

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:

ORIGINAL

APPLICATION OF HARVEY E. YATES
COMPANY FOR APPROVAL OF A
NONSTANDARD OIL SPACING AND
PRORATION UNIT, COMPULSORY
POOLING AND AN UNORTHODOX OIL
WELL LOCATION IN LEA COUNTY,
NEW MEXICO.

CASE NO. 15233

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
November 20, 2014
Santa Fe, New Mexico

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BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, William V. Jones,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, November 20, 2014, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
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1 APPEARANCES

2 FOR APPLICANT HARVEY E. YATES COMPANY:

3 JAMES G. BRUCE, ESQ.
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:

1 (9:00 a.m.)

2 EXAMINER JONES: Call Case 15233,
3 application of Harvey E. Yates Company for approval of a
4 nonstandard oil spacing and proration unit, compulsory
5 pooling and an unorthodox oil well location in Lea
6 County, New Mexico.

7 Call for appearances.

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

11 EXAMINER JONES: Okay. We need to ask you
12 about -- I'm going to turn it over to Gabe here.

13 EXAMINER WADE: Well, it looks like there
14 is a discrepancy in the notice, at least on the notice
15 on the docket, and so we were curious to see if you had
16 proof of notice that was correct as to offset operators,
17 et cetera.

18 MR. BRUCE: Oh, yes. Yes.

19 EXAMINER WADE: You refer to the
20 Glorieta --

21 MR. BRUCE: You know, that was -- I
22 recycled another notice. But in the published notice,
23 it said "Glorieta-Yeso," then it says "Bone Spring." In
24 the actual application, it is Bone Spring only.

25 EXAMINER WADE: So in the published notice

1. regarding offset operators as well, it has this
2 discrepancy?

3 MR. BRUCE: Only in that notice.

4 EXAMINER WADE: Just in this notice?

5 MR. BRUCE: Yeah.

6 EXAMINER WADE: Okay. You'll have exhibits
7 regarding the other notice?

8 MR. BRUCE: Yes.

9 EXAMINER WADE: Okay. And that is the
10 correct notice?

11 MR. BRUCE: Yes, it is.

12 And, Mr. Examiner, what's your last name,
13 again.

14 EXAMINER JONES: Jones (laughter). I made
15 that up this morning.

16 (Laughter.)

17 Mr. BRUCE: Have they been sworn in?

18 EXAMINER JONES: Witnesses stand to be
19 sworn.

20 Court reporter please swear the witnesses.

21 (Mr. Booth and Mr. Yahney sworn.)

22 EXAMINER JONES: I forgot to ask. Are
23 there any other appearances in this case?

24 MR. BRUCE: Not that I know of.

25

1 COLBY BOOTH,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your full name and city
7 of residence for the record?

8 A. Colby Booth, Roswell, New Mexico.

9 Q. And who do you work for and in what capacity?

10 A. Harvey E. Yates Company. I'm a landman there.

11 Q. Have you previously testified before the
12 Division?

13 A. Yes, I have.

14 Q. And were your credentials as an expert
15 petroleum landman accepted as a matter of record?

16 A. Yes, they were.

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
21 Mr. Booth as an expert petroleum landman.

22 EXAMINER JONES: He is qualified.

23 Q. (BY MR. BRUCE) Mr. Booth, could you identify at
24 least the first page of Exhibit 1 and identify the lands
25 involved in the proposed well unit?

1 A. Exhibit 1 is a Midland map plat. We've got two
2 outlines there. The yellow outline is our contract
3 area. The orange outline there is the proration unit as
4 well. It's 240-acre spaced units comprising of the east
5 half-east half of Section 27, Township 19 South, 34 East
6 in the east half of the southeast in Section 22 --

7 Q. And what formation are you seeking to pool?

8 A. Bone Spring Formation.

9 Q. And what is the name of the well?

10 A. The name of the well is Mallon 27 Fed Com #1H.

11 MR. BRUCE: And, Mr. Examiner, I've
12 attached some data from the Division records. I'm not
13 quite sure -- if you turn to the last two pages, you can
14 see that the South Quail Ridge-Bone Spring pool is
15 nearby. It's in the southwest quarter of Section 28.

16 And then the last page, you've got the
17 Lea-Bone Spring pool, which does include the quarter of
18 22.

19 So there are two conflicting pools, and I
20 don't know what the -- I think when the well was
21 originally permitted -- I don't know if it was put in
22 the -- which pool it was put in, but there is a
23 conflict.

24 EXAMINER JONES: It was put in the Lea-Bone
25 Spring pool.

1 MR. BRUCE: Okay. That's why we filed for
2 the unorthodox location.

3 EXAMINER JONES: There was a well drilled
4 in the northwest of the southeast that has already been
5 plugged. It produced for years.

6 MR. BRUCE: And the location is given in
7 the application and in the published notice.

8 Q. (BY MR. BRUCE) Mr. Booth, who do you seek to
9 force pool? And I refer you to Exhibit 2.

10 A. Exhibit 2 is the interests that we seek to
11 force pool currently. We are still working with some of
12 those, of course, The Allar Company, Chevron, Global
13 Nevada, Galaxy, Inc., Grace Pearl Hollandsworth, James
14 K. Lusk Trust, James M. Stockton, Keith McKamey, Patsy
15 Hollandsworth, Peggy Runyan, Vicky Moser, as well as XTO
16 Energy.

17 Q. And it shows their approximate working interest
18 in the well?

19 A. Yes. That is working interest in the well
20 portion.

21 Q. Looks like about 25 percent of the working
22 interest is uncommitted at this time?

23 A. Yes, that is correct.

24 Q. What is Exhibit 3?

25 A. Exhibit 3 is the proposal letter sent out to
:
:

1 the partners and parties involved. We've got a mailing
2 list on the second page. The third page is a mailing
3 list where we've gone through and tried to find -- if
4 we've been unable to find them, we did research trying
5 to actually get a contact, address, phone number,
6 whatever we can do to move toward with them.

7 Q. And so the third page of Exhibit 3 is simply
8 handwritten notes showing mail that was returned and
9 then re-sent?

10 A. That is correct. Yes.

11 Q. There are certain deceased people. Besides the
12 county records, federal records, have you checked
13 telephone directories and the Internet trying to track
14 down these people?

15 A. That is correct.

16 Q. In your opinion, has HEYCO made a good-faith
17 effort to either locate the parties or obtain a
18 voluntary joinder of the parties?

19 A. That is correct.

20 Q. Could you identify Exhibit 4 and discuss the
21 cost of the proposed well?

22 A. Exhibit 4 is our authority for expenditures for
23 the well. Total well costs are \$8,703,692. Dry-hole
24 costs are \$3,859,433.

25 Q. Are those costs fair and reasonable and in line

1 with the cost of other wells of this length drilled in
2 this area of New Mexico?

3 A. That is correct, yes.

4 Q. What is your proposal for overhead rates?

5 A. 7,000 a month drilling overhead rate, with a
6 producing well rate of 700.

7 Q. And are those rates equivalent to those charged
8 by HEYCO and other operators for wells of this depth in
9 this area?

10 A. That is true.

11 Q. Do you request that -- let me take a step back.

12 HEYCO will ultimately operate the well,
13 correct?

14 A. That is correct.

15 Q. Who is going to drill the well?

16 A. Cimarex Energy. We have a letter of --
17 contract between the two to be able to drill and
18 complete the well, and after they have completed the
19 well, they'll turn it over to us and change of operator.
20 So we have a contract.

21 EXAMINER JONES: Do you have that letter
22 agreement or some evidence of it here?

23 THE WITNESS: I do. I have it in the back
24 room if you'd like me to get it.

25 MR. BRUCE: After he testifies, why don't

1 we -- he can go make a copy, and we can get that.

2 THE WITNESS: Yeah.

3 Q. (BY MR. BRUCE) Do you request that any
4 nonconsenting interest owner be assessed a cost plus 200
5 percent risk charge?

6 A. Yes, sir.

7 Q. And were all of the locatable interest owners
8 sent notice by certified mail?

9 A. Yes, they were.

10 Q. There is only -- one letter that I didn't get
11 back, Mr. Booth, at the last page of Exhibit 5, my
12 Affidavit of Notice.

13 A. Uh-huh.

14 Q. I got a letter back -- or I haven't gotten the
15 green card back from Keith McKamey, but are you aware he
16 has received a well proposal?

17 A. We have tried numerous times. I believe we've
18 got even probably different addresses where we've
19 contacted Mr. McKamey at. If he has not, we will
20 continue to try to get him our well proposal.

21 Q. And certain of the interest owners are
22 deceased. What about Global Nevada? Is that address
23 valid?

24 A. Let me look at my notes (reading).

25 Yes. We do not -- it is not a valid

1 address.

2 Q. Okay. So to the best of your knowledge, the
3 address you have for Global Nevada is accurate --

4 A. Yes.

5 Q. -- even though the letter was returned as not
6 accepted?

7 A. And in those cases, when they are returned, we
8 still try to -- like you said, we do an Internet
9 research and telephone directories to find them.

10 MR. BRUCE: Mr. Examiner, Exhibit 6 is
11 simply an Affidavit of Publication as to potentially
12 unlocatable people.

13 EXAMINER JONES: Do you mind putting these
14 people that were returned into another notice; publish
15 it one more time?

16 MR. BRUCE: I was going to suggest that at
17 the end of -- that we continue, and I can republish
18 notice. I think most of them are in there, but I think
19 I missed Mr. McKamey. I don't know what happened to him
20 because I've met Mr. McKamey a number of times.

21 THE WITNESS: Yeah. We've made phone calls
22 and left messages.

23 Q. (BY MR. BRUCE) Does Exhibit 7 list the offset
24 operators surrounding the 24-acre well unit?

25 A. Yes, it does.

1 Q. And was notice given to those operators?

2 A. Yes, it was.

3 MR. BRUCE: Mr. Examiner, notice -- actual
4 notice was received by all of the offset operators or
5 working interest owners, and my notice letter did
6 contain a copy of the application, which does correctly
7 state the Bone Spring Formation.

8 EXAMINER JONES: I'm sorry? Which exhibit
9 shows that?

10 MR. BRUCE: Exhibit 7 -- 8. 8.

11 EXAMINER JONES: 8. So does it list those
12 operators?

13 MR. BRUCE: Yes.

14 EXAMINER JONES: Three operators.

15 MR. BRUCE: Other than -- yeah.

16 EXAMINER JONES: Merit, Devon and Cimarex?

17 MR. BRUCE: Yeah. Cimarex, Devon --

18 THE WITNESS: Chevron in there as well.

19 MR. BRUCE: -- and Chevron.

20 Mr. Examiner, Chevron was given notice of
21 the application as an interest owner and as an offset,
22 and I put the green card on the wrong thing, but they
23 are listed in Exhibit D -- Exhibit 5, the notice letter.
24 So they did receive application.

25 EXAMINER JONES: Thank you.

1 Q. (BY MR. BRUCE) Mr. Booth, were Exhibits 1
2 through 8 either prepared by you or under your
3 supervision or compiled from company business records?

4 A. Yes, they were.

5 Q. In your opinion, is the granting of this
6 application in the interest of conservation and the
7 prevention of waste?

8 A. Yes, it is.

9 MR. BRUCE: Mr. Examiner, I'd move the
10 admission of Exhibits 1 through 8.

11 EXAMINER JONES: Exhibits 1 through 8 will
12 be admitted.

13 (HEYCO Exhibit Numbers 1 through 8 were
14 offered and admitted into evidence.)

15 MR. BRUCE: I have no further questions of
16 the witness.

17 CROSS-EXAMINATION

18 BY EXAMINER JONES:

19 Q. The APD is dated 7/15/14. Has your drum cost
20 dropped any because of the oil price drop, or is it the
21 other way around?

22 A. And this AFE, that F8.7 [sic], includes a
23 battery as well, so there is a little bit more cost
24 incurred on this initial well.

25 Q. So this is a federal well? You've got two

1 federal leases?

2 A. Yes, sir. Actually -- yeah.

3 Q. Did you show the different tracts involved in
4 this well? Which exhibit was that?

5 MR. BRUCE: If you look at Exhibit 1,
6 Mr. Examiner, there are actually three federal tracts.

7 THE WITNESS: Yeah.

8 Q. (BY EXAMINER JONES) Three separately owned
9 tracts, and they're all federal?

10 A. Yes, sir.

11 Q. So you have a federal comm agreement, or you're
12 working on one?

13 A. There will be one in place. Yes, sir.

14 Q. And the location of the well was -- we had
15 talked -- this was -- applied for a nonstandard
16 location, also?

17 MR. BRUCE: Yeah. The location is -- the
18 surface location is 330 feet from the south line and
19 then 660 feet from the east line of Section 27, and then
20 it's drilled north to 2,310 from the south line and 660
21 feet from the east line of Section 22.

22 EXAMINER JONES: So it doesn't need --

23 THE WITNESS: Pool rules.

24 EXAMINER JONES: Oh, it's pool rules.

25 MR. BRUCE: It's a deep Bone Spring pool.

1 I think it has to be 150 feet of the center of the
2 quarter-quarter section.

3 EXAMINER JONES: Quarter-quarter.

4 MR. BRUCE: So certainly the terminus will
5 be unorthodox depending on the bends, the curve. I
6 don't know if the beginning of the producing interval --

7 EXAMINER JONES: So you've got special pool
8 rules involved where there is 80-acre spacing. What
9 80-acre spacing orientation are you envisioning here for
10 this? Will you do lay-downs or stand-up? I guess,
11 obviously, either. It doesn't matter because you're
12 doing the nonstandard proration unit.

13 MR. BRUCE: Yeah. Yeah. It's just
14 fashioned as stand-up units, I suppose. It might be
15 considered an advantage.

16 EXAMINER JONES: Three stand-ups?

17 MR. BRUCE: Yeah. Three stand-ups rather
18 than six lay-downs.

19 EXAMINER JONES: And the acreage in the
20 well is 240?

21 THE WITNESS: Yes, sir.

22 EXAMINER JONES: Do you have any questions?

23 EXAMINER WADE: No. I don't have any
24 questions.

25 EXAMINER JONES: No questions. Thank you.

1 THE WITNESS: I'll get a copy of that.

2 GORDON YAHNEY,

3 after having been first duly sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

7 Q. Would you please state your name and city of
8 residence for the record?

9 A. My name is Gordon Yahney, and I live in
10 Roswell, New Mexico.

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

12 A. I work for Harvey E. Yates Company, and I'm a
13 geologist.

14 Q. Have you previously testified before the
15 Division?

16 A. Yes, I have.

17 Q. And have your credentials as an expert
18 petroleum geologist been accepted as a matter of record?

19 A. Yes, they have.

20 Q. Are you familiar with the geology involved in
21 this application?

22 A. Yes, I am.

23 MR. BRUCE: Mr. Examiner, I tender
24 Mr. Yahney as an expert petroleum geologist.

25 EXAMINER JONES: He's so qualified.

1 Q. (BY MR. BRUCE) Mr. Yahney, will you identify
2 Exhibit 9 for the Examiner?

3 A. Exhibit 9 is a cross section that has been
4 prepared that runs along pretty closely with the
5 north-south orientation of the proposed well. The cross
6 section runs from the Cimarex Energy Mallon 34-19H, the
7 pilot to that particular horizontal well, up to the
8 Manzano-Chesapeake-Chevron-Sunburst-Shogrin Federal well
9 that was talked about a little bit earlier.

10 The cross section shows the lower part of
11 the Bone Spring Formation with the top of the 3rd Bone
12 Spring sandstone, the particular kind of target interval
13 labeled as "Pay Zone" in the top of the Wolfcamp. The
14 well is a mile-and-a-half lateral, so the length or the
15 vertical section from the surface location to the
16 bottom-hole location is roughly 7,260 feet.

17 Q. What is Exhibit 10?

18 A. Exhibit 10 is a structure map that has been
19 drawn on the 3rd Bone Spring sandstone. It shows a dip
20 running from the north to south or slightly off of north
21 to south. The well surface location is in the
22 southeast-southeast of Section 27 and running north. So
23 this horizontal is running updip, and it will be steered
24 in the target formation as we go updip.

25 Q. What is Exhibit 11?

1 A. Exhibit 11 is a porosity pay map for the
2 particular interval that was colored on the cross
3 section, primary target interval. It shows a porosity
4 development thickness running kind of north --
5 north-south or a little bit northeast of the southwest
6 through the acreage in question and the proration unit.

7 Q. And does this map show that the 3rd Bone Spring
8 interval that you are going to test is continuous across
9 the proposed well unit?

10 A. It should be continuous across the proposed
11 well unit.

12 Q. And geologically, will each quarter-quarter
13 section in the well unit contribute to production?

14 A. Yes, it will.

15 Q. Is there any faulting in this zone that would
16 prevent the well from being successfully completed?

17 A. I do not think so.

18 Q. And what is Exhibit 12?

19 A. Exhibit 12 is the plan for the well and
20 prepared by Cimarex, who is -- as we previously
21 discussed, will be the operator for the drilling
22 operations. It shows the plan with a 12 degree per
23 hundred curve going north for the mile-and-a-half
24 lateral.

25 Q. And the terminus of the well will be

1 unorthodox. It looks like, based on the landing point,
2 the initial producing zone would start at an unorthodox
3 location; is that correct?

4 A. That is correct, based on the 80-acre pool
5 rules.

6 Q. Were Exhibits 9, 10 and 11 prepared by you?

7 A. They were prepared under my supervision.

8 Q. And was Exhibit 12 compiled from company
9 business records?

10 A. Yes, it was.

11 Q. In your opinion, is the granting of this
12 application in the interest of conservation and the
13 prevention of waste?

14 A. Yes, it is.

15 MR. BRUCE: Mr. Examiner, I move the
16 admission of Exhibits 9 through 12.

17 EXAMINER JONES: Exhibits 9 through 12 will
18 be admitted.

19 (HEYCO Exhibit Numbers 9 through 12
20 were offered and admitted into evidence.)

21 MR. BRUCE: I have no further questions of
22 the witness.

23 EXAMINER JONES: And the other exhibit
24 coming in, can that be labeled 13?

25 (HEYCO Exhibit Number 13 marked.)

1 MR. BRUCE: Yes. I've only got one copy,
2 Mr. Examiner.

3 EXAMINER JONES: Give it to the court
4 reporter.

5 MR. BRUCE: And I have no further questions
6 of Mr. Yahney.

7 CROSS-EXAMINATION

8 BY EXAMINER JONES:

9 Q. Mr. Yahney, the 3rd Bone Spring -- I can't tell
10 from the logs here, but I appreciate you putting the
11 logs on here anyway. But that's a sand, right?

12 A. That's a sand and siltstone interval, gosh,
13 3-, 400-foot thick total in the 3rd Bone Spring Sand.
14 This particular area is a little bit thicker, kind of in
15 a depositional thick that's running north to south.

16 Q. Above and below that sand, is that a dolomite?

17 A. Above the sand is the dolomite, loosely called
18 the 3rd Bone Spring dolomite or C-zone.

19 Q. Is it real apparent on the -- which logs? Is
20 that the resistivity or the --

21 A. It is real apparent on both logs that it is a
22 dolomite, and it is a pretty solid barrier for
23 continuing the frack jobs that will be done on the well,
24 the frack stimulation program.

25 Q. So if you look at the logs on any of these Bone

1 Spring wells in the vicinity, it really stands out --
2 the sand really stands out?

3 A. Yes, it does.

4 Q. Was that sand the same sand that produced in
5 that well in the northwest of the southeast of 22 --
6 Section 22?

7 A. The Shogrin well that you're referring to was
8 perforated in both the 1st Bone Spring sand and the 3rd
9 Bone Spring sand, and the production was commingled.
10 And we felt that probably the primary producing zone was
11 the 3rd Bone Spring sand in that well before it was
12 plugged out.

13 Q. So how did you pick within 300 feet of the zone
14 to stick -- put your horizontal well in, the 3rd Bone
15 Spring sand?

16 A. The porosity development is best in this green
17 interval on the cross section (indicating). That is
18 your container for the reserves.

19 Q. Okay. So you hit the best porosity --

20 A. Yeah.

21 Q. -- basically?

22 And you're going updip; is that right?

23 A. Going up updip. There is -- I don't know --
24 60-to-75-foot, probably, change in elevation going
25 updip.

1 Q. The core volume that you would look at for the
2 different quarter-quarters, do you think they're pretty
3 similar or --

4 A. I think they'll be pretty similar. We should
5 be running on a pretty -- on the access of a thick.

6 Q. Do you have other successes out here?

7 A. In this particular area, this is a first for
8 HEYCO. Cimarex, who we've partnered with to do the
9 drilling operations, has numerous wells in the area.
10 And this other well that's on the cross section here,
11 that Mallon 34-19H, is producing from the 3rd Bone
12 Spring sand roughly out of that same interval.

13 Q. Now, where on the -- where would that well be?
14 Where is that well?

15 A. That well is in the -- it would be in the south
16 half of the north half of Section 34, if you're looking
17 at one of the maps.

18 Q. Okay. I have a map here. Section 34, south
19 half of the north half.

20 Where is the pilot hole drilled?

21 A. The pilot hole is in the southeast of the
22 northeast, and it was drilled going west.

23 Q. Okay. And you decided to go north?

24 A. And we decided to go north. That's correct.
25 This was one of the earlier wells in this particular

1 play in this regional area. Subsequent wells have found
2 that the 3rd Bone Spring sand produces better in a
3 north-south orientation.

4 Q. You're not worried about drilling a
5 mile-and-a-half well?

6 A. I am always worried about drilling a
7 mile-and-a-half well (laughter), but we've had -- the
8 industry has had quite a good track record of drilling
9 that, obviously, and Cimarex has done a few of the
10 mile-and-a-half laterals already.

11 Q. Okay.

12 EXAMINER JONES: Gabe, do you have any
13 questions?

14 EXAMINER WADE: I do not.

15 EXAMINER JONES: Thank you very much.

16 MR. BRUCE: Mr. Examiner, if we could
17 continue the hearing until December 4th.

18 EXAMINER JONES: Thank you. Case 15233
19 will be continued to December the 4th.

20 (Case Number 15233 concludes, 9:27 a.m.)

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

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

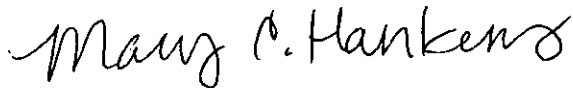
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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this case.



MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014