

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

IN THE MATTER OF THE HEARING )  
CALLED BY THE OIL CONSERVATION )  
DIVISION FOR THE PURPOSE OF )  
CONSIDERING: ) CASE NO. 10841

APPLICATION OF YATES PETROLEUM CORPORATION  
-----

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: David R. Catanach, Hearing Examiner  
October 7, 1993  
Santa Fe, New Mexico

This matter came on for hearing before the  
Oil Conservation Division on October 7, 1993, at  
Morgan Hall, State Land Office Building, 310 Old Santa  
Fe Trail, Santa Fe, New Mexico, before Deborah O'Bine,  
RPR, Certified Court Reporter No. 63, for the State of  
New Mexico.

**ORIGINAL**

## I N D E X

October 7, 1993  
 Examiner Hearing  
 CASE NO. 10841

	PAGE
APPEARANCES	3
YATES PETROLEUM CORPORATION'S WITNESSES:	
<u>JANET RICHARDSON</u> Examination by Mr. Carr	4
<u>STERLING FLY</u> Examination by Mr. Carr	9
<u>THERESA SLOAN</u> Examination by Mr. Carr	16
Examination by Examiner Catanach	21
REPORTER'S CERTIFICATE	24

## E X H I B I T S

	ID	ADMTD
Exhibit 1	6	9
Exhibit 2	6	9
Exhibit 3	7	9
Exhibit 4	8	9
Exhibit 5	11	16
Exhibit 6	13	16
Exhibit 7	17	21
Exhibit 8	18	21
Exhibit 9	19	21

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

A P P E A R A N C E S

FOR THE DIVISION:      ROBERT G. STOVALL, ESQ.  
                                 General Counsel  
                                 Oil Conservation Commission  
                                 State Land Office Building  
                                 310 Old Santa Fe Trail  
                                 Santa Fe, New Mexico 87501

FOR THE APPLICANT:    CAMPBELL, CARR, BERGE &  
                                 SHERIDAN, P.A.  
                                 P.O. Box 2208  
                                 Santa Fe, New Mexico 87504  
                                 BY: WILLIAM F. CARR, ESQ.

1 EXAMINER CATANACH: Call the hearing back  
2 to order at this time and call Case 10841.

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

6 EXAMINER CATANACH: Appearances in this  
7 case?

8 MR. CARR: May it please the Examiner, my  
9 name is William F. Carr with the Santa Fe law firm  
10 Campbell, Carr, Berge & Sheridan. I represent Yates  
11 Petroleum Corporation in this case, and I have three  
12 witnesses.

13 EXAMINER CATANACH: Additional  
14 appearances? Will the witnesses please stand to be  
15 sworn in?

16 (Witnesses sworn.)

17 JANET RICHARDSON,  
18 the witness herein, after having been first duly sworn  
19 upon her oath, was examined and testified as follows:

20 EXAMINATION

21 BY MR. CARR:

22 Q. Will you state your name for the record,  
23 please.

24 A. My name is Janet Richardson.

25 Q. Where do you reside?

1           A.    Artesia, New Mexico.

2           Q.    By whom are you employed and in what  
3 capacity?

4           A.    I'm a petroleum landman for Yates Petroleum  
5 Corporation.

6           Q.    Have you previously testified before this  
7 Division?

8           A.    Yes, I have.

9           Q.    At the time of that prior testimony, were  
10 your credentials as a petroleum landman accepted and  
11 made a matter of record?

12          A.    Yes, they were.

13          Q.    Are you familiar with the application filed  
14 in this case on behalf of Yates Petroleum Corporation?

15          A.    Yes.

16          Q.    Are you familiar with the subject well and  
17 the surrounding area?

18          A.    Yes.

19                MR. CARR:  Are the witness's qualifications  
20 acceptable?

21                EXAMINER CATANACH:  They are.

22          Q.    (BY MR. CARR)  Miss Richardson, would you  
23 briefly state what Yates seeks with this application?

24          A.    Yes.  We seek an order to pool all mineral  
25 interests from the surface to the base of the Canyon

1 formation under the southwest quarter of the southwest  
2 quarter of Section 1 in Township 14 South, Range 33  
3 East, in Lea County, New Mexico.

4 Q. Have you prepared certain exhibits for  
5 presentation in this area?

6 A. Yes, I have.

7 Q. Let's go to what has been marked Yates  
8 Petroleum Corporation Exhibit No. 1, and I'd ask you  
9 to identify this and review it for Mr. Catanach.

10 A. Exhibit No. 1 is a land map showing in the  
11 red outline is the proration unit for the proposed  
12 well. The red dot on there shows the proposed  
13 location for the well, and it should be 990 feet from  
14 the south, 330 feet from the west.

