

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

21 January 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Yates Petroleum Corpor- CASE
ation for compulsory pooling, Lea 9058
County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

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

For the Applicant:

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MR. CATANACH: Call next Case
Number 9058.

MR. TAYLOR: The application of
Yates Petroleum Corporation for compulsory pooling, Lea
County, New Mexico.

The applicant has requested
that this case be continued.

MR CATANACH: Case 9058 will be
continued to the February 4th Examiner's docket.

(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 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. 9088,
heard by me on 1/21 1987.

David R. Catanach, Examiner
Oil Conservation Division

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MR. STOGNER: This hearing will
come to order.

Call next Case Number 9058.

MR. TAYLOR: The application of
Yates Petroleum Corporation for compulsory pooling, Lea
County, New Mexico.

MR. STOGNER: Call for appear-
ances.

MR. DICKERSON: Mr. Examiner,
my name is Chad Dickerson of Artesia, New Mexico, appearing
on behalf of the applicant and I have four witnesses.

MR. HALL: Mr. Examiner, my
name is Scott Hall from the Campbell & Black law firm of
Santa Fe.

I'm appearing today on behalf
of LDM Associates and Louisiana Land & Exploraiton.

I have one witness to be sworn.

MR. STOGNER: Are there any
other appearances in this case?

Will all five witnesses please
stand and be sworn at this time?

MR. DICKERSON: Let me ask, is
there no appearances for Amerada Hess?

MR. HALL: Not by me.

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(Witnesses sworn.)

KEN BEARDEMPHL,

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

DIRECT EXAMINATION

BY MR DICKERSON:

Q Will you state your name and your occupation and by whom you're employed, Mr. Beardemphl?

A Ken Beardemphl, employed by Yates Petroleum Corporation, and I'm a landman.

Q Have you previously testified before this Division as a petroleum landman?

A No, sir.

Q Will you briefly summarize your work experience as a landman for the Examiner?

A Okay. I've been employed by Yates Petroleum for approximately seven and a half years and I've been a landman for three of those years.

Q And in your capacity as a landman does part of your responsibilities include the area in Lea County, New Mexico, which is the subject of this application?

1 A Yes, sir.

2 Q And are you familiar with the land situa-
3 tion in the area of this application pending --

4 A Yes.

5 Q -- before us here? And are you familiar
6 with the circumstances surrounding the filing of Yates' ap-
7 plication in Case 9058?

8 A Yes, sir.

9 MR. DICKERSON: Mr. Examiner, I
10 tender this witness as a petroleum landman.

11 MR. STOGNER: Are there any ob-
12 jections?

13 There being none, Mr. Beard-
14 demphl is so qualified.

15 Q Mr. Beardemphl, will you state the pur-
16 pose of Yates' application in Case 9058?

17 A Yates is applying for a -- seeks an order
18 pooling all mineral interests from the surface to the base
19 of the Atoka formation underlying either the northwest quar-
20 ter of the northeast of Section 14, Township 17 South, Range
21 37 East, to form a standard 40-acre oil spacing and prora-
22 tion unit within said vertical limits, or the north half
23 northeast of said Section 14 to form an 80-acre oil spac-
24 ing and proration unit for any and all formations and/or
25 pools within said vertical limits, which are developed on 80-

1 acre spacing, both aforementioned units to be dedicated to
2 the well to be drilled at a standard location hereon.

3 Also to be considered will be the cost of
4 drilling and completing said well and the allocation of
5 costs hereof, as well as actual operating costs and charges
6 for supervision, designation of applicant as operator of the
7 well, and a charge for risk involved in drilling said well.

8 Q Mr. Beardemphl, this proposed well loca-
9 tion that Yates seeks here is within the boundaries of the
10 Humble City Strawn Pool, is it not?

11 A Yes, sir.

12 Q And under those pool rules a Strawn com-
13 pletion would be developed on 80-acre spacing and any com-
14 pletion other than the Strawn would be the standard 40-acre
15 oil spacing unit?

16 A Yes, sir.

17 Q And your well is located in the northwest
18 quarter of the northeast quarter of Section 14?

19 A Yes, sir.

20 Q Mr. Beardemphl, will you refer to what we
21 have submitted as Yates Petroleum Corporation Exhibit Number
22 One and orient the Examiner with regard to where this loca-
23 tion lies and what is shown by your map?

24 A Yes, sir. Outlined in red is our acreage
25 for our Humble City working interest unit that Yates put to-
gether in 1985, and it also has our new well location in the

1 said unit.

2 Q So within that, the boundaries of that
3 Humble City working interest unit your proposed well loca-
4 tion consists of the north half of the northeast quarter of
5 Section 14 in the southern part of that unit area?

6 A Yes sir.

7 Q Why is it, Mr. Beardemphl, that Yates has
8 proceeded with its application for pooling at this time and
9 has not agreed to further postpone any hearing in this case?

10 A We feel that drainage from the two wells
11 to the south of our location, one being in the southeast
12 quarter northeast quarter Section 14, and the other in the
13 southwest quarter northwest quarter of Section 13 --

14 Q Who operates those wells?

15 A LL&E, Louisiana Land & Exploration.

16 Q Mr. Beardemphl, are the parties who are
17 -- who have not agreed to pool their interests voluntarily
18 to this date members of this, or parties to the Humble City
19 working interest unit to which you referred?

20 A No, sir, they are not.

21 Q Okay. Turn to Exhibit Number Two, Mr.
22 Beardemphl, and tell the Examiner what that instrument is.

23 A This is an affidavit where I authorized
24 that we have filed and advised all of the parties on page
25 two of Rule 1207 in regards to advertising the forced pool-

1 ing.

2 Q And there are return receipts showing re-
3 ceipt by each of the parties --

4 A Yes, that's right.

5 Q -- to be pooled of notice of this appli-
6 cation?

7 A A copy of your letter.

8 Q Now the parties subject to this pooling
9 are set forth on page 2 of that exhibit, are they not?

10 A Yes, sir.

11 Q Have any of those parties since the fil-
12 ing of this application agreed to participate in this well?

13 A Yes, sir, Exxon Company USA has.

14 Q So the balance of the parties listed on
15 page two of Exhibit Two still have not agreed to voluntarily
16 pool their interest?

17 A I have received no response in writing
18 from them.

19 Q Do you have further exhibits which will
20 specify the interest of each of these parties and where that
21 interest is located?

22 A Yes, sir.

23 Q Mr. Beardemphl, turn to what we have sub-
24 mitted as Exhibit Number Three and very briefly summarize

25

1 for the Examiner what that is?

2 A Exhibit Three is Exhibit A out of our
3 Humble City working interest operating agreement and it
4 includes all of the parties listed and the description of
5 our Humble City working interest unit, and percentages of
6 ownership.

7 Q Okay, so all the parties who are members
8 of this working interest unit, their interests are
9 controlled under voluntary agreement for the drilling of
10 this proposed well.

11 A Yes, sir, they are.

12 Q What percentage of the proposed drillsite
13 spacing unit consists of parties to this existing joint
14 operating agreement?

15 A The percentage is 27.0875.

16 Q Controlled by Yates Petroleum or its --

17 A Controlled by this operating agreement.

18 Q -- other interest owners, and the balance
19 of the spacing unit that we're here today concerning is
20 owned by the parties who are opposing?

21 A Yes, sir.

22 Q Okay. Under what types of general
23 arrangements have Yates Petroleum Corporation or its other
24 working interest owners in the Humble City working interest
25 unit agreed to participat in drilling this well?

1 A All of the parties have either joined,
2 farmed out, or have elected to go nonconsent under the oper-
3 ating agreement, which is, penalty is 100, 300 percent non-
4 consent.

5 Q So a 300 percent penalty nonconsent under
6 the terms of that operating agreement would be equivalent to
7 our statutory 200 percent penalty?

8 A Yes, sir.

9 Q Mr. Beardemphl, turn to Exhibit Number
10 Four and tell the Examiner what that is.

11 A Exhibit Number Four is our letter dated
12 November 13th, 1986, where Yates Petroleum requests, just
13 briefly, to, because we feel drainage from the offset wells,
14 that we propose to drill an 11,800-foot Atoka test with the
15 location, and we also invite the parties to drill or join
16 with us in this endeavor.

17 Q Has Yates received any written reponse
18 from any of the parties to whom this letter was directed?

19 A Yes, sir, Exxon Corporation.

20 Q And that it your Exhibit Number Five?

21 A Yes, sir.

22 Q Describe that for the Examiner, please.

23 A Exhibit Number Five, dated December 18th,
24 1986, from Exxon Company USA, advises that Exxon Company
25 elects to participate in the Humble City ACL No. 1 with its

1 working interest percentage.

2 Q Have you had any written response from
3 any of the other parties who have not yet agreed to pool
4 their interest?

5 A No, sir.

6 Q Turning briefly back to Exhibit Number
7 Four, Mr. Beardemphl, the attachments to that letter not on-
8 ly set forth the names and addresses of all working interest
9 owners, they set forth the percentages of each in this pro-
10 posed location, do they not?

11 A Yes, sir.

12 Q Mr. Beardemphl, turn to Exhibit Number
13 Six and tell us what that exhibit is and what the basis for
14 it is.

15 A Exhibit Number Six, dated December 18th,
16 1986, is from Louisiana Land & Exploration Company, where
17 they proposed and sought to shoot a seismic line through our
18 Humble City area and it includes the AFE.

19 Q Other than this letter from Louisiana
20 Land & Exploration, you've had no written correspondence
21 with them concerning Yates' application in this case?

22 A No, sir.

23 Q Have you had telephone contacts or other
24 contacts with personnel?

25 A Yes, I've called quite frequently just

1 trying to get a response from them.

2 Q Can you summarize some of your contacts
3 and state what you understand their position to be?

4 A Yes. I've been talking to them for
5 quite awhile and they've all decided that they wanted to
6 shoot a seismic line and they wanted to delay the hearings
7 and I've asked them if they wanted to join, farmout, and
8 I've never really got an answer out of any of them.

9 Q Do you know whether or not these parties
10 have at this time actually conducted another seismic opera-
11 tion?

12 A Yes, sir, they have shot the seismic as
13 of not last Firday, the Friday before, whatever date that
14 was, the 29th, I believe. They had -- LL&E had advised me
15 that they'd shot the seismic and received it and looked it
16 over and made a decision but they didn't tell me what it
17 was.

18 Q And have you spoken with these parties
19 since they have received their data from this seismic line?

20 A Yes, sir, I've talked to all parties and
21 they said that they were going to have a meeting yesterday,
22 Tuesday, the 3rd of February.

23 Q But you have had no advice as to the out-
24 come of that meeting or any decision made?

25 A No.

1 Q Mr. Beardemphl, in response to Exhibit
2 Number Six, what did Yates Petroleum Corporation do?

3 A We sent a letter back with our signed AFE
4 on the seismic.

5 Q And that is the letter submitted here as
6 Exhibit Number Seven?

7 A Yes, sir.

8 Q Summarize the contents of that letter for
9 the Examiner.

10 A Management of Yates Petroleum offered to
11 join in the shooting and the payment of the seismic line if,
12 one, the parties would join our unit, or excuse me, join our
13 well, or two, farm out to us.

14 Q And have you had any response from any of
15 these parties to this invitation?

16 A Well, they've all kind of said they might
17 but it's always been a "maybe"; no definite response, no-
18 thing in writing.

19 Q Okay. Mr. Beardemphl, turn to Exhibit
20 Number Eight and tell the Examiner what that is.

21 A Exhibit Number Eight is a letter from Ex-
22 xon Company, January 28th, 1987, where they advise that they
23 will not pay any cost associated with the seismic, and they
24 again propose to join our Humble City ACL No. 1 Well.

25 Q Mr. Beardemphl, I understand that you

1 have not yet prepared a proposed form of joint operating
2 agreement to be used to govern operations of this well?

3 Is that because of the large interest
4 which remains uncommitted and uncertainties as to what the
5 interest of the parties will be?

6 A Yes, sir.

7 Q What charges for supervision does Yates
8 seek be imposed for the drilling of this Humble City ACL No.
9 1 Well?

10 A We use the ones from our operating agree-
11 ment in the Humble City working interest unit, which would
12 be drilling well rate, \$5,200 and a producing rate, \$520.

13 Q Mr. Beardemphl, were Exhibits One through
14 Eight compiled by you?

15 A Yes, sir.

16 MR. DICKERSON: Mr. Examiner,
17 move admission of Yates Exhibits One through Eight at this
18 time and I have no further questions of this witness.

19 MR. STOGNER: Are there any ob-
20 jections?

21 MR. HALL: No objection to the
22 tender. I do have a couple questions for the witness.

23 MR. STOGNER: Exhibits One
24 through Eight will be admitted into evidence at this time.

25 Mr. Hall, your witness.

1 CROSS EXAMINATION

2 BY MR. HALL:

3 Q Mr. Beardemphl, did you have any sort of
4 input on deciding where the proposed location would be for
5 the well?

6 A No, sir.

7 Q Who did?

8 A That would be our geologist.

9 Q Will he be testifying today?

10 A Yes, sir.

11 Q Mr. Beardemphl, in your opinion would it
12 be prudent to be able to have additional seismic informa-
13 tion, which you know exists, before you make the final
14 determination of a well location?15 A I honestly don't have any idea. All I've
16 been told from our people is that we've had -- we have
17 enough seismic.18 Q How long have you been in the land busi-
19 ness?20 A I've been in the land business for a lit-
21 tle over three years.22 Q Have you been involved with other pros-
23 pects that had a certain abundance of seismic information
24 available?

25 A Yes, sir.

1 Q And was that seismic information uti-
2 lized, to your knowledge, in the past?

3 A Yes, sir.

4 Q And are you telling me here today that it
5 would not be prudent to utilize presently existing seismic
6 information --

7 MR. DICKERSON: Mr. Examiner,
8 I'm going to object at this time. This is a petroleum land-
9 man, who's already testified he had no input and does not
10 have the input into the location chosen for the drilling of
11 the well, and I think the line of inquiry would be better
12 directed to the witnesses to follow, who do have such input.

13 MR. HALL: Well, Mr. Examiner,
14 the witness has testified that he's had extensive experience
15 in assembling prospects where seismic's been available. He
16 stated he has an opinion. I'm simply seeking to inquire
17 what his opinion is on the custom and usage of the seismic
18 information where it is available.

