

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:)

APPLICATION OF PRIDE ENERGY COMPANY FOR)
CANCELLATION OF A DRILLING PERMIT AND)
REINSTATEMENT OF A DRILLING PERMIT, AN)
EMERGENCY ORDER HALTING OPERATIONS, AND)
COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

CASE NO. 13,153

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Oil Conservation Division

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

October 23rd, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, October 23rd, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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October 23rd, 2003
Examiner Hearing
CASE NO. 13,153

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* * *

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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:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

FOR YATES PETROLEUM CORPORATION:

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

* * *

ALSO PRESENT:

MICHAEL E. STOGNER
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 10:00 a.m.:

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7 EXAMINER CATANACH: All right, at this time call
8 the hearing back to order, and I'll call Case 13,153, which
9 is the Application of Pride Energy Company for cancellation
10 of a drilling permit and reinstatement of a drilling
11 permit, an emergency order halting operations, and
12 compulsory pooling, Lea County, New Mexico.

13 Call for appearances.

14 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
15 representing the Applicant. I have two witnesses to be
16 sworn.

17 MR. FELDEWERT: Mr. Examiner, Michael Feldewert
18 with the Santa Fe office of Holland and Hart, here on
19 behalf of Yates Petroleum Corporation.

20 EXAMINER CATANACH: And no witnesses, Mr.
21 Feldewert?

22 MR. FELDEWERT: Correct, Mr. Examiner.

23 EXAMINER CATANACH: Okay. Will the two witnesses
24 please stand to be sworn at this time?

25 (Thereupon, the witnesses were sworn.)

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JOHN PRIDE,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Will you please state your name and city of
residence?

A. John Pride, Tulsa, Oklahoma.

Q. And who do you work for?

A. Pride Energy Company.

Q. Are you a part owner of that company?

A. Yes.

Q. And an officer?

A. Yes.

Q. Have you previously testified before the
Division?

A. No.

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

A. I'm employed by Pride Energy Company. My
education is, I have a BS degree in accounting. I've been
in the oil and gas business for 22 years. Experiences
range from land, geology and engineering.

Q. Okay. And are you familiar with the land matters
involved in this particular case?

1 A. Yes.

2 Q. On behalf of Pride, do you often act as their
3 landman --

4 A. Yes.

5 Q. -- in order to get these prospects put together?

6 A. Correct.

7 Q. And have you prepared a set of exhibits today
8 regarding the land matters involved in this Application?

9 A. I have.

10 MR. BRUCE: Mr. Examiner, I'd tender Mr. Pride as
11 a petroleum landman.

12 EXAMINER CATANACH: Any objections?

13 MR. FELDEWERT: No, Mr. Examiner.

14 EXAMINER CATANACH: Mr. Pride is so qualified.

15 Q. (By Mr. Bruce) Mr. Pride, could you identify
16 Exhibit 1 for the Examiner and describe what Pride seeks in
17 this case, insofar as force pooling is concerned?

18 A. Well, we seek an order pooling the west half of
19 Section 12 from the surface to the base of the Mississippi
20 formation. This is a land plat showing that 320-acre unit.

21 Q. And that's highlighted in pink?

22 A. Correct.

23 Q. Okay. What do the well units highlighted in
24 yellow indicate?

25 A. These are other 320-acre units. They're all

1 standup units. The one adjoining the one in pink to the
2 north, that is the unit we call the State 1 "M", which we
3 operate. We own 75-percent working interest, Yates
4 Petroleum owns 25-percent working interest. We proposed
5 that unit as it is, and Yates approved it.

6 And the other three 320 units, they're all units
7 that were applied for by Yates.

8 Q. Okay. And let's just get this clear: The
9 Section 1 well is a Pride well, but Yates has 25 percent of
10 the working interest?

11 A. Correct.

12 Q. Where is the well that the well unit is dedicated
13 to?

14 A. It's located in the southwest corner of that 320
15 acres, in the southwest southwest.

16 Q. Okay, on Yates's acreage?

17 A. Yes.

18 Q. Okay. And in going through these APDs, these are
19 all standup well units. And other than the Pride one,
20 these are other Yates well units, are they not?

