

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. 13,033
APPLICATION OF READ AND STEVENS, INC.,)
FOR APPROVAL OF A UNIT AGREEMENT,)
CHAVES COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

March 27th, 2003

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 27th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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March 27th, 2003
 Examiner Hearing
 CASE NO. 13,033

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:30 a.m.:

3 EXAMINER JONES: Okay, at this time we'll call
4 Case 13,033, Application of Read and Stevens, Incorporated,
5 for approval of a unit agreement, Chaves County, New
6 Mexico.

7 Call for appearances in this case.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe
9 representing the Applicant. I have two witnesses to be
10 sworn in.

11 EXAMINER JONES: Any other appearances in this
12 case?

13 There being none, witnesses please stand for
14 swearing in.

15 (Thereupon, the witnesses were sworn.)

16 ROBERT H. WATSON,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

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

22 A. My name is Bob Watson.

23 Q. Where do you reside?

24 A. Roswell, New Mexico.

25 Q. Who do you work for and in what capacity?

1 A. I'm land manager for Read and Stevens,
2 Incorporated.

3 Q. Have you previously testified before the
4 Division?

5 A. No, I have not.

6 Q. Would you please summarize for the Examiner your
7 educational and employment background?

8 A. I have a BA from Texas Tech University. I've
9 been in the land business for 25 years, working for a
10 number of companies. I've been with Read and Stevens for
11 12 1/2 years, 10 of those years as land manager and, like I
12 say, handled all their land and legal matters for Read and
13 Stevens.

14 Q. Does your area of responsibility include
15 southeast New Mexico?

16 A. Yes, it does.

17 Q. And are you familiar with the land matters
18 involved in this Application?

19 A. Yes, I am.

20 MR. BRUCE: Mr. Examiner, I tender Mr. Watson as
21 an expert petroleum landman.

22 EXAMINER JONES: He is so qualified.

23 Q. (By Mr. Bruce) Mr. Watson, briefly what does
24 Read and Stevens seek in this case?

25 A. We're seeking an order to approve a federal

1 exploratory unit known as the West Haystack Unit Area.

2 Q. Would you refer to Exhibit 1 and describe the
3 lands involved in the unit area?

4 A. Yes, the lands in the unit area consist of all of
5 Sections 7, 8 and 18 of Township 6 South, Range 27 East,
6 Chaves County, New Mexico.

7 Q. What type of lands are in the unit?

8 A. All lands are federal lands, except for the north
9 half of Section 18, which are fee lands.

10 Q. What is Exhibit 2?

11 A. Exhibit 2 is a copy of the proposed unit
12 agreement on the standard form commonly used, and it lists
13 all working, royalty, overriding royalty interest owners in
14 each tract.

15 Q. Okay.

16 A. And the exhibit's attached.

17 Q. Exhibit B lists all the tracts and the interest
18 owners?

19 A. Yes.

20 Q. Who are the working interest owners in the unit?

21 A. Working interest owners of record are Read and
22 Stevens, Inc.; Lincoln Oil and Gas, L.L.C.; Yates Petroleum
23 Corporation.

24 Q. Have any of the working interest owners not
25 ratified or not agreed to ratify the agreement?

1 A. Yates Petroleum Corporation has not ratified the
2 unit.

3 Q. Okay. With Yates not having ratified, what is
4 the percentage of working interest owners who have ratified
5 the unit?

6 A. I believe it's 85.3 percent of the working
7 interest, is -- has ratified.

8 Q. And does that percentage satisfy the BLM's
9 requirement for the operator to have effective working
10 interest control in the unit area?

11 A. Yeah, to my understanding it does. To my
12 understanding, 85 percent is required.

13 Q. What about the royalty interests? Have they
14 ratified the unit agreement?

15 A. Yes, they have. The fee owner has ratified the
16 unit, the two current overriding royalty owners have
17 ratified the unit, so we have full ratification by the
18 royalty owners.

