

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date MARCH 18, 1987 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
Ernie Busch	NMOC	Artesia
W Kellockin	Kellockin Kellockin Aubrey	Santa Fe
Robert H. Strand	Atwood, Mabae, Mann & Turner	Roswell
Paul Hulw	Byrson	Santa Fe
Bruce Pettitt	Reading + Bates Petr. Co	Tulsa, OK.
ERIC KOELLING	Reading + BATES Pet. Co.	TULSA, OK
Jay H. Hardy	Sage Energy Co.	Midland, TX
Leslie J. Perry	Harvey E. Yates Co	Roswell, NM
Sally Meade Roberts	HARVEY E. YATES Co	Roswell, NM
Ray Back	Yates Pet	Artesia
Chad Dickerson	"	ARTESIA
DAVID CARLINGS	"	ARTESIA
Paul Richardson	"	Artesia
Tom Olle	Mending Oil	Midland
Scott Hall	Campbell + Back	SF
Danell Moore	NMOC	Artesia

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Bret Herring Lee Catalano	Meridian Oil Meridian	Westland, TX "

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
Santa Fe, New Mexico

18 March 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Company CASE
for compulsory pooling, Eddy County, 9086
New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

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Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico

For Harvey E. Yates Co.: Robert H. Strand
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For Chevron: W. Thomas Kellahin
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KELLAHIN, KELLAHIN & AUBREY
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I N D E X

1		
2		
3	STATEMENT BY MR. STRAND	4
4	STATEMENT BY MR. KELLAHIN	4
5		
6	ROSEMARY AVERY	
7	Direct Examination by Mr. Strand	5
8	Cross Examination by Mr. Kellahin	19
9	Redirect Examination by Mr. Strand	34
10		
11	SALLY MEADER ROBERTS	
12	Direct Examination by Mr. Strand	36
13	Cross Examination by Mr. Kellahin	47
14	Redirect Examination by Mr. Strand	56
15	Cross Examination by Mr. Catanach	57
16		
17	STATEMENT BY MR. KELLAHIN	59
18	STATEMENT BY MR. STRAND	64
19	STATEMENT BY MR. KELLAHIN	67
20		
21		
22		
23		
24		
25		

E X H I B I T S

1		
2		
3	HEYCO Exhibit One, Land Plat	7
4	HEYCO Exhibit Two, Correspondence	7
5	HEYCO Exhibit Three, Document	11
6	HEYCO Exhibit Four, AFE	12
7	HEYCO Exhibit Five, AFE	13
8	HEYCO Exhibit Six, Operating Agreement	14
9	HEYCO Exhibit Seven, Reference Map	38
10	HEYCO Exhibit Eight, Structure Map	39
11	HEYCO Exhibit Nine, Isopach	39
12	HEYCO Exhibit Ten, Isopach	40
13	HEYCO Exhibit Eleven, Structure Map	42
14	HEYCO Exhibit Twelve, Isopach	42
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 MR. CATANACH: Call Case Number
2 9086.

3 MR. TAYLOR: Application of
4 Harvey E. Yates Company for compulsory pooling, Eddy County,
5 New Mexico.

6 MR. STRAND: This application
7 was originally filed on February 20th, 1987, and we asked
8 that it be set for the March 4th hearing.

9 We did not give appropriate
10 notice to Chevron, who Mr. Kellahin is representing in a
11 timely manner based on the 20-day notice, and he and I have
12 subsequently agreed that we would hear the case today on
13 March 18th and he entered his appearance on February 26th
14 for Chevron.

15 So it will be our position that
16 there -- if there are any defects in the notice requirements
17 they have been cured by his entry of appearance.

18 MR. KELLAHIN: Mr. Examiner, so
19 that you understand Chevron's position, we do not oppose the
20 notice requirement. We believe that Mr. Strand has cured
21 the 20-day period by continuing the case.

22 I represent Chevron today. We
23 are appearing in opposition to having two wells and two
24 spacing units consolidated in the same hearing case and that
25 is the perspective and the point of view we have in this

1 matter and after the presentation of the testimony, we will
2 make certain requests of you with regards to the second
3 well.

4

5

ROSEMARY AVERY,

6 being called as a witness and being duly sworn upon her
7 oath, testified as follows, to-wit:

8

9

DIRECT EXAMINATION

10 BY MR. STRAND:

11 Q Will you please state your name and place
12 of residence?

13 A My name is Rosemary Avery. I am employed
14 by Harvey E. Yates Company in Roswell, New Mexico, as a
15 landman.

16 Q Ms. Avery, have you previously testified
17 before the Division and are your qualifications as a landman
18 a matter of record?

19 A Yes, they are. Yes, I have.

20 MR. STRAND: Mr. Examiner, are
21 Ms. Avery's qualifications acceptable to testify as to land
22 matters?

23 MR. CATANACH: Ms. Avery, when
24 was the last time you testified?

25 A Oh, it's probably been a year or so ago.

1 It was before Mr. Stogner.

2 MR. CATANACH: Was it in refer-
3 ence to a forced pooling case?

4 A Yes, it was.

5 MR. CATANACH: Ms. Avery is
6 considered qualified.

7 Q Ms. Avery, are you familiar with the ap-
8 plication filed in Case Number 9086?

9 A Yes, I am.

10 Q Would you please state for the record the
11 purpose of that application?

12 A Harvey E. Yates Company seeks an order
13 pooling all mineral interests from a depth of 3595 feet to
14 9500 feet underlying the northeast quarter of the southeast
15 quarter -- of the southwest quarter, excuse me, and the
16 southeast quarter of the northwest quarter of Section 12,
17 Township 18 South, Range 31 East, forming two standard 40-
18 acre oil spacing and proration units to be dedicated to
19 wells to be drilled at standard oil well locations thereon.

20 Q Ms. Avery, in preparation for this hear-
21 ing have you familiarized yourself with the title to the
22 working interest ownership under these two tracts?

23 A Yes, I have.

24 Q And to date have any working interest
25 owners under these two 40-acre spacing units refused to vol-

1 untarily pool their interests?

2 A Yes.

3 Q Would you please identify those interest
4 owners and their interest?

5 A Chevron USA, Inc., who has a 25 percent
6 working interest under both spacing units.

7 Q Ms. Avery, have you prepared certain ex-
8 hibits for presentation at this hearing?

9 A Yes, I have.

10 Q I refer to what we've designated as Exhi-
11 bit Number One. Would you please describe that exhibit?

12 A This is a land plat. Exhibit Number One
13 is a land plat that shows the two 40-acre tracts to be
14 pooled and they are colored in yellow and they are within a
15 proposed 2-section working interest unit, which is outlined
16 in pink.

17 The locations of the two wells are shown
18 in red and the names of the wells are the Taylor Deep 12
19 Federal No. 1, which is shown in the northeast quarter of
20 the southwest quarter, and the Taylor Deep Federal 12 No. 2,
21 which is in the southeast quarter of the northwest quarter
22 of Section 12.

23 Q Ms. Avery, I refer you to Exhibit Number
24 Two. Will you please describe that exhibit?

25 A Exhibit Number Two is a package of cor-

1 response that -- between Harvey E. Yates Company and
2 Chevron, and this is -- in addition to this correspondence
3 we've had numerous telephone conversations and the first
4 letter, which is at the bottom of the stack, was sent in Oc-
5 tober of 1985, where HEYCO proposed a 1360-acre working in-
6 terest area.

7 Q Ms. Avery, just for the record is HEYCO
8 an acronym for Harvey E. Yates Company?

9 A Yes, I'm sorry. I'll try to say Harvey
10 E. Yates Company, although it's a mouthful.

11 Then at that time we -- we were proposing
12 a much larger working interest unit. This we were unable to
13 put together.

14 The second letter was dated March the
15 11th, 1986, and we had cut our working interest area -- unit
16 area down to 960 acres and we tried to get the owners to
17 agree to that and Chevron again was not willing to either
18 join or farmout. Their letter of April 11th is attached
19 stating their refusal to join or farm out.

20 The next letter is dated June the 11th,
21 1986, where we made another attempt to put together a work-
22 ing interest unit and this time it would include all of Sec-
23 tions 12 and 13 and contain 1280 acres.

24 Q Ms. Avery, does that particular letter set
25 out the percentage ownership of each of the working interest

1 parties within that unit area?

2 A Yes, it does. The next letter is June
3 the 24th, 1926 (sic), and it's from Chevron, again declining
4 to join or farm out.

5 Q And that was in response to your letter
6 of June 11th, is that correct?

7 A That is true. The next letter was dated
8 September the 4th, 1986, where we tried once again to submit
9 a proposal. This time we re-submitted it because we knew
10 that Chevron was putting together their 1987 budget and they
11 had told us that if we would re-submit it, that they would
12 consider it with their 1987 drilling budget, so that was the
13 purpose of the September 4th letter.