15 The colored areas, the solid yellow is  
16 Yates Petroleum and its affiliates own it 100 percent.  
17 And then the outlined area, which is only in Section  
18 1, is where we own a partial interest.

19 Q. What is the primary objective in the  
20 proposed well?

21 A. The Bough formation.

22 Q. This is a standard location for that  
23 formation?

24 A. Yes, it is.

25 Q. Let's go to what has been marked Yates

1 Exhibit No. 2. Would you identify that, please.

2 A. Exhibit No. 2 is the first page of our  
3 exhibit to the operating agreement. This basically  
4 shows the interest breakdown and the acreage breakdown  
5 of all the parties that will be within the spacing  
6 unit for the well.

7 Q. What percentage of the acreage has  
8 voluntarily been committed to this well?

9 A. 99.91455 percent.

10 Q. And who has not agreed to participate?

11 A. The estate of Louie Greenwood, Jr., and the  
12 estate of Dorothy Greenwood.

13 Q. Could you summarize for Mr. Catanach the  
14 efforts you've made to obtain the voluntary joinder of  
15 these interest owners in the proposed well?

16 A. Yes. And that's also marked as Exhibit 3.  
17 We started in November of 1992 trying to get this  
18 interest leased, did not receive any response. We  
19 wrote a letter again in January of 1993 trying to get  
20 it leased, and another letter in June of 1993.

21 We received a couple of telephone calls  
22 from Mr. Greenwood. Robert Greenwood is the executor  
23 for both of the estates. In June he called to say  
24 that he couldn't execute a lease due to family  
25 problems. And later in July, we called and offered

1 him more money, thinking that if he could receive more  
2 money for it, then maybe he could work out his family  
3 problems and execute a lease, but he said no, he has  
4 no family cooperation, and he feels that if he does  
5 anything, then they will hire attorneys and try to  
6 fight him on it. So it's his stand just to not do  
7 anything.

8 Q. In your opinion, has Yates done everything  
9 they reasonably can to obtain the voluntary  
10 participation of these interest owners in the proposed  
11 well?

12 A. Yes, we have. Even after that telephone  
13 conversation, then we sent out an AFE and operating  
14 agreement and asked to see if they would join the  
15 well, in addition, and no response.

16 Q. Could you identify what has been marked  
17 Yates Petroleum Corporation Exhibit No. 4?

18 A. Yes. Exhibit No. 4 is the affidavit  
19 showing that all the information has been sent to the  
20 working interest owners for the force pooling.

21 Q. Attached to this affidavit is a letter and  
22 a return receipt; is that correct?

23 A. Yes, it is.

24 Q. And it advises the Greenwood interests of  
25 today's hearing?



1 A. Yes.

2 Q. Were Exhibits 1 through 4 either prepared  
3 by you or compiled at your direction?

4 A. Yes, they were.

5 MR. CARR: At this time, Mr. Catanach, we  
6 move the admission of Yates Petroleum Corporation  
7 Exhibits 1 through 4.

8 EXAMINER CATANACH: Exhibits 1 through 4  
9 will be admitted as evidence.

10 MR. CARR: That concludes my direct  
11 examination of Miss Richardson.

12 EXAMINER CATANACH: I have no questions.  
13 The witness may be excused.

14 MR. CARR: At this time we call Mr. Fly.

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

18 EXAMINATION

19 BY MR. CARR:

20 Q. Would you state your name for the record,  
21 please.

22 A. My name is Sterling Fly III.

23 Q. Where do you reside?

24 A. Artesia, New Mexico.

25 Q. By whom are you employed?

1 A. Yates Petroleum.

2 Q. In what capacity?

3 A. I'm a geologist.

4 Q. Have you previously testified before this  
5 Division?

6 A. Yes.

7 Q. At the time of that testimony, were your  
8 credentials as a geologist accepted and made a matter  
9 of record?

10 A. Yes, they were.

11 Q. Are you familiar with the application filed  
12 on behalf of Yates in this case?

13 A. Yes.

14 Q. Have you made a geological study of the  
15 area involved in this application?

16 A. Yes.

17 MR. CARR: Are the witness's qualifications  
18 acceptable?

19 EXAMINER CATANACH: Yes, they are.

20 Q. (BY MR. CARR) I think initially, Mr. Fly,  
21 I should just ask you to state why it is necessary to  
22 drill the proposed Childress "AKV" No. 1 well at this  
23 location.

