

1 STATE OF NEW MEXICO
2 ENERGY AND MINERALS DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BLDG.
5 SANTA FE, NEW MEXICO

6 17 October 1984

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Harvey E. Yates Com- CASE
10 pany for compulsory pooling, Lea 8372
11 County, New Mexico.

12 BEFORE: Gilbert P. Quintana, Examiner

13
14 TRANSCRIPT OF HEARING

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16 A P P E A R A N C E S

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21 Legal Counsel to the Division
22 State Land Office Bldg.
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24 For the Applicant: Chad Dickerson
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I N D E X

ROBERT BELL

Direct Examination by Mr. Dickerson	3
Cross Examination by Mr. Quintana	9

RODNEY THOMPSON

Direct Examination by Mr. Dickerson	9
Cross Examination by Mr. Quintana	12

E X H I B I T S

Heyco Exhibit One, Plat	4
Heyco Exhibit Two, List	5
Heyco Exhibit Three, Correspondence	6
Heyco Exhibit Four, AFE	6
Heyco Exhibit Five, Operating Agreement	7
Heyco Exhibit Six, Structure Map	10
Heyco Exhibit Seven, Cross Section	10

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MR. QUINTANA: We'll call next Case 8372.

MR. TAYLOR: The application of Harvey E. Yates Company for compulsory pooling, Lea County, New Mexico.

MR. DICKERSON: Mr. Examiner, I'm Chad Dickerson of Artesia, New Mexico, appearing on behalf of the applicant and we have two witnesses to be sworn.

MR. QUINTANA: Are there other appearances in this case?

In that case, will the two witnesses please stand and be sworn at this time?

(Witnesses sworn.)

ROBERT BELL,
being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Mr. Bell, will you state your name, your occupation, and where you reside, please?

A My name is Robert Bell. I'm a petroleum landman with the Harvey E. Yates Company. I reside in Roswell, New Mexico.

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Q Mr. Bell, you have previously testified before this Division as a petroleum landman and your credentials have been made a matter of record, have they not?

A That's correct, yes.

MR. DICKERSON: Mr. Examiner, is this witness satisfactory?

MR. QUINTANA: Mr. Bell is considered as an expert landman.

Q Mr. Bell, would you briefly summarize the purpose of Harvey E. Yates Company's application in Case 8372?

A Mr. Examiner, we seek an order pooling all mineral interests from the surface to the bottom of the Mississippian formation underlying the north half of Section 24, Township 14 South, Range 35 East, to be dedicated to a well drilled at a standard location.

Also to be considered will be the cost of drilling and completing this well and the allocation of costs thereof, as well as actual operating costs, and charges for supervision; designating the applicant, Harvey E. Yates Company, as operator of the said well.

Q Mr. Bell, will you refer to what we have submitted as Exhibit Number One and tell the Examiner what that plat shows?

A Mr. Examiner, Exhibit Number One is a land plat outlining Section 24 of Township 14 South, Range 35 East, with an arrow indicating the approximate location

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2 of the initial well.

3 Q And the entire section is outlined and
4 not merely the proration unit, for the reason that the sec-
5 tion consists of a working interest unit of Harvey E. Yates
6 Company?

7 A That's correct.

8 Q Okay. Refer to Exhibit Number Two and
9 tell us what that is.

10 A Mr. Examiner, Exhibit Number Two lists
11 four mineral owners who we have not been able to locate and
12 shows the fractional interest as well as their net acres un-
13 der the entire section, and the last known address of these
14 people.

15 They have a total of 40.3125 net acres,
16 which is approximately .06298828. This is the unit interest
17 of the acres that we'll be force pooling.

18 Q What efforts have you made, Mr. Bell, to
19 locate these four interest owners?

20 A According to these addresses we sent two
21 letters, certified mail, one requesting a lease; the other
22 notifying these people of this -- of this hearing. They
23 were all returned to our office.

24 We have also tried locating, you know,
25 relatives, next door neighbors, things like that.

26 Q What was the source of these addresses
27 that you do have for these people?

28 A They were previously under lease back in

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the 1940's and '50's and I guess the addresses were from 1959, for the latest addresses.

Q Are you continuing your efforts to locate and offer these parties the chance to either lease or participate in this drilling operation?

A Yes, sir, we are.

Q Refer to what we have submitted as Exhibit Number Three, Mr. Bell, and tell the Examiner what that is.

A Mr. Examiner, Exhibit Number Three are copies of all the correspondence from Harvey E. Yates Company and the mineral owners that we're trying to locate.

Q And you stated that this correspondence has been returned when you have sent it certified, so evidently your addresses are in error or the parties are no longer at those addresses.

A That's correct.

Q What is Exhibit Number Four?

A Exhibit Number Four is an AFE prepared by Harvey E. Yates Company, outlining the estimated costs, with an estimated dry hole cost of \$568,160 and an estimated producing well cost of \$901,012.

Q And are these estimated dry hole and completion costs in line with what Harvey E. Yates Company's experience in the area of the well in question?

A Yes, they are.

Q Refer to Exhibit Number Five and identify

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that.

A Exhibit Number Five is a model form 1977 operating agreement that we have prepared for the drilling of this well in Section 24.

Q What provision or what portion of that operating agreement governs the manner in which unit -- or drilling costs will be paid?

A I believe that would be included in the COPAS, which is Exhibit C to the operating agreement.

Q And you're referring to the supervision charges? What -- what charges for supervision is HEYCO requesting in this case?

A I'm sorry, I don't understand the question.

Q Refer to the COPAS --

A Oh, okay.

Q -- procedure and tell the Examiner what charges --

A I see.

Q -- for supervision HEYCO is requesting.

A We have a drilling well rate of \$5000 and a producing well rate of \$500.

Q And are those rates in line with HEYCO's experience in this area?

A Yes, sir, for this type of well and at this time I believe they are.

Q Now directing your attention to Exhibit

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2 A, which is part of Exhibit Number Five, that exhibit sets
3 forth the interest of the parties and the manner in which
4 the drilling costs will be borne, does it not?

5 A That's correct.

6 Q Moran Exploration, Inc., is the only party
7 other than Harvey E. Yates Company and its affiliated
8 parties. Has Moran agreed to these charges?

9 A Yes, sir, they have.

10 Q Okay. As far as the uncommitted acreage,
11 being the interest owned by these parties that you have been
12 unable to locate, who is going to carry the cost burden of
13 those uncommitted interests?

14 A Harvey E. Yates Company.

15 Q Refer the Examiner, Mr. Bell, to the pro-
16 vision in this operating agreement which governs non-consent
17 penalties in the event of operations by less than all par-
18 ties.

19 A Okay, that would be Article Number VI,
20 Paragraph B, which indicates that we'd have a nonconsent
21 penalty of 300 percent.

22 Q Okay, and that is roughly equivalent to
23 the statutory 100 percent of cost plus 200 percent penalty,
24 is that right?

25 A That's correct.

MR. DICKERSON: Mr. Examiner, I
move admission of Applicant's Exhibits One, Two, Three, Four
and Five at this time.

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MR. QUINTANA: Exhibits One through Five will be admitted into evidence.

MR. DICKERSON: And I have no further questions of this witness.

CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Bell, would you please tell me the extent of the pooling area that you want, from the surface to what?

A Surface to the bottom of the Mississippian formation.

MR. QUINTANA: Any further questions of Mr. Bell? Mr. Bell, you may be excused.

MR. DICKERSON: Call Mr. Rod Thompson at this time, Mr. Examiner.

RODNEY THOMPSON,

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

DIRECT EXAMINATION

BY MR. DICKERSON:

Q Mr. Thompson, will you state your name, your occupation, and where you reside?

A My name is Rodney Thompson. I'm a geologist for Harvey E. Yates Company; reside in Midland, Texas.

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Q And have you previously testified as a geologist before this Division and had your credentials made a matter of record?

A Yes, sir, I have.

MR. DICKERSON: Tender this witness as an expert geologist, Mr. Examiner.

MR. QUINTANA: The witness is considered an expert geologist and may testify.

Q Mr. Thompson, refer to what we have marked and submitted as Exhibit Number Six and tell the Examiner what you show on that instrument.

A Yes, sir. Mr. Examiner, I'd like to refer to Exhibit Number Six. It's a structure map contoured at the top of the Upper Mississippian Chester formation.

We plan to TD in this formation and it is a contour interval at 50 feet. It shows the subcrop of this formation.

Our proposed location is 1980 from the north and east line of Section 24. The map also shows our proposed working interest unit. It's adjacent to the Austin Mississippian Field, which produces gas out of this formation to the east of our location and unit. And the map also shows our line of cross section through the area, which is given in Exhibit Number Seven.

Q Okay, refer to Exhibit Number Seven and tell the Examiner what that is.

A Mr. Examiner, Exhibit Number Seven is a

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2 structural cross section and it runs west to east, roughly.
3 We have our projected location projected into the cross sec-
4 tion. It shows the interval from our Strawn age rock down
5 through the Mississippian and shows the development of the
6 Mississippian Chester Austin pay interval in this area.

7 There is -- as you can see, there is a
8 clean biozone-crinoidal limestone bank which comprises this
9 formation, and we -- where we get this thicker bank is where
10 we find the most porosity in the -- in this interval.

11 It shows the development of the bank in
12 the area and our east, most easterly well is a producing
13 well in this area. It has produced 4.1 billion cubic feet
14 of gas out of this formation.

15 Q And so briefly stated, what is the nature
16 of the geological risk involved in drilling this test well?

17 A The risk involved is the fact that there
18 is a permeability problem in this formation. It has been
19 classified as a tight formation gas as far as pricing goes.
20 There's stratigraphic problems involved with the formation,
21 as well as structural, so it's not totally dependent on
22 structure but also on its stratigraphic development.

23 There have been wells in the immediate
24 area that have drilled on structure that have been tight, as
25 is shown in the middle well, the Cherry Brothers Austin
State No. 1, on the cross section, which does not have the
type of porosity that we're looking for in the area. So
there are problems as far as permeability goes and a major

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2 risk factor involved.

3 Q Based on this information what risk pen-
4 alty factor does HEYCO request that the Division impose on
5 those parties being subjected to forced pooling?

6 A HEYCO recommends a maximum risk factor
7 applied to this, to our application, of 200 percent.

8 MR. DICKERSON: Mr. Examiner,
9 move admission of Applicant's Exhibits Six and Seven at this
10 time.

11 MR. QUINTANA: Exhibits Six and
12 Seven will be entered into evidence at this time.

13 MR. DICKERSON: And I have no
14 further questions.

15 CROSS EXAMINATION

16 BY MR. QUINTANA:

17 Q Mr. Thompson, could you expound on the
18 two wells that are on the proposed pooling area, the well to
19 the -- directly to the well of your proposed location and
20 the well directly to the southeast of the location?

21 A Yes, sir. Mr. Examiner, the well to --
22 directly to the southeast of our location has penetrated the
23 Austin interval. It is included on the cross section and
24 the well was drilled in 1954 and never did test this inter-
25 val. All we have for information as far as logs go are
electric logs that were run over the interval and, like I
say, it was never tested so we really don't have any infor-

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2 mation on it other than what's given on these logs.

3 The Union of California Woodward No. 1
4 was TD'ed in the Upper Pennsylvanian and did not penetrate
5 this interval.

6 Q So basically you're basing your penalty
7 assessment on the fact that the Cherry Brothers Austin Well
8 No. 1 to the -- directly east of your proposed location has
9 somewhat less permeability and porosity than you would ex-
10 pect further east than that well, and that the further west
11 you go, the more risk that is involved.

12 A That is correct. The best well in Sec-
13 tion 19, the Cherry Brothers well, does show a lower poros-
14 ity in the biozone bank of the Austin zone, and relative to
15 the other producing wells in the Austin Field.

16 So we feel there is a large element of
17 risk involved.

18 Q Thank you, Mr. Thompson.

19 MR. QUINTANA: Is there any
20 further questions of Mr. Thompson?

21 In that case, he may be ex-
22 cused.

23 Is there any further questions
24 in Case 8372?

25 In that case, Case 8372 will be
taken under advisement.

(Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY
that the foregoing Transcript of Hearing before the Oil Con-
servation Division was reported by me; that the said tran-
script 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. 8372
heard by me on OCT. 17 1984.
Gilbert P. Quintana, Examiner
Oil Conservation Division