19 MR. STOGNER: Mr. Hall, I see
20 this man as he was qualified as an expert petroleum landman
21 and I believe, Mr. Dickerson, you do have three other wit-
22 nesses who have expertise in this particular --

23 MR. DICKERSON: That's correct,
24 Mr. Examiner.

25 MR. STOGNER: Mr. Hall, I'm

1 going to --

2 MR. DICKERSON: Sustain.

3 MR. STOGNER: Yeah, sustain the
4 objection.

5 Do you have any other questions
6 of this witness pertaining to land matters?

7 Q Mr. Beardemphl, do you know whether Yates
8 had discussed with any of the other nonparticipating parties
9 alternate locations?

10 A Not to my knowledge.

11 Q Will you refer to your Exhibit Number
12 Seven?

13 A Yes, sir.

14 Q At the paragraph numbered one there you
15 reference a location 760 from the north and 1880 from the
16 east on Section 14. Is that the present location in your
17 application?

18 A Yes, sir.

19 Q Did LDM or LL&E express any desire to
20 consider other locations based upon seismic information that
21 might be come available?

22 A I've never heard anything about it from
23 any of their landmen.

24 Q Well, wouldn't it be natural to assume
25 that if they were going to shoot additional seismic that

1 they were indeed considering another location?

2 A I don't know. I wouldn't assume it.

3 Q As I understand it from the thrust of
4 your letter, Exhibit Seven, you stated Yates' position was
5 that we will join in the AFE on the seismic only if you go
6 in our location and no other location. Isn't that your
7 position stated in Exhibit Seven?

8 MR. DICKERSON: Mr. Examiner,
9 I'm going to object to the form of the question. The
10 Exhibit Number Seven speaks for itself. It's written in
11 English and we can all read it.

12 MR. STOGNER: Mr. Hall, do you
13 have any comment on that?

14 You have no comment; objection
15 sustained.

16 Q Mr. Beardemphl, let me ask you again with
17 respect to Exhibit Number Seven, there's no other location
18 proposed on that exhibit, is there?

19 A No, we usually don't propose too many
20 locations at one time.

21 Q So it's just a take it or leave it
22 response, is it not?

23 A I've never gotten any answer so I don't
24 know whether anybody did different, sir.

25 Q Referring to your Exhibit Eight, that's

1 that's the refusal letter from Exxon, did I understand you
2 correctly that Exxon was the only party affirmatively elect-
3 ing not to participate in the project, is that correct?

4 A Yes, sir.

5 Q And they speak for what, 2 percent?

6 And what is Yates' position in the prora-
7 tion unit, 27 percent? Is that correct?

8 A Yes, sir.

9 Q And that's for the entire 80 acres?

10 A Uh-huh. Okay, fine.

11 Q Could you correct me on that for the re-
12 cord?

13 A Yates partners, 27.0875 percent.

14 Q And of that how much is Exxon?

15 A 2.0875.

16 Q Does the acreage position of Yates at all
17 change with respect to either of the 40 acres and the 80 ac-
18 res proration unit?

19 A No, sir, it's consistent.

20 MR. HALL: Can we go off the
21 record for just a second?

22

23 REDIRECT EXAMINATION

24 BY MR. DICKERSON:

25 Q Was it your testimony that either in re-

1 sponse to the letter, Exhibit Number Seven, or some of the
2 earlier correspondence, that you had not heard from any of
3 the parties who are not voluntarily pooled at this point any
4 objection as to the proposed well location or any other spe-
5 cific basis for their objection to Yates location in this
6 case?

7 A No, sir.

8 Q So that this cross examination, the tes-
9 timony elicited on cross examination is the first indication
10 that you have had of any objection to the well location?

11 A Yes, sir.

12 MR. DICKERSON: I have no fur-
13 ther questions.

14 MR. STOGNER: Mr. Taylor?

15

16 CROSS EXAMINATION

17 BY MR. TAYLOR:

18 Q Just for the record, to clarify the in-
19 terests that have agreed to this and the interests that
20 you're pooling.

21 You stated Exxon has now agreed?

22 A Yes, sir.

23 Q Okay, so you're pooling everybody else on
24 Exhibit Eight on your -- on your affidavit?

25 A Exhibit --

1 Q Exhibit Two?

2 A -- Two. Yes, sir, everyone except Exxon.

3 Q Okay, and could you tell me just roughly
4 the total interest if you have it or if you could just go
5 through them one by one, whatever you prefer?

6 A Yes, it is. It would be 70.9, approxi-
7 mately, 70.8.

8 Q That is being pooled?

9 A Yes, sir.

10 Q So that would be approximately 29.2 --

11 A Approximately.

12 Q -- to the ones doing the pooling, right?

13 A Uh-huh.

14 MR. TAYLOR: Okay, that's all.

15 MR. DICKERSON: Mr. Taylor,
16 this is somewhat confusing and I might clarify it just a
17 little bit more.

18 The existence of the Humble
19 City working interest unit is the complication that causes a
20 little unusual circumstances in this case. That unit, which
21 covers the proration unit for the well that we're speaking
22 of today, has only committed to it out of that spacing unit
23 approximately 27 percent of the mineral interest underlying
24 the north half of the northeast quarter.

25 The balance of the leasehold

1 interest in the proposed spacing unit is represented by the
2 parties listed on Exhibit Two, except Exxon has now agreed
3 to participate, and also with the further exception that
4 Amerada Hess has made no appearance here today and we don't
5 really know what their current position is, if it is changed
6 or not.

7 Exhibit Number Four sets forth
8 the interest of all parties, including those who are parties
9 to the Humble City working interest unit and those who are
10 not and are in opposition to this application on a spacing
11 unit basis, so that the interest of each party in this well
12 is set forth on Exhibit Number Four.

13 MR. TAYLOR: Okay, I think that
14 makes my point clear.

15 MR. STOGNER: If there are no
16 further questions of this witness I'm going to release him
17 at this time so we can get on with Mr. McMillan's testimony.
18 I appreciate everybody's cooperation in that; however, we
19 may need to call Mr. Beardemphl back for any additional tes-
20 timony.

21 Mr. Hall?

22

23

COLIN McMILLAN,

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

1

2

DIRECT EXAMINATION

3 BY MR. HALL:

4

Q

Please state your name for the record.

5

A

My name is Colin McMillan.

6

Q

How are you employed and where do you

7

live?

8

A

I'm self-employed.

9

Q

In what capacity?

10

A

And also I run a little company called

11

Permian Exploration Corporation, which I'm salaried employed

12

and the principal stockholder in that, but I appear on be-

13

half of -- of -- today of LDM, which at one time was Love-

14

lace, David and McMillan, and Mr. Lovelace has passed away

15

some time ago, although his widow and their children are --

16

are represented in this. Mrs. Lovelace and her two daugh-

17

ters have interest in this -- this thing, in this prospect

18

and in this acreage, and Mr. David and I are not a partner-

19

ship but we've worked together for a number of years on

20

prospects.

21

Q

All right, what is LDM? Is LDM an oper-

22

ating company?

23

A

It's not an operating company. We put

24

drilling deals together; have for a number of years.

25

Q

Mr. McMillan, have you previously testi-

1 fied before the Commission or one of its hearing examiners?

2 A Yes, I have. I've testified in my capa-
3 city in the past of geophysicist and I have -- I've been in
4 the geophysical business since 1960. I have interpreted a
5 lot of data in New Mexico, thousands of mile, so geophysical
6 data, and -- and run seismic crews. I've probably super-
7 vised seismic crews on 5000 miles of geophysical data in New
8 Mexico.

9 Q All right. Are you familiar with the ap-
10 plication of Yates Petroleum in this case?

11 A Yes, I am.

12 Q And are you also familiar with the lands
13 that are the subject of the application?

14 A Yes, I am.

15 MR. HALL: Mr. Examiner, are
16 the witness' qualifications acceptable?

17 MR. STOGNER: Are there any ob-
18 jections?

19 MR. DICKERSON: No.

20 MR. STOGNER: Mr. McMillan, are
21 you testifying today on behalf of Louisiana Land & Explora-
22 tion in any way?

23 A Well, to the limited extent that the one
24 thing that we want is a little more time on this thing, and
25 I -- first let me say that we met with Amerada Hess and LL&E

1 yesterday in Houston and to the -- I'm testifying on their
2 behalf of the extent that we want to delay them in this mat-
3 ter.

4 Any technical discussion that I might
5 give is just on behalf of LDM.

6 MR. STOGNER: Okay, thank you
7 for clarifying that, Mr. McMillan.

8 Mr. McMillan's qualifications
9 are accepted, Mr. Hall.

10 Q Then has LL&E authorized you to speak on
11 their behalf today?

12 A To the --

13 Q For that purpose?

14 A To the extent that -- to explain why we
15 want a delay, and they agree in that.

16 Q All right. Would you please explain why
17 LDM is opposed to the application and why you seek a delay?

18 A Well, first, I'd like to say this first,
19 that LDM has been very active in this area; that we're re-
20 sponsible not only for this discovery here at Humble City,
21 but we recently, with other partners, have a discovery in
22 Section 12 to the northeast. We are drilling a confirmer to
23 that, and we're not -- we've been very aggressive in -- in
24 exploiting their discoveries in this area and we -- we want
25 to continue to do that.

1 We believe in this area, and I think this
2 is probably one of the unique areas in New Mexico that an
3 intense seismic effort is necessary in order to get a good
4 location. I guess the perfect example is in this same quar-
5 ter section. We drilled the Lea -- Lea Farms No. 1 and that
6 particular well was tight in the Strawn and we did some ad-
7 ditional seismic work in there and moved about 500 feet from
8 there and got a well that flowed for -- potentialled some-
9 where around 400 barrels a day, and we got -- I think we had
10 -- I think we had 100 feet of pay. One of those -- there
11 are two wells in there; one of them had 75 and one of thes
12 had 100, and yet 500 feet away we had a dry hole.

13 So the location is extremely important,
14 and let me say this, too, that the advantage of the seismic
15 data is also important, that, you know, I guess modesty is
16 not one of my long suits, but the work that we've done in
17 here developing not only the field parameters but -- but the
18 interpretive techniques have progressed significantly since
19 we got the original discovery in Humble City.

20 So I think that -- that -- I think one is
21 foolish to select a location in this area without the most
22 modern seismic data and out of the last five wells we've
23 drilled in here four of them have been discoveries, and I
24 would say that in this same area Yates is one for one on dry
25 holes.

1 So we think it's imprudent not to get the
2 data.

3 Q Let me ask you, how -- how long -- how
4 long ago did LDM first acquire its interests in the area?

5 A I think about 1975. I believe that's
6 right; it could be '77, but we've had it a number of years.

7 Q Now, has LDM and LL&E acquired recent
8 seismic data with respect to this specific prospect?

9 A Yeah, I think that the Yates landman was
10 very accurate on the time that we got the data.

11 We got the first -- we got the first
12 line, or the first presentation of the line last Thursday or
13 Friday; I believe it was last Friday but it could have been
14 last Thursday. I believe it was last Thursday.

15 We -- I examined the data. I have a fel-
16 low working for me, a geophysicist, that examined the data
17 and we -- he worked all weekend on the data.

18 At the time that we looked at the data we
19 decided that we wanted another presentation, and it had to
20 do with the amount of gain that they'd used in processing
21 and technical things, but we weren't happy with the way they
22 did it.

23 They did another presentation. I believe
24 they'd done it at the same time and they hadn't sent it to
25 us.

1 They did another presentation. I picked
2 it up in Houston yesterday and I gave it to the geophysi-
3 cist.

4 We may, or LDM independently of the
5 others may want to do some additional processing of the data
6 on our own account, and if we're going to go in there and
7 spend \$6-or-\$700,000, or our pro rata share of it, we think
8 we ought to have time to process the data.

9 Q Let me ask you, when did LDM and LL&E
10 first begin its efforts to shoot this specific seismic line?

11 A Well, I'm a little bit vague on the de-
12 tails. I was on -- out of the country for a month on vaca-
13 tion in December and got back the 15th of January, and
14 they'd had -- I understood that they'd had some rain
15 problems, but we had agreed to it before I left the country.
16 That's -- that's all I know for sure, and I know that we got
17 the data last Thursday and I do know that some of the
18 conversations I had with -- with our geophysicist was that
19 there had been some rain over there that clouded up the
20 thing for a little bit.

21 Q So I take it the weather caused the delay
22 or was --

23 A Well --

24 Q -- responsible in part for the delay?

25 A Well, I don't -- you know, with a seismic

1 crew there's an awful lot of things that could -- could
2 cause the delays, but I think that I was anticipating the
3 data a little earlier than we got it.

4 Q Okay. Do you know the approximate loca-
5 tion of this most recent seismic line that you could --

6 A Yeah.

7 Q -- orient the Examiner on Exhibit One?

8 A We have a seismic line that extends with
9 -- I believe we're using 24-fold CDP, and the way that works
10 is the line extends beyond the points where you you've done
11 your CDP, but the fold drops off. It's called, technically
12 called a tail (sic), so that the line, where it is usable
13 and accurate, goes between -- if you'll look at Yates Exhi-
14 bit Ten here, they show that well in the -- in Section 11
15 that -- it's about 1980 from the east and 660 from the
16 south, that's actually a dry hole in the Strawn. That sym-
17 bol there is a little bit deceiving because it shows it's a
18 producer, but it's not a producer in the Strawn formation,
19 it's a producer in the -- another zone, at least that's my
20 information.

21 So we have full stack at the Yates well
22 in Section 11 and then we went at full stack down at the
23 Lottie York No. 2, which is approximately 1980 from the
24 south and east of Section 14, which goes exactly through
25 that location, and we have --

1 Q What is the importance of location with
2 respect to the seismic line and the proposed location for
3 the well?

4 A Well, I think the importance of the -- of
5 the -- picking the location, all you've got to do is look in
6 the same quarter section and see if you're a little bit off,
7 you're going to be in trouble. You're going to have a dry
8 hole.

9 Q So we want to -- we want to see where the
10 best place to drill would be.

11 Q Well, does the closest seismic line pro-
12 duce the best basis for making a decision on where the well
13 should be located?

14 A Based on my experience, as I said ear-
15 lier, the best thing to do in the Strawn Pool at Humble City
16 is shoot right through the location that you -- that you
17 propose. Sometimes you shoot through the location that you
18 propose, it loses somewhere else, but I'd say you'd be a lot
19 better off with a line through the location, and that's what
20 we did.

21 Q To your knowledge is there any other
22 seismic line closer to the proposed location than the one
23 you were involved in?

24 A It's not any closer. Let me -- let me
25 say this to kind of clarify that point.

1 We did what's called a 3-D survey, which
2 is, oh, a rather recent technique in geophysics, that gives
3 you continuous coverage almost over every spot on the map,
4 and we did that around the Lottie York discovery in the
5 south half of 14, and some of that 3-D spills over in the
6 north half of 14, but the data that we get off of that is
7 not as -- is not as good, so -- or is not satisfactory out-
8 side of a limited area designated. I don't know if it's ne-
9 cessary to go into the detail on that except to say that
10 there is not -- let me say this, there is not any data bet-
11 ter than what we have that's as close as what we have right
12 now.