14 December the 1st, 1986, is a letter where
15 we asked for title material to put together our joint oper-
16 ating agreement, still with the hopes that -- that Chevron
17 would make a decision to either join or farm out.

18 In December of 1986, December the 13th,
19 we set a letter out enclosing our joint operating agreement
20 and our Authority for Expenditure, proposing the same work-
21 ing interest unit.

22 In February, on February the 17th, 1987,
23 I had to send out another letter to all the working interest
24 owners asking for time to commence this well and sending a
25 substitute page with the commencement date because we had

1 been held up waiting for Chevron's joinder agreement, and
2 this also mentions that we had this well set up to drill the
3 first of January.

4 On February the 23rd I sent Chevron a
5 copy of the application for compulsory pooling by certified
6 mail and on March the 2nd I sent them another certified let-
7 ter, return receipt requested, asking -- telling them that
8 we had continued the hearing until today.

9 Q Ms. Avery, based on your efforts commen-
10 cing, as I remember, in October of 1985, do you feel that
11 HEYCO has made a reasonable effort to give Chevron the op-
12 portunity to join in the drilling of these two wells?

13 A Yes, I certainly do, because we had tried
14 to go along with them and everybody else in there to con-
15 struct this working interest unit to please everybody.

16 Q Ms. Avery, going back, I believe, to the
17 letter of December 13, and I refer you to the second para-
18 graph of that letter, it makes reference to a change in the
19 location of the first well.

20 A Right.

21 Q Would -- can you give us the reason for
22 that change in location?

23 A Yes. We discovered that --

24 Q And you may wish to refer --

25 A Yes.

1 Q -- to Exhibit Number Three --

2 A Right.

3 Q -- in connection with that.

4 A Yes. We had a meeting with the Bureau of
5 Land Management concerning the sliding scale Schedule D roy-
6 alty on Lease LC-058709A, and we were encouraged by the Bur-
7 eau of Land Management to be able to have this sliding scale
8 royalty fixed at a 12-1/2 percent royalty rate, and in order
9 to do that we would have to drill on this lease and estab-
10 lish with the BLM that we had found a new deposit based on
11 their August 8th, 1946, ruling.

12 So that was the reason for changing the
13 location so that we could apply for this fixed royalty rate.

14 Q Ms. Avery, was that an old Schedule B
15 royalty provision attached to that federal lease?

16 A Yes, it was.

17 Q And is the -- was the sliding scale
18 royalty rate on that a range from 12-1/2 percent to 33
19 percent on oil?

20 A Yes, it is.

21 Q And am I correct, I believe, that it was
22 12-1/2 percent to 16-2/3rds percent on gas?

23 A Yes, that is correct.

24 Q Referring to Exhibit Number Three, it
25 doesn't show real well but I think it shows the ownership of

1 Lease LC-05858709A, does it not?

2 A Yes, it does.

3 Q And would you state the ownership of that
4 lease, please?

5 A Yes. Meridian, who is the agent and at-
6 torney-in-fact for Southland Royalty, owns a 50 percent in-
7 terest. Chevron USA, Inc. owns a 25 percent interest and
8 Harvey E. Yates Company, et al, own a 25 percent interest,
9 working interest.

10 Q So would I be correct in stating that if
11 you are successful in getting that Schedule D royalty chan-
12 ged to a flat rate 12-1/2 percent royalty, that that would
13 be certainly to the benefit of all the parties?

14 A It certainly would.

15 Q I refer you to Exhibit Number Four. Would
16 you please describe that?

17 A Exhibit Number Four is a copy of our
18 Authority for Expenditure, estimated well costs, for the
19 Taylor Deep Well Federal No. 1, which is 2310 from the south
20 and west lines of Section 12, and is scheduled to go to ap-
21 proximately 9500 feet.

22 Q Is that location that you've just testi-
23 fied to a standard location within the proposed pooled unit
24 consisting of the northeast quarter of the southwest quarter
25 of Section 12?

1 A Yes, it is.

2 Q Ms. Avery, if the requested order is
3 entered in this case, will this well be the first to be
4 drilled on the two spacing units we have proposed for
5 pooling?

6 A Yes, it would be.

7 Q Will you please read from the Authority
8 for Expenditure the estimated cost of this well if completed
9 as a producer?

10 A \$591,013.

11 Q What would be the estimated cost if the
12 well was completed as a dry hole?

13 A \$270,363.

14 Q I refer you to Exhibit Number Five. Will
15 you please describe that exhibit?

16 A This is another Authority for Expendi-
17 ture, and estimated well costs of the second well, the Tay-
18 lor B 12 Federal No. 2, to be located 2310 feet from the
19 north and west lines of Section 12.

20 Q Again, Ms. Avery, would this be a stand-
21 ard location within the proposed pooled unit consisting of
22 the southeast quarter of the northwest quarter of Section
23 12?

24 A Yes, it would be.

25 Q What is the proposed total depth of the

1 No. 2 Well?

2 A Approximately 9500 feet.

3 Q And what would be the estimated cost of
4 this well if completed as a producer?

5 A As before, we're estimating the cost at
6 \$591,013 for a completed well and \$270,363 for a dry hole.

7 Q In your position as a landman with Harvey
8 E. Yates Company, do you have occasion to review authorities
9 for expenditure or cost estimates for other wells similar in
10 depth --

11 A Yes.

12 Q -- to the proposed No. 1 and 2 Wells?

13 A Yes, I do.

14 Q And do the estimated costs you've testi-
15 fied to from Exhibits Four and Five -- or Five and Six --

16 A Four and Five.

17 Q -- appear to be comparable to such other
18 wells?

19 A Yes.

20 Q I refer you to Exhibit Number Six. Will
21 you describe that, please?

22 A Exhibit Number Six is a 1982 form of
23 joint operating agreement which covers the Taylor Deep wor-
24 king interest area as proposed, which covers all of Sections
25 12 and 13 of Township 18 South, Range 31 East.

1 Q Ms. Avery, referring back to your testi-
2 mony on Exhibit Number One, is this the same area that's
3 outlined in pink on that exhibit?

4 A Yes, it is.

5 Q Under the terms of this proposed oper-
6 ating agreement, being Exhibit Number Six, is Harvey E.
7 Yates Company designated as operator under that agreement?

8 A Yes, they are.

9 Q Does that proposed operating agreement
10 contain so-called nonconsent penalties applicable to parties
11 to the agreement?

12 A Yes, it does.

13 Q And those being parties who do not wish
14 to participate in the drilling of subsequent wells or other
15 subsequent operations after the intitial well?

16 A That is correct.

17 Q Would you please describe those penal-
18 ties?

19 A There is a 100 percent nonconsenting pen-
20 alty for the cost of surface equipment; 300 percent for the
21 costs and expenses of drilling, testing, and completing, and
22 for the cost of newly acquired equipment in the well.

23 Q And in actuality, under that operating
24 agreement a party would recover his actual cost plus 200
25 percent.

1 A That is true.

2 Q Based on your experience as a landman in
3 this particular area we're talking about, and based on other
4 operating agreements that you've reviewed, are these noncon-
5 sent penalties generally standard in operating agreements?

6 A Yes, they are.

7 Q I refer you to Exhibit C to the operating
8 agreement, which is the COPAS accounting procedure. Does
9 that Exhibit C set out the proposed overhead and supervision
10 rates for drilling and operating?

11 A Yes.

12 Q Would you please state for the record
13 what those rates are?

14 A The drilling well rate is \$5000 and the
15 producing well rate is \$500.

16 Q Again based upon your experience in the
17 area and your review of other operating agreements, are
18 those rates comparable to rates charged for wells of similar
19 depth in this area?

20 A Yes, they are.

21 Q Ms. Avery, if the requested order is en-
22 tered in this case, do you request supervision charges of
23 \$5000 per month while drilling and \$500 per month for oper-
24 ating and that those charges be made a part of the order?

25 A Yes, we do.

1 Q Referring again to the operating
2 agreement and back to Exhibit Two listing the working
3 interest owners under that 2-section area, what response
4 have you gotten from the working interest owners as to
5 joining in this working interest unit?

6 A We have had either participation or
7 farmout from all the other parties. Chevron is the only one
8 not agreeing.

9 Q Ms. Avery, if the requested order is
10 entered in this case, does Harvey E. Yates Company request
11 that it be designated as operator of the two pooled spacing
12 units?

13 A Yes.

14 Q Further, if the order is entered, does
15 Harvey E. Yates Company request that such order include
16 provisions which specify a date by which both wells must be
17 commenced?

18 A Yes.

19 Q And do you further request that that
20 order require that the effective date, that after the
21 effective date of the order and within ninety days prior to
22 commencing each well the operator shall furnish the Division
23 and each working interest owner in the pooled units an
24 itemized schedule of estimated well costs?