21 A. Correct.

22 Q. Pride doesn't have an interest in those well
23 units?

24 A. We do not.

25 Q. What well is involved in this particular case?

1 A. The State X Number 1.

2 Q. And what quarter quarter section is that well
3 located in?

4 A. That would be located in the southwest of the
5 northwest of Section 12.

6 Q. And that is -- It is located at an orthodox
7 location, what, 1980 from the north line and 660 from the
8 west line?

9 A. That's correct.

10 Q. What is the status of that well?

11 A. It was drilled and abandoned, and plugged and
12 abandoned, in 1957.

13 Q. And will the geologist discuss that well in a
14 little more detail?

15 A. Yes.

16 Q. What was that well's original depth? Do you
17 know?

18 A. 13,019 feet.

19 Q. Okay. And Pride Energy and, for that matter,
20 Yates Petroleum both seek to re-enter that well and
21 complete it in the Mississippian?

22 A. Correct.

23 Q. What is Exhibit 2, Mr. Pride?

24 A. That is the application for permit to drill and
25 re-enter, deepen, plugback or add a zone, that I applied

1 for with the Hobbs District and which they approved, to re-
2 enter the State X Number 1.

3 Q. Now let's go into the -- maybe just a little bit
4 of the background. In looking at your Exhibit 1, the Yates
5 lease involved in this case was issued in what, 2005?

6 A. When it was issued?

7 Q. Yeah. Or it expires what, July 1, 2005?

8 A. Right, so I guess it would be issued in the year
9 2000.

10 Q. Okay, and when was your lease issued?

11 A. That would have been effective June 1st of 2001.

12 Q. Okay. Now, you obtained this APD in July of
13 2003?

14 A. Yes.

15 Q. Was there an APD on any of this acreage before
16 2003?

17 A. There was.

18 Q. And who owned that APD?

19 A. Yates Petroleum, two years prior, had applied for
20 an APD, which was a 320-laydown, consisting of the north
21 half of Section 12, which one year lapsed and they did not
22 do anything as far as re-entering the wellbore. At that
23 time they applied for an additional year's extension, and
24 throughout that year they also did not do any activity as
25 far as re-entering that well.

1 Q. So that APD which had once been extended expired
2 before you obtained your APD?

3 A. That's correct.

4 Q. Okay. Now, have you called the Hobbs District
5 Office to see about filing your APD?

6 A. I did. After Yates's second year terminated I
7 called the Hobbs District and spoke with them and got a
8 verbal permission to -- yes, that I could go ahead and
9 apply for an APD.

10 Q. And do you recall the person you spoke to at --

11 A. I spoke with Donna.

12 MR. BRUCE: Okay. Mr. Examiner, I'd ask that the
13 Division take notice of the Division's well file in this
14 matter pertaining to the Yates APD interest. I went
15 upstairs and copied it today, and that was what was in the
16 file.

17 I've given a copy of that to Mr. Feldewert. It
18 does contain the Yates APD.

19 Q. (By Mr. Bruce) Now, let's skip an exhibit, Mr.
20 Pride.

21 MR. FELDEWERT: Mr. Examiner, just one minute.
22 Is this the entire well file?

23 MR. BRUCE: It was -- I believe it is. It's what
24 I copied this morning, Mr. Feldewert, from the file
25 upstairs. If there's anything missing, I'd just ask the

1 Division to take administrative notice of its own well
2 file.

3 EXAMINER STOGNER: Mr. Examiner, if I may, when
4 you say the file, that is the paper file?

5 MR. BRUCE: That is the paper file from upstairs.
6 I would note, Mr. Examiner, there was no paper in that file
7 regarding the Yates APD, because I believe -- I don't have
8 a copy of it, but Mr. Pride will testify that one was
9 reissued or reapproved in August of this year.

