1989, to the working interest owners. Apparently there is a problem in one of the exhibits, the COPAS exhibit, and this was just replacing the COPAS with the correct form.
  - Q. November 1 letter?

- A. This letter is to the working interest owners reminding the parties that have not signed up to please join in the well.
- Q. Then there is some additional correspondence in the packet from Marathon Oil Company, I believe?
- A. That is correct. Marathon was asking Yates Petroleum, in a letter dated September 27, 1989, they're asking us to modify the Operating Agreement per some problems they had with the Operating Agreement at that time.
- Q. Did Yates make those modifications to the Operating Agreement as requested by Marathon?
- A. Yes, they were. In a letter dated December 8, 1989, it was noted that these changes were made to the Operating Agreement per Marathon's request, and were added to the back, to please, everyone who has not joined or participated in this well, to please join us.

- 1 Q. And then the January 4 letter?
- A. This letter of January 4th denoted there's a typographical error in Exhibit A to the Operating Agreement, and this letter is sending back the correction to the Operating Agreement to the working interest owners.
  - Q. And then another Marathon letter asking for changes to the Operating Agreement?
    - A. That is correct. The letter dated January 15, 1990 from Marathon, Yates Petroleum requested that they had some additional changes to the operating agreement that we should consider.
- Q. The letter on the top, January 19th, was sent to Kenneth Cone after the application for compulsory pooling was filed in this case?
- 16 A. That is correct. And to date we have not received any response from Mr. Cone.
  - Q. Have all other members of the Cone family agreed to participate or farm out--
    - A. Yes, they have.
- Q. --for the drilling of this Dagger "ZW" #2
  well?
- A. Yes, they have.

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Q. If you could identify Exhibit 4, the Joint 25 Operating Agreement, and briefly review that exhibit?

- A. Exhibit 4 is the standard A.A.P.L. Form

  2 610, 1977 Model Form Operating Agreement for the

  3 Dagger "ZW" #2 well.
  - Q. This Operating Agreement is exactly the same form as the Operating Agreement for the Clifford ADD #1 well?
    - A. That is correct.
  - Q. The only difference being the information reflected on Exhibit A with respect to the working interest owners' percentage interests in the spacing unit?
- 12 A. Yes.

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- Q. On Exhibit A there's a breakdown as to the parties' interests and costs and production for the drilling of the well before payout and after payout?
  - A. That's correct.
- Q. And the Cone family's interests is shown under Tract 1 on Exhibit A as being undivided interests in an oil and gas lease executed by S. P. Johnson, et al.?
- 21 A. That is correct.
- Q. That covers 84 net acres throughout the entire southeast quarter of Section 25, Township 19
  South, Range 24 East?
- 25 A. That is correct.

- Q. Your other testimony with regard to the joint operating agreement in Case 9846 is the same as your testimony in this case?
  - A. Yes, sir.
- Q. Now if I could refer you to Applicant's Exhibit 5 which is the AFE, and ask you if that AFE, as to the costs for the drilling of this well, is identical to the AFE submitted in Case 9846?
- 9 A. Yes, the costs are identical for a dry hole 10 and a completed well.
  - Q. Your testimony with regard to the AFE is the same as your testimony with regard to the Clifford "ADD" #1 well?
- 14 A. Yes.

- Q. If I could go back to the joint operating agreement, on the COPAS accounting procedure form attached as Exhibit C, the overhead rates for drilling and producing wells are the same? \$3,500 for drilling a well and \$350 for producing well as the Clifford "ADD" #1 well?
- A. Yes, sir.
- Q. Your testimony as to the basis for those overhead rates is the same as your testimony with regard to the Clifford "ADD" well?
  - A. Yes, sir.

- Q. Were Exhibits 1 through 5 prepared by you or under your direction and supervision or taken from the business records of Yates Petroleum Corporation?
  - A. Yes, they have been.

MR. VANDIVER: Mr. Examiner, I move the admission of Exhibits 1 through 5, and would request that Mr. Cowan's testimony be supplemented by his testimony in Case 9846, and I have no further questions of the witness.

EXAMINER CATANACH: Exhibits 1 through 5

11 will be admitted as evidence in the case. I have no
12 questions of the witness.

MR. STOVALL: I have one question, just to larify.

#### EXAMINATION

16 BY MR. STOVALL:

- Q. It appears there is Cone family interests in this well as well as in Case 9846, is that correct?
- A. Yes, sir.
- Q. These are the same Cones as were in--
  - A. Same family, different person. This is

    Kenneth G. Cone, who is the only one who has not

    responded to our efforts to get him to join in

    drilling this well. In the other case it was Kathleen

    Cone and Clifford Cone.

