

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

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IN THE MATTER OF THE HEARING CALLED BY )  
THE OIL CONSERVATION DIVISION FOR THE )  
PURPOSE OF CONSIDERING: )

Oil Conservation Division

CASE NO. 13,182

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

November 7th, 2003

Santa Fe, New Mexico

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

\* \* \*

## I N D E X

November 7th, 2003  
 Examiner Hearing  
 CASE NO. 13,182

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APPLICANT'S WITNESSES:	
<u>CHARLES E. MORAN</u> (Landman)	
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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 DIVISION:

GAIL MacQUESTEN  
Deputy General Counsel  
Energy, Minerals and Natural Resources Department  
1220 South St. Francis Drive  
Santa Fe, New Mexico 87505

## 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: MICHAEL H. FELDEWERT

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:31 a.m.:

3 EXAMINER JONES: Call Case 13,182, Application of  
4 Yates Petroleum Corporation for compulsory pooling, Chaves  
5 County, New Mexico.

6 Call for appearances in this case.

7 MR. FELDEWERT: May it please the Examiner,  
8 Michael Feldewert with the Santa Fe office of Holland and  
9 Hart appearing on behalf of the Applicant Yates Petroleum  
10 Corporation. I have one witness here today.

11 EXAMINER JONES: No other appearances in this  
12 case?

13 Will the witness please stand to be sworn?

14 (Thereupon, the witness was sworn.)

15 CHARLES E. MORAN,  
16 the witness herein, after having been first duly sworn upon  
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. FELDEWERT:

20 Q. Please state your name and address for the  
21 record.

22 A. My name is Charles Moran and I reside in Artesia,  
23 New Mexico.

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

25 A. I am employed by Yates Petroleum Corporation as a

1 landman.

2 Q. And have you previously testified before this  
3 Division as a landman?

4 A. Yes, I have.

5 Q. And are you familiar with the Application filed  
6 by Yates in this case?

7 A. Yes, I am.

8 Q. And are you familiar with the status of the lands  
9 in the area?

10 A. Yes, I am.

11 MR. FELDEWERT: Mr. Examiner, are the witness's  
12 qualifications acceptable?

13 EXAMINER JONES: Mr. Moran's qualifications are  
14 acceptable.

15 MR. FELDEWERT: Would you -- and I neglected, Mr.  
16 Examiner, if I may interrupt one minute -- This matter was  
17 advertised as a pooling case for three spacing units, the  
18 320, the 160 and the 40. We have since reached sufficient  
19 agreement to dismiss the 160-acre spacing unit, as well as  
20 the pooling for the 40-acre spacing unit, so the only thing  
21 we're before the Division on today is the pooling for a  
22 north-half 320-acre spacing unit.

23 EXAMINER JONES: Thank you.

24 Q. (By Mr. Feldewert) Mr. Moran, did I accurately  
25 state what Yates is seeking with this Application?

1           A.    Yes, we are seeking a pooling of all formations  
2 below the base of the Abo to establish a 320-acre spacing  
3 unit in Township 7 South, Range 25 East, Section 1 on a  
4 north-half basis.

5           Q.    And what do you propose to dedicate this well  
6 to -- I'm sorry, the spacing unit to?

7           A.    The spacing unit would be the north half of  
8 Section 1.

9           Q.    And it would be dedicated to what well?

10          A.    It would be dedicated to our proposed Yankee  
11 Federal Com Number 2, located at a location 1650 feet from  
12 the north line and 1650 feet from the west line.

13          Q.    And that would be Unit F?

14          A.    That would be Unit F.

15          Q.    Is that a standard location?

16          A.    That is a standard location.

17          Q.    Okay, why don't you turn to Yates Exhibit Number  
18 1, identify that and review that for the Examiner, please?

19          A.    Yates Exhibit Number 1 is a plat of 7 South, 25  
20 East, Section 1, being in the center. The plat identifies  
21 the north-half spacing unit, however it incorrectly  
22 portrays where the well should be. The footages as  
23 portrayed on this plat appear to be the original location.  
24 It was moved to a -- off of the line and moved farther  
25 south into Unit F of Section 1.

1 Q. Okay, so the little red dot on here should be  
2 moved a little further south?

3 A. It should be moved further south to 1650 from the  
4 south and 1650 from the west.

5 Q. Okay, what is the --

6 A. I mean, excuse me, from the north, not the south.

7 Q. All right. What is the status of the acreage in  
8 the north half of this Section 1?

9 A. The acreage in the north half is composed of  
10 federal leasehold that is all held by current production.

11 Q. Okay, and what is the primary target of this  
12 proposed well?

13 A. The primary target of this proposed well is the  
14 Silurian-Devonian. However, we're going to drill it all  
15 the way to the basement.

16 Q. Now, does Yates Exhibit Number 2 identify the  
17 ownership breakdown for this area?

18 A. Yes, it does, Exhibit 2 is the excerpt from the  
19 proposed operating agreement identifying the ownership  
20 based on -- in column 1 for a north-half basis.

21 Q. So what would be of interest today would be the  
22 first column that shows the --

23 A. Correct.

24 Q. -- the interests for the north-half unit?

25 A. Yes.

1 Q. Okay. Now, how many of the interest owners  
2 listed on this Exhibit Number 2 are subject to this pooling  
3 Application today?

4 A. Currently we have three interests subject to the  
5 force pooling, that being the interest of Max Riley and his  
6 wife Mignon Riley, doing business as Rampart Petroleum;  
7 John D. Cadigan; and the Heirs and Devisees of Linda  
8 Cadigan.

9 Q. Okay. Have you been able to locate these  
10 interest owners?

11 A. I have had communication with the Rileys and John  
12 Cadigan, and I believe John Cadigan to be the heir of the  
13 Linda Cadigan Estate, and so by virtue of talking to him  
14 I've taken care of those heirs.

15 Q. Okay, why don't you then turn to Yates Exhibit  
16 Number 3. Identify and review that for the Examiner.

17 A. Yates Exhibit Number 3 is my initial proposal  
18 letter to invite participation in the drilling of this  
19 well. That letter was sent out September 12th. And as you  
20 can see by page 2 of it, those were the parties that the  
21 letter was sent to.

22 Q. Okay, did it include the parties that are listed  
23 as pooled parties today?

24 A. Yes.

25 Q. Okay, and did this letter include an AFE?



1           A.    The letter included an AFE and a proposed  
2 operating agreement.

3           Q.    All right. Did you have any subsequent telephone  
4 conversations with the individuals that are being -- or the  
5 interests that are being pooled today?

6           A.    Yes, I did. And due to the fact that this rig  
7 was moving very quickly, upon notification from the  
8 drilling department that they were moving the rig I talked  
9 to Mr. Cadigan and to Mr. Riley concerning participation in  
10 the drilling of this well.

11          Q.    Okay. And in your conversations with Mr.  
12 Cadigan, what was the result?

13          A.    Mr. Cadigan indicated that he was probably not  
14 going to cooperate and won't participate in the drilling of  
15 this well.

16          Q.    Did you inform him that you were then going to  
17 proceed with a pooling application?

18          A.    Yes, at that point I made the decision that we  
19 had to file the force pooling, because historically Mr.  
20 Cadigan has participated readily in wells, and after this  
21 conversation he was not willing -- my indications were that  
22 he was not going to participate.

23          Q.    Okay. Now, did you have any conversations with  
24 the Riley interest, or representatives of the Riley  
25 interest?

1           A.    Yes, I did talk to Mr. Riley and they considered  
2 participation, but they have indicated by letter to me that  
3 they choose not to participate in this well.

4           Q.    Has that been marked as Yates Exhibit Number 4?

5           A.    Yes, it is.

6           Q.    Okay.

7           A.    That's his letter dated October 15th.

8           Q.    Okay. Now, why don't you, then, turn to -- Or  
9 let me ask you this: Have you made a good-faith effort to  
10 obtain voluntary joinder of these interest owners?

11          A.    I believe I have.

12          Q.    And you mentioned the fact that you sent an AFE.  
13 Has that been marked as Yates Exhibit Number 5?

14          A.    Yes, it is.

15          Q.    Okay, why don't you review this AFE with the  
16 Examiner?

17          A.    This AFE is a recently-prepared AFE based on  
18 costs incurred, that we were actually incurring out there  
19 in our active drilling program. It has an estimated  
20 dryhole cost of \$400,000 and a completed well cost of  
21 \$680,600.

22          Q.    Are these costs in line with what you have  
23 experienced in your drilling program in this area?

24          A.    Yes, they are.

25          Q.    Okay. Have you made an estimate of the overhead

1 and administrative costs while drilling this well and also  
2 while producing if you are successful?

3 A. Yes, those would be the rates that we're applying  
4 for wells in this area of \$4000 operating cost -- or \$4000  
5 a day cost, and \$400 a day operating -- month, operating  
6 cost.

7 Q. Okay. Now, are those the amounts that are set  
8 forth in the joint operating agreement?

9 A. Those are the numbers that I proposed to operate  
10 the well to on all the parties and received agreement from  
11 all other parties that signed up on the drilling of the  
12 well.

13 Q. Okay. Do you recommend that these figures be  
14 incorporated into any order that results from this hearing?

15 A. Yes, I do.

16 Q. And do you request that the overhead figures  
17 approved by the Division be subject to adjustment in  
18 accordance with the applicable COPAS guidelines?

19 A. Yes, I do.

20 Q. And Yates Petroleum Corporation seeks to be the  
21 designated operator of this well; is that correct?

22 A. Yes, we do.

23 Q. And does Yates request that the 200-percent risk  
24 penalty authorized by statute and Division Rule 35 be  
25 imposed against those interest owners that do not

1 voluntarily participate in this well?

2 A. Yes, we do.

3 Q. Were Yates Exhibits -- Is Yates Exhibit Number 6  
4 an affidavit with attached letters giving notice of this  
5 hearing?

6 A. Yes.

7 Q. And do these notice letters provide for the fact  
8 that the Examiner Hearing was to be -- is to be on November  
9 -- or is on November 7th?

10 A. Yes, they do.

11 Q. Okay. Were Yates Exhibits 1 through 6 prepared  
12 by you or compiled under your direction and supervision?

13 A. Yes, they were.

14 MR. FELDEWERT: Mr. Examiner, at this time I  
15 would move the admission into evidence of Yates Exhibits 1  
16 through 6.

17 EXAMINER JONES: Yates Exhibits 1 through 6 are  
18 admitted to evidence.

19 MR. FELDEWERT: That concludes my examination of  
20 this witness.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Mr. Moran, the AFE for the -- has it been  
24 adjusted to not test the Abo and above, or does it need to  
25 be adjusted?

1           A.    The Abo formation is currently subject to an  
2           operating agreement, and all parties are signed up on that  
3           operating agreement. That was the reason we dismissed as  
4           to formations above the Abo. The current operating  
5           agreement would cover those proposals.

6                    If we are not successful on the deep operation,  
7           then I would have to propose to those people that did not  
8           participate in this recompletion into the Abo, and then the  
9           operating agreement would cover those interests as to the  
10          shallow formations.

11          Q.    So these people do have working interests that  
12          didn't sign, they just didn't -- these are nonsigned  
13          working interests; is that right?

14          A.    The existing operating agreements for the two  
15          wells -- This area was developed for the Abo formation  
16          originally by Mesa, and Mesa set up their operating  
17          agreements to only cover surface to the base of the Abo  
18          formation. So below the base of the Abo formation, there  
19          is no voluntary agreement amongst the parties.

20                   And so I had to propose a new operating agreement  
21          to provide for covering all the lands, being the 320-acre  
22          spacing unit that existed out there.

23          Q.    Okay, that's -- \$8000 a day for the drilling is  
24          quite heavy, but I guess rigs are hard to get right now.

25          A.    The prices have been escalating, and we work on

1 the drilling companies to keep those as low as possible.

2 Q. Yeah, have to hammer on those engineers a little  
3 bit.

4 Then you're planning on some lost circulation, an  
5 optional string of pipe, it looks like. Must be going  
6 through the salt section?

7 A. We are.

8 Q. Okay. And these other -- the 40 and the 160, we  
9 can dismiss those in the Order, formally in the Order?

10 MR. FELDEWERT: Yes, yeah.

11 Q. (By Examiner Jones) And the name of the well  
12 here --

13 A. -- is the Yankee ANK Federal Com Number 2.

14 EXAMINER JONES: Okay.

15 MR. FELDEWERT: It's listed in the advertisement.

16 EXAMINER JONES: Okay, got that, and we've got  
17 the location, 1650-1650.

18 MR. FELDEWERT: That's also advertised as well.

19 EXAMINER JONES: And the pools subject to this  
20 would be all pools -- all gas pools spaced on 320 acres?

21 THE WITNESS: Yes.

22 MR. FELDEWERT: Yes.

23 EXAMINER JONES: Including, but not limited to --  
24 which ones here?

25 MR. FELDEWERT: It looks like we've got the

1 Undesignated Cottonwood Ranch-Pennsylvanian Gas Pool and  
2 the Undesignated Five Mile Draw-Pennsylvanian Gas Pool.

3 EXAMINER JONES: Okay. Okay, that's it for my  
4 questions.

5 Gail, do you have any?

6 MS. MacQUESTEN: I don't have any questions,  
7 thank you.

8 EXAMINER JONES: Okay. Mr. Moran, thanks very  
9 much for coming today.

10 THE WITNESS: Thank you.

11 EXAMINER JONES: Thanks, Mr. Feldewert.

12 MR. FELDEWERT: Thank you, Mr. Examiner.

13 EXAMINER JONES: And with that, we'll take Case  
14 13,182 under advisement.

15 (Thereupon, these proceedings were concluded at  
16 9:44 a.m.)

17 \* \* \*

18 I do hereby certify that the foregoing is  
19 a complete record of the proceedings in  
20 the Examiner hearing of Case No. \_\_\_\_\_  
21 heard by me on \_\_\_\_\_

22 \_\_\_\_\_, Examiner  
23 Oil Conservation Division  
24  
25

## 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 November 9th, 2003.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006