24 A. The proposed location for the Childress  
25 "AKV" would basically be a field extension well, and

1 it would help in the protection of correlative rights  
2 drainage to the west, primarily.

3 Q. What are the fields that are involved?

4 A. Well, this area right here falls right at  
5 the juncture of the Lazy J Penn field and the Saunders  
6 Permo Upper Penn field.

7 Q. What are the projected pays?

8 A. The projected pays are various limestone  
9 members of the Bough formation. We also have hope for  
10 some Abo pay.

11 Q. And the location of the well is 990 from  
12 the south, 330 from the west line?

13 A. Correct.

14 Q. Again, this is an orthodox location?

15 A. Yes, sir.

16 Q. Let's go to what has been marked as Yates  
17 Petroleum Corporation Exhibit No. 5. Could you  
18 identify that exhibit and then just review the  
19 information for Mr. Catanach?

20 A. Exhibit No. 5 is a six-section map. The  
21 proposed location is shown on Section 1 in the middle  
22 of the map. The black contours on this map are  
23 structure. It shows the structure contours on top of  
24 the Bough C formation, and the dotted blue contours  
25 are porosity isopach contours, again, for the Bough

1 C.

2 The Bough C was taken as representative of  
3 all of the Bough members. The Bough A, B, C, D, and E  
4 are the ones that we are discussing today.

5 The Bough C is representative because it's  
6 the best correlation marker in the area and,  
7 therefore, the best mapped zone. All of the producing  
8 wells shown on this map area are productive from the  
9 Bough formation.

10 Structurally, again, focusing in on the  
11 black contours, structure contours, you'll notice that  
12 the proposed location is located along the gentle  
13 anticlinal ridge running north-south. This ridge is  
14 located on the eastern edge of the Saunders platform  
15 to the east. Structure drops off rapidly, and there  
16 is a fault existing somewhere to the east of the  
17 location. So structurally the location looks just  
18 fine.

19 Focusing in on the dotted blue contours,  
20 those are porosity isopachs. The porosity cutoff is 4  
21 percent. This is in the Bough formation. You'll  
22 notice that the predominant trend is a northeast-  
23 southwest trend of porosity. It's probably related to  
24 marine paleocurrents at the time of deposition.

25 I'd point out that just to the west of us,

1 the Yates Petroleum Red Dog a/k/a State No. 2 at Unit  
2 P in Section 2, we did not have a modern porosity log  
3 on that, but the old micro log, which was available,  
4 suggested a good thick porosity value there.

5 Q. Do you have some recent average daily  
6 production information?

7 A. Well, the Red Dog No. 2, it was an old  
8 Texaco well that Yates reentered in 1992. Average  
9 daily production in August of this year was 75 barrels  
10 of oil, 304 Mcf of gas per day, and 206 barrels of  
11 water. The current cum is just over 34,000 barrels of  
12 oil.

13 Q. What about the Skelly Childress A No. 1  
14 well?

15 A. The Skelly Childress is a plugged and  
16 abandoned well, and it had produced 16,000 -- in  
17 excess of 16,000 barrels of oil, 29 million cubic feet  
18 of gas. That's a well in which Yates has the intent  
19 of reentering and opening up more Bough zones; so that  
20 looks prospective to us.

21 Q. All right, Mr. Fly, let's go to Yates  
22 Exhibit No. 6, your cross-section. Would you review  
23 that for Mr. Catanach?

24 A. Exhibit 6 is a four well cross-section.  
25 Basic orientation is east-west. The trace of the

1 cross-section is shown on a small map at the bottom of  
2 the cross-section, and also it's shown on Exhibit No.  
3 5.

4 Q. Where would the proposed well be located on  
5 this exhibit?

6 A. The proposed well would fall midway between  
7 the Yates Red Dog AK No. 2 and the Skelly Childress A  
8 No. 1.

9 Q. Basically, what does this exhibit show?

10 A. It shows the correlation markers in the  
11 Bough formation and also shows the productive zones  
12 which are open on these particular wells. It also  
13 shows various completion information at the bottom.  
14 It shows the structure does -- indeed this is, of  
15 course, a structural cross-section. It shows the  
16 structure does drop off to the east.

17 Q. The Skelly Childress A No. 1, that well  
18 also encountered production in the Abo formation?

19 A. Yes. They drill stem tested in the Abo at  
20 above 9,000 feet, recovered 1,200 feet of oil on a  
21 DST. They perforated it, and in a nine-hour flow  
22 test, it flowed 96 barrels of oil, 12 barrels of  
23 water. And we have no records to show that it was  
24 ever produced. So that looks prospective to us as a  
25 strong secondary objective.