13 Q Well, then will the failure of the opera-
14 tor to consider your seismic data result in the augmentation
15 of risk?

16 A Yes.

17 Q Is there a greater probability that waste
18 will result if the OCD grants Yates' application in their
19 proposed location without considering the available seismic?

20 A Yes.

21 Q Could you briefly summarize what efforts
22 Yates has made to seek your voluntary joinder in the well?

23 A Well, we've had several conversations
24 with them and we've been considering it. We've, you know,
25 drilled some wells in there; we're looking at how they were

1 doing. We haven't either agreed or not agreed at this point
2 on what we want to do.

3 We finally decided, and I made a recom-
4 mendation to the other parties, that we shoot this line, and
5 we did.

6 Q Shoot this line before you --

7 A Made a decision.

8 Q -- voluntarily committed?

9 A Well, to shoot the line and evaluated be-
10 fore we made a decision on what we want to do.

11 Q Well, in view of the failure of Yates to
12 consider your seismic information do you view their efforts
13 to obtain your joinder to be reasonable?

14 A Well, I might in a couple of months.

15 Q At this time?

16 A At this time, no.

17 MR. HALL: I have nothing fur-
18 ther.

19

20 CROSS EXAMINATION

21 BY MR. DICKERSON:

22 Q Mr. McMillan, I think you testified that
23 your principal objection to this whole proceeding is simply
24 desiring more time in which to make a decision?

25 A Yeah.

1 Q In your opinion what would be the minimum
2 amount of time necessary to enable you and your associates
3 to decide?

4 A Well, we'd like to have sixty days.

5 Q Do you know the exact date on which the
6 recent seismic line data was obtained by LL&E?

7 A I don't. I'm almost positive that we got
8 it Thursday and I do know that we worked on it this weeked.

9 Q Are you speaking of Thursday, last Thurs-
10 day, or a week ago Thursday?

11 A Yea, we're talking -- the final -- what
12 -- what LL&E calls the final section was in our hands, if
13 I'm not mistaken, last Thursday. Now I --

14 Q Would you have any reason to disbelieve
15 it if I told you that according to LL&E , they, themselves,
16 received their seismic data no later than January the 18th?

17 A Well, I --

18 Q If you know.

19 A I don't. I can't answer that, but let me
20 just say this, that -- that the process of processing seis-
21 mic data is that you look at one line and you don't like it
22 so you do something else.

23 I don't know when they saw the lines they
24 sent us, that they called their final section.

25 Q You're aware, are you not, Mr. McMillan,

1 that under the form of standard pooling order entered by
2 this Division, the parties have thirty days after the AFE
3 is furnished to them in order to make their election in a
4 well?

5 A Well, I think that there's -- there's a
6 number of factors to be considered in this hearing other
7 than -- including the location.

8 MR. DICKERSON: Mr. Examiner,
9 I'm going to object. It's unresponsive to the question.

10 A Well, give me the question again and I'll
11 try to give you an answer.

12 Q The question was whether or not you're
13 aware that under the standard pooling order entered by this
14 Division parties to be pooled have thirty days following the
15 furnishing of an AFE following the entry of the order in
16 which to make their election.

17 A Well, I had a discussion with our landman
18 about that thing and he felt like it was that way but I
19 thought I'd come up here and find out for sure.

20 Q Don't you think an additional thirty days
21 from that period, which would put us most likely at least up
22 into the middle of March would be more than adequate time
23 for you and your partners to analyze your data

24 A No.

25 Q When your --

1 A Well, let me just state that there's more
2 to -- than analyzing the data, and you know that, Mr. Dick-
3 erson. You've got to -- we went down to Houston and met
4 with those folks. We're talking about a significant invest-
5 ment in money and so those things take time.

6 Q Are you aware, Mr. McMillan, that Yates'
7 application in this case was filed in November and has been
8 voluntarily continued by Yates to this date?

9 A Yeah, I am aware of that and also we went
10 and shot that line.

11 Q And when you're speaking of this addi-
12 tional seismic data that you feel is necessary in order to
13 make your determination, you're not -- you're not really
14 talking about a new seismic line, you're talking about the
15 seismic work that has already been completed at this point,
16 subject to some further analysis.

17 MR. HALL: I'll object to the
18 form of the question. I don't believe that was his testi-
19 mony. His testimony was the work had not yet been completed
20 on the line. It was still under evaluation.

21 A Well, I want to make it as clear as I
22 can, and I'll be delighted to do that.

23 There was a line shot in the early part
24 of January. At least while I was gone on vacation there was
25 a line shot, and we received that line last week and we got

1 right on it, and as far as I'm personally concerned, we have
2 not done all the evaluation that I want to do, including an-
3 other playout of the same line that I got picked up yester-
4 day in Houston.

5 Q All I'm really after, Mr. McMillan, is
6 clarification on the physical work on the surface on the
7 ground has been completed, has it not?

8 A As far as I'm concerned, as far as LDM is
9 concerned, and I can only speak for them, we don't want to
10 do any more seismic work in there on this location. We've
11 done all we want to do.

12 Q You want more time to look at what you
13 have at this time.

14 A To look at what we have and to also do
15 some more playbacks if we think that's necessary.

16 We want to look at the line we got yes-
17 terday and then LDM -- I'm sure you're aware of this, that
18 all sides don't agree on everything, and we may not agree
19 with -- with the way they've done it; we may want to do
20 something different than LL&E or Amerada.

21 Q Do you feel it would be advisable for
22 Yates to have that seismic information just as you think it
23 would be advisable for you and your partners to have the
24 seismic information in order to make a determination?

25 A Sure, we invited them to participate in

1 the line but they came back and said you had to -- you had
2 -- we had to make a decision before they paid their quarter
3 interest and we weren't interested on that basis.

4 Q Have you furnished this late breaking
5 seismic information to Yates?

6 A We invited Yates to pay their part of the
7 deal and they declined.

8 Q That wasn't the question, Mr. McMillan.
9 The question was --

10 A Well, you know the answer is no. If
11 they're not going to pay for it, we're not going to let them
12 see it.

13 Q And you don't intend to let them see it
14 in the future prior ot you making your decision, do you?

15 A Oh, --

16 MR. HALL: We're going to ob-
17 ject. It calls for speculation.

18 MR. DICKERSON: Mr. McMillan is
19 speaking for all these parties, I expect he's fully quali-
20 fied to state whether they intend to furnish this secret
21 seismic data to Yates Petroleum Corporation, Mr. Examiner.

22 MR. STOGNER: Objection over-
23 ruled. Why don't you answer the question, Mr. McMillan.

24 A I would say that we'd probably let them
25 see it. I don't know what terms we'd let them see it on,

1 and also, only on the subject of the delay am I authorized
2 to speak for anybody but LDM, on that subject, and I guess
3 I'd have to get back with my partners to see what we want to
4 charge them for it.

5 Q Let me ask you, Mr. McMillan, do you have
6 a specific objection to the well location chosen by Yates?

7 A I want to finish our evaluation of the
8 seismic data before I make a decision on whether or not I
9 want to locate -- where I want the location, there or
10 somewhere else.

11 Q Based on the information you have at the
12 present time, though, do you have a specific objection to
13 the well location site chosen by Yates?

14 A You know, you're missing the whole point
15 of this whole thing. We want to look at the -- we want to
16 evaluate the data before we make a decision.

17 Q Does that mean that you do not have a
18 specific objection to the well location chosen by Yates?

19 A When we get through evaluating the data,
20 I can give you a definitive opinion.

21 Q Mr. McMillan, let me refer your attention
22 to the land plat admitted as Exhibit Number One --

23 A Uh-huh.

24 Q -- and direct your attention to the well
25 located in the southeast quarter of the northeast quarter of

1 Section 14.

2 A Uh-huh.

3 Q Are you familiar with that well?

4 A Which well? That well?

5 Q Yes, sir.

6 A Yeah.

7 Q And also --

8 A Uh-huh.

9 Q -- to the well located in the south half
10 of the northwest quarter of Section 13.

11 A Uh-huh.

12 Q Are you familiar with that well?

13 A I am.

14 Q Do you have interest in those wells?

15 A I do .

16 Q What is your approximate interest in
17 those wells?

18 A Well, our approximate -- LDM's approxi-
19 mate interest, and I told you that's not a partnership but
20 those folks I represent have a quarter.

21 Q The LDM Associates you're referring to
22 are the individuals listed on the second page to Yates Exhi-
23 bit Number Two?

24 A Looks like that's everybody.

25 Q What are these parties collective inter-

1 est in the proposed Yates well location, if you know?

2 A Well, I would say a quarter of 71 per-
3 cent, approximately.

4 Q So you all's interest in the proposed lo-
5 cation of Yates is proportionately smaller than your inter-
6 est in the wells to the south offsetting this location?

7 A Sure.

8 Q Are you aware, Mr. McMillan, of Yates'
9 concern that drainage is and has in the recent past likely
10 taken place from the offsetting wells to the south and east?

11 A You just stated it today.

12 Q Well, I asked were you aware of it?

13 A Well, I'm clearly aware of it after --
14 after your statement today.

15 Q Do you, yourself, have any opinion
16 whether or not you think there is a substantial possibility
17 that drainage from the Yates location may be occurring from
18 the wells in which you have a larger interest than in the
19 Yates location?

20 MR. HALL: I'm going to object
21 to the question. I believe it's way beyond the scope of his
22 direct testimony.

23 MR. DICKERSON: I think Mr.
24 McMillan is here ready, willing, and able to testify about
25 everything concerning this prospect and this goes to his

1 credibility and any interest that he may have, given Yates'
2 position, Mr. Examiner, that drainage from these offsetting
3 wells is occurring, and that is the real reason for the de-
4 lay here and not any big necessity to gain additional time
5 to study the seismic data, which has not and most likely
6 will not be furnished to Yates.

7 MR. HALL: Mr. Examiner, I've
8 got to protest.

9 The only evidence we have on
10 any drainage at all is through counsel's own testimony.
11 There's been none elicited from any other witness.

12 MR. DICKERSON: Mr. Examiner, I
13 direct your attention to Yates Exhibit Number Four, in which
14 Yates stated it's concern that drainage was occurring from
15 one of the wells offsetting this location.

16 So it's in the record.

17 MR. HALL: Again, it has not
18 been testified to.

19 MR. DICKERSON: Mr. Beardemphl
20 testified to it and additional witnesses will expand upon
21 it, Mr. Examiner.

22 MR. STOGNER: It is my belief
23 that Mr. McMillan, being a geophysicist, has certain know-
24 ledge in geology, and being in the oil industry as long as
25 he has, I believe he has some opinion to it and he can an-

1 ther questions of Mr. McMillan.

2 MR. STOGNER: Mr. Hall?

3 MR. HALL: A couple of follow-
4 ups.

5

6 REDIRECT EXAMINATION

7 BY MR. HALL:

8 Q Mr. McMillan, in your opinion has LL&E
9 and LDM acted diligently in attempting to shoot that seismic
10 line and evaluate its information?

11 A Yeah, I think so.

12 MR. HALL: Nothing further.

13 MR. STOGNER: Okay, Mr. McMil-
14 lan, I believe you have an engagement at this time?

15 A Yes, sir, thank you.

16 MR. STOGNER: Due to every-
17 body's agreement, Mr. Dickerson, Mr. Hall, are we to con-
18 tinue with the-Mr. Dickerson's testimony or are we going to
19 continue this case until later?

20 MR. DICKERSON: No, Mr. Exam-
21 iner, we're here prepared to put on our case today and the
22 only witness and the only evidence, as far as we've been
23 advised here in opposition, has concluded his testimony and
24 request that we proceed and put on the rest of Yates' case.

25 MR. STOGNER: I'm still going

1 to delay that decision on your motion, Mr. Hall, and hear
2 the evidence presented by Yates today, but before we con-
3 tinue let's take a little, five minute recess.

4

5 (Thereupon a recess was taken.)

6

7

MR. STOGNER: Mr. Dickerson.

8

MR. DICKERSON: Call Mr. Rempe.

9

10

NORBERT T. REMPE,

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

13

14

DIRECT EXAMINATION

15 BY MR. DICKERSON:

16

Q Will you state your name, your occupa-
17 tion, and by whom you're employed, please?

18

A Norbert T. Rempe. I'm a geologist and I
19 work as petroleum geologist for Yates Petroleum in Artesia.

20

Q Now, Mr. Rempe, you have testified in the
21 recent past before this Division, one of its examiners, as a
22 petroleum geologist, have you not?

23

A Yes, I have.

24

Q And have you studied the available geolo-
25 gical data surrounding Yates' proposed well location, which

1 is the subject of this case?

2 A Yes, I have.

3 MR. DICKERSON: Tender Mr. Rem-
4 pe as an expert petroleum geologist, Mr. Examiner.

5 MR. STOGNER: Mr. Rempe is so
6 qualified.

7 Q Will you refer to what we have submitted
8 as Yates Exhibit Number Nine and tell us what you have shown
9 on this map?

10 A Yates Exhibit Number Nine is a structure
11 map on the top of the Lower Strawn limestone interval, which
12 is the main producing formation in the area.

13 It does show in 50-foot contours the
14 general eastward dip of this interval through the --
15 through the general area.

16 It also shows that this eastward dip is
17 generally divided into three finger-like structures which
18 are connected with oil production.

19 In the south half of Section 11, contin-
20 uing into the southwest quarter of 12, is the main body of
21 the Humble City Strawn Field. That's the northernmost fin-
22 ger.

23 Then we have in the north half of Section
24 14, continuing into the northwest quarter of 13, the next
25 east/west trending finger, on which our proposed location

1 is.

2 And further south we have in the southern
3 half of Section 14, continuing into the southeast quarter --
4 southwest quarter of 13, what's usually called the Humble
5 City South Strawn Field.

6 This map is based for the most part on
7 subsurface work, that is on information derived from exist-
8 ing well logs, but we also used -- utilized some seismic in-
9 formation from a north/south line, which is indicated on
10 your -- on this map by the blue dots. This north/south line
11 is located about 1980 feet from the west line of Section 14.

12 Q Do you have anything you'd like to add
13 with regard to Exhibit Number Nine, Mr. Rempe?

14 A We do believe that Exhibit Number Nine
15 shows the geological analogies which we used to determine
16 this prospect.