10 EXAMINER CATANACH: Yeah, Mr. Bruce, I believe
11 that these well files are being imaged at this time, and
12 they're not being updated.

13 MR. BRUCE: Okay.

14 EXAMINER CATANACH: The paper files are not being
15 updated, so there may be some more recent documents in the
16 imaged file upstairs.

17 MR. BRUCE: Okay. My main intent there was to
18 show the 2001 APD that Yates had extended for one year.

19 EXAMINER CATANACH: Okay.

20 Q. (By Mr. Bruce) Now, moving on to your Exhibit 4,
21 Mr. Pride, for just a minute, after -- right about the time
22 you obtained your APD, did you propose a west-half well to
23 Yates?

24 A. Yes, I did.

25 Q. And is Exhibit 4 your proposal letter to Yates?

1 A. Yes.

2 Q. Okay. So you did act on your proposal, but of
3 course you would have to get Yates's approval for a west-
4 half unit to drill this well?

5 A. Correct.

6 Q. Either voluntary JOA or force pooling?

7 A. Right.

8 Q. Referring to your Exhibit 3, what happened in
9 August or September of 2003?

10 A. They canceled our intent to re-enter.

11 Q. And is Exhibit 3 a copy of the Division's letter
12 to you canceling your APD?

13 A. Yes, it is.

14 Q. Now, this shows that it was faxed to you. Did
15 you ever receive this in the mail?

16 A. I did not. I had to request -- Actually, I've
17 spoken with Donna, the same lady, and asked her to fax me a
18 copy of this letter once she told me that there was a
19 letter in existence, because I wasn't aware of one.

20 Q. Now, you had proposed your letter in July and you
21 got this letter on September 9th. What prompted you to
22 contact the OCD regarding Yates's APD or your APD? Was
23 there activity in the field?

24 A. My field -- My pumper in the field noticed there
25 was activity on this well, and they called me and asked me

1 if I knew anything about it, which I did not.

2 Q. So did you then determine that it was Yates
3 taking action --

4 A. Yes.

5 Q. -- out on this wellbore?

6 A. Yes, we did.

7 Q. Okay. Now, moving on again to your Exhibit 4,
8 you proposed this well to Yates. Did you ever receive any
9 response from Yates?

10 A. No.

11 Q. Attached to that exhibit is an APD. Was this
12 prepared by you or under your supervision?

13 A. The AFE?

14 Q. The AFE, excuse me.

15 A. Yes, it was.

16 Q. What is the cost of your proposed re-entry?

17 A. The dryhole cost is \$239,856, and the completed
18 well cost is \$628,295.

19 Q. And is this cost in line with the cost of other
20 wells re-entered to this depth in this area of New Mexico?

21 A. Yes.

22 Q. This would be much less expensive than drilling a
23 new well, would it not?

24 A. Yes, it would.

25 Q. Do you have a rough idea how much?

1 A. Roughly \$300,000.

2 Q. Okay. Since Pride has made this proposal and
3 because it operates the well to the north, does Pride
4 request that it be designated operator of the well?

5 A. Yes.

6 Q. Do you have a recommendation for the amounts
7 which Pride should be paid for supervision and
8 administrative expenses?

9 A. Well, for the -- during the drilling time, \$5000
10 per month, and then during the -- while it's producing,
11 \$600 per month.

12 Q. Okay. And are these proposed operating charges
13 equivalent to those charged by Pride and other operators in
14 this area for wells of this depth?

15 A. Yes, they are.

16 Q. And would you request that this rate be adjusted
17 periodically under the COPAS accounting procedure?

18 A. Yes.

19 Q. Do you request that if force pooling is granted,
20 that a maximum cost-plus-200-percent risk charge be applied
21 against the nonconsenting owners?

22 A. Yes.

23 Q. Just a few follow-up questions, Mr. Pride. First
24 of all, in your opinion has Pride made a good-faith effort
25 to obtain the voluntary joinder of Yates in this well?