19 Q. Okay. So at this point, other than Yates
20 Petroleum Corporation, all of the other interest owners
21 have ratified the unit?

22 A. Yes, that's correct.

23 Q. And is Exhibit 3 the letter of preliminary
24 approval from the BLM?

25 A. Yes.

1 Q. What is Exhibit 4, Mr. Watson?

2 A. Exhibit 4 are copies of notification letters sent
3 to all owners, working interest, royalty owners, notifying
4 of the hearing, with the attached copy of the Application
5 for approval of the unit agreement.

6 Q. Okay. Are some of these, or at least a couple of
7 these entities in-house or related to Read and Stevens?

8 A. Yes, First Century Oil, Inc., is an affiliated
9 company of Read and Stevens. President is Charles B. Read.
10 Read and Stevens Employee Royalty Pool is affiliated with
11 Read and Stevens. Lincoln Oil and Gas is owned by an
12 internal employee, William Bradshaw. So yes.

13 Q. Okay. Has Read and Stevens made a good-faith
14 effort to obtain the voluntary joinder of the interest
15 owners in the unit area?

16 A. Yes, we have, and in accordance with the
17 requirements.

18 Q. Okay, but this is a voluntary unit, so anyone who
19 doesn't voluntarily join is just governed by the terms of
20 his own lease; is that correct?

21 A. That's correct.

22 Q. Is there an upcoming deadline regarding approval
23 of the unit and drilling of a well?

24 A. Yes, there is. The three federal leases all have
25 an expiration date of May 31st, 2003, so we are facing that

1 deadline.

2 Q. What are your plans for the initial unit well?

3 A. We plan to drill the initial well at a legal
4 location in the west half of Section 18 to a depth of 5600
5 feet to test the Cisco formation.

6 Q. What is the cost, estimated cost of the initial
7 unit well?

8 A. Estimated total cost is \$450,000. Of that the
9 dryhole cost is approximately \$290,000, and with a
10 completion cost of approximately \$150,000.

11 Q. Does Read and Stevens request that it be
12 designated operator of the unit area?

13 A. Yes, we do.

14 Q. You are the largest working interest, are you
15 not?

16 A. Yes, we do have the largest interest in the unit.

17 Q. And Yates Petroleum Corporation, as you said, did
18 not ratify the unit. Were they notified of this hearing?

19 A. Yes, they were notified and have not ratified the
20 unit.

21 Q. Okay. And is Exhibit 6 the notice letter sent to
22 Yates Petroleum?

23 A. Yes.

24 Q. Were Exhibits 1 through 6 prepared by you or
25 under your supervision or compiled from company business

1 records?

2 A. Yes, they were prepared by me in all instances.

3 Q. And is the granting of this Application in the
4 interests of conservation and the prevention of waste?

5 A. Yes, it is.

6 MR. BRUCE: Mr. Examiner, at this time I'd move
7 the admission of Read and Stevens Exhibits 1 through 6.

8 EXAMINER JONES: Exhibits 1 through 6, Read and
9 Stevens, will be admitted to the record.

10 EXAMINATION

11 BY EXAMINER JONES:

12 Q. Mr. Watson, none of the Yates parties in that
13 Tract 4 sent you a letter back --

14 A. They have -- My understanding is, they have
15 returned the letter, but I did not have it yesterday
16 morning before I left the office, but I understand it's at
17 the office now, so... We had to leave before the mail was
18 delivered, but I have had verbal communication with them to
19 the effect that they will not -- or do not plan to ratify
20 the unit or join in the unit.

21 Q. So they want Tract 4, which is Section 8, they
22 want to just be on their own on that one?

23 A. Yes, that's my understanding.

24 EXAMINER JONES: And David, do you have any
25 questions?

EXAMINATION

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BY MR. BROOKS:

Q. Well not really pertinent questions, but the name West Haystack Federal is ringing a bell with me. I was wondering if this is in the same area as the inactive wells that Read and Stevens had that were the subject of Case Number 12,733?

A. I'm not familiar with the specifics of that case, but we do have two producing wells in the area, the West Haystack Number 1, Federal Number 1, and the West Haystack Federal Number 4, which are still currently producing wells, to the south of this acreage.

Q. Okay, but this proceeding doesn't have anything to do with these other inactive wells that we've been looking at?

A. I don't know.

MR. BROOKS: Okay, thank you. Nothing further.

EXAMINER JONES: I have nothing further of the witness, Mr. Bruce.

BILL BRADSHAW,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of

1 residence?

2 A. Bill Bradshaw, Roswell, New Mexico.

3 Q. Who do you work for?

4 A. Read and Stevens.

5 Q. What's your job with Read and Stevens?

6 A. I've been a petroleum geologist for about 15
7 years.

8 Q. Have you previously testified before the
9 Division?

10 A. Yes, I have.

11 Q. And were your credentials as an expert geologist
12 accepted as a matter of record?

13 A. Yes, they were.

14 Q. And are you familiar with the geology involved in
15 this Application?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd tender Mr. Bradshaw
18 as an expert petroleum geologist.

19 EXAMINER JONES: Mr. Bradshaw is so tendered.

20 Q. (By Mr. Bruce) Mr. Bradshaw, could you identify
21 Exhibit 7, describe it for the Examiner and discuss the
22 primary zone of interest in the proposed unit?

23 A. We've included a -- This is a structure map, it's
24 made on the Mississippian formation, and your control out
25 here is, we're using subsurface control, and we've also

1 purchased 2-D seismic. So basically we're looking at a
2 seismic structure map on top of the Mississippian.

3 The primary objective is the Cisco formation.
4 This is about 200 to 300 feet deeper -- the map is 200 to
5 300 feet deeper than the Cisco, so the Cisco is reflected
6 by the Mississippian structure.

7 Q. Mr. Watson mentioned some wells in this area.
8 Are those depicted on this map, existing wells?

9 A. Yes, we've drilled -- Read and Stevens drilled
10 four wells, two wells in Section 19: There's a dryhole
11 that we've drilled most recently, the Number 5 in the north
12 half of 19; we also have the Haystack Number 1 which is in
13 the south half of 19. The north half of 30 is the Number 4
14 Haystack. Those wells are going to make about 1.3 BCF per
15 well. And then we have the Number 2 Haystack in the
16 southwest quarter of Section 20, which was a marginal
17 producer. It came on making quite a bit of gas, and
18 basically it watered out, and we believe that that defines
19 more or less the downdip edge of the field.

20 Q. Looking at this map, at the Number 5 well in the
21 north half of the section, why did that well not produce --

22 A. It came in the highest of all wells out there,
23 and the Cisco sometimes is -- when you get too high on the
24 structure sometimes it can be tight. It's a stratigraphic
25 problem. As you move off the edge of the structure you

1 pick up porosity, like we picked porosity in the Number 1
2 and the Number 4 and the Number 2 wells. So your downdip
3 wells have got all the porosity, and the Number 2 well was
4 the downdip wet well.

5 Q. Okay, so for your initial unit well, you are
6 moving -- you are not drilling at the top of the structure?

7 A. That's correct. We're drilling a different
8 structure also, to the north. We feel like we have kind of
9 a different block to the north.

10 Q. Based on your geology, is the outline of your
11 unit area, the three-section area, fair and reasonable?

12 A. Yes.

13 Q. Okay.

14 Q. Briefly, what is Exhibit 8?

15 A. I've included a structural cross-section, D-D'.
16 I just put it in there, just to show you what the section
17 looks like. We have a type log. It goes through the
18 producing wells.

19 This is a cross-section, and it goes through
20 the -- If you look at your key at the bottom here, there's
21 a well on the west side here, the left side in Section 30.
22 That was a well that we re-entered and it's a commercial --
23 We ended up re-entering that well and producing.

24 We have the West Haystack Number 1, which is the
25 type log, is really what I wanted to show you. It shows

1 the Cisco section at 5600 feet. You can see that it's a
2 tight limestone, it's fractured, it doesn't really show a
3 lot of porosity in the logs, but that's the kind of type
4 log that I wanted to include in the testimony.

5 Q. Okay. Mr. Watson mentioned that the test well
6 will be drilled to what, at least 5600 feet?

7 A. Yes, that's right.

8 Q. And that will adequately test the Cisco?

9 A. Yes.

10 Q. Okay. Finally, is Exhibit 9 simply a summary of
11 your geologic estimate?

12 A. Yes.

13 Q. Were Exhibits 7, 8 and 9 prepared by you?

14 A. Yes.

15 Q. And in your opinion is the granting of this
16 Application in the interests of conservation and the
17 prevention of waste?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I'd move the admission
20 of Read and Stevens Exhibits 7, 8 and 9.

21 EXAMINER JONES: Exhibits 7, 8 and 9 are admitted
22 to evidence.

23 EXAMINATION

24 BY EXAMINER JONES:

25 Q. Mr. Bradshaw, you don't show much porosity at all

1 in --

2 A. I know.

3 Q. Are you just going for fractures, or is the
4 porosity just now showing up on the log?

5 A. Well, the way that you have to deal with this
6 formation is, you drill stem test it.

7 If you're drilling through it, like you said,
8 there's not much to see on the logs. But through drill
9 stem testing I think they've discovered that zone out
10 there.

11 Q. So the drill stem tests would be in the scout
12 ticket data that someone could find?

13 A. Right.

14 Like for instance over here, I put a DST on this
15 type log right in here. They drill stem tested it. It was
16 gas to surface, 950 MCF a day.

17 As you continue back to the east on the cross-
18 section you can see you have the same porosities, and
19 there's a downdip log. And basically that's the one that
20 was -- it tested some gas and was wet. But you can see you
21 have the same section present all the way across there,
22 just on the electric logs.

23 Q. Okay. You came out with 1.3 BCF per well --

24 A. Yes.

25 Q. -- based on a decline curve or --

1 A. On -- Yes, our engineer did that for both
2 producing wells. And they've made around about a BCF right
3 now.

4 Q. Oh, really?

5 A. Uh-huh.

6 Q. And did you already say what pool these are in,
7 the Cisco? Is it pre-Permian?

8 A. It's the Pennsylvanian.

9 Q. Cisco-Pennsylvanian, but do you know what pool?
10 I can look that up.

11 A. I don't know.

12 Q. Okay, so basically you're going to drill to the
13 -- On the well you're going to drill, you're not going to
14 drill as deep as these on the --

15 A. We'd like to take the well to basement, but -- I
16 mean, you've got a couple more hundred feet to go, but the
17 bottom lines is, you know, that we're drilling it primarily
18 for Cisco.

19 EXAMINER JONES: Okay, Mr. Brooks, do you have
20 any questions?

21 MR. BROOKS: Nothing further.

22 EXAMINER JONES: Okay, Mr. Bradshaw, thank you.

23 THE WITNESS: Okay.

24 EXAMINER JONES: Any more witnesses, Mr. Bruce?

25 MR. BRUCE: I have nothing further, Mr. Examiner.

1 EXAMINER JONES: Okay. With that, Case Number
2 13,033 will be taken under advisement.

3 (Thereupon, these proceedings were concluded at
4 8:46 a.m.)

5 * * *

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10 I do hereby certify that the foregoing is
11 a complete record of the proceedings
12 the Examiner hearing of Case No. 13,033,
13 heard by me on 3-27-82.
14 W. M. Jones, Examiner
15 Oil Conservation Division
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