17 Q Is your data obtained from the wellbores
18 in the vicinity and that obtained from seismic consistent
19 with each other?

20 A No, the information was obtained from
21 well logs but it was -- we have some synthetics so that the
22 subsurface information was coordinated and integrated with
23 the seismic picture.

24 Q Okay, turn to Exhibit Number Ten, Mr.
25 Rempe, and tell us what is shown by that exhibit.

1 A Exhibit Number Ten is an east/west cross
2 section which goes straight through the proposed location.
3 It starts in the northwesternmost corner of Section 14. You
4 see the trace of the cross section indicated on the index
5 map on the lower right corner of the section. It's A-A'.

6 We're starting in the west with a dry
7 hole in the northwestern corner of Section 14, and as indi-
8 cated in the Lower Strawn there, and proven by its tight
9 drill stem test, we have tight limestone there in the Lower
10 Strawn section.

11 Proceeding eastward we are going through
12 our proposed location to the well that would -- that is the
13 next offsetting our proposed location, and in that well we
14 have indicated -- this is the Inexco Oil Lea Farm No. 2, and
15 in that well log indicated by perforations and also by the
16 colored porosity, we see that we have a beautiful Strawn re-
17 servoir.

18 That well initialed in May, 1986, flowing
19 718 barrels of oil and 846-million cubic feet of gas, and it
20 has had so far through November '86 a cumulative production
21 of 82,515 barrels of oil and 136-million cubic feet of gas.

22 Going further down dip on this east/west
23 section, we come to the Inexco Oil Ashland Exploration No.
24 1, which is 2100 feet from the north, 600 feet from the west
25 of Section 13, and this shows a continuation of the same re-

1 reservoir in the Lower Strawn limestone, indicated again by
2 the porosity on the log and the perforations.

3 This well initialed with 504 barrels of
4 oil flowing, 705,000 cubic feet of gas per day in December
5 of '85, and it made, through November of '86, that means in
6 less than a year, 139,187 barrels of oil and 196-million
7 cubic feet of gas.

8 This cross section shows in essence the
9 continuation, the behavior of the reservoir down dip from
10 the dry well. We have the reservoir very clearly in the two
11 down dip wells and especially in the one that is directly
12 offsetting us, and based on our structure -- our subsurface
13 and seismic interpretation, we have sufficient reason to be-
14 lieve that the reservoir will extend through our location.

15 Q Mr. Rempe, in the last two wells on this
16 cross section Yates Petroleum Corporation has no interest in
17 those wells, do you?

18 A Not to my knowledge.

19 Q Will you refer to Exhibit Number Eleven
20 and tell the Examiner what that document is?

21 A Exhibit Number Eleven is a north/south
22 cross section through our location and the trace of it is
23 indicated again on the index map on the lower righthand cor-
24 ner, and it starts in Section 11 with the Petco Petroleum
25 Shipp No. 2. It's today, I believe, a Mesa well, but this

1 well, as indicated by the red highlighted porosity, is a
2 producer from the Lower Strawn interval. It has made a cum-
3 ulative production of 199,003 barrels of oil. It made a
4 little additional production from the Atoka.

5 Then we're proceeding southward through
6 the well that Yates Petroleum drilled early last year, the
7 Hunble City 88 State No. 1, and in that well it's very ob-
8 vious there's no reservoir in the Lower Strawn. It's tight
9 limestone and also notice that we're structurally low on the
10 top of the Lower Strawn in that well.

11 Again based on subsurface and seismic
12 data we believe that in our proposed location we will be
13 high, the the reservoir will be thicker than in our northern
14 dry offset, and that therefore we have a very good chance,
15 an excellent chance of penetrating a productive Strawn
16 reservoir.

17 Proceeding further south, the next well
18 on the cross section is the Inexco No. 1 Lea Farms, which
19 was referred to earlier.

20 This well again is low, structurally low.
21 The Lower Strawn lime interval is thinning and is tight, as
22 shown on the log and proven by a tight drill stem test.

23 And the southernmost well is in the
24 southeast quarter of 14, the Inexco Lottie York No. 2.
25 Again we are going structurally up dip. We have thicker

1 Lower Strawn section; therefore we have reservoir and this
2 well is a nice producer. It has produced in about two and a
3 half years 151,900 barrels of oil.

4 Q So would it be fair to say then, Mr. Rempe,
5 that in this vicinity both the structural position in
6 which a proposed well location falls and the porosity devel-
7 opment or lack of porosity development at that location de-
8 termines whether a given well is productive or a dry hole?

9 A That is correct.

10 Q Mr. Rempe, have you had any discussions
11 with LL&E geological personnel concerning their seismic re-
12 cently conducted to which Mr. McMillan earlier testified?

13 A Yes, I have.

14 Q Do you know, or can you state, when you
15 were told that LL&E had received the final prints of its re-
16 cently conducted seismic line?

17 A I was told Tuesday or Wednesday of last
18 week that LL&E had in hand the final prints of the seismic
19 by the Friday previous to that, which would mean Friday, the
20 23rd of January.

21 Q Okay. Mr. Rempe, were Exhibits Nine,
22 Ten, and Eleven compiled by or prepared by you or under your
23 direction and supervision?

24 A Yes, they were.

25 Q In the -- in your investigation of this

1 geological data, what factors do you see that bear on the
2 question of the risk to be encountered at the proposed Yates
3 well location?

4 A Referring you back to Exhibit Number
5 Nine, we notice that the proposed location is surrounded on
6 three sides by dry holes, two of which are clearly low to
7 the proposed location. That's the Humble City -- the Yates
8 Humble City Well in the south of 11 and the Inexco Lea Farms
9 No. 1 to the south. Both of those are clearly low; there-
10 fore thin Strawn section, no reservoir.

11 The third well is the well up dip in the
12 northwesternmost quarter of 14, which also is tight and has
13 a relatively thin Strawn section.

14 So I do believe there is considerable
15 risk involved in drilling this well.

16 Q And have you formed an opinion as to an
17 appropriate percentage risk penalty that you would recommend
18 that the Division impose on any nonconsenting interest own-
19 ers in this proceeding?

20 A I do believe that the 200 percent penalty
21 would be adequate.

22 MR. DICKERSON: Mr. Examiner, I
23 move admission of Yates Exhibits Nine, Ten, and Eleven at
24 this time and I have no further questions of Mr. Rempe.

25 MR. STOGNER: Are there any ob-

1 objections?

2 MR. HALL: No objections to the
3 exhibits.

4 MR. STOGNER: Exhibits Nine,
5 Ten, Eleven will be admitted into evidence at this time.

6 Mr. Hall, your witness.

7

8 CROSS EXAMINATION

9 BY MR. HALL:

10 Q Mr. Rempe, if you would refer again to
11 your Exhibit Nine, if I understand correctly, the blue dots
12 on there represent the seismic information which you uti-
13 lized, is that correct?

14 A That's correct.

15 Q Did you utilize any other seismic infor-
16 mation?

17 A No direct seismic information, no.

18 Q No direct? Did you utilize any other in-
19 direct seismic information?

20 A We used the experience of a geophysicist
21 who is familiar with the area, but we don't have any other
22 seismic lines through the area.

23 Q Okay, and who was that geophysicist?

24 A Terry Durham from Denver, Colorado.

25 Q I understand that you, although you are

1 not a geophysicist, you are a geologist, but you have occa-
2 sion to utilize geophysical information derived from seismic
3 information.

4 A That's correct.

5 Q What sort of information do you utilize
6 in determining well locations?

7 A We use subsurface information. I -- I
8 use subsurface information mostly and I use seismic as an
9 auxiliary method to enhance, to verify the subsurface infor-
10 mation.

11 Q Now, the seismic that you apparently uti-
12 lized is located some distance from your proposed location.
13 Isn't it safe to say that the further away you get from your
14 seismic line, the more interpretive your information must
15 become?

16 A That is correct.

17 Q Isn't it best to have seismic information
18 that's right on top of your location?

19 A It might be considered better; however,
20 we did consider the information we had, among others based
21 on the advice of our consulting geophysicist, as adequate to
22 determine our proposed location.

23 Q But nonetheless, knowing that seismic in-
24 formation that cuts right across your location exists,
25 wouldn't you like to have that?

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A It would enhance our confidence, yes.

Q All right. Thank you. Nothing further.

REDIRECT EXAMINATION

BY MR. DICKERSON:

Q In your discussions with the Louisiana Land and Exploration parties following their receipt and study of the recent seismic data, did they express any unhappiness or specific objection to the proposed well location of Yates or anything of that nature to you?

A No, I was not told what the decision or what the opinion was in Louisiana Land and Exploration, whether positive or negative.

Q So the first inkling you've had, really, of any specific objection was that stated here today?

A Today, correct.

MR. DICKERSON: No further questions.

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Rempe, when did you start your geologic studies in this particular section?

A I have worked in the Northeast Lovington Strawn area for about three years.

1 Q Looking at Exhibit Number Eleven and the
2 Yates Petroleum Humble City "ADH" State Well No. 1, it's dry
3 -- P&A'ed, that shows, did that have any test in the -- in
4 that Strawn formation?

5 A We did not test the Strawn formation be-
6 cause the log and the mud log both show it clearly tight.

7 I might add, this well was drilled before
8 we shot the seismic line indicated in blue dots.

9 Q When did the majority of the development
10 of the Northeast Lovington Pool occur?

11 A It actually started in the early fifties
12 as one producer. There's one producer with over 1-million
13 barrels of oil in 16, 37, that was, I believe, drilled in
14 '52 or '53, but the real recent development has been going
15 on probably for the last three years.

16 Q Did you have anything to do with the
17 location of this proposed well?

18 A Yes, I did. This well is, if I might
19 elaborate, this well is located just about as far south and
20 east as we can get within a legal location.

21 So our proposed location is a legal loca-
22 tion and anything legal in this area, as I understand it, is
23 within 150-foot circle around the center of a 40-acre prora-
24 tion unit.

25 Q You're moving out toward a plugged and

1 abandoned well.

2 A Also toward a producer.

3 MR. STOGNER: I have no further
4 questions of this witness at this time. I may want to re-
5 call him later, though.

6 Are there any other questions
7 of Mr. Rempe?

8 MR. DICKERSON: No.

9 MR. STOGNER: If not, he may be
10 excused.

11 Mr. Dickerson.

12

13 TERRY E. DURHAM,

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

16

17 DIRECT EXAMINATION

18 BY MR. DICKERSON:

19 Q Will you state your name, your occupa-
20 tion, and by whom you're employed, please?

21 A I'm Terry Durham. I'm currently a con-
22 sulting geophysicist and I'm in Denver, Colorado.

23 Q And you're appearing on behalf of Yates
24 Petroleum Corporation in this case?

25 A Yes, that's correct.

1 Q Mr. Durham, you have not previously tes-
2 testified before this New Mexico Oil Conservation Division,
3 have you?

4 A That's correct.

5 Q Will you briefly summarize your educa-
6 tional and work experience for the Examiner?

7 A I received a Bachelor of Science in geol-
8 ogy in 1970 from the University of Missouri at Rolla.

9 I have fourteen and a half years of ex-
10 perience in geophysics in the petroleum industry. It's pri-
11 marily in interpretation but I have some data processing and
12 data acquisition experience, also.

13 Q By whom have you been employed during
14 that period of time?

15 A I spent seven years with a seismic con-
16 tractor doing data processing as well as contract interpre-
17 tation for a number of clients throughout the MidContinent,
18 U. S. as well as overseas.

19 I spent five years with Getty Oil Company
20 in Midland, Texas, in interpretation, developing prospects
21 in the Midland Basin and the easter shelf of the Permian
22 Basin.

23 Q How much, if any, experience do you have
24 in the area in which the Humble City "ACL" Well was located?

25 A After my experience with Getty Oil Com-

1 pany I spent a year and a half with Amerada Hess working ex-
2 clusively this Lea County Strawn play area, and during that
3 time I interpreted over 450 miles of CPD seismic data, as
4 well as 3-D coverage. The 3-D coverage itself was within
5 the Humble City area we're discussing today.

6 Q Specifically, have you had any experience
7 with respect to the two wells operated by Amerada Hess to
8 the south and east previously referred to offsetting the
9 Yates location?

10 A Yes, I have. Based upon -- primarily
11 upon the 3-D data incorporated with the existing CDP
12 coverage in the Humble City area, I made recommendations to
13 my bosses at Amerada, as well as to the other Humble City
14 South Unit interest holders, being LDM and Inexco, now LL&E
15 Company, to drill the discovery well, located in the
16 southwest of the northwest of Section 13.

17 Q And, Mr. Durham, when did you leave
18 Amerada Hess?

19 A I was -- I left Amerada Hess on March 6th
20 of 1986.

21 Q So would it be fair to say that with the
22 exception of the most recent seismic activity done in
23 January of 1987, that you have had personal access and have
24 personally studied the available seismic information that
25 LL&E and Amerada Hess and the other parties have access and

1 which we have heard discussed here today?

2 A To my knowledge I have seen, I have per-
3 sonally interpreted all the seismic data on the -- on Exhi-
4 bit Nine, with the exception of the most recent seismic.

5 MR. DICKERSON: Tender this
6 witness as an expert geophysicist, Mr. Examiner.

7 MR. STOGNER: Are there any ob-
8 jections?

9 MR. HALL: No objections.

10 MR. STOGNER: Mr. Durham is so
11 qualified.

12 Q Mr. Durham, if I could refer you back to
13 what was previously admitted as Yates Exhibit Number Nine,
14 will you refer to that document and tell us what is perti-
15 nent with respect to your study of this area as regards the
16 proposed Yates location?

17 A Yates Petroleum came to me and asked what
18 my recommendations were to confirm their interpretations in
19 the area, their interpretations being based upon subsurface.

20 I recommended that in this particular
21 area a north/south seismic line would best show the thicken-
22 ing and thinning of the Strawn reservoir in this area.

23 Based upon those recommendations we re-
24 corded last summer, the summer of '86, the north/south line
25 which is indicated by blue dots through Sections 11 and 14.

1 My interpretation of this seismic data
2 has confirmed the presence of the mounding, which is under
3 production in the Humble City Field in Section 11, as well
4 as the presence of a mound development on trend in the north
5 half of Section 14, and which is currently under production
6 by the Inexco Ashland No. 1 in the northwest of Section 13
7 and the Inexco Lea Farms No. 2 in the northeast of Section
8 14.

9 So the data has confirmed the producing
10 field as well as the trend towards the Yates proposed loca-
11 tion.

12 Q You heard Mr. Rempe in his testimony
13 point out the location of the offsetting dry holes. Does
14 your study of this available seismic data confirm to you his
15 testimony that the risk is substantial in drilling a well in
16 this area?