- Q. But Kenneth Cone in this case is also involved in the unit in 9846?
- 3 A. Yes.
- Q. So he knows what's going on out there, as far as you can tell, is that correct?
- A. Yes, that's correct. He is participating in the other well.
- 8 MR. STOVALL: Nothing further.
- 9 EXAMINER CATANACH: The witness may be
- 10 excused.
- 11 THE WITNESS: Thank you.
- 12 RAY BECK
- 13 the witness herein, after having been first duly sworn
- 14 upon his oath, was examined and testified as follows:
- 15 EXAMINATION
- 16 BY MR. VANDIVER:
- Q. Mr. Beck, state your name, your occupation and by whom you're employed, please.
- 19 A. Ray Beck, geologist, Yates Petroleum.
- Q. You previously testified this morning as a petroleum geologist in Case 9846 with regard to the
- 22 | Clifford "ADD" #1 well?
- 23 A. Yes, I did.
- Q. Your qualifications as a petroleum geologist were accepted by the Examiner?

1 A. Yes, they were.

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- Q. Have you made a study of the available geological data with respect to the proposed Dagger "ZW" #2 well to be located in the southeast quarter of Section 25, Township 19 South, Range 24 East?
  - A. Yes, I have.

MR. VANDIVER: Tender Mr. Beck as an expert petroleum geologist, Mr. Examiner.

EXAMINER CATANACH: He is so qualified.

- Q. Mr. Beck, in this case, the Dagger "ZW" #2

  Well is approximately one mile to the northeast of the

  Clifford "ADD" #1 well?
  - A. Approximately.
- Q. I guess it's the Dagger "ZW" #2 well, I think I called it the #1?
- 16 A. It's the Dagger "ZW" #2.
- Q. Your testimony with regard to the risk
  involved in the drilling of this Dagger "ZW" well is
  similar to your testimony with regard to the Clifford
  well in Case 9846, is it not?
  - A. Yes, it is. I could just say that the geology depicted on Exhibit No. 6, the map, and Exhibit No. 7, in Case 9846, is identical to the map and cross-section exhibited in Case 9860, the current case.

The only change would be the proposed location is, of course, different, the expected thickness of the dolomite for the Dagger "ZW" #2 is approximately 175 feet, the expected top-of-dolomite is minus 4027 subsea.

The testimony about the Exhibit 7 cross-section, is that the Dagger "ZW" #2 is two and a half miles from the reservoir suspect Cacti well on the cross-section. And the other testimony in this case is essentially the same as for Case 9846.

MR. VANDIVER: Again, Mr. Examiner, we would request that Mr. Beck's testimony in Case 9846 be incorporated in Case 9860 in full.

- Q. I take it, Mr. Beck, your opinion as to, or your recommendation as to the risk factor penalty in this case is the same as in Case 9846?
- A. That's true. I recommend a risk factor penalty of 200 percent. I still believe that I've demonstrated geological risk in this case, 9860, as I have in the former case, Case 9846.

One other remark I would like to make, a copy of my full testimony in Case 9860 has been given to the court reporter, if the Examiner would wish to utilize it in any way or incorporate it into the record or whatever. It's all there.

- Q. Were Exhibits 6 and 7 prepared by you or under your direction or supervision?
  - A. Yes, they were.

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- Q. In your opinion, will the granting of this application be in the interest of conservation of oil and gas, the prevention of waste and the protection of correlative rights?
- A. I so believe.
- 9 MR. VANDIVER: Mr. Examiner, I move the
  10 admission of Applicant's Exhibits 6 and 7, and I have
  11 no further questions of the witness.
- EXAMINER CATANACH: Exhibits 6 and 7 will be admitted as evidence. I have no questions of the witness. He may be 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:

#### EXAMINATION

- 19 BY MR. VANDIVER:
  - Q. Dr. Boneau, state your full name, your occupation and by whom you're employed, please.
- A. My name is David Francis Boneau. I work as an engineer for Yates Petroleum Corporation in Artesia, New Mexico.
  - Q. You previously testified this morning in

- Case 9846, were sworn as a witness, and had your qualifications as a petroleum engineer accepted, is that not correct?
  - A. That's correct.
    - Q. Have you made an engineering study of the area for the proposed Dagger "ZW" #2 well in this case?
- 8 A. Yes, sir.

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- 9 Q. Have you prepared certain exhibits to 10 illustrate your testimony?
- 11 A. Yes, sir, I have done that.
- MR. VANDIVER: Mr. Examiner, I would tender

  13 Dr. Boneau as an expert petroleum engineer.
- 14 EXAMINER CATANACH: He is so qualified.
  - Q. If I could ask you, Dr. Boneau, just to explain how your testimony in this case might differ from your testimony in Case 9846, if at all, and the differences, perhaps, in the exhibits submitted?
  - A. My testimony is to recommend the risk penalty of 200 percent in this case based on evidence and exhibits that are, essentially, the same as those presented in Case 9846.
  - Exhibit 8 again shows that there's a definite chance that the Dagger "ZW" #2 well will produce less than the 100 barrels of oil a day that's

necessary for an economic well. Exhibit 9 illustrates that the water cut at this well should be expected to be about 90 percent. Exhibit 10 is exactly the same as in the previous case and again shows the 25 miles of gas gathering lines and the 15 miles of water lines and the water disposal systems and compressors, et cetera, that Yates has installed, and the La Rue Pipeline that we're in the process of building now to handle more of this sour gas.