1 Q. Could you just summarize the conclusions  
2 that you can reach from your geologic review of this  
3 area?

4 A. Okay. The proposed location, the Childress  
5 "AKV" No. 1 should encounter favorable structure  
6 based on nearby well control, and it also falls in a  
7 favorable porosity trend so that we have a very good  
8 chance of success in obtaining economic production.

9 Q. Is it possible that at this location, you  
10 could drill a well that would be a commercial success?

11 A. Well, yes. The location is basically at an  
12 edge well location on the eastern edge of the Saunders  
13 field. And it is possible that the porosity won't  
14 develop or that the structure drops off more rapidly  
15 than we anticipate.

16 Q. Will Yates also call an engineering witness  
17 to review the risk associated with this well?

18 A. Yes, sir.

19 Q. In your opinion, will approval of this  
20 application be in the best interest of conservation,  
21 the prevention of waste, and the protection of  
22 correlative rights?

23 A. Yes.

24 Q. Were Exhibits 5 and 6 prepared by you?

25 A. Yes.

1 MR. CARR: At this time, Mr. Catanach, we  
2 move the admission of Yates Petroleum Corporation's  
3 Exhibits 5 and 6.

4 EXAMINER CATANACH: Exhibits 5 and 6 will  
5 be admitted as evidence.

6 MR. CARR: That concludes my direct  
7 examination of this witness.

8 EXAMINER CATANACH: I don't have any  
9 questions of the witness. He may be excused.

10 MR. CARR: At this time we call Theresa  
11 Sloan.

12 THERESA SLOAN,  
13 the witness herein, after having been first duly sworn  
14 upon her oath, was examined and testified as follows:

15 EXAMINATION

16 BY MR. CARR:

17 Q. Would you state your name and place of  
18 residence.

19 A. Theresa Sloan. Artesia, New Mexico.

20 Q. By whom are you employed?

21 A. Yates Petroleum.

22 Q. In what capacity?

23 A. As a petroleum engineer.

24 Q. Have you previously testified before this  
25 Division?



1 A. Yes, I have.

2 Q. At the time of that prior testimony, were  
3 your credentials as a petroleum engineer accepted and  
4 made a matter of record?

5 A. Yes.

6 Q. Are you familiar with the application filed  
7 in this case on behalf of Yates?

8 A. Yes.

9 Q. Are you familiar with the subject area?

10 A. Yes, I am.

11 MR. CARR: Are the witness's qualifications  
12 acceptable?

13 EXAMINER CATANACH: Yes, they are.

14 Q. (BY MR. CARR) Have you prepared certain  
15 exhibits for presentation in this case?

16 A. Yes, I have.

17 Q. Can you identify what has been marked Yates  
18 Exhibit No. 7?

19 A. Yates Exhibit No. 7 is the AFE, the  
20 authorization for expenditure to drill and complete  
21 the Childress "AKV" No. 1.

22 Q. Has this AFE been provided to those parties  
23 who are subject to force pooling in this proceeding  
24 here today?

25 A. Yes, it has.

1 Q. What is the total for a completed well?

2 A. The total to complete the well will be  
3 \$820,000.

4 Q. And the dry hole costs are also indicated?

5 A. Yes, at \$477,000.

6 Q. Are these costs in line for what has been  
7 charged by Yates for other wells in this area?

8 A. They're slightly higher because we're going  
9 to be going about 7-inch casing versus 5-1/2-inch  
10 casing.

11 Q. Other than that, are the costs comparable  
12 to what's been charged for other wells?

13 A. Yes, they are.

14 Q. Are you prepared to make a recommendation  
15 to the examiner concerning the risk associated with  
16 the drilling of this well?

17 A. Yes, I am. 200 percent.

18 Q. Let's go to what has been marked Yates  
19 Exhibit No. 8. Would you refer to this exhibit and  
20 then review for Mr. Catanach your reasons for  
21 requesting a 200 percent penalty?

22 A. Exhibit No. 8 is a map of the ultimate  
23 recovery for the wells in this six-section area. And,  
24 as you can see, a lot of the ultimate recoveries, they  
25 vary considerably, and we feel that of course going

1 towards the edge of the field, that we are taking a  
2 risk, such as the Childress A No. 1. However, as you  
3 look across the whole field, there is such a variance  
4 that we could have a well that does not pay out. We  
5 feel this is a high risk.

6 Q. Let's go to Exhibit No. 9, and again use  
7 this exhibit and review the mechanical risk associated  
8 with this project.

9 A. The Saunders field and also the Lazy J Penn  
10 field, a lot of the wells in this area have mechanical  
11 problems, and some of the mechanical problems are due  
12 to collapsed casing. And this Exhibit No. 9 shows  
13 four of the wells that have had collapsed casing  
14 problems in this six-section area.