17 A Yes, I might add there still is consider-
18 able risk even using seismic in the area. The seismic to
19 some extent diminishes the risk, but there still is risk in-
20 volved, as evidenced by the number of dry holes on this par-
21 ticular map.

22 Q Mr. Durham, you stated in qualifying as a
23 witness here today that you had experience in data proces-
24 sing and enhancing seismic data. You heard Mr. McMillan's
25 testimony, did you not, that additional time, sixty days was

1 supposedly necessary to enable these parties to conduct such
2 activities?

3 Based on your experience and also on the
4 other testimony that they have had this information for at
5 least two weeks, at this time can you state how long it
6 should reasonable take in order to analyze the data that's
7 now available?

8 MR. HALL: Well, I'm going to
9 object to the question. There's no foundation that this
10 witness has any certain information within the scope of his
11 knowledge which would enable him to testify how long a third
12 party would be able to interpret seismic data in.

13 MR. DICKERSON: Mr. Examiner,
14 he stated, and we can go back into it in a little bit more
15 detail if you would like, that he has personal experience of
16 long standing duration in the exact techniques that are used
17 in enhancing and analyzing seismic data, including of the
18 type now obtained by the opposition in this proceeding.

19 MR. HALL: He could probably
20 testify how long it would take him as an independent consul-
21 tant, but I don't know about third parties.

22 MR. DICKERSON: We could re-
23 phrase the question, Mr. Examiner, so that --

24 MR. STOGNER: Why don't you do
25 that.

1 Q How long, in your opinion and based on
2 your experience, Mr. Durham, is necessary in order to en-
3 hance -- as a general matter in the industry, how long is
4 necessary in order to enhance and do what is necessary in
5 order to obtain the best quality data upon which to base a
6 decision?

7 A Based upon my experience with Seismograph
8 Service Corporation, as a seismic analyst, data processor,
9 if a client came to me and asked for a quick, quote, turn-
10 around on seismic data, we would make that request as ur-
11 gently as possible, and usually we would run the necessary
12 computer programs in sequence to get that turn-around estab-
13 lished.

14 This, I might add, this is a very good
15 seismic data area. There have been probably in this immed-
16 iate area here between Hobbs and Lovington several thousand
17 miles of seismic data recorded. The data processing techni-
18 ques are very well established.

19 Given that fact plus the fact that a 2-
20 mile line over this, given one mile on either end of this
21 proposed location, is a relatively short line, and if I were
22 personally processing the line, I would estimate it would
23 take me a maximum of two days to process or even re-process
24 the seismic data to a client's specifications.

25 Q So if you had obtained the seismic data,

1 let us say, by January 23rd, in your opinion you could have
2 utilized all the techniques of enhancement and processing
3 necessary or available to refine that data to its best
4 shape?

5 A Yes, that's true.

6 Q Prior to this time there's already been
7 enough time in which to have conducted these activities?

8 A That's correct.

9 Q And so based on your experience is the
10 stated necessity for an additional sixty days in which to
11 ponder these imponderables really necessary, do you think?

12 MR. HALL: I'll object to the
13 form of the question.

14 Q You don't think an additional sixty days
15 is necessary, do you?

16 A No, I don't think an additional sixty
17 days is necessary.

18 MR. DICKERSON: I have no fur-
19 ther questions of this witness.

20 MR. STOGNER: Mr. Hall, your
21 witness.

22

23 CROSS EXAMINATION

24 BY MR. HALL:

25 Q Mr. Durham, you testified about your own

1 experience in interpreting seismic informatio and I believe
2 you said you could do it in two days on a rush job basis, on
3 an expedited basis.

4 Now, you're talking about two days;
5 that's two days from the time you receive it until the time
6 you complete your report.

7 A That's correct, for data processing.

8 Q Okay, and that time does not include the
9 time that would be required to disseminate that information
10 to all the other working interest owners in the prospect and
11 give them time to evaluate it and draw their own conclusions
12 from it.

13 A That's correct.

14 Q Okay, so that would add to the time con-
15 siderably.

16 A That is correct.

17 Q With a greater number of working interest
18 owners that would require even greater time.

19 A Yes, that's correct.

20 Q Now I believe you testified that it was
21 the seismic line shown on Exhibit Number Nine in blue dots
22 which evinced to you the existence of risk in drilling this
23 prospect at this location, is that more or less correct?

24 A Yes.

25 Q And that seismic line is, what, 1300 feet

1 away from the location?

2 A Approximately that. I haven't measured
3 it myself. I would say that is very close.

4 Q Okay. In view of the fact that the line
5 has established some modicum of risk, wouldn't it be prudent
6 for you to consider existing seismic data that's right on
7 top of the location?

8 A That would -- that would be very helpful,
9 yes.

10 Q It would be prudent, then?

11 A In making interpretations, yes.

12 MR. HALL: Nothing further.

13

14 CROSS EXAMINATION

15 BY MR. STOGNER:

16 Q Mr. Durham, I'd like to talk some basics
17 here, when you say it would take you two days.

18 As a layman, what is involved in getting
19 this information and your making your evaluation? You talk
20 about computer time; you talk about hard copies. Just what
21 actually is involved in the hardware?

22 A Okay. In terms of -- I explained the
23 time involved to complete a processing and I estimated about
24 two days. That would involve de-multiplexing the raw field
25 data into whatever computer you're using, that computer lan-

1 guage.

2 You then, since this is a multifold CDP
3 data, the data needs to be sorted into what are called com-
4 mon depth points, and these depth points are added together
5 to derive current seismic sections; this is interpretive.

6 The addition of these multiple depth
7 points in theory increases signal to noise resolution of the
8 data. In other words, it enhances the seismic reflections
9 and theoretically random noise is cancelled or diminished in
10 amplitude. That's the theory, that's the whole theory and
11 purpose behind data processing the data, and to derive at
12 that certain corrections are applied to the data for eleva-
13 tion differences, as well as variable velocity differences
14 in the study area.

15 Q And, Mr. Durham, once you -- once you get
16 this information and you make your determination, what then
17 do you do when you present this to Yates or people that are
18 going to drill the well; in other words an engineer or a
19 geologist? How do you make us understand, or what form do
20 you put it in to make us understand what you see and what
21 you show?

22 A Okay. When I receive a final process
23 seismic section, to make it understandable to an engineer or
24 a geologist, I need to convert the seismic times into depth
25 and integrate that with existing subsurface well control,

1 and to implement that what I primarily use is a synthetic
2 seismogram, which is prepared from a sonic log in a nearby
3 well, and this sonic -- sonic log information is digitized
4 and filters applied to it to approximate the filters that
5 have been involved in the data processing of the seismic
6 data. In other words, similar processing.

7 The synthetic seismogram is then compared
8 with the seismic data and given the existing well tops or
9 well controls in the well data, you're able to distinguish
10 horizons on the seismic data and from that you're able to
11 map horizons.

12 I then apply a velocity function to the
13 times, velocity times the times gives a depth for the seis-
14 mic data that is posted on a map and contoured, integrated
15 with subsurface depths.

16 Q How long would that process take you?

17 A In my past experience on a four or five
18 mile line, and given that I'd already had velocity control
19 in the area, done previous work in the area, one day would
20 be sufficient to incorporate a four to five mile line in an
21 existing data base.

22 Q So that one day, you're saying that you
23 could bring me maps, typewritten explanation of what you saw
24 and your recommendations?

25 A Yes, that's correct. That would be in

1 addition to data processing time.

2 Q Could you please elaborate for me a lit-
3 tle bit more this -- we've heard this a couple of times to-
4 day -- 3-D survey?

5 A Okay, a 3-D survey, conventional seismic
6 control, or seismic work is done in a linear sense where the
7 geophones, or hearing devices, if you will, are laid out in
8 a straight line, or nearly as straight as possible given to-
9 pography and culture, houses and things in the area.

10 The energy source, which in this area is
11 typically a vibracize (sic), is also oriented along this
12 line, so everything is done in a nice, straight line, if
13 possible, and usually is the case in this immediate area be-
14 cause there is very little problem.

15 This gives data which is primarily along
16 the line.

17 A 3-D survey is done in such a way that
18 the geophones are spread out in an array which covers two
19 dimensions, a grid rather than a linear (not understood) and
20 in addition to that, the energy source sweeps through this
21 area usually at right angles to the direction of their move-
22 ment. In other words, the net effect of this type of acqui-
23 sition array is that you receive data in a cube, cubic area.
24 It covers three dimensions rather than two dimensions with a
25 conventional linear array.

1 So the net effect is three dimensional
2 coverage rather than a two dimensional coverage.

3 Q Does the processing of the 3-D informa-
4 tion take longer than it does the linear that you referred
5 to earlier?

6 A Yes, it does. Most of the data proces-
7 sors currently will break down this 3-D coverage into a
8 series of essentially 2-D lines and process them all indi-
9 vidually, because the actual -- to process in a 3-D mode
10 would take a tremendous amount of computer time, so the 3-D
11 coverage is essentially broken down into very close 2-D cov-
12 erage, and that's to -- the main advantage of it is you, say
13 you have coverage at your objective zone of, say, every 150
14 feet in all directions within the coverage area.

15 Q So you're talking more points.

16 A More points, yes.

17 Q How much more time would you estimate,
18 say, -- well, let me back up a little bit.

19 When you run these 3-D surveys, what kind
20 of an areal extent are we talking about?

21 A The particular area that Mr. McMillan was
22 referring to was approximately a mile and a half by a mile
23 and a quarter on the surface.

24 Q Is this about normal that you're used to
25 in this part of the country or any other part of the coun-
try?

1 A Most of the onshore 3-D surveys that I'm
2 familiar with are approximately a mile in areal extent. Off
3 shore surveys are much larger than that because they can be
4 operated much more cheaply.

5 Q So this one that you're talking about is
6 about average.

7 A Yes, for onshore data. This is what I
8 would consider an average 3-D survey.

9 Q And how much longer time are we talking
10 about to process this information and regurgitate it into a
11 form in which I might be able to understand as an engineer?

12 A Well, essentially instead of having one
13 seismic line going through a square mile you may have the
14 end result of twenty seismic lines going through it, given
15 the 3-D coverage. So in essence it would take about twenty
16 times the computer time as well as the data processing ana-
17 lyst's personal time to process a 3-D survey.

18 Q How many more days are we talking about,
19 would you say, if you were able to get on a computer to pro-
20 cess the -- are you talking about twenty days or --

21 A Well, I would estimate twenty times the
22 time it would take to process the one, one line through the
23 area, because you have essentially twenty times the data.

24 Q But you're not saying it would take twen-
25 ty days more, or longer?

1 A Yes, I am.

2 Q Oh, you are? Okay.

3 A Yes.

4 MR. STOGNER: I have no further
5 questions of Mr. Durham.

6 Are there any other questions
7 of Mr. Durham?

8 MR. DICKERSON: I have a ques-
9 tion, Mr. Examiner, we seem to be assuming here that yes, 3-
10 D techniques have been -- have been talked about here, but
11 was there any testimony that -- that a line shot by the op-
12 position, who are not here to speak for themselves today,
13 consisted of this type activity?

14 MR. STOGNER: Well, gee, he's
15 going to be back at 12:00; we'll ask him at that time, if
16 there was --

17 MR. DICKERSON: Do you know,
18 Mr. Hall?

19 MR. HALL: We'll see what he
20 says at 12:00. I do not know.

21 MR. STOGNER: He had mentioned
22 a 3-D survey earlier. That's the reason I brought it up.
23 This is the second time I heard it, when you mentioned it
24 previously.

25 MR. DICKERSON: Do you know?

1 A The latest data that they recorded in
2 January of '87 was a conventional linear line. It was not a
3 3-D survey, no.

4 MR. DICKERSON: That answers my
5 question. Thank you.

6 MR. HALL: Can I ask a ques-
7 tion?

8 MR. STOGNER: Oh, sure.

9
10 RE CROSS EXAMINATION

11 BY MR. HALL:

12 Q Would the additional line be able to be
13 utilized in a 3-D survey?

14 A Pardon me?

15 Q Could you take the information from the
16 new seismic line and incorporate that into a new 3-D survey?

17 A Well, you can incorporate it with the 3-D
18 survey but you couldn't incorporate it into the 3-D survey.
19 In other words, you can use the two data, two sets of data
20 and integrate them, yes, but the new line would not be con-
21 sidered a 3-D data.

22 Q Let me ask you, isn't it customary in the
23 industry that seismic tests and the information that they
24 elicit be treated as proprietary information? In other
25 words, they aren't simply made available to the public once

1 they're derived?

2 A Yes, that's correct.

3 Q In other words, you have to, if you're
4 going to share them with someone else, you have to come to
5 mutually agreeable terms for the usage and perhaps pay some
6 consideration, and that's going to require some bartering
7 back and forth before you can strike a deal.

8 A Yes, that's correct.

9 Q Okay, and that's going to require some
10 even additional time to the previous time incurred in dis-
11 seminating the information to the other working interest
12 owners, isn't that correct?

13 A Yes, to come to agreements.

14 Q Okay.

15 MR. HALL: Nothing further.

16

17 RECROSS EXAMINATION

18 BY MR. STOGNER:

19 Q I need to follow up something here. In
20 my questioning earlier I just asked what the areal extent
21 usually was and you mentioned something about in this parti-
22 cular one that Mr. McMillan was talking about earlier, it
23 was a mile and a quarter and a mile and a half.

24 Where did you get that information from?

25 A Well, while I was with Amerada Hess,

1 Amerada was one of the participants in that 3-D survey,
2 along with LDM and Inexco, which is now LL&E.

3 Q Oh, so you were talking about a survey
4 that was -- that you had participated in several years ago.

5 A This survey was recorded by the unit in-
6 terest holders before I went to work with Amerada Hess; how-
7 ever, the processing was not complete at the time and I per-
8 sonally interpreted the data for Amerada Hess, the 3-D data
9 in this -- in this area.

10 Q Okay, then that clarifies that in my
11 mind.

12 MR. STOGNER: Are there any
13 other questions of this witness?

14 Mr. Dickerson, I believe you
15 had your hand up.

16 MR. DICKERSON: Not if it's
17 clear in your mind. I was concerned that we were chasing
18 red herring because nobody testified that this was anything
19 other than a standard linear line and so to the extent that
20 it's now clear that the references to 3-D were the earlier
21 seismic activities and that Mr. Durham has testified as to
22 the time required to process and analyze a standard line of
23 the type recently conducted by the opponents, then I think
24 it's clear.

25 MR. STOGNER: It's clear in my

1 mind what he said.