Exhibit 11 shows we spent \$6 million to date on these extra facilities in addition to the million and a half dollars that's going into this La Rue Pipeline that's starting now.

Overall, the story is very much the same as in the previous case. There is risk that a lot of money is invested with the chance of not getting it back if this well is not really good.

- Q. Based upon your study of this area, you have the same recommendation to make with respect to risk as you made in Case 9846?
- A. Yes. I recommend that the risk penalty be 200 percent.
- Q. Were Exhibits 8 through 11 in this case prepared by you or under your direction and supervision?

1 A. Yes, sir.

MR. VANDIVER: Mr. Examiner, I would move the admission of Exhibits 8 through 11 in this case, and I have no further questions of this witness.

EXAMINER CATANACH: Exhibits 8 through 11 will be admitted as evidence.

## EXAMINATION

## BY EXAMINER CATANACH:

- Q. Mr. Boneau, one question I failed to ask you in the last case, on your Exhibit 8 where you show current oil production, are all the wells more or less on the exhibit approximately the same age, as far as their producing life?
  - A. "Approximate" is a wide-open number.
- Q. In what time period were these wells drilled?
- A. Several of the wells were drilled three or four--well, mid-80's, 85-ish. Our Molly well in the southeast corner of Section 13 has been our best well until recently, 268 barrels a day. It's made 300 barrels a day for three, four years, and it's finally dropped a little to 268. But it's been a 300 barrel a day well for that length of time.
- One deceiving number in Section 19 there, in the northwest quarter there's a 130. That's a

loadwick A operated by Conoco. It's been a 250 barrel a day well. October was a bad month, I think, and that's maybe one deceiving number.

#4. It's a mid-80 well that's produced a half a million barrels of oil, and is at 268 barrels a day. Those are some of the really good wells.

Yates has developed in this last two or three years, we have developed some wells to the east, in the east half of 19 and the west half of Section 20. Some of the wells down in 30 are in the last two or three years, and almost all of the development to the southwest is in the last two or three years. I can talk on and on about this field.

- Q. Let me ask you this, to summarize it.
- A. But your point is right. But in the area that we're talking about, where the two proposals are, those are new wells and the numbers there are indicative of the best that they do. In the area that we're talking about, they're not wells that used to be 300 barrels a days that are now down to 64. No.
- 22 Those are a newer area and those numbers are 23 indicative of the best the wells can do.
  - In the older part of the field, a mile or so north, your point is well taken, but maybe

fortunately we're talking about a place where my numbers apply in the sense that you're thinking.

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- Q. Let me sum up the whole thing in one question. Have you seen significant differences in the initial potential in these wells in this area?
- A. Yes, very big differences, differences indicative of the kind of numbers that are in Exhibit 8.

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

MR. VANDIVER: And, Mr. Examiner, if I didn't say, I would request that the Division take notice of his testimony in Case 9846 and incorporate his testimony in this case.

And I would also like to add with respect to both Case 9860 and Case 9846, that regardless of an order that might be entered force pooling the respective Cones in these two cases, that for a period of time, at least during the period in which they're allowed to participate, Yates is still willing to discuss this matter with them and if they would, any of them, would want to farm out or enter into some other type of agreement besides participating, Yates would be willing to discuss that with them.

EXAMINER CATANACH: Very good. And I

believe we have incorporated the whole record in Case 9846. There being nothing further in this case, Case 9860 will be taken under advisement.

1	CERTIFICATE OF REPORTER
2	
3	STATE OF NEW MEXICO ) ) ss.
4	COUNTY OF SANTA FE )
5	
6	I, Carla Diane Rodriguez, Certified
7	Shorthand Reporter and Notary Public, HEREBY CERTIFY
8	that the foregoing transcript of proceedings before
9	the Oil Conservation Division was reported by me; that
10	I 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	WITNESS MY HAND AND SEAL February 23, 1990.
18	Cala Dinne Rodring
19	CARLA DIANE RODRIGUEZ CSR No. 91
20	
21	My commission expires: May 25, 1991
22	I do hereby certify that the Gregoing is
23	C COGNOSIC reco. i of P o programme in
24	the Examinar hearing of Case No. 9860, heard by me on February 7 1998
25	David R. Catamil Examiner
	Oil Conservation Division