

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. 13,461

APPLICATION OF YATES PETROLEUM )  
CORPORATION FOR COMPULSORY POOLING, )  
EDDY COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

April 7th, 2005

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, April 7th, 2005, 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.

\* \* \*

## I N D E X

April 7th, 2005  
Examiner Hearing  
CASE NO. 13,461

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## E X H I B I T S

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\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:09 a.m.:

3 EXAMINER JONES: And we'll call Case 13,461,  
4 Application of Yates Petroleum Corporation for compulsory  
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. CARR: May it please the Examiner, my name is  
8 William F. Carr with the Santa Fe office of Holland and  
9 Hart, L.L.P. We represent Yates Petroleum Corporation in  
10 this matter, and I have one witness who needs to be sworn.

11 EXAMINER JONES: Any other appearances?

12 Will the witness please stand to be sworn?

13 (Thereupon, the witness was sworn.)

14 SUSAN P. VIERRA,  
15 the witness herein, after having been first duly sworn upon  
16 her oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. CARR:

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

20 A. Susan Patricia Vierra.

21 Q. Ms. Vierra, where do you reside?

22 A. In Artesia, New Mexico.

23 Q. By whom are you employed?

24 A. Yates Petroleum Corporation.

25 Q. What is your current position with Yates?

1 A. I'm an associate landman.

2 Q. Have you previously testified before the New  
3 Mexico Oil Conservation Division?

4 A. Yes, I have.

5 Q. At the time of that testimony, were your  
6 credentials as an expert in petroleum land matters accepted  
7 and made a matter of record?

8 A. Yes, they were.

9 Q. Are you familiar with the Application filed in  
10 this case?

11 A. Yes.

12 Q. And are you familiar with the status of the lands  
13 in the area that is the subject of this Application?

14 A. Yes, I am.

15 MR. CARR: Mr. Jones, we tender Ms. Vierra as an  
16 expert in petroleum land matters.

17 EXAMINER JONES: Mr. Vierra -- Ms. Vierra is  
18 qualified as an expert petroleum landman.

19 Q. (By Mr. Carr) Would you briefly state what it is  
20 that Yates seeks with this Application?

21 A. Yates is seeking the approval of an order pooling  
22 the mineral interests from the surface through the base of  
23 the Morrow formation in the east half of Section 6,  
24 Township 19 South, Range 25 East, in Eddy County, New  
25 Mexico, the east half to form a standard 320-acre spacing

1 and proration unit for all formations developed on a 320-  
2 acre spacing, the southeast quarter to form a standard  
3 spacing and proration unit for all formations developed on  
4 a 160-acre spacing, and the southwest of the southeast to  
5 form a standard spacing and proration unit for all  
6 formations developed on 40-acre spacing.

7 Q. And to what well are you proposing to dedicate  
8 these units?

9 A. These units are to be dedicated to the Rushing NJ  
10 Deep Com Well Number 3, to be drilled at a standard  
11 location of 1030 feet from the south and 1650 feet from the  
12 east line of Section 6.

13 Q. Could you identify what has been marked Exhibit  
14 Number 1 and review it for Mr. Jones?

15 A. Mr. Examiner, Exhibit Number 1 is a plat of  
16 Section 6 in Township 19 South, 25 East, Eddy County, New  
17 Mexico. The red dot is the proposed well location in the  
18 southwest of the southeast quarter. The other dots  
19 exhibited on the plat are existing wells. The red outline  
20 indicates the east-half 320-acre spacing unit, the green  
21 outline indicates the 160-acre spacing unit in the  
22 southeast quarter, and the blue outline indicates the 40-  
23 acre spacing in the southwest of the southeast quarter.

24 Q. What is the primary objective in this well?

25 A. Yates proposes a 9200-foot Morrow well, to be

1 produced from the Penasco Draw-Morrow Gas Pool.

2 Q. Would you identify Yates Exhibit Number 2 and  
3 review that for the Examiner?

4 A. Exhibit Number 2 is a summary of the ownership as  
5 for each proration unit. The first three paragraphs on the  
6 page indicate the ownership and percentages covered under  
7 the operating agreement. Deep rights from 5800 feet to the  
8 base of the Morrow, and the shallow rights from 3150 feet  
9 to 5850 feet.

10 Q. What interest is subject to pooling in this case?

11 A. The Billy J. Walcott, deceased, is the interest  
12 to be pooled.

13 Q. So we have less than one-tenth -- or about one-  
14 tenth of one percent that's outstanding?

15 A. That's correct.

16 Q. And all other interests have been voluntarily  
17 committed to the well?

18 A. Yes, they have.

19 Q. Would you refer to what's been marked as Yates  
20 Exhibit Number 3, identify this and review it for the  
21 Examiner?

22 A. Exhibit Number 3 is a summary of the  
23 correspondence and contact in the attempt to lease the  
24 mineral interest of Billy J. Walcott. The first contact  
25 was made with a letter of the well proposal and an AFE on

1 December 17th, 2004. It was our knowledge that Mr. Walcott  
2 was deceased and his correspondence was sent in care of his  
3 brother, Bobby Walcott, in Albuquerque, New Mexico. The  
4 return receipt was signed December 23rd of '04.

5 On January 27th, I held a conversation with Bob  
6 Walcott, the brother, confirming that Billy J. Walcott is  
7 deceased, leaving no wife, no children and no will. He  
8 suggested I contact either sister Gail Scroggins in  
9 Alamogordo or Patsy Whitlock in San Jose, California, to  
10 see if there was any information concerning a will or  
11 estate.

12 I had a conversation on January 28th with Gail  
13 Scroggins. At that point her mineral interest was also  
14 unleased. An elderly woman, did not want to get involved  
15 in the drilling of a well, so we negotiated a lease with  
16 her at that time and her interest is now leased.

17 She had no further information on her brother's  
18 estate. She suggested I contact Patsy Whitlock, another  
19 sister, in San Jose, California.

20 Unable to locate a phone number, I sent her by  
21 certified mail a request for information, and she responded  
22 my on February 3rd, again reaffirming that he was never  
23 married, no wife, no children, no will, and she also  
24 included an additional copy of his death certificate, and  
25 the -- copies of that information is included in this



1 exhibit.

2 Q. Have you made a good faith effort to find Billy  
3 J. Walcott?

4 A. Yes, I have.

5 Q. Any production proceeds that would be attributed  
6 to this interest would be escrowed in the bank in the  
7 county where the well is actually located --

8 A. Yes, they will.

9 Q. -- is that correct?

10 What is Exhibit Number 4?

11 A. Exhibit Number 4 is a copy of the AFE, Number  
12 04-608-0, dated December 2nd of '04, to drill the Rushing  
13 NJ Deep Com Number 3 at a depth of 9200 feet.

14 Q. And would you just review the dryhole and  
15 completed well costs as set forth on this exhibit?

16 A. Projected dryhole cost of \$767,000, completed  
17 well cost, \$1,349,500.

18 Q. Are these costs in line with actual costs  
19 incurred by Yates in drilling similar wells in this area?

20 A. Yes, they are.

21 Q. Is Exhibit Number 5 a copy of the joint operating  
22 agreement for the well?

23 A. Yes, it is.

24 Q. And does this operating agreement contain the  
25 COPAS accounting procedures for joint operations?

1 A. Yes, they are contained in Exhibit C.

2 Q. And do these provisions provide for the periodic  
3 adjustment of overhead and administrative costs?

4 A. Yes, they do.

5 Q. Do you request that the order entered in this  
6 case also provide for the adjustment of these costs?

7 A. Yes, I do.

8 Q. Have you made an estimate of the overhead and  
9 administrative costs while drilling the well and also while  
10 producing it if it is successful?

11 A. Yes, the estimated drilling well rate is \$5400,  
12 and the estimated producing rate is \$540 per month.

13 Q. Have the parties who've agreed to participate in  
14 the well also accepted these overhead and administrative  
15 costs?

16 A. Yes, they have.

17 Q. Do you recommend these figures be incorporated  
18 into the order that results from today's hearing?

19 A. Yes, I do.

20 Q. Does Yates Petroleum Corporation request that in  
21 accordance with Division Rules the maximum charge for risk  
22 of 200 percent be imposed on the interest of Mr. Walcott?

23 A. Yes, we do.

24 Q. Does Yates Petroleum Corporation seek to be  
25 designated operator of the well?

1 A. Yes.

2 Q. In your opinion, will granting this Application  
3 and the drilling of the well be in the best interest of  
4 conservation, the prevention of waste and the protection of  
5 correlative rights?

6 A. Yes.

7 Q. And what is the status of the well at this time?

8 A. We are currently drilling this well.

9 Q. Is Exhibit Number 6 an affidavit with attached  
10 letters confirming that we've attempted to provide notice  
11 to Mr. Walcott?

12 A. Yes, it is.

13 Q. And is there a notice of publication also  
14 attached to this exhibit?

15 A. Yes, there is.

16 Q. Were Exhibits 1 through 6 prepared by you or  
17 compiled at your direction?

18 A. Yes, they were.

19 MR. CARR: May it please the Examiner, at this  
20 time we move the admission into evidence of Yates Petroleum  
21 Corporation Exhibits 1 through 6.

22 EXAMINER JONES: Exhibits 1 through 6 will be  
23 admitted into evidence in this case.

24 MR. CARR: And that concludes my direct  
25 examination of Ms. Vierra.

1 EXAMINER JONES: Thank you, Mr. Carr.

2 EXAMINATION

3 BY EXAMINER JONES:

4 Q. Ms. Vierra, the -- it looks like you're going  
5 mainly for the Morrow and with the bailout zones. I guess  
6 the biggest question I've got is the bailout zone in the  
7 San Andres-Yeso Pool, so I'm trying to figure that one out.  
8 It looks to me like that's a nonstandard location in that  
9 pool, unless there's been some --

10 MR. CARR: If we happen to get to that point and  
11 have to be bailed out in that interval, we would at that  
12 time file an administrative application seeking approval of  
13 the Application.

14 EXAMINER JONES: Okay. Okay, we can do that.  
15 But you still want to compulsory pool that 40 acres?

16 MR. CARR: Yes, sir, we do.

17 EXAMINER JONES: Okay.

18 Q. (By Examiner Jones) Okay, that's -- So \$5400 and  
19 \$540, and it's -- it's a mixture of fee, state and federal  
20 minerals?

21 A. Yes, it is.

22 Q. It's been a lot of work to put this one together,  
23 it looks like?

24 A. Yes, it was.

25 EXAMINER JONES: Mr. Walcott died too soon, it

1 looks like. Okay. Well, thank you very much, Ms. Vierra.

2 THE WITNESS: Thank you.

3 MR. CARR: That concludes our presentation in  
4 this case.

5 EXAMINER JONES: Thank you, Mr. Carr. With that,  
6 we'll take Case 13,461 under advisement.

7 (Thereupon, these proceedings were concluded at  
8 9:21 a.m.)

9 \* \* \*

10  
11  
12  
13  
14 I do hereby certify that the foregoing is  
15 a complete record of the proceedings in  
16 the Examiner hearing of Case No. \_\_\_\_\_  
17 heard by me on \_\_\_\_\_, Examiner  
18 Oil Conservation Division  
19  
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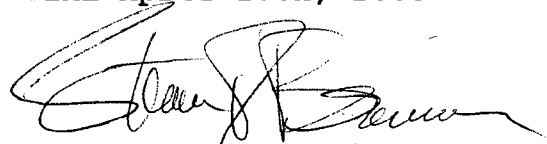
## CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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 April 10th, 2005.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006