2 Mr. --

3 MR. HALL: One more question,
4 if I might.

5 MR. STOGNER: -- Hall?
6

7 RE CROSS EXAMINATION

8 BY MR. HALL:

9 Q You testified that you were familiar with
10 the interpretation of the seismic information on behalf of
11 Amerada Hess and LL&E.

12 A Yes.

13 Q And you left the employee of Amerada Hess
14 before that was completed, is that correct?

15 A Before what was completed?

16 Q The interpretation.

17 A The only -- to my knowledge the only line
18 that I have not interpreted in the area is the recent line
19 that was recorded in January of this year.

20 Q But I believe you testified that there's
21 a previous line that Amerada Hess was involved in that was
22 in the midst of processing when you left their employ.

23 MR. DICKERSON: Mr. Hall, I
24 think he testified that it had been shot prior to his employ
25 but it was processed by him following his employment with

1 Amerada Hess.

2 A Yes, that's correct. I was referring to
3 the 3-D survey which had been recorded and was in the pro-
4 cessing stages when I went to work for Amerada Hess in June
5 of 1984.

6 Q All right.

7 A Processing was completed in the summer of
8 '84 and then I interpreted that 3-D survey.

9 Q I'm sorry, if I misunderstood you. Do
10 you know how long the processing and interpretation took for
11 that survey?

12 A The processing for that 3-D survey took,
13 I believe it was about five months.

14 MR. HALL: Nothing further.

15 MR. STOGNER: Are there any
16 other questions of this witness?

17 Mr. Durham may step down, then.

18 MR. DICKERSON: Call one short
19 witness, David Lanning, Mr. Examiner.

20

21 DAVID LANNING,

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

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DIRECT EXAMINATION

BY MR. DICKERSON:

Q Mr. Lanning, will you state your name, your occupation, and by whom you're employed?

A My name is David Lanning. I'm a petroleum engineer. I work in the Reservoir Department with Yates Petroleum in Artesia.

Q Mr. Lanning, you have previously testified in the recent past before this Division as a petroleum engineer, have you not?

A Yes, I have.

Q And have you made a study of the available engineering data for the purpose of your testimony today?

A Yes, I have.

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

MR. STOGNER: Are there any objections?

MR. HALL: No objection.

MR. STOGNER: There being none, Mr. Lanning is so qualified.

Q Mr. Lanning refer to what we have submitted as Yates Exhibit Number Twelve, and going through that

1 exhibit, which consists of four pages, describe for the Exa-
2 miner what you have calculated?

3 A The first page is the production history
4 for the two wells that Yates is concerned with as far as the
5 drainage aspect.

6 The first well is the Ashland Federal No.
7 1, located in Section 13. This is the well which is in the
8 -- one proration unit south and two proration units to the
9 east of our proposed well.

10 It first produced in December of 1985.
11 You can see in the data there in March of '86 it reached a
12 peak rate of 470 barrels of oil a day. It's current rate as
13 of November of 1986 is 370 barrels of oil a day. It's cumu-
14 lative through November of '86 is 139,000 plus barrels of
15 oil.

16 The next well, the Lea Farms No. 2,
17 located in Section 14, this is the well located in the
18 proration unit directly south of Yates' proposed location.

19 This well first produced in May of 1986.
20 It's peak rate in August of 1986 was 440 barrels of oil a
21 day. It's current rate as of November of '86, it was
22 flowing 320 barrels of oil a day. It's cumulative is 82.5-
23 thousand barrels of oil.

24 Going on to page two, this is a log
25 analysis of that Lea Farms No. 2, which is directly south of

1 our location, through the Strawn pay interval, 11,512 to
2 11,580. Using a porosity cutoff of 3 percent the analysis
3 shown down at the bottom shows a net pay height of 59 feet,
4 average porosity of 7.2 percent, and an average water satura-
5 tion of almost 14 percent.

6 Going on to page three, what I'm going to
7 do here is go through expected recovery of the surrounding
8 reservoir, assuming that the Lea Farms No. 2 is representa-
9 tive of the surrounding reservoir.

10 Your standard volumetric equation there
11 with the proper parameters filled in shows a net result re-
12 covery of 3,960 barrels per acre.

13 Okay, then going on down if you take the
14 Lea Farms No. 2, utilizing its cumulative production and its
15 producing rate as of November of 1986, it shows that it has
16 thus far totally drained 21 acres and the drainage rate in
17 November of 1986 was 2.4 acres a month.

18 The Ashland Federal No. 1 has drained a
19 total acreage of 35 acres and its drainage rate was 2.8 ac-
20 res a month.

21 Going on to the last page, this is a map
22 of the area. The proposed location for Yates is shown in
23 yellow. The Lea Farms No. 2 and the Ashland Federal No. 1
24 have red circles around them. These red circles notate the
25 drainage area, equivalent of area that has been totally

1 drained. In reality we know that wells don't drain, you
2 know, acres just immediately surrounding; their drainage
3 radius actually extends much further beyond this actual cir-
4 cle but we don't know how far beyond that circle.

5 Q Because Yates has no working interest in
6 the two wells to which you're referring, Mr. Lanning, I as-
7 sume you have no downhole pressure information from these
8 wells?

9 A That's correct. I do not.

10 Q But based on the calculations that you
11 can make, can you express an opinion on whether or not there
12 is a risk of drainage away from Yates proposed location?

13 A Yes, assuming this, that the reservoir is
14 assumed to be equivalent to the Lea Farms No. 2, you can see
15 that the drainage radius of the Lea Farms and Ashland Fed-
16 eral No. 1 are probably already intersecting each other and
17 that the drainage radius of the Lea Farms No. 2, which is in
18 fact larger than that circle, is already up into the prora-
19 tion unit of the proposed well, and I'd like to point out
20 that these wells are still flowing in excess of 300 barrels
21 a day and that cumulative production is only through Novem-
22 ber. There's an additional two months of production which
23 is not even taken into account in this picture.

24 And I'd also like to point out that the
25 Lea Farms No. 2 was drilled at an unorthodox location, which

1 placed it closer to our proration unit initially, so we are
2 very concerned that drainage has already begun to take place
3 in our proration unit.

4 Q Unorthodox, you're saying that it was not
5 drilled within the required area of the standard location
6 under the special pool rules in effect.

7 A That's correct. It was not drilled with-
8 in the 150-foot radius circle of the center of the 40-acre
9 proration unit.

10 Q You spoke of -- I forget what you called
11 it, but your circle between the two offsetting wells inter-
12 sect, can you point to any information in your figures con-
13 tained in this exhibit which might give some evidence of
14 interference or communication as between those two wells?

15 A Well, my main reason for expecting inter-
16 ference is just the fact that they are close together and
17 the reservoir is limited as shown by the dry holes to the
18 south and east of the Ashland Federal, directly south of the
19 Lea Farms No. 1.

20 And then if you look at the production
21 data on the first page, you can see that in about October of
22 1986, prior to that both of the wells had been producing
23 relatively constant, and then in September, October, Novem-
24 ber, the rates started falling off drastically for both
25 wells at the same time, which speculatively could mean in-

1 interference between the two wells had begun.

2 And because of the location of the dry
3 holes as shown on that last page of the map, the only
4 direction that future drainage will take place on the Yates'
5 acreage is to the north and to the west because the reser-
6 voir is limited by the dry holes in the other direction to
7 the south, and by interference of the Ashland Federal to the
8 east.

9 So future drainage will take place to the
10 north and to the west.

11 Q Mr. Lanning, refer to what we have sub-
12 mitted as the Exhibit Number Thirteen and state what this
13 document is.

14 A This is Yates' Petroleum's AFE for the
15 drilling of the Humble City "ACL" No. 1, which is our pro-
16 posed location.

17 Q Although this AFE was not prepared
18 directly by you, have you for the purpose of testimony today
19 reviewed the information shown on that AFE with respect to
20 the anticipated dry hole and completion costs?

21 A Yes, I have.

22 Q And have you any experience in the gen-
23 eral area which would bear on this?

24 A Well, yes, this Humble City AFE is -- is
25 primarily based on our drilling of the Humble City "ADL" No.

1 l in the proration unit directly to the north, which was
2 drilled in March and April of last year.

3 Q That was the dry hole previously referred
4 to.

5 A It is not a -- it was dry in the Strawn
6 interval. It was completed in the Wolfcamp but it was not
7 productive in the Strawn.

8 Q Okay, based on this AFE what are the an-
9 ticipate dry hole an completion costs in the proposed well?

10 A The dry hole cost is \$405,000 and the
11 completion cost is \$782,000.

12 Q And in your opinion based on your exper-
13 ience and your review of this pricing information, are those
14 costs reasonable and to be anticipated to be incurred in the
15 actual drilling of this well?

16 A Yes, they are reasonable.

17 Q And the AFE also sets out the interest of
18 all parties within the spacing unit, does it not?

19 A Yes, it does.

20 Q Were Exhibits Twelve and Thirteen either
21 prepared or compiled by you for the purpose of testimony to-
22 day, Mr. Lanning?

23 A Yes, they were.

24 MR. DICKERSON: Mr. Examiner,
25 move admission of Yates Exhibits Twelve and Thirteen at this

1 time and I have no further questions of this witness.

2 MR. STOGNER: Are there any ob-
3 jections?

4 MR. HALL: No objections.

5 MR. STOGNER: Mr. Hall, your
6 witness.

7 MR. HALL: I have no questions.

8

9

CROSS EXAMINATION

10 BY MR. STOGNER:

11 Q Mr. Lanning, in reviewing your Exhibit
12 Number Twelve, I looked at that last page, you said that the
13 Lea Farms No. 2 was drilled at an unorthodox location. Do
14 you know if that was approved administratively through us or
15 by -- after a Division order such as (not clearly under-
16 stood)?

17 A I have no idea. I assume that it was
18 probably advertised and Yates did not protest at that time,
19 but I do not know that.

20 MR. DICKERSON: Mr. Examiner, I
21 do not know, either. The case number was 4749, Order R-
22 4338, which establishes the Humble City Strawn Pool and it
23 does contain an administrative exception for wells not with-
24 in 150 feet of a governmental quarter quarter.

25 Q But you do not know if this particular

1 well, the Lea Farms No. 2, received a penalty?

2 A No, I do not know.

3 Q Okay. Were you the first to propose a
4 well over in the north half of this quarter section?

5 A To my knowledge we were, yes.

6 Q If Yates was so concerned about the
7 drainage, which it shows that it comes up again the November
8 13th, 1986, letter that was Exhibit Number Four, why wasn't
9 the well located over in the northeast northeast quarter?

10 A Well, I did not pick the location. I as-
11 sumed the geologist and the geophysicist felt that that was
12 the best location based on their interpretation of all of
13 the data.

14 Q As far as protecting this acreage from
15 drainage, is this the best location in the northwest quarter
16 northeast quarter?

17 A If it's the best location for feeling
18 like you're going to complete a well in the Strawn reser-
19 voir, I feel like it will, it will drain its acreage as best
20 as it can.

21 Q Is this well the best location to protect
22 drainage from the other two wells?

23 A Well, that's hard for me to say because
24 this is just a very simple model and I would hate to change
25 the location based on a very simple model as this.

1 Q So you're stating that the --

2 A I'm stating I believe drainage is already
3 taking place in that proration unit, but since I do not know
4 the exact outline of the reservoir or anything else, other
5 than very generally. This is about the best that you can
6 do, is saying we think drainage is taking place. We are
7 very anxious to drill our proposed location in the proration
8 unit.

9 Q And you feel this is the best location to
10 protect yourself from drainage in the northeast quarter
11 northeast quarter, is to place the well in the northwest
12 quarter northeast quarter?

13 A I feel the best place to drill the well
14 is where the people who are interpreting the data place it.

15 Q I'm asking you as an engineer, to protect
16 drainage, I'm asking you.

17 MR. DICKERSON: Mr. Examiner,
18 --

19 A I'll answer it.

20 MR. DICKERSON: Well, I might
21 simply say that --

22 MR. HALL: Well, let him an-
23 swer. He hasn't answered the question.

24 MR. DICKERSON: -- he has testi-
25 fied that he has no data, no pressure data, and his model

1 was based on somewhat inadequate information, I think.

2 MR. STOGNER: Mr. Dickerson, he
3 did -- we did qualify him as an engineer and he did present
4 testimony as far as drainage goes and your letter of Novem-
5 ber 13th states that "we feel drainage from the offset well
6 in the south half northeast quarter of 14 is of major con-
7 cern."

8 MR. DICKERSON: I have no ob-
9 jection to the question or his answering it, Mr. Examiner.
10 I was simply trying to clarify what I thought may have been
11 some misunderstanding.

12 MR. STOGNER: Well, I'm not
13 sure I'm clear of the answer. I'm asking him if he feels
14 this is the best location for the drainage, not considering
15 the geology.

16 A If you ignore the geology it is not the
17 best location.

18 If you totally ignore the geology, assume
19 that everything is homogeneous, and the reservoir goes up
20 through all of that area, then that is probably not the best
21 location to protect from drainage, but I do not know any of
22 that.

23 Q Okay, let's move to Exhibit Number Thir-
24 teen. Did you -- you prepared the AFE, correct?

25 A No, I did not prepare the AFE. I just

1 reviewed it.

2 Q Reviewed it. In reviewing the -- how
3 many AFE's do you review with Yates Petroleum?

4 A Well, AFE's always cross my desk, you
5 know, on proposed wells, so --

6 Q As far as the cost goes, has this changed
7 over the last four years?

8 A Yes, they have but the well that this --

9 Q Okay, have you seen the tendency to go up
10 or down as far as the drilling costs?

11 A They have gone down and this AFE is lower
12 than the well that was drilled in March of 1986 to take that
13 into account.

14 MR. STOGNER: Okay, I have no
15 further questions of this witness.

16 Are there any other questions
17 of Mr. Lanning?

18 MR. DICKERSON: I have nothing.

19 MR. STOGNER: I've got a few
20 more questions of your witnesses, Mr. Dickerson.

21 I would first like to recall
22 your first one, your landman, Mr. Beardemphl, and let the
23 record show that he's been previously sworn.

24

25

1 KEN BEARDEMPHL,
2 being recalled and remaining under oath, testified as fol-
3 lows, to-wit:

4

5 RECROSS EXAMINATION

6 BY MR. STOGNER:

7 Q When is Yates ready to go with this well?

8 A Yates will be ready to go as soon as we
9 get agreement from all the parties and set up a comparable
10 JOA, or joint operating agreement.