1 A. Yes, we have.

2 Q. Do you also request that Yates's APD be revoked
3 and that your APD be reinstated for this well?

4 A. Yes.

5 Q. One final matter on the leasehold in this
6 section. Section 12 is all state acreage, is it not?

7 A. Yes, it is.

8 Q. And Yates owns the north half and the southeast
9 quarter lease?

10 A. Correct.

11 Q. And Pride Energy owns the southwest quarter
12 lease?

13 A. Correct.

14 Q. And there are -- and the royalty under both
15 leases is the same, it's one-sixth?

16 A. Yes.

17 Q. Okay. So regardless of the orientation of a well
18 unit, it doesn't affect the royalty owner?

19 A. Correct.

20 Q. And finally, was Yates notified of this
21 Application?

22 A. Yes.

23 Q. And is Exhibit 5 simply my affidavit of notice?

24 A. Yes.

25 Q. Mr. Pride, were Exhibits 1 through 5 prepared by

1 you or under your supervision, or compiled from company
2 business records?

3 A. Yes.

4 Q. And in your opinion, is the granting of Pride's
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Pride Exhibits 1 through 5.

10 EXAMINER CATANACH: Any objection?

11 MR. FELDEWERT: I just have one question. Which
12 is Exhibit Number 4 -- or 2, I'm sorry?

13 MR. BRUCE: I'm sorry, I might have misnumbered
14 it, Mr. Feldewert. It's the APD.

15 MR. FELDEWERT: Okay, got you. I have no
16 objection.

17 EXAMINER CATANACH: Exhibits 1 through 5 will be
18 admitted.

19 Mr. Feldewert?

20 CROSS-EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Mr. Pride, I want to make sure I understand and
23 clear up for the record. I'm looking at Section 12 on
24 Pride Exhibit Number 1, which is your land plat, right?

25 A. Yes.

1 Q. Okay. You have a state lease in the southwest
2 quarter; is that right?

3 A. Correct.

4 Q. And then there is a single state lease held by
5 Yates that comprises the north half as well as the
6 southeast quarter?

7 A. Yes.

8 Q. All right. And the lease that Pride has in the
9 southwest quarter, you've had for over what, two years?

10 A. It was effective June 1st of 2001.

11 Q. Okay, and let me hand you what I've marked as
12 Yates Exhibit Number 1. Is that the lease that was issued
13 to Pride back in June of 2001?

14 A. Yes.

15 Q. Okay. Now, over this two-year period has Pride
16 ever proposed to develop the acreage that it leased from
17 the State back in June of 2001?

18 A. As far as applying for an APD -- You mean up to
19 the current date?

20 Q. Well, let's put aside your effort in July of this
21 year. Prior to that, has Pride undertaken any effort to
22 develop its acreage in the southwest quarter of Section 12?

23 A. I have not actually applied for an APD. What I
24 did do -- What happened is that there was an engineer from
25 Yates Petroleum, called me after we had completed the State

1 1 "M" well just north of it, and they asked me over the
2 phone whether I had any intentions of re-entering the State
3 1 "X", and I told him over the phone that, you know, we
4 were going to be evaluating it and it's a possibility.

5 Within a week to ten days after that is when
6 Yates filed their APD.

7 Q. Okay, did you -- You said that was after you
8 completed the well to the north. When did you complete the
9 well to the north?

10 A. I don't recall the date exactly when we completed
11 the well to the north.

12 Q. Do you remember the year?

13 A. 2001. It's been over two years now.

14 Q. Okay, 2001. And you got a phone call from Yates
15 asking whether you were going to use the -- whether you
16 were interested in the wellbore in the north half of
17 Section 12? Is that your testimony?

18 A. If we were planning on re-entering the wellbore
19 that's in Section 12, yes.

20 Q. And who did you talk to?

21 A. His name was John -- I don't know his last name
22 right off. It's been over two years ago.

23 Q. John Amiet?

24 A. Amiet, yes.

25 Q. Okay. And your testimony is that he asked you

1 whether you were going to re-enter the wellbore?