15 Q. How deep are these wells?

16 A. The wells are 10,000 foot deep.

17 Q. Accordingly, are you looking at a  
18 substantial cost to develop this property?

19 A. Yes, we are.

20 Q. Have you made an estimate of the overhead  
21 administrative cost to be incurred while drilling this  
22 well and, if successful, while producing it?

23 A. Yes.

24 Q. What are those figures?

25 A. It's \$5200 a month while drilling, overhead

1 and administrative cost while drilling the well, and  
2 \$520 a month while producing the well.

3 Q. Are these costs in line with what is being  
4 charged by operators in this area?

5 A. Yes.

6 Q. Are these figures also in line with the  
7 1992 figures published by Ernst & Young for wells to  
8 this depth?

9 A. Yes, they are.

10 Q. Do you recommend that these figures be  
11 incorporated into any order which results from this  
12 hearing?

13 A. Yes.

14 Q. Does Yates Petroleum Corporation seek to be  
15 designated operator of the well?

16 A. Yes.

17 Q. In your opinion, will approval of this  
18 application, the imposition of the recommended risk  
19 penalty on the drilling of the well be in the best  
20 interest of conservation, the protection of waste, and  
21 the protection of correlative rights?

22 A. Yes.

23 Q. Were Exhibits 7 through 9 prepared by you  
24 or compiled at your direction?

25 A. Yes.

1 MR. CARR: At this time, Mr. Catanach, we  
2 move the admission of Yates Petroleum Corporation  
3 Exhibits 7 through 9.

4 EXAMINER CATANACH: Exhibits 7 through 9  
5 will be admitted as evidence.

6 MR. CARR: That concludes my direct  
7 examination of this witness.

8 EXAMINATION

9 BY EXAMINER CATANACH:

10 Q. Miss Sloan, I notice in Section 2 and  
11 Section 11 Yates had two wells that had collapsed  
12 casing in them.

13 A. Yes, um-hm.

14 Q. Do you guys have a theory on what caused  
15 that collapsed casing?

16 A. They did a study on it just recently, and  
17 from what they can understand, it's due to the  
18 corrosive nature of the bulk fluids. And they'll come  
19 up in the casing, and it seems to be where the fluid  
20 level was at. We thought at first it was the Abo, Abo  
21 formation, you know, exerting the pressure. But it's  
22 the corrosive nature of the fluid because there is a  
23 lot of H<sub>2</sub>S.

24 MR. STOVALL: How old are those wellbores  
25 that collapsed? What's the average generally of each

1 of them?

2 THE WITNESS: The Superiors were drilled in  
3 the mid-80's. The Red Dog, I believe, was drilled in  
4 the late 80's. Tahoe Energy drilled that well.

5 MR. STOVALL: So they're not all that old?

6 THE WITNESS: No, not necessarily.

7 Q. (BY EXAMINER CATANACH) This is in that  
8 Bagley trend and the Saunders that they've had a  
9 tremendous amount of wells? Isn't it the same --

10 A. The Bagley, I'm not familiar with that  
11 Bagley field?

12 Q. I think it's the same area that they've had  
13 a tremendous number of wells --

14 A. Like in the southern part of the Saunders  
15 field, the Gillespie wells, they had seven or eight  
16 wells that collapsed, collapsed casing.

17 Q. This has been going on a long time?

18 A. Right. And so a lot like, from what I  
19 understand, Texaco treats their wells, and we're under  
20 a treatment program now hopefully to eliminate that.

21 EXAMINER CATANACH: I have nothing further.

22 MR. CARR: We have nothing further in this  
23 case, Mr. Catanach.

24 EXAMINER CATANACH: There being nothing  
25 further, Case 10841 will be taken under advisement.

CERTIFICATE OF REPORTER

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

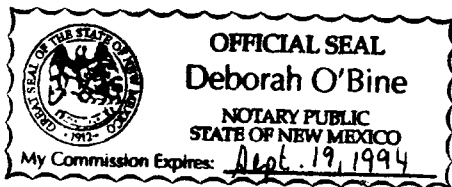
I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that I caused my notes to be transcribed under my personal supervision, and that the foregoing transcript is a true and accurate record of the proceedings of said hearing.

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

WITNESS MY HAND AND SEAL, October 16, 1993.

*Deborah O'Bine*

DEBORAH O'BINE  
CCR No. 63



I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 10841, heard by me on October 7 1993.

*David F. [Signature]*, Examiner  
Oil Conservation Division