11 Q I assume what you're saying, then, as
12 soon as you get an order from this Division.

13 A Yes.

14 Q That's why you're here, to get everybody
15 to agree, right?

16 A Yes, sir.

17 Q In -- I'd like to refer back to Exhibit
18 Number Four, which was your letter of November 13th, 1986.
19 There's a Kathy L. Colbert, C-O-L-B-E-R-T, does she work un-
20 der your supervision?

21 A No, I work under hers.

22 Q You work under hers. Why was that parti-
23 cular sentence put in there about the drainage being affec-
24 ted by that offset operator in the south half northeast
25 quarter of Section 14?

1 A All I know is that was brought up in the
2 meeting when they had it before we proposed the well, that
3 after the geologist and engineers and land people all got
4 together they decided that that was definitely either in ef-
5 fect or would be in effect.

6 Q Okay, so somebody else at the meeting, a
7 geologist or an engineer, brought that concern up, correct?

8 A Yes. I wasn't at the meeting but some-
9 body, one of those two probably did.

10 Q According to your testimony, if we is-
11 sued an order today you all would have a well on that thing
12 by tonight.

13 A Well, we probably wouldn't drill it if we
14 didn't have the other -- or well, yeah, if you issued an or-
15 der then they'd have to come up and (not clearly under-
16 stood).

17 Q I mean will you all drill it tonight?

18 A Well, it would probably be a couple of
19 days because it takes that long to get an application.

20 Q A couple of days? Would it be any longer
21 than a couple of days?

22 A Well, the only problem we'd have is with
23 Exxon's interest we have. They say that they want to join
24 but they want to sign an operating agreement first.

25 Q And that doesn't -- that would take about

1 how long?

2 A Oh, with Exxon, it could take, hopefully
3 it wouldn't take more than a week or two, but I've been two
4 or three months with them, but we don't -- since they've
5 agreed I don't see -- think we'd have any problem.

6 MR. STOGNER: I have no further
7 questions of this witness.

8 Are there any other questions
9 of the witness?

10 MR. HALL: A couple.

11 MR. STOGNER: Mr. Hall.

12

13 REXCROSS EXAMINATION

14 BY MR. HALL:

15 Q You don't have any problem with an expir-
16 ing lease, do you?

17 A Let's see, I think, if I can remember
18 back, we have an expiring lease that would come in effect,
19 like 4, April 14th, or something like that, 13th; I'm not
20 exactly sure on the date right now.

21 Q All right, but nothing that compels you
22 to seek an expedited order to enable you to drill to save in
23 the next couple of weeks or so, or the next thirty days?

24 A Yeah, 4-7, excuse me. Pardon?

25 Q So you have no lease expiration situation

1 which is going to compel you to request an expedited order
2 so that you'll be able to spud your well within the next
3 thirty or forty-five days.

4 A No, no lease problem.

5 Q Okay. And again, you don't have a writ-
6 ten joinder from Exxon yet, do you?

7 A No.

8 Q Okay.

9 MR. HALL: I have nothing fur-
10 ther.

11 MR. STOGNER: Are there any
12 other questions of this witness? He may be excused.

13 Recall Rempe, please.

14

15 NORBERT REMPE,

16 being recalled and remaining under oath, testified as fol-
17 lows, to-wit:

18

19 RE CROSS EXAMINATION

20 BY MR. STOGNER:

21 Q Mr. Rempe, are you responsible for locat-
22 ing this well at its location?

23 A Partly, yes.

24 Q Partly, yes, okay. As far as the en-
25 gineer, I guess the geologist has more to say about the lo-

1 cation of this well.

2 A Yes.

3 Q Could you give me a short, brief, maybe a
4 couple of sentence rundown on why geology shows that this is
5 the best place for the well?

6 A The geology would probably find a perfect
7 location for this well further to the south; however, that
8 would get us out of teh 150-foot circle around the center of
9 the 40-acre proration unit and it is my belief that we were
10 pretty certain to be protested if we wanted to have an unor-
11 thodox location infringing on the -- on the Inexco well to
12 the south.

13 Q Let me broaden my question, then. Why
14 did you feel the northwest quarter northeast quarter was
15 more --

16 A Advantageous.

17 Q -- better than the one in the northeast
18 northeast?

19 A In the first place, it is structurally
20 higher and in the second place, we believed, or I believed,
21 mistakenly or correct, that we would not be granted a loca-
22 tion immediately north of the Lea Farms State No. 2, because
23 that would be in effect drilling on 40-acre spacing.

24 Q Okay.

25 A I may have been mistaken on that but that

1 was my opinion.

2 MR. DICKERSON: The pool rules
3 expressly state, Mr. Examiner, that there is no prohibition
4 on drilling on each 40-acre -- on two wells within each 80-
5 acre spacing unit.

6 A We -- we are higher structurally and
7 we're also closer to the seismic line that indicates that we
8 still have reservoir there. So it's a tradeoff between
9 staying close to the seismic line and staying close to the
10 existing production.

11 MR. STOGNER: Okay, I have no
12 further questions of Mr. Rempe.

13 Are there any other questions
14 of this witness?

15 MR. HALL: I have nothing.

16 MR. DICKERSON: I have just
17 one.

18 MR. STOGNER: Mr. Dickerson.

19

20 REDIRECT EXAMINATION

21 BY MR. DICKERSON:

22 Q Mr. Rempe, I'm going to ask you to look
23 at -- you're familiar with the Humble City working interest
24 unit operating agreement, are you not?

25 A Not in detail but somewhat.

1 Q You know the operating agreement exists,
2 though.

3 A Yes.

4 Q Exhibit Number Three, previously identi-
5 fied and introduced by Yates, sets forth -- directing your
6 attention to Exhibit -- page -- the first page of Exhibit A-
7 1 to that agreement, you see a column setting forth the
8 lease expiration dates and the lands covered by each of
9 these leases? What lands are covered by the earliest expir-
10 ing leases under that unit?

11 A Leases owned by Rio Pecos in the north
12 half of the northeast quarter of Section 14.

13 Q The proposed drillsite location in this
14 proceeding?

15 A That is correct.

16 Q And the first lease expiration date is
17 April 7th of '87 and they then continue with the rest of
18 Yates' leases expiring no later than May 24th of 1987.

19 MR. STOGNER: So in essence
20 that would bring Mr. McMillan's request for sixty day con-
21 tinuance --

22 MR. DICKERSON: Yes, sir.

23 MR. STOGNER: -- up very close
24 to that.

25 MR. DICKERSON: Yes, sir, and I

1 could properly more -- more properly make this point
2 through Mr. Beardemphl, Mr. Examiner, but from this exhibit
3 it is obvious. We know the rules. If we got an order to-
4 day, no, the answer to your question is that Yates would not
5 be drilling at midnight tonight. The rule would require
6 that Yates furnish a copy, assuming we got a rule, or I mean
7 an order two weeks from now, it would require Yates to fur-
8 nish AFE's to the parties, which they would then do, in
9 which time those parties would have thirty days in which to
10 make their election, which at that point puts us to the mid-
11 dle of March.

12 Those parties then have -- past
13 the or approaching the expiration date of Yates' earlier
14 lease. Those parties would then have the time in which to
15 request a de novo hearing before this Commission and you can
16 take administrative notice of the lengthy process involved
17 in setting that for hearing.

18 So that while we cannot say
19 that Yates has an imminent expiration problem, we are at-
20 tempting to protect ourselves here from what, given the pos-
21 ture of these parties, which is delay by their own admis-
22 sion. We're simply pointing out that there is very easy
23 circumstance under which Yates may lose its entire acreage
24 position and the ability to drill the well to which it's now
25 entitled to drill.

1 I have no further questions of
2 this witness.

3 MR. STOGNER: He may be ex-
4 cused.

5 Mr. Hall, would you please re-
6 state your motion earlier in the case today?

7 MR. HALL: Well, the motion is
8 that the matter be continued until the March 4th hearing on
9 the basis that it's clear in the evidence that additional
10 seismic evidence is available but not fully interpreted yet,
11 and that evidence is directly probative on the issues of
12 waste and augmentation of risk in drilling this well at the
13 proposed location.

14 For the Division Examiner to
15 take this matter under advisement with the limited informa-
16 tion it has before it at this time, would be somewhat arbit-
17 rary and we believe contrary to the law.

18 Therefore we're asking that the
19 record be kept open until those seismic results are avail-
20 able and we've had further opportunity to present them to
21 the examiner.

22 MR. STOGNER: Are you propos-
23 ing, Mr. Hall, that we continue it to the 4th; that addi-
24 tional testimony will be presented at that time by your
25 client?

1 MR. HALL: It's my understand-
2 ing it will be ready by that time for presentation.

3 MR. STOGNER: Well, I mean
4 would they -- are they prepared to show it at that time?

5 MR. HALL: I can't speak for
6 them on that. I'll check with the client, which I can do
7 rapidly.

8 MR. DICKERSON: Mr. Examiner,
9 if it is appropriate at this point for a short argument, I
10 would like to make such.

11 MR. STOGNER: Oh, why not, just
12 go ahead.

13 MR. DICKERSON: We have evi-
14 dence before us that wheter or not we conclusively can show
15 that drainage is in fact occurring from offsetting wells
16 operated and which are owned by the parties opposing Yates
17 in this application, and in those wells let it be remembered
18 that Yates has no working interest at all, they obviously,
19 from the production data presented, are prolific wells, hav-
20 ing the oldest one produce only slightly more than one year,
21 the second well, and the closest to Yates' location having
22 produced only from May of 1986 and yet having accumulated
23 over 90,000 barrels of production during that short period
24 of time, that it's not unlikely that drainage is or will be
25 occurring, taken together with the fact that no later than

1 May of this year, and the time consuming nature of the
2 administrative procedure necessary to argue over such things
3 as this, Yates runs a real and substantial risk of losing
4 its entire acreage position in the well by reason of delay
5 during this administrative process.

6 This is not a situation where
7 the applicant is attempting to cram something down anyone's
8 throat. The Division can take administrative knowledge of
9 the fact that under the terms of the typical order entered
10 the applicant is required to furnish AFE's and an opportu-
11 nity to make their election to the parties within thirty days
12 after the mailing of that AFE to the parties following the
13 entry of an order subjecting those parties to compulsory
14 pooling, so that even assuming that any additional time
15 would be necessary and the evidence is conflicting on that,
16 even assuming that any additional time is necessary as a
17 practical matter, these parties opposing will have no doubt
18 at least the middle of March in which to make their elec-
19 tion, and if they do not in fact make their election prior
20 to that date, all they need to do is file their application
21 for a de novo hearing, which would most likely put us into
22 April at the earliest, May quite possibly, by which time
23 Yates would either have had to commence drilling that well
24 and assume the entire risk without any pooling penalty being
25 in effect because this Division had not been able to, under the

1 MR. STOGNER: Mr. Hall, do you
2 have any argument?

3 MR. HALL: I have some comments
4 I would like to make on that after I've had the opportunity
5 to put Mr. McMillan back on the stand as we previously
6 agreed. I hate to call them closing comments. If the Exa-
7 miner would grant my motion I will come back on March 4th to
8 put on closing comments.

9 MR. STOGNER: We will continue
10 this case until at lunchtime, until Mr. McMillan -- we can
11 ask him a few more questions before I rule on the motion.

12 I have fifteen till twelve.
13 I'm going to take a little, short, five minute -- or about
14 ten minute recess at this time. If he's still down at the
15 meeting at that time and not back up here, we'll continue
16 with Sage, and I'll break into Sage's testimony to get Mr.
17 McMillan on. I do not foresee that he will be on the stand
18 that long, and I'll make a decision on the motion at that
19 time.

20 Please stick around. Ten min-
21 ute recess.

22

23 (Thereupon a recess was taken.)

24

25

1 A Yes.

2 Q Is this considered a 3-D survey?

3 A This is not a 3-D survey.

4 Q Now this survey which you're talking
5 about, for a layman, for an engineer, or somebody that's not
6 worked with geophysical extensively, is this a one dimen-
7 sional type of a --

8 A This is one dimensional. We have done a
9 3-D survey in the area but as I testified earlier, I don't
10 think that 3-D survey will do us any good right on this lo-
11 cation because the technical basis, the fold is down so low
12 that -- that the data is not -- is not good enough quality
13 to make a definitive estimate.

14 Q Well, how long would it take you to ana-
15 lyze the survey?

16 A Well, first, we got -- as I mentioned
17 earlier, as I testified earlier, we got this new presenta-
18 tion on the line that we just shot yesterday. I brought it
19 back last night and gave it -- or gave it to one of my em-
20 ployees to give to the geophysicist who's working the data.
21 So he's got to work that.

22 When we work that, then we'll decide
23 whether we want to do some additional processing or not, and
24 I don't know the answer to that. I can't give you an answer
25 whether we'll do any other processing.

1 If we do the other processing, if we can
2 get the processor to drop what he's doing to do this, I
3 would guess probably it's going to take a couple of days for
4 the geophysicist to look at that data, and then it's going
5 to take, oh, I would -- normally I'd tell a client if I'm
6 doing a consulting, it takes thirty days for the processing
7 to be done.

8 I would say if I insisted on -- on -- you
9 know, when he's through doing one thing that he start on
10 this just as soon as possible, and we could probably get
11 that done because we do a lot of business with him, we could
12 probably get that back in about two weeks, and then -- and
13 then we are probably looking at two or three more days to
14 work it.

15 So I would say that, assuming that the
16 processor was cooperative, and I -- no way I can tell, we're
17 probably talking about, before we're really able to make a
18 decision from our point of view, three weeks, and then we've
19 got to get together with our partners. That's if everything
20 went well that long.

21 If everything didn't go well, then it
22 could be longer.

23 Q Once you got all this information to-
24 gether, what is this going to tell you?

25 A Well, it's going to tell us -- I think we

1 have three decisions.

2 One, we have an offer from Yates to farm-
3 out. We'd consider that.

4 Two, if we don't like that offer, we
5 could also alternatively just not, you know, not doing any-
6 thing about this forced pooling, let ourselves be force
7 pooled.

8 Or three, we could propose a new loca-
9 tion, and frankly, as far as I'm concerned all three of
10 those alternatives are available to us, based on what I've
11 seen of the data.

12 I got a pretty good idea. I mean I don't
13 come here to -- I've done a lot of work for Yates in the
14 past. I don't come here to snow them or anybody else. I've
15 got a pretty good idea what I want to do right now, but I
16 hate to go out and ask my partners and the other partners to
17 make a decision on us, on LDM Group spending \$150,000 until
18 we have all that information in that we've already paid for,
19 and the cost from this point is relatively insignificant.