25 A Yes.

1 Q And do you further request that the order
2 require that within thirty days of receipt of such estimated
3 well costs any nonconsenting working interest owner may
4 elect to pay his or its share of estimated well costs to the
5 operator in lieu of paying its share of reasonable well
6 costs plus any risk charges assessed?

7 A Yes.

8 Q And that that payment would otherwise be
9 made out of production?

10 A Yes.

11 Q Ms. Avery, in your opinion will the
12 granting of this application promote conservation, prevent
13 waste, and protect correlative rights?

14 A Yes.

15 Q Were Exhibits One through Six prepared by
16 you or under your supervision or do they represent materials
17 contained in the applicant's files?

18 A Yes, they do.

19 MR. STRAND: That concludes my
20 direct examination of Ms. Avery.

21 MR. CATANACH: You would enter
22 Exhibits One through Six, is that correct, or do you wish
23 that at this time?

24 MR. STRAND: Yes, I can move
25 those at this time. Yes.

1 MR. KELLAHIN: We have no ob-
2 jection, Mr. Examiner.

3 MR. CATANACH: Exhibits One
4 through Six will be admitted into evidence.

5 Mr. Kellahin, any questions?

6 MR. KELLAHIN: Thank you, Mr.
7 Catanach.

8

9

CROSS EXAMINATION

10 BY MR. KELLAHIN:

11 Q Ms. Avery, are you the petroleum land
12 specialist that's been involved on behalf of your company
13 with regards to the contacting and formation of this working
14 interest unit?

15 A Yes, I have.

16 Q Were there any other petroleum land
17 specialists involved other than you?

18 A No.

19 Q Does the package of exhibits constituting
20 the correspondence, and I believe they're all marked as Ex-
21 hibit Number Two --

22 A Right.

23 Q Does that represent all the written com-
24 munications between your company and Chevron USA with re-
25 gards to the formation of the working interest unit?

1 A Yes.

2 Q And does it include all the correspon-
3 dence that you had between your company and Chevron with re-
4 gards to either one of the two subject wells?

5 A Yes. It does not, of course, cover all
6 the many telephone conversations.

7 Q Let me see if I understand what HEYCO was
8 attempting to do. You were attempting to form a 2-section
9 working interest unit.

10 A Yes.

11 Q And that is shown on Exhibit Number One.

12 A Right.

13 Q And all of your contacts and
14 communications with Chevron have involved the formation of
15 the 2-section working interest unit?

16 A No. Originally we started out with a
17 1360-acre working interest unit; then a 960 acre; finally
18 the 1320.

19 Q Okay. The 13 -- the acreage in --

20 A 1280, I'm sorry.

21 Q Yes, ma'am, 1280. When we look within
22 the 2-section working interest unit and look at Exhibit
23 Number Three, you've shaded in red for us what I understood
24 to be the federal lease acreage involved within this working
25 interest unit.

1 A No, no, sir.

2 Q For this lease, for this Federal lease
3 number.

4 A Well, yes.

5 Q Okay. Is there Federal lease acreage
6 under this Federal lease other than what is in this working
7 interest unit?

8 A No, there is not.

9 Q All right. What are -- what is the
10 primary term for the Federal lease that covers these two 40-
11 acre tracts plus the balance of the red-shaded area?

12 A This is an old renewal lease that is
13 renewed every ten years.

14 Q All right. When is the end of this current
15 renewal period?

16 A In 1990.

17 Q Prior to 1990, then, in order to
18 perpetuate the lease, the lease would have to have a well
19 drilled on it or be dedicated to a producing unit?

20 A These renewal leases do not contain a
21 thereafter clause, so they cannot be held by production.
22 They have to be renewed.

23 Q So regardless of production you simply
24 renew it by paying a fee or a rental payment?

25 A That's correct.

1 Estate.

2 A Yes, on their interest, and then Harvey
3 E. Yates Company, et al, own an interest under several of
4 the leases.

5 If you look back at Exhibit Number Three
6 you will see that Lease Number 20 -- NM-2538 and NM-2537,
7 which include the north half of Section 12 and all of the
8 south half of Section 13, except for the northwest quarter
9 of the southwest quarter, are owned by Harvey E. Yates Com-
10 pany, et al, 75 percent.

11 Q When we look at the two 40-acre tracts,
12 the ownership for those tracts is identical and the percent-
13 ages are the same.

14 On Exhibit Number Three we've got Meri-
15 dian, Chevron, and the HEYCO, et al.

16 A I'm sorry, I don't understand your ques-
17 tion.

18 Q Yes, ma'am. When we look at Exhibit Num-
19 ber Three --

20 A Uh-huh.

21 Q -- it shows that Meridian has 50 percent,
22 Chevron has a quarter, and the HEYCO, et al, interests have
23 a quarter.

24 A That's true, under these -- under this
25 particular lease.

1 Q All right. When we get to the operating
2 agreement, then, because of the combination of the various
3 interest under the multiply leases, the working interest
4 share for the entire unit has been apportioned on a unit
5 basis.

6 A That's true.

7 Q All right. Has Meridian farmed out to
8 HEYCO or has Meridian executed the proposed operating agree-
9 ment?

10 A Meridian has executed the operating
11 agreement as agent and attorney-in-fact for Southland Royalty.
12

13 Q All right. The operating agreement on
14 page 4 talks about subsequent wells and Mr. Strand has dis-
15 cussed with the you the penalty provisions in the operating
16 agreement with regards to subsequent wells.

17 A Yes.

18 Q You're familiar with those provisions?

19 A Yes.

20 Q All right. Does the operating agreement
21 set forth any requirement on when the second well must be
22 commenced?

23 A No, it does not.

24 Q Are you seeking an order from the Commis-
25 sion that would allow HEYCO to send Chevron, after the entry

1 of the order, AFE's on both wells at the same time and to
2 require Chevron's election on both wells prior to the time
3 HEYCO commences the first well? Are you with me?

4 A Yes -- I'm not sure.

5 Q Okay. You're asking that we have two
6 forced pooling units --

7 A Yes.

8 Q -- for two wells set forth in a single
9 order.

10 A Yes.

11 Q My question is whether or not you want a
12 provision in the order that will allow you to send Chevron
13 AFE's on the first and the second wells prior to the drill-
14 ling of the first well so that Chevron's election period on
15 each well would expire before the first well was drilled?

16 MR. STRAND: Can we go off the
17 record here just a moment?

18 MR. CATANACH: Yes, sir.

19

20 (Thereupon a discussion was had off the record.)

21

22 MR. STRAND: We're back on the
23 record.

24 MR. KELLAHIN: Let the record
25 reflect, Mr. Examiner, that Mr. Strand, I believe, told Ms.

1 Avery the answer was yes and she told us yes.

2 Q All right, what is the reason that you've
3 said "yes", Ms. Avery?

4 A Well, we are seeking both these locations
5 in this one hearing and although we don't, we will not
6 necessarily drill the wells simultaneously, we would like to
7 have the order read that we would sending these things
8 simultaneously and asking for a decision by Chevron.

9 Q All right. Has HEYCO made the decision
10 to drill both wells regardless of the outcome of the first
11 well?

12 A I would prefer not to answer that ques-
13 tion. I think that our -- your next witness -- our next
14 witness is better able to answer that.

15 Q All right, she may be able to tell me why
16 but do you know whether or not a decision has been made by
17 your management to drill both wells regardless of the out-
18 come of the first well?

19 A I can't answer that.

20 Q Okay. Are you aware of -- you've told me
21 that you're not aware of any kind of lease expiration prob-
22 lems with this particular federal lease. There are none,
23 are there?

24 A No.

25 Q Are you aware of any other lease or farm-

1 out problems that would preclude you from giving Chevron an
2 election period for the second well after the first well has
3 been completed?

4 A Not on the lease. Now, we, as I men-
5 tioned before, we have another -- we have an agreement, a
6 sublease of operating rights from the Charlesworth Estate
7 that we are also subject to and there are some restrictions
8 in it.

9 Q Do any of those sublease agreements re-
10 quire consecutive or orderly development with a specific
11 time frame set between the completion of the first well and
12 the commencement of the second well?

13 A We have a continuous development program
14 -- development clause.

15 Q And does that continuous development
16 clause set a minimum or maximum period between wells?

17 A It has 180 days.

18 Q Okay. So under the sublease agreement
19 with some of these parties, then after the first well is
20 completed, you have a period of 180 days before you must
21 commence the second well.

22 A That's correct. Let me -- let me add one
23 thing, if I may, Mr. Examiner, may I? May I add one thing?

24 Since we have been trying to get this put
25 together since 1985 and we have scheduled this, we have a --

1 we need to have our wells scheduled, we have had to reshuf-
2 fle our well schedule, our contracts with drilling contrac-
3 tors, at least twice. The last time we had it set up to
4 drill in early January and that has caused quite a bit of a
5 problem for us.

6 Q Okay. Now you're familiar with the for-
7 ced pooling rules and regulations, you've been through the
8 process before, have you not, Ms. Avery?

9 A Yes.

10 Q And understanding those rules, then, you
11 could have adopted your drilling sequence and your commit-
12 ments on drilling these wells to conform to the forced pool-
13 ing requirements in order to get this accomplished and meet
14 some kind of drilling obligation, could you not?

15 A Yes, sir.

16 Q All right, that was within your control.

17 A Yes, sir, but we felt that we had given
18 Chevron more than adequate time to make their decision.

19 Q Let's look at the decision, Ms. Avery.

20 And looking at Exhibit Number Two and the
21 correspondence, we start at the end of the package of exhi-
22 bits.

23 The first letter that I see is an October
24 15th, 1985, letter --

25 A Yes.

1 Q And this is the proposal for the working
2 interest unit on 1360 acres.

3 A Yes, sir.

4 Q The location for the initial well is in
5 Section 12 in the southwest of the southwest.

6 A Yes.

7 Q Neither one of the two proposed locations
8 in today's case involved the southwest of the southwest.

9 A That's correct.

10 Q All right. When we go to the next piece
11 of correspondence, March 11th of '86, we're still talking
12 about 1360 acres. Is that not true?

13 A March 11th? No, sir, we're talking about
14 960 acres there.

15 Q Ah, all right, we've changed the size of
16 the unit now to 960. Has the well location changed also in
17 this proposal?

18 A It's been -- it's in the south half south
19 half of Section 12, which could have included that (not un-
20 derstood).

21 Q And the proposed AFE submitted at that
22 time is different in total dollars than the one identified
23 on Exhibits Four and Five of the documents in today's hear-
24 ing.

25 A That's correct, because drilling costs

1 have gotten considerably lower.

2 Q All right, again we're talking about a
3 working interest unit of multiple spacing units.

4 A Yes.

5 Q All right, when we go to the April 26th
6 letter, this is Chevron's response to you saying that
7 they're not interested in joining or farming out on a unit
8 basis their interest in the two sections.

9 A That's true.

10 Q All right. When we go to June 11th, '86,
11 we are talking about for the first time the 280 acres now
12 that you're still proposing as a unit.

13 A 1280, yes.

14 Q Yeah, 1280. The well location now has
15 moved to the northwest quarter of Section 12?

16 A I don't -- yes, the northwest quarter of
17 Section 12.

18 Q And at this time we still have a differ-
19 ent AFE cost than the one you proposed at today's hearing.

20 A Yes, sir.

21 Q All right. Chevron's response to you is
22 the next letter of June 24th, '86, and says we're not inter-
23 ested in joining the unit.

24 A Correct.

25 Q The next correspondence is September 4th,

1 '86. Again we're proposing a working interest unit. It's
2 the 1280 acres. We're looking at a test, the initial test
3 in the northwest of 12 and the AFE is still different --

4 A Yes, it's gone down.

5 Q -- from the one proposed.

6 December 1st of '86, same working
7 interest unit, 1280 acres.

8 A Yes.

9 Q December 13th of '86, again the same
10 working interest unit, 1280 acres, but now the initial test
11 well is to be drilled in the northeast of the southwest?

12 A Yes.

13 Q And that corresponds to the 12-1 Well that
14 is on the docket today.

15 A Yes. Now if you'll -- I'd like to call
16 your attention also further on there in paragraph two, where
17 we explain to them that we plan to request a determination
18 from the Bureau of Land Management that the royalty rate be
19 fixed at 12-1/2 percent.

20 Q All right. February 18th of '87.

21 A Yes.

22 Q This is the notice to all the working in-
23 terest owners in the unit?

24 A Yes, sir. Now, I would like to make one
25 little comment there and that is that we do have a joint

1 operating agreement that does have a commencement date in it
2 and this is what we were trying to meet before, and because
3 we were delayed, we have had to move that commencement date
4 up.

5 Q The -- move, move back.

6 A Back.

7 Q The commencement date for the first well
8 under the joint operating agreement now is June 30th of '87?

9 A Yes, sir.

10 Q All right, and the various parties to the
11 working interest unit concurred or agreed to setting back
12 the commencement date from March 31st to June 30th?

13 A Yes, sir, except, of course, for Chevron,
14 who would not join.

15 Q They weren't a party to it, anyway.

16 A Right. Right.

17 Q February 23rd of '87, what's the purpose
18 of that letter?

19 A To send them the notice of compulsory
20 pooling.

21 Q And then the February 2nd, 1987?

22 A March the 2nd?

23 Q I'm sorry.

24 A Yes.

25 Q March the 2nd.

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A Was to notify them of the continuance and you will notice, too, that in both of those letters I continued to ask Chevron to either participate or farm out.

Q Okay. In any of the correspondence between your company and Chevron did you ever send them either Exhibit Four or Exhibit Five?

A Yes, sir.

Q Okay, and when did you do that?

A When we sent the operating agreement we sent the AFE for the first well.

Q All right. Did you send them an AFE for the second well?

A No, sir.

Q Did you ever propose in any of this correspondence to Chevron that they either join or farm out to you on the 40-acre tract that would be dedicated to Well No. 12-1?

A On just 40 acres?

Q Yes, ma'am.

A No, sir.

Q Did you ever propose to Chevron that they join you or farm out on the 40-acre tract that is involved for the well identified as 12-2?

A No, sir, because that -- that creates a problem when you have an operating agreement with other par-

1 ties who have joined.

2 Q Thank you, Ms. Avery. No further ques-
3 tions.

4 MR. STRAND: I just have a few
5 more, Mr. Examiner.

6

7

REDIRECT EXAMINATION

8 BY MR. STRAND:

9 Q Ms. Avery, you mentioned during your tes-
10 timony relating to to Exhibit Number Two, the correspon-
11 dence, that you had had numerous telephone conversations
12 with Chevron personnel --

13 A Yes.

14 Q -- on this matter. Can you identify
15 those people?

16 A Most of the time I was talking to a land-
17 man by the name of Mickey Cohlma.

18 Early on I did have some calls and cor-
19 respondence with Sam Martin, Junior.

20 And I have also talked to their engineers
21 and geologists in their Hobbs office, as well, on several
22 occasions.

23 Q In your testimony, both on direct examin-
24 ation and cross examination relating to the various letters
25 in Exhibit Number Two, did you explain to the Chevron per-

1 sonnel by telephone the reasons for your various changes you
2 were making?

3 A Oh, yes, many times.

4 Q So they were -- they were kept up to date
5 during this continual negotiating period from October of '85
6 until the present, what you were planning to do --

7 A Yes, sir, I talked to them --

8 Q -- in this area.

9 A -- at least twice a week. Furthermore, I
10 have had encouragement several times along the way from one
11 of the their -- one or the other of their landmen as to what
12 -- telling me that Chevron was definitely leaning towards
13 farming out and at other times they were definitely leaning
14 towards joining.

15 Other times I was told that they didn't
16 have any money in their budget. I've had all kinds of res-
17 ponses.

18 Q Ms. Avery, a question appears to have
19 arisen as to the change in location, the last change in lo-
20 cation from what's shown on Exhibit One as the 12-2 Well,
21 moving the location down to what's shown as the 12-1 well.

22 Was the sole reason from a land stand-
23 point that that change was made to try and secure this flat
24 rate 12-1/2 percent royalty?

25 A That is correct.

1 MR. STRAND: I believe that's
2 all I have.

3 MR. CATANACH: I have no
4 questions of the witness. She may be excused.

5 MR. STRAND: Mr. Examiner, we
6 now call Sally Roberts.

7
8 SALLY MEADER ROBERTS,
9 being called as a witness and being duly sworn upon her
10 oath, testified as follows, to-wit:

11

12 DIRECT EXAMINATION

13 BY MR. STRAND:

14 Q Please state your full name and place of
15 residence.

16 A Sally Meader Roberts. I'm an exploration
17 geologist employed by Harvey E. Yates Company in Roswell,
18 New Mexico.

19 Q How long have you been employed by Harvey
20 E. Yates Company?

21 A Five years and eight months.

22 Q Ms. Roberts, have you ever testified be-
23 fore the Oil Conservation Division before?

24 A No, sir.

25 Q Would you state briefly for the record,

1 give us a description of your educational background, your
2 work experience, and your membership in professional organi-
3 zations?

4 A Yes, sir. I received my Bachelor's de-
5 gree in earth science from the University of Northern Colo-
6 rado at Greeley.

7 I received my Master's degree in geology
8 from the University of Arizona at Tucson.

9 I am a Certified Professional Geological
10 Scientist, Number 6457, by the American Institute of Profes-
11 sional Geologists.

12 I'm a Certified Petroleum Geologist, Num-
13 ber 2960, certified by the American Association of Petroleum
14 Geologists Division of Professional Affairs.

15 I spent five and a half years with Cities
16 Service Oil Company as an exploration geologist in both Tul-
17 sa, Oklahoma, and Midland, Texas, and as previously stated,
18 I've been Harvey E. Yates Company five years and eight
19 months, most of that time in Midland, Texas. We recently
20 moved to Roswell, New Mexico.

21 The societies I belong to are American
22 Association of Petroleum Geologists, American Institute of
23 Professional Geologists, Geological Society of America,
24 Society of Economic Paleontologists and Mineralogists, and
25 numerous regional and local societies.

1 MR. STRAND: Mr. Examiner, we
2 tender Ms. Roberts as an expert witness in geological mat-
3 ters.

4 MR. CATANACH: The witness is
5 considered qualified.

6 Q Ms. Roberts, are you familiar with the
7 application in Case Number 9086?

8 A Yes, sir.

9 Q And you have heard the testimony of Ms.
10 Avery previously this morning?

11 A Yes, sir.

12 Q Have you prepared certain geological ex-
13 hibits relating to this application?

14 A Yes, sir.

15 Q I refer you Exhibit Number Seven. Will
16 you please describe that?

17 A Exhibit Number Seven is just basically a
18 reference map and what it does is outline the two subject
19 proration units with the proposed Taylor Deep 12 Federal No.
20 1, which is in the northeast of the southwest, and the pro-
21 posed Taylor Deep 12 Federal No. 2, located in the southeast
22 of the northwest of Section 12, and these are highlighted
23 with red.

24 Also on this map are the operators and
25 the well names of the wells that penetrated the Bone Spring

1 formation.

2 The well spots on the map that have no
3 data are primarily Queen wells. They are not deep enough to
4 penetrate the Bone Spring.

5 Q I want to refer you to Exhibit Number
6 Eight. Would you please describe that exhibit?

7 A Exhibit Number Eight is a structure map
8 on the top of the First Bone Spring Sand. It primarily
9 shows the regional strike and dip for this Bone Spring Sand.
10 this is the first zone of -- of primary interest within the
11 lower part of the Bone Spring formation.

12 Q I refer you to Exhibit Number Nine. Will
13 you please describe that?

14 A This is a porosity Isopach map of the
15 First Bone Spring Sand. The First Bone Spring Sand produces
16 approximately six miles of the southeast in the Querecho
17 Plains Bone Spring Field.

18 The Mesquite 2 State 2 and Mesquite 2
19 State No. 4 Wells, which are located in the east half of the
20 southeast quarter of Section 2 to the northwest, carried
21 good shows in the first sand while drilling. As can be seen
22 on this Isopach map, we feel that both the Taylor Deep 12
23 Federal No. 1 and 12 Federal No. 2 are optimally located to
24 evaluate the reservoir potential of the First Bone Spring
25 Sand.

1 Q Ms. Roberts, is the First Bone Spring
2 Sand your primary objective in these two wells?

3 A No, sir, it was the secondary objective.

4 Q I refer you to Exhibit Number Ten. Will
5 you please describe that for us.

6 A Exhibit Number Ten is a porosity Isopach
7 map of the B Zone carbonate within the Bone Spring.

8 Now B Zone carbonate is an informal
9 designation used within Harvey E. Yates Company. A majority
10 of the industry calls it the carbonate between the first and
11 the second sands and we just shortened it to the B Zone.

12 The B Zone carbonate is Harvey E. Yates
13 Company's primary objective. This is a currently producing
14 reservoir in both the North Young and the Mescalero Escarp
15 Bone Spring Fields which lie to the east.

16 On this well the -- on this map the Coas-
17 tal Hudson Federal No. 11 Well, which is the dry hole lo-
18 cated in the northwest of the northeast of Section 11, was
19 straddle-packed drill stem tested in this B Zone carbonate
20 from 8000 feet to 8145. They recovered gas to the surface
21 in an hour and 55 minutes. They recovered 484 feet of high-
22 ly oil and gas cut mud, plus 7516 feet of gas in the drill
23 pipe.

24 Their initial shut-in pressures were 3324
25 pounds in an hour, flowing pressures, 151 at 252 pounds,

1 with final shut-in pressures of 2935 pounds in an hour and
2 30 minutes.

3 This type of drill stem test is very
4 similar to what we have on the north edge reservoir wells in
5 the North Young Bone Spring Field.

6 The Mesquite wells in Section 2 do not
7 have porosity developed in this same stratigraphic interval.
8 They do have porosity in the carbonate; it's much higher in
9 the section; it's not stratigraphically equivalent.

10 On the basis of that, we feel that the
11 reservoir lies to the south of the Coastal Well. The ini-
12 tial shut-in pressure of 3300 pounds is approximately virgin
13 reservoir pressure for the field.

14 In Section 7 the Amoco well, CS Well in
15 the southeast of the northwest quarter was tight in this
16 stratigraphic interval.

17 The Hemrick and Paine well, which is the
18 producer in the northeast of the southwest quarter of Sec-
19 tion 7 is completed in this B Zone carbonate and it is our
20 feeling that on the basis of the Amoco well in the southeast
21 of the northwest, and the Hudson Federal well, that the por-
22 osity in this carbonate is going to be lying approximately
23 in the middle of Section 12, and we feel that both the Tay-
24 lor Deep, the 12 Federal No. 1 and the 12 Federal No. 2,
25 should be optimally located to evaluate this main reservoir.

1 Q Ms. Roberts, you referred several times
2 to, I believe, the North Bone Springs Field to the west --
3 east. Where is that actually located? Is it off the map?

4 A The Hemrick and Paine Well in Section 7
5 would be the westernmost well that has been included in the
6 North Young Bone Spring Field.

7 The heart of the field itself is approxi-
8 mately three miles to the east. It's centered in the south
9 half of Sections 3 and 4 and the north half of Sections 9
10 and 10 of 18, 32.

11 Q I refer you to Exhibit Number Eleven.
12 Would you please describe that?

13 A This is a structure map on the top of the
14 Second Bone Spring Sand. Another way to view this is it's
15 also a structure map on the base of the proosity interval we
16 were just discussing.

17 Basically it just shows regional strike
18 and dip. The nature of the Bone Spring is it's a strati-
19 graphic trap. You're not really going to see it on a struc-
20 ture map, anyway.

21 Q I refer you to Exhibit Number Twelve.
22 Will you please describe that?

23 A This is a porosity Isopach map of the
24 Second Bone Spring Sand. This is a very strong secondary
25 objective for both the 12, Taylor Deep 12 Federal No. 1 and

1 No. 2 Wells.

2 The wells, the Mesquite wells in Section
3 2, which have been classified as the Tamano Bone Spring
4 Field, those wells are currently producing from the Second
5 Bone Spring Sand.

6 And as demonstrated by this map, we feel
7 that both the Taylor Deep 12 Federal No. 1 and No. 2 are
8 optimally situated also to evaluate the porosity within the
9 Second Bone Spring Sand.

10 Q Ms. Roberts, did you hear Ms. Avery's
11 testimony as to I believe in December of 1986 the location
12 was changed so that instead of drilling the location desig-
13 nated as the 12-2 first you would now plan to designate lo-
14 cation 12-1 the first?

15 A Yes, sir.

16 Q Based on your geological analysis of this
17 prospect, do you see any advantage of one location over the
18 other?

19 A No, sir. We did discuss that quite a bit
20 in detail and it was my feeling that -- that either location
21 would sufficiently evaluate the reservoirs and the choice
22 was made at that time to move the location to the south pri-
23 marily on the basis of (not understood).

24 Q Did you have any discussion with Chev-
25 ron's geological staff relating to that change?

1 A Yes, I did.

2 Q And what was the substance of that con-
3 versation, or conversations?

4 A That it -- that it meant that instead of
5 the fellow that I'd been talking to evaluating it out of
6 their production office in Hobbs, that it now had to go to
7 their exploration office in Midland.

8 Q Okay. Have you discussed that location
9 with the exploration office in Midland?

10 A One time.

11 Q Have they indicated any problem with that
12 particular location?

13 A The only comment at the time was they
14 would have to start from scratch re-evaluating it.

15 If I might add a remark, I've had nume-
16 rous conversations with six different individuals at Chev-
17 ron, four, four separate geologists plus some engineers, and
18 one of the main reasons that we originally move the location
19 to the northwest quarter was at the request of Chevron so
20 that it would be evaluated by their development people.

21 We honored that request by moving it to
22 the northwest quarter but we were in contact at all times
23 and they were aware of the, as the letter you made reference
24 to , about the fixing of the royalty for that. They were
25 made aware. The geologic staff was made aware at all times.

1 Q Ms. Roberts, the application in this case
2 requests pooling of the interval from 3595 feet to 9500 feet
3 subsurface under each of these proposed spacing units.

4 Could you describe that location a little
5 more in detail from a geological standpoint?

6 A What this is, is there is already a Tay-
7 lor Queen Unit in there and 3595 would be essentially from
8 the base of that Queen Unit that's already established to
9 approximately 300 feet in the Wolfcamp.

10 And what this does is -- the way Harvey
11 Yates Company sets up their programs when we go into an
12 area, on the initial well we like to evaluate the Wolfcamp.
13 It's not a really highly respected reservoir, but where you
14 find oil it does have good reserves.

15 We usually take our initial well down and
16 evaluate the Wolfcamp. If we find sulphur water with no
17 shows, we do not take subsequent wells to the Wolfcamp. We
18 TD them approximately 100 feet in the Third Bone Spring
19 Sand.

20 Q Was Chevron made aware that you were
21 going to test the top of the Bone Springs -- or I'm sorry,
22 the top of the Wolfcamp?

23 A Yes, sir.

24 Q Ms. Roberts, is a substantial amount of
25 your work with Harvey E. Yates Company over the past several

1 years involved with the Bone Springs formation in this area?

2 A Yes, sir.

3 Q Do you have any opinion as to the level
4 of risk involved in drilling of these two proposed wells?

5 A A fairly high degree of risk. It's been
6 our experience all along this trend, and I've mapped approx-
7 imately thirty miles east/west and eighteen miles
8 north/south in here, and the nature of the Bone Spring is --
9 is highly unpredictable. It's more unpredictable in the
10 carbonates even than it is in the sand.

11 The reservoir lenses tend to be two to
12 three wells east/west and two to three wells north/south,
13 and the problem that you run into is that even if you can
14 define a fairway where you feel that the porosity will be
15 present, we have run into pressure problems and -- well, we
16 drilled one well in Section 9 of 18, 32, that had only 35
17 feet of pay and two years later the well is still flowing.
18 It has excellent pressure.

19 The well has been offset both to the
20 east, the north, and the west, and the wells do not have the
21 same reservoir pressure and they cannot be explained by
22 drainage.

23 Q Ms. Roberts, based on your evaluation of
24 this risk potential in these two wells, if an order is en-
25 tered in this case, does Harvey E. Yates Company request

1 that it include the statutory maximum risk penalty of well
2 cost plus 200 percent?

3 A Yes, sir.

4 Q In your opinion will the granting of this
5 application promote conservation, prevent waste, and protect
6 correlative rights?

7 A Yes, sir.

8 Q Were Exhibits Seven through Twelve pre-
9 pared by you or under your supervision?

10 A Yes, sir.

11 MR. STRAND: Mr. Examiner, we
12 move the admission of Exhibits Seven through Twelve.

13 MR. CATANACH: Exhibits Seven
14 through Twelve will be admitted into evidence.

15 Mr. Kellahin?

16 MR. KELLAHIN: Thank you, Mr.
17 Catanach.

18

19

CROSS EXAMINATION

20

BY MR. KELLAHIN:

21

22 Q Ms. Roberts, is this your prospect that
23 you've developed?

23

A Yes, sir.

24

25 Q When did you first begin working on this
prospect?

- 1 A Gosh, I guess three years ago.
- 2 Q The area involved in question in the
3 pooling case is a vertical interval 3595 to 9500 feet.
- 4 A Yes, sir.
- 5 Q Above the 3495 you said there is an exis-
6 ting unit?
- 7 A The Taylor Queen Unit is in there.
- 8 Q And that's for Queen production.
- 9 A Yes, sir.
- 10 Q You're proposing this unit to be from the
11 base of the Queen into the top 300 feet of the Wolfcamp?
- 12 A Yes, sir.
- 13 Q This, the working interest unit that Ms.
14 Avery was talking about includes the top 300 feet in the
15 Wolfcamp?
- 16 A Yes, sir.
- 17 Q Okay. And that distance of 9500 feet
18 will get you into that top 300 feet?
- 19 A Yes, sir.
- 20 Q All right.
- 21 A We probably won't have to drill, you
22 know, it might be 9450, but yes.
- 23 Q All right. In developing this prospect
24 you examined the geology in both Sections 12 and 13?
- 25 A Yes, sir.

1 Q When we look at this interval is this
2 identified and described as a specific pool under OCD rules?

3 A Could you be more specific in your ques-
4 tion?

5 A Yes. Below the base of the Queen, in-
6 cluding the top 300 feet of the Wolfcamp, is any portion of
7 that designated as a pool?

8 A There's no established production in
9 either Section 12 or 13.

10 Q And you're not within a mile of known
11 production within that interval?

12 A In the Second Bone Spring Sand in Section
13 2 those are all our wells.

14 Q Okay. Other than the Second Bone Springs
15 do we have production in any of the other Bone Springs in-
16 tervals that you've identified?

17 A Within a mile, no. Your closest one is
18 the Hemrick and Paine well in Section 7 and it's a very poor
19 well.

20 Q Of the three objectives in the Bone
21 Springs, when we start with the First Bone Springs are we
22 talking about the shallowest Bone Springs that you've iden-
23 tified as a potential zone?

24 A It is approximately 1500 to 2000 feet
25 down in the top of the Bone Spring. It is -- the First Bone

1 Spring Sand is the shallowest one that we will be looking --
2 evaluate, yes, sir.

3 Q The next deepest is the B Zone?

4 A Yes, sir.

5 Q And then the deepest one you're evalu-
6 ating is the Second Bone Springs. I'm trying to put these
7 into vertical order.

8 A Yes, it is, uh-huh.

9 Q All right. On your Exhibit Number Twelve
10 that shows the deepest of the three intervals, the Second
11 Bone Springs, you've identified on Exhibit Twelve certain
12 control points within Section 12. I'm not sure I understood
13 whether or not those well symbols represent penetrations in-
14 to the Second Bone Springs.

15 A Yes, they do. Now you'll notice in the
16 Amoco CS Well in Section 7, you'll notice that it was not
17 completely drilled through, does not fully penetrate it, the
18 dry hole in the southeast of the northwest of Section 7.

19 Q When we look at Section 12, however, the
20 well symbols in that section are wells that penetrated
21 through the Second Bone Springs.

22 A Only through the Queen. If there is not
23 necessary -- if you'd refer back to Exhibit Number Seven,
24 sir --

25 Q Uh-huh.

1 A -- all the wells there that penetrated
2 the Bone Spring are located. Every symbol in Section 12 is
3 a Queen well.

4 Q So within Section 12 --

5 A There is no wells in the --

6 Q -- we don't have any wells in the Second
7 Bone Springs and we don't have any penetrations in that zone
8 or in the B Zone or in the First Bone Spring zone.

9 A Not in any of the Bone Spring zones.

10 Q All right. In preparing your structure
11 map for Exhibit Number Eight, does structure play a signifi-
12 cance in determining well locations for you in the section?

13 A No, sir.

14 Q You indicated this was a stratigraphic de-
15 velopment.

16 A Yes, sir. Most people still ask for a
17 structure map.

18 Q Okay. In developing the Isopachs, all
19 three of them, let's pick -- let's pick the primary objec-
20 tive, which was the B Zone? That's Exhibit Number Ten?

21 A Yes, sir.

22 Q Identify it for me, if you'll -- yes, Ex-
23 hibit Number Ten, if you'll identify for me, please, M5.
24 Roberts, what you have used for control wells in making your
25 Isopach on the B Zone if we in fact don't have any produc-

1 tion or information from that zone.

2 A This is part of a regional map that I
3 have and if I were to -- I did not desire to make that pub-
4 lic information. It is a map that we use for exploration
5 and I simply extracted part of it. There's -- it's part of
6 a major -- our major exploration effort, and I just extrac-
7 ted a portion out of the middle of it, and there probably
8 should be one clarification here. I've lived with the Bone
9 Spring for five -- the whole five years that I've been with
10 HEYCO and we have been able to identify two separate (un-
11 clear) within the B Zone. It's difficult to present maps on
12 both of them and probably when you combine them is what you
13 see here and that in Section 2, the two northern wells there
14 where you see 22 feet and 32 feet of porosity, that is in a
15 porosity interval in the middle of the Bone Spring -- of the
16 B Zone carbonate, which is a separate segregated reservoir.

17 Q I'm trying to understand Exhibit Twelve
18 and I believe I understand that we don't have well logs in
19 Section 12 or other well data upon which to base the Isopach
20 and that you have used information outside that section --

21 A Yes, sir.

22 Q -- in order to project your basis for the
23 Isopach of each of these three zones.

24 A Yes, sir.

25 Q All right. In response to Mr. Strand's

1 question, you said you had no strong preference for either
2 one of the locations as being the first well drilled?

3 A Our feeling is that for the carbonate to
4 come through there, it will come through in the middle 12.
5 Both locations are 2310 locations and there's only 660 feet
6 between them. In an area like this, where it is the initial
7 well and we feel like we have a north bounding control for
8 the B Zone carbonate, then I don't have a problem with of
9 those locations.

10 Were they to be moved further to the
11 north or further to the south, I do not feel they would
12 evaluate the carbonate.

13 If it were strictly for a sand, then you
14 would put it in a different location. That's not our objec-
15 tive, to test the sand. We've tested the sand.

16 Q All right. So there is not a strong pre-
17 ference between the two; either one is acceptable to you as
18 a geologist for being that initial well.

19 A Yes, sir.

20 Q I believe in response to Mr. Strand you
21 said that either location will sufficiently allow you to
22 evaluate the resevoir.

23 A Yes, sir.

24 Q What information will you derive as a
25 geologist upon the drilling, completion, and testing of that

1 first well that will allow you to evaluate the reservoir?

2 A One thing that we have in here, we have
3 one, two, three, four, well we have numerous wells from the
4 east edge of Township 18 south, 33 East, and on -- on
5 around. I stated earlier that the Bone Spring, especially
6 the carbonate, is even more unpredictable than the reservoir
7 presence of the Second Sand.

8 You get an initial well in there, then
9 you at least have the data points to go in and start to
10 evaluate -- start to outline and define your reservoir.

11 We know from our detail work in the North
12 Young Bone Springs Field, we know from our detail work in
13 the Mescalero Escarp Bone Spring, the relative size and
14 nature of these first -- of these features in the carbonates
15 and in the sands.

16 We take this initial well down, then we
17 can define the direction to drill for development and the
18 direction to drill -- it's not going to be the same reser-
19 voir as you see in Section 7.

20 Q When you talk about taking the informa-
21 tion from the first well and then determining how to estab-
22 lish a development plan for the unit --

23 A Yes, sir.

24 Q -- what does that first well allow you to
25 do in terms of making adjustments or modifications to any of

1 your Isopachs as you've constructed them now?

2 A I have a model designed that I use and it
3 would allow me to better apply that model.

4 Q In applying that model will it allow you
5 to derive information that will tell you whether or not you
6 might want to shift the location of the second well to be
7 drilled?

8 A Probably.

9 Q And it will also then tell you what else
10 about subsequent development in drilling for the unit?

11 You said it would help you develop a plan
12 for subsequent wells and drilling. You told me it might re-
13 sult in the modification of the location for the secone
14 well.

15 A It might. Primarily these features, al-
16 though the overall trend is east/west, primarily these len-
17 ses do tend to be north/south, and the heart of the poro-
18 sity, however you want to describe it, does not tend to ne-
19 cessarily always overlay from the First Bone Spring sand --
20 carbonate and the Second Bone Spring sand. If we get a con-
21 trol point in there then we can better delineate each.

22 Q Let's assume that we are unfortunate
23 enough to drill the first well and not obtain a commercially
24 productive well in any of the zones. What then would you
25 consider to be your options as a geologist in determining

1 what you would do with the development wells next to be
2 drilled for the unit?

3 A Probably eat crow.

4 Q And after you do that, then, what will
5 you do with the second well?

6 A I'm a geologist, not an engineer. Dry
7 hole, huh?

8 Q That is something that has to be eval-
9 uated then by you and the engineers to figure out what
10 you're going to do now.

11 A Well, obviously, we would -- if that ras-
12 cal were a top to bottom dry hole?

13 Q Yeah.

14 A Obviously, we would put off the drilling
15 of the second well.

16 Being an optimist, I don't think it's
17 going to be dry top to bottom.

18 Q Let's hope it's not.

19 MR. STRAND: Just one question.

20

21 REDIRECT EXAMINATION

22 BY MR. STRAND:

23 Q Ms. Roberts, the geological information
24 on Exhibits, I guess Eight through Twelve --

25 A Seven through Twelve.

1 Q -- Seven through Twelve, has that been
2 provided to Chevron over this period of time?

3 A Well, I don't really know that they've
4 ever asked for it. I've sent pencil copies and things to
5 them. Normally, a geologist calls and they'll ask you data
6 points. We've discussed the drill stem test in Section 11.
7 We have sent them all the information that we have -- that
8 they have requested.

9 Normally they don't ask for maps. They
10 prefer to do their own.

11 Q All right.

12 MR. STRAND: Thank you, that's
13 all I have.

14
15 CROSS EXAMINATION

16 BY MR. CATANACH:

17 Q Just for some clarification, you have a
18 pool that will produce from the Second Bone Spring Sand in
19 Section 2, is that correct?

20 A Yes, sir.

21 Q And those are all your wells?

22 A Yes, sir.

23 Q And the well producing from the B Zone
24 carbonate in Section 7, is that true?

25 A Yes, sir, that's the Hemrick and Paine

1 Well. It was drilled by Hemrick and Paine out of Tulsa, Ok-
2 lahoma.

3 Q Do you know when that was drilled?

4 A I think it was drilled in 1984; '84 or '85.

5 Q When you say it wasn't a good well, do
6 you know exactly what it produces?

7 A I don't have it written down. It seems
8 like it was -- they had a lot of trouble completing it and
9 waited a long time to complete it, and I'm -- this is just a
10 guess, 30 to 50 barrels a day, whereas your normal carbonate
11 wells will flow your allowable of 240.

12 MR. CATANACH: I have nothing
13 further of the witness. She may be excused.

14 MR. STRAND: Mr. Examiner, it's
15 my understanding from Mr. Kellahin previously and his open-
16 ing statement, that he has some objections to our applica-
17 tion evidently on two bases; number one, that the two spac-
18 ing units were included in one application, and secondly,
19 that we are not going to commit to any period of time be-
20 tween the two wells in the two pooled units we're asking
21 for.

22 MR. KELLAHIN: If Mr. Strand
23 would like me to detail what my position is, I'd be happy to
24 let you have the last opportunity --

25 MR. STRAND: That's fine.

1 MR. KELLAHIN: -- to comment on
2 it.

3 MR. STRAND: Go right to it.

4 MR. KELLAHIN: I don't want you
5 to guess on --

6 MR. STRAND: Okay.

7 MR. KELLAHIN: -- what I want
8 to try to accomplish.

9 MR. STRAND: That's fine with
10 me.

11 MR. KELLAHIN: Is that all
12 right?

13 MR. STRAND: Sure.

14 MR. KELLAHIN: Mr. Examiner,
15 we've got a predicament here that I'll confess to you I'm
16 scrambling to try to unravel and figure out how you can en-
17 ter a forced pooling order that will accommodate HEYCO in
18 the development of their working interest unit.

19 I've known Ms. Avery and the
20 HEYCO people for a long time. I have great respect and ad-
21 miration for their company. I think they do a fine job. I
22 think she's very sincere in her efforts to formulate a work-
23 ing interest unit of two sections.

24 You can see from the focus of
25 the correspondence that that is what they were trying to do

1 and to establish a location for the initial well.

2 The way the case has been pos-
3 tured, however, the efforts that they have made towards wor-
4 king out a 2-section unit are not consistent with nor com-
5 patible with the statutory requirements on compulsory pool-
6 ing. We know that there is no forced pooling other than for
7 individual units for specific wells.

8 They are precluded from statute
9 by trying to attempt to force pool multiple units. They
10 can't take the working interest unit sections and force pool
11 for the whole unit. We don't have statutory unitization for
12 primary exploration and production.

13 What they should have done and
14 did not do is when it became apparent that they were not
15 making any progress on the working interest unit, they
16 should have sent notification to Chevron on the 40-acre
17 tract for the first well and asked them to participate in
18 that well and sent them the AFE and either ask them to farm
19 out to them, or whatever. That did not occur.

20 It also did not occur with re-
21 gards to the second well and we've carefully gone through
22 the correspondence that Ms. Avery has and the second well is
23 not proposed in the correspondence. It's only as a result
24 of the force pooling.

25 The statute is very clear. It

1 says only after voluntary efforts have failed can you use
2 forced pooling. There's nothing in here about the second
3 well having failed at voluntary agreement.

4 I asked Ms. Avery very specifi-
5 cally whether or not there was an absolute need to arrange
6 multiple forced poolings, to run notices concurrently, so
7 that we could get two wells into the ground within some
8 specified time frame. We find out the lease doesn't require
9 that. We find out the only thing in here, the operating
10 agreement doesn't require it, doesn't require commencement
11 of that second well on a particular date.

12 The only thing she tells us is
13 that there is some secondary obligation to certain of these
14 parties to commence the second well 180 days after the first
15 well.

16 We have found out from the
17 geologist that HEYCO and the other working interest owners
18 are going to learn a great deal from the first well and it's
19 going to play a great part in what happens to the second
20 well. That creates a problem for you because they've asked
21 for a maximum risk factor penalty now on both wells.

22 We contend that the risk is
23 going to adjust on the second well. It's inappropriate to
24 commit Chevron to the position of having to make elections
25 on two wells when everyone else is going to have the option

1 after the first well not only to evaluate the data but to
2 determine whether or not they're going to pay their money.

3 Everyone else in here is going
4 to be given that chance except Chevron and for reasons un-
5 known to me and certainly not present before you today, they
6 want to punish Chevron for their unwillingness to enter into
7 a multiple unit 2-section working interest arrangement.

8 That is not permitted. We
9 should not use forced pooling as a club to allow an operator
10 for whatever reason to use that in order to get an operator
11 -- a nonworking -- a nonoperating working interest owner to
12 agree on other units. You just can't do it.

13 I think you're within reason to
14 simply dismiss the case and start all over. I think that's
15 a clear decision you can make and well within the evidence.
16 We don't wish to cause Yates or HEYCO any more difficulty
17 than they've made for themselves and we're not asking you to
18 do that.

19 We would ask that you simply
20 dismiss the second well out of this case; that avoids the
21 problems about multiple units in a single pooling order and
22 it gives you a solution. It allows them to go ahead and
23 drill that first well. I allows them to commit to and ful-
24 fill the extended drilling date, the June 30th date on the
25 operating agreement; they can meet that. It allows Chevron

1 to make its thirty day election and everybody goes about its
2 business on the first well.

3 They can file, after an oppor-
4 tunity to send the notice, a new case for the second well
5 and get it done that way. That's how I would do it.

6 The third choice and the -- and
7 I think the least attractive option to you, the one I think
8 that's technically deficient but it's one where you could
9 force pool both of them and give Chevron an election period
10 after the second well has been completed and tested.

11 Now if that is your choice and
12 it's one I'm not comfortable with, you're going to have to
13 take some -- following the completion of that well. We
14 think because the risk factor will be set now at the maximum
15 it would be only fair to share with Chevron some of the
16 technical data that results from the drilling of the first
17 well. Rather than tell you exactly what that information
18 will be or how to structure the order, if you'll allow me to
19 do so, I'll be happy to submit to you some suggested lan-
20 guage so that if you chose to pool two units in the one or-
21 der, which I think is suspect under the rule, I can give you
22 some language that I think will at least accommodate my
23 principal concerns about how to do that.

24 But our major complaint is the
25 inclusion of the second well that unnecessarily complicates

1 arrangements. The applicant has failed to follow procedures
2 to get that done in the first place, and to make life easier
3 and simple, to make the order complete, you simply ought to
4 dismiss the second well out of this case.

5 Thank you.

6 MR. STRAND: Mr. Examiner, in
7 response, we're not trying to punish Chevron or anything
8 else. We're just trying to get a couple of oil wells drill-
9 led, which I think is the basic policy behind the compulsory
10 pooling statute and the regulations (unclear).

11 As the evidence showed, the
12 Harvey E. Yates Company staff has been trying to work with
13 Chevron on this prospect since 1985. They've been fully ap-
14 prised of what Harvey E. Yates Company is trying to do. I
15 don't think there's anything that can be read into the sta-
16 tute or regulations saying that we are required to only do a
17 prospect on the basis of 40 acres or 80 acres. The standard
18 practice in the oil and gas business is to do it under wor-
19 king interest units which normally, and particularly in this
20 area, will cover more acreage than that, and we have given
21 Chevron every opportunity to join the unit, to farm out.
22 There is no evidence in the record that they made any sug-
23 gestions as to any other type of working interest unit that
24 they would be interested in pursuing. They just simply said
25 no, we're not going to do anything. We're not going to pay

1 our way nor are we going to farm out.

2 And that, that leaves Harvey
3 Yates Company in the position where for, I think, a clearly
4 economic standpoint it would be very difficult for them to
5 drill these wells.

6 Secondly, as to the question of
7 two pooling units within on application, I don't think there
8 is anything in the Division's regulation, procedural regula-
9 tions, that precludes that. We simply did that because we
10 knew from the very beginning that the evidence as to these
11 two proposed units would be interrelated, particularly the
12 geological evidence, and from a practical standpoint, we
13 felt this was the easiest way to handle it. We -- Mr. Kel-
14 lahin is correct, we could have filed two separate applica-
15 tions but I expect they would have been consolidated for
16 hearing and we would be doing exactly the same thing and
17 hearing exactly the same arguments if we had done that.

18 We simply request that the Di-
19 vision follow the compulsory pooling statute and enter an
20 order that these two units are pooled and follow its usual
21 procedure in the past that we have to drill both wells by a
22 specific date; that's up to the Division what that date
23 should be. Normally it's been 90 or 120 days, as I remem-
24 ber, and that once an order is entered, that we then have an
25 obligation to submit the estimated well costs to Chevron for

1 both wells and that they then have thirty days again to
2 decide whether they are going to participate in those well
3 costs and relief themselves of the penalty obligations, or
4 whether they would rather go under the forced pooling
5 procedure and be subject to the penalty and not pay their
6 way.

7 I think that's fully within the
8 Division's authority under the statute and under the rules.
9 Again I think this is something that's been done in the
10 past. It's not an unusual situation by any means. Again it
11 may involve situations where separate applications have been
12 filed, but that's simply a procedural nicety that I don't
13 think has any practical significance at all, and I would re-
14 fer the Division to two cases, No. 8977 and 8978, which re-
15 sulted in Orders No. R-8305 and R-8296, which involved a
16 similar situation involving two diagonal offset 80-acre
17 spacing units in the Northeast Lovington Penn Pool, these
18 orders being entered on, let's see, the 3rd of September of
19 1986 as to 8978, and the 19th of September, 1986, as to
20 8977, again, like I say, with a similar situation and there
21 were no specific requirements in those orders relating to
22 any time between those two wells. It's clear just looking
23 at the orders they were part of the same prospect, exactly
24 the same situation we have here.

25 There was a farmout deadline in

1 that they had to drill one of the wells by a specified date
2 and that's the date, the date in the orders, but as -- evi-
3 dently there was no deadline as to the second well.

4 Further, in that case, or in
5 those two cases, Texaco was the party who was being pooled
6 again with a 25 percent interest by coincidence, requested
7 that at least they be given the technical data, the well
8 logs and completion data, and whatnot, from the first well
9 that was drilled and the Division denied that in those two
10 orders and we would request the same relief in this order.

11 So I think we have, we have
12 some precedent for doing this and again I want to emphasize,
13 we're not trying to punish anybody. We tried long and hard
14 to get these wells drilled and we think that the policy un-
15 der the compulsory pooling statute is that wells should be
16 drilled and a minority interest owner, which Chevron is in
17 this case, with all of the other parties having agreed under
18 the terms of the operating agreement to drill, should not be
19 allowed to hold up this production that's desperately needed
20 by the State of New Mexico.

21 That's all I have. Thank you.

22 MR. KELLAHIN: We would resist
23 your efforts to use a case outside the facts of this case
24 and we would ask that you reach a decision based upon this
25 case alone and not go outside the record to some other case

1 where the Commission may in fact have made a mistake. No
2 reason to repeat a mistake here that was made earlier and we
3 would ask you to confine your decision to the facts before
4 you and decide it that way.

5 MR. STRAND: I would simply add
6 that those two cases, one was, I believe, before Examiner
7 Catanach and the other one was -- were both before Examiner
8 Catanach. I'm sorry, and we would just simply say that
9 there certainly is precedent for doing what we request in
10 this case. Whether the facts are exactly the same is irrele-
11 vant. The Division has done it before and that should be
12 considered in making its decision here.

13 MR. KELLAHIN; Mr. Examiner,
14 we've all made mistakes in our lives, so this might be a
15 fine opportunity for us to have an enlightened approach and
16 learn by our past errors.

17 MR. CATANACH: Thank you, Mr.
18 Kellahin. Would both attorneys care to submit draft orders
19 for each case, or one or two or --

20 MR. KELLAHIN: Yes, sir. As
21 many as you like, sir.

22 MR. CATANACH: Okay, let's say
23 within about ten days?

24 Okay, is there anything further
25 in Case 9086?

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MR. STRAND: Nothing further
for the applicant.

MR. CATANACH: If not, we'll
take it under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO
HEREBY CERTIFY the foregoing Transcript of Hearing before
the Oil Conservation Division (Commission) was reported by
me; that the said transcript is a full, true, and correct
record of the hearing, prepared by me to the best of my
ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9086,
heard by me on March 18 1987.

David R. Catanzel, Examiner
Oil Conservation Division