2 A. Yes.

3 Q. Now, Yates then went out and filed an APD in May
4 of 2001, correct?

5 A. Yes.

6 Q. Okay, did you do anything in response to that?

7 A. Such as -- ?

8 Q. Did you file any kind of a pooling application?
9 Did you get back together with Yates after they filed that
10 APD or make any other effort to develop your acreage?

11 A. Well, I understood that when they have an
12 approved APD there was nothing I could do. Actually, I did
13 contact the Hobbs District and asked them. And they said,
14 Well, if they've got an approved APD there's nothing you
15 can do until that APD terminates or expires.

16 And I said, When would that be?

17 And they told me, Well, it will be at least one
18 year, and then they had the option of extending it for an
19 additional year.

20 Q. And during that period of time did you ever call
21 Yates or talk to them about undertaking efforts to develop
22 your acreage?

23 A. No, I hadn't, did not think I had any authority
24 to do so.

25 Q. All right. Now, you then file a -- You filed a

1 pooling application in September of this year, correct?

2 A. Yes.

3 Q. In which you seek to re-enter the well that's
4 located on Yates's acreage?

5 A. Yes.

6 Q. All right. And that's the well that Yates is
7 presently using to develop its acreage in the north half of
8 Section 12; isn't that right?

9 A. Presently using? They re-entered that without my
10 knowledge. I was informed by my pumper.

11 Q. They re-entered it and was using it before you
12 filed your pooling application in September; is that right?

13 A. Yes.

14 Q. Okay. Now, before your application for pooling
15 had been filed, Yates had already dedicated 320 acres of
16 its leasehold acreage to that well in the north half of
17 Section 12, correct?

18 A. Now, is this under the -- Which APD?

19 Q. Well, they actually had two. They had one they
20 had in May of 2001 and then one they received in August,
21 correct?

22 A. Right.

23 Q. All right. Now, before your -- So before your
24 pooling application was filed, Yates had submitted a
25 drilling plan to the State and filed an APD, correct?

1 A. Yes.

2 Q. All right. Now, I want to mark as -- I will hand
3 you what I've marked as Exhibit Number 2, the Yates APD.
4 Now, Mr. Pride, this was approved by the Division on August
5 26th, 2003, correct?

6 A. Yes.

7 Q. And it has attached to it a drilling plan?

8 A. Yes.

9 Q. And this again was before you filed your pooling
10 application?

11 A. Yes.

12 Q. Now -- And again, before your pooling application
13 was filed, Yates had a workover rig on the well; is that
14 right?

15 A. Yes.

16 Q. They had built the location?

17 A. Yes.

18 Q. They had -- Before your pooling application was
19 filed, they had improved the road to the wellsite on its
20 acreage, right?

21 A. Yes.

22 Q. And before your pooling application was filed,
23 they had installed a pit necessary for deepening the well?

24 A. Yes.

25 Q. All right. And as a lessee -- would you agree

1 with me that as a lessee of the acreage on which this well
2 is located, that Yates has a right to re-enter and use this
3 well to develop its acreage?

4 A. If they have an approved APD.

5 Q. Okay. So if they have a validly approved APD,
6 they have a right to enter the well on their acreage and
7 develop their property?

8 A. Whoever has the approved APD is what my
9 understanding is.

10 Q. All right.

11 A. That's the question today.

12 Q. And indeed, as of the filing of your pooling
13 application, Yates had obtained all the necessary permits
14 and authority from the Division to conduct the work that it
15 has done on its well to develop its acreage; isn't that
16 correct?

17 A. I really don't know whether they've approved --
18 received all the information or not, but I suppose so.

19 Q. I don't think I need to mark this as an exhibit,
20 but let me hand you a Decision of the Examiner Regarding
21 Pride Energy Company's Request for an Emergency Order and
22 Yates Petroleum Corporation's Request to Dismiss Case
23 Number 13,153.

24 Now, paragraph (14) of this Order, on page 3,
25 states, Mr. Pride, that "Yates, by virtue of its lease

1 ownership within the north half of Section 12, and in
2 recognition that all of the working interest owners within
3 the north half of Section 12 are committed to a north-half
4 spacing unit, currently has the right to re-enter and
5 conduct drilling operations on the State 'X' Well Number
6 1."