20 Q Have you talked with Yates Petroleum
21 about moving their location to this time?

22 A No. We didn't get the line till last
23 Thursday. I think, you know, I don't -- I don't want to
24 speak for my partners about it, because I don't think I have
25 the authority to do that, but we're going to have some re-

1 commendations, and we have some preliminary recommendations
2 earlier, but I don't want to speak for anybody until I get
3 -- till I've had a chance to look at everything I've got.

4 Q When you first went to Yates Petroleum or
5 the other people about running the survey, and this was af-
6 ter you had gotten notice from Yates, correct?

7 A Uh-huh.

8 Q Did you have any discussion with Yates
9 about let's run a survey and then look at the location?

10 A I wasn't in those negotiations, I don't
11 know.

12 As a matter of fact, some of that took
13 place while I was out of the country, so I don't know.

14 MR. STOGNER: Mr. Hall, do you
15 have any questions?

16 MR. HALL: Yes, Mr. Examiner.

17

18 REDIRECT EXAMINATION

19 BY MR. HALL:

20 Q Mr. McMillan, once the data from the
21 seismic test is produced and interpreted and the information
22 disseminated amongst your staff and your other working in-
23 terest partners, would you then be in a position to be able
24 to come back to a hearing on March 4th and present addition-
25 al testimony on the seismic?

1 A March 4th, yeah, I think so. You know,
2 I'm not going to tell you anything positive about what I can
3 or can't do on that because I've processed enough data and
4 made enough interpretations to know that things don't always
5 work out like you plan, but you know, probably we would be
6 able to make a decision by then, unless something unforeseen
7 happened.

8 Q Would you in fact like more time than
9 that?

10 A Well, we -- normally I wouldn't think it
11 would be unreasonable to have sixty days to -- so that we
12 could finish our work and talk with our partners, and so
13 forth, and that's what we're asking for.

14 I guess, if you want, you know, if you
15 want to -- I'd say we've got a ninety percent chance of hav-
16 ing all the work and discussion out of the way in thirty
17 days.

18 MR. STOGNER: Do you have any
19 other questions?

20 MR. HALL: Nothing further.

21

22 RE CROSS EXAMINATION

23 BY MR. DICKERSON:

24 Q Mr. McMillan, you say that you have based
25 on your review of what information, I know you think it's

1 imperfect --

2 A Uh-huh.

3 Q -- at the present time, but you have a
4 pretty good idea of what your leanings are. What are your
5 ideas?

6 A Well, I don't see any point in making any
7 public disclosure of what my ideas are until I get through
8 with -- with our evaluation, because I can assure you that
9 anything I do, I could change after further evaluation.

10 MR. DICKERSON: Mr. Examiner,
11 for the purpose of making a record on this, I would like to
12 point out that Mr. McMillan has shown up as a witness,
13 greatly limiting his authority that he has to testify on be-
14 half of his partners or others, and so forth, and he does
15 not like the questions that I ask him, and I'm sorry about
16 that, but he didn't give me a list of questions that he
17 would like to be asked, and I think I'm entitled. He says
18 that he has an inclination. He is a sworn witness appearing
19 in this hearing. In view of this, and I admit that I am
20 biased, the parties in opposition here want to lay behind a
21 log and ride Yates down on this well, and I think I'm entit-
22 led to an answer on my question about what his inclinations
23 are based on his knowledge of this prospect at this time.

24 MR. HALL: Well, at the same
25 time, Mr. Examiner, I don't believe the Division has the

1 authority to compel anyone to produce what they might treat
2 as proprietary information at a hearing if it's not
3 altogether relevant to the application.

4 MR. DICKERSON: I'm not asking
5 him to produce his seismic. We all know he's not going to
6 produce his seismic and we're not interested in it, frankly,
7 but he testified, he opened the door to this, that he has a
8 pretty good idea based on his review of information that he
9 has right now as to what his leanings are on this location,
10 and I, Mr. Examiner, with all due respect, am entitled to an
11 answer.

12 MR. HALL: Well, I believe that
13 a question has been sufficiently asked and answered through-
14 out the course of the day, it's clear on the record as it
15 exists now, that Mr. McMillan is unsure. He's pointed out
16 there's insufficient information to allow him, or this exa-
17 miner, to make a decision, and to do so would be folly, im-
18 prudent.

19 MR. STOGNER: I have no further
20 questions on this. I concur with Mr. Scott, I mean with Mr.
21 Hall, and if there's no further questions of Mr. McMillan,
22 he may step down.

23 MR. DICKERSON: There are some
24 further questions.

25 MR. STOGNER: Okay.

1 Q Mr. McMillan, are you aware of the fact
2 that Yates has expiration dates on its leases in the south
3 half -- or the north half of the northeast quarter of Sec-
4 tion 14 under the proposed wellsite, the latest being May
5 24th, 1987?

6 A I didn't know what your expiration dates
7 were. I think you mentioned it to me a few minutes ago. I
8 didn't. I hadn't seen those. I knew that they were going
9 up pretty soon, though.

10 Q I'm handing you what was previously ad-
11 mitted as Yates --

12 A Okay.

13 Q -- Exhibit Three, which is its interest
14 schedule to the Humble City working interest unit, to which
15 you are not a party, and point out for you, since you missed
16 that testimony --

17 A Uh-huh.

18 Q -- that these leases cover the north half
19 of the northeast quarter.

20 A Okay.

21 Q These are the source of Yates' interest
22 in this well, and that all expire beginning April 7th
23 through May 24th.

24 A Nope. Where's the April 7th expiration?

25 Q In this column right here.

1 A Oh, okay. Well, I didn't know that. I
2 certainly didn't know that one. I didn't even know that
3 lease existed. I mean I shouldn't say I didn't know it
4 existed; if I did, I'd forgotten about it.

5 Q Okay, you're aware --

6 A Yeah, I was aware of the Carter interest.

7 Q You're aware, are you not, Mr. McMillan,
8 that the -- under the rules of this Division if a party who
9 appears as you have on behalf of your partners at a hearing
10 is unhappy with the order entered by the Division, that you
11 have, in effect, the right to a de novo hearing on the same
12 issues before the full Commission?

13 A I'm not fully aware of it, although Mr.
14 Hall advised me of that as we were walking up here. and I've
15 heard something about that before, but I'd say, no, I don't.
16 I'm not intimately familiar with the details on how it
17 works.

18 Q Well, I'm telling you that those are the
19 rules and that's how it works for the purpose of asking you
20 to assume that that's true. Has there been any discussion
21 with -- among Amerada Hess or LL&E or any of your other par-
22 ties of the possibility or not of seeking a de novo hearing
23 of this case?

24 A Yeah, the word came up in our meeting,
25 but -- yesterday, but I don't know, there wasn't much dis-

1 cussion on it, no, and I, frankly, am not aware of what the
2 consequences were.

3 I tell you, my landman and I never dis-
4 cussed it.

5 Q But there was some discussion of the pos-
6 sibility of a de novo hearing in this proceeding.

7 A I think those words were used, yeah.

8 MR. DICKERSON: I have no fur-
9 ther questions.

10 MR. STOGNER: Are there any
11 other questions of Mr. McMillan?

12 Mr. Hall, I'm going to hear
13 your closing statement.

14 MR. McMILLAN: Thank you very
15 much.

16 MR. HALL: Mr. Examiner, irre-
17 spective of what the rules provide on de novo hearings, I
18 think we have to be concerned with the application before
19 the Division today and the likelihood that Yates will put
20 down a well at what could prove to be a risky location.

21 For the Division to consider
22 this application, the statutes direct that you take into
23 consideration two elements, one in Section 70-2-18-A obliges
24 the operator of a proposed well to seek voluntary joinder.

25 70-2-17-C also contemplates

1 tion, we would urge that this matter be continued and the
2 record kept open until the March 4th hearing, until the time
3 that the Examiner can take additional evidence on the seis-
4 mic information that is presently being interpreted; other-
5 wise, the order is premature and is not backed by sufficient
6 evidence.

7 That concludes my remarks.

8 MR. STOGNER: Thank you, Mr.
9 Hall.

10 Mr. Dickerson?

11 MR. DICKERSON: Mr. Examiner, I
12 will not repeat or belabor the points I made this morning,
13 but I would like to remind you of them.

14 With direct regard to Mr.
15 Hall's statement, the evidence that he speaks of that is not
16 here before us today is not here before us today by reason
17 of the voluntary act of the parties appearing in opposition.

18 The evidence has been, although
19 Mr. McMillan may not have physically seen it with his own
20 eyes, the latest version, until yesterday in Houston, as he
21 testified, the evidence, based on what the LL&E personnel
22 told the Yates personnel, was that they had the final prints
23 not later than January the 23rd.

24 There has been no decision, nor
25 have those parties shown up in opposition, nor have those

1 that the operator make a good faith effort to secure volun-
2 tary joinder.

3 What constitutes a good faith
4 effort is something left to interpretation and this Division
5 Examiner must consider an additional statute, and that's at
6 70-2-17-B, where a well is proposed the Examiner must deter-
7 mine whether or not the location and the well itself will
8 avoid the augmentation of risk, and on this case the record
9 before the Examiner shows indisputably that there is addi-
10 tional evidence directly probative of whether or not a well
11 at this location can avoid the augmentation of risk; al-
12 though it's available, it's not yet fully interpreted and it
13 has not been disseminated to all the affected parties.

14 That will be soon done so and
15 the results of that information, we hope can be made avail-
16 able to the Examiner and the Division at the March 4th hear-
17 ing.

18 However, for this proceeding to
19 go ahead, an order to issue without considering that addi-
20 tional information would be arbitrary. The order would not
21 be supported by evidence which everyone is aware is avail-
22 able, and we believe that there is a tremendous likelihood
23 of waste and further augmentation of risk.

24 We would move first that the
25 application be dismissed; secondly, as an alternative mo-

1 tion, we would urge that this matter be continued and the
2 record kept open until the March 4th hearing, until the time
3 that the Examiner can take additional evidence on the seis-
4 mic information that is presently being interpreted; other-
5 wise, the order is premature and is not backed by sufficient
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19 Mr. McMillan may not have physically seen it with his own
20 eyes, the latest version, until yesterday in Houston, as he
21 testified, the evidence, based on what the LL&E personnel
22 told the Yates personnel, was that they had the final prints
23 not later than January the 23rd.

24 There has been no decision, nor
25 have those parties shown up in opposition, nor have those

1 parties contacted Yates or made any representation to this
2 Division in the testimony today that there is preferable lo-
3 cation, and I simply point out that Yates Petroleum Corpora-
4 tion is the owner of the imminently expiring leases on the
5 north of the southeast -- or the north half of the northeast
6 quarter of this section. That is their only position at
7 this time in that spacing unit; that under the rules and any
8 further delay in this case will guarantee that that well
9 will either not be drilled by Yates or will be drilled prior
10 to the effective date of any order entered under this Divi-
11 sion, giving consideration to the thirty day waiting period
12 requirement or custom following the entry of any such order.

13 Under these circumstances, with
14 all respect, Mr. Examiner, we think that we are entitled to
15 an order in the normal course of the Division's business,
16 based on the evidence before it today. The evidence that's
17 before it, is not before it, not because of Yates Petroleum
18 Corporation but because of the voluntary act of the oppo-
19 nents, and they are clearly attempting to lay behind the log
20 and wait and spring this at some later date if they decide
21 at some later date to do it. There's not even been a repre-
22 sentation that they are going to do it. They simply may
23 want to do it.

24 We can assume from that that
25 they will do it if they consider that it's in their favor;

1 they will not do it if they consider that it is not favor-
2 able to them.

3 The Yates' letter introduced as
4 Exhibit Number Four agreeing to participate in the seismic
5 line on the conditions, cannot be said to be unreasonable.
6 The conditions merely were, yes, we'll pay our proportionate
7 part of this line if you all think this is necessary, but we
8 want you to tell us that you'll do one of two things; either
9 participate in our well or farmout. No response was re-
10 ceived to that or any of the other Yates' correspondence,
11 just as Mr. McMillan sat there today and refused to answer a
12 question about this secret idea or secret leaning that he
13 has towards what he wants in this.

14 In the District Courts of this
15 state, Mr. Examiner, we're governed by the rules of civil
16 procedure, which are not applicable to this proceeding, as
17 you know, but in our proceedings in the District Court we as
18 lawyers and our clients under us are prohibited interposing
19 defenses and motions solely for the purpose of delay and
20 there's a good reason for that and it's very basic. It is
21 not fair to simply delay things in order to prejudice one
22 party and yet gain no big advantage to the other party.
23 That's the effect of what Mr. Hall urges here today.

24 The prejudice will all be to
25 Yates Petroleum Corporation. The benefit, if any, will ac-

1 crue to the opponents, anyway, because i the normal course
2 of affairs they're going to have at least thirty or forty-
3 five days, and assuming they went to a de novo hearing, con-
4 siderably more than that, in which to make their election,
5 and under these circumstances we think we're entitled to an
6 order now in the normal course of the Division's business,
7 and to the extent that the Division even considers granting
8 any such thing as dismissing the application of Yates, which
9 in my opinion would be absurd, and even considering exten-
10 sion of this case, continuance of this case until the March
11 4th hearing, a month away, I would request that those be de-
12 nied and lieu to the extent you consider any such thing, you
13 set this for full Commission hearing, which you in your dis-
14 cretion may do, at the earliest possible hearing date, so as
15 to prevent what is inevitable, prejudice to my client, un-
16 less we get some assistance from this Division, and all
17 we're seeking is what we're entitled to.

18 MR. STOGNER: Thank you, Mr.
19 Dickerson.

20 Mr. Hall, I'm going to overrule
21 your motion to dismiss.

22 Before I make the ruling on the
23 other one, I believe the advertisement today somewhat gives
24 me some leeway on issuing an order, since it doesn't neces-
25 sarily mention a location but it does mention a standard lo-

1 cation within a proration unit.

2 I do have some leeway on is-
3 suing an order.

4 Secondly, what I've heard to-
5 day, Yates does need to get a well down. It's advantageous
6 to everybody to get a well down as soon as possible.

7 Also reaching voluntary agree-
8 ment is -- is -- should be on both sides. For one reason or
9 another, I don't believe that some of the other parties ac-
10 ted in a -- on time. It's unfortunate that maybe this in-
11 formation which Yates may or may not have considered in
12 choosing a well location is available to them, or, what I've
13 heard today, I don't know if Yates would -- I really doubt
14 seriously Yates would consider any of it.

15 I do not see that delaying this
16 case any longer and issuing an order at a later date would
17 be advantageous for either party.

18 I'm going to overrule your mo-
19 tion to continue this case any further and take this case
20 under advisement.

21

22

(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 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. 9058,
heard by me on February 1987.

Michael E. Boyd Examiner
Oil Conservation Division