7 Do you see that?

8 A. Yes.

9 Q. Do you disagree with that?

10 A. No.

11 Q. Okay. All right. Now, after all this work has
12 been done by Yates and has the authority to enter this
13 well, you have filed a pooling application in which you
14 seek to take this well away from Yates and dedicate to it a
15 west-half spacing unit; is that right?

16 A. Yes.

17 Q. Okay. Now, I'm going to stop right here and go
18 back to your Exhibit 1 before I forget it. You have on
19 here what you represent as standup spacing units in yellow;
20 is that correct?

21 A. Yes.

22 Q. Are these for -- What is the primary target of
23 the -- of your proposal with respect to the north half of
24 Section 12?

25 A. Well, ours is the west half of 12, and it's the

1 Mississippian.

2 Q. The Mississippian?

3 A. Yes.

4 Q. Are these all -- These standup units, are they
5 for wells within the Mississippian formation?

6 A. The one to the north, the State 1 "M", produces
7 from the Mississippian.

8 Q. That's the one you operate?

9 A. Yes.

10 Q. Okay.

11 A. The one in Section 24, Yates, which is attached
12 here, is -- the pool name is the Wildcat Mississippian.
13 And then the Section 7, I believe that's a Morrow producer.

14 Q. Okay, so that's a Morrow?

15 A. So is Section 6, Morrow.

16 Q. Now, is it your testimony that Section 6 is a
17 standup 320-acre spacing unit?

18 A. It appears on this -- the attached dedication
19 plat, the way it's drawn, that it's 320, but it says
20 dedicated acres 160, so I'm not sure exactly what Yates's
21 intentions there are, but --

22 Q. Okay, so we're not sure whether that's a standup
23 320 or a nonstandard 160?

24 A. Yes.

25 Q. Okay. Now, are there any -- have you looked to

1 see whether there are any laydown spacing units for 320 gas
2 in this area?

3 A. No, I have no knowledge of that.

4 Q. You haven't looked?

5 A. No, I have an assistant that basically pulled the
6 ones that are horizontal -- or vertical standups, and --

7 Q. Okay, do you know whether there's any laydowns in
8 any of the other sections on what you've got here as
9 Exhibit Number 1?

10 A. I'm not aware of any.

11 Q. Okay. Well, let me make sure I understand. You
12 haven't looked to determine whether there's any?

13 A. I have not personally, yes.

14 Q. Okay, and no one in your company has looked?

15 A. I asked my assistant to find the units that are
16 standups within this area.

17 Q. Okay, did you ask him to find out whether there
18 is any laydown units within this area?

19 A. No.

20 Q. Okay. I want to talk a little bit about, then,
21 development efforts on this area. Now, we know that Yates
22 has been studying this prospect in this well since May of
23 2001, and we've talked about the APD that they received in
24 May of 2001 for a north-half unit, right?

25 A. I don't know if they've been studying it or not.

1 I know they applied for an APD in May of 2001.

2 Q. Okay. And at that time they proposed to enter
3 the wellbore on their acreage and develop it as a north-
4 half unit, correct?

5 A. Yes.

6 Q. All right. And Pride didn't -- Well, let's see,
7 you didn't get your lease until June of 2001; is that
8 correct?

9 A. Effective June 1st of 2001.

10 Q. Okay. And then in April of 2002, Yates applied
11 and received a one-year extension on its APD to re-enter
12 its well on a north-half unit --

13 A. Yes.

14 Q. -- right? And you had your lease at that time,
15 correct?

16 A. Yes.

17 Q. Did you propose to do anything at that time?

18 A. Didn't think I had the right to, from what the
19 Hobbs District told me.

20 Q. You didn't contact Yates about trying to develop
21 your acreage under any other --

22 A. Didn't think I was authorized to do so, since
23 they had an approved APD --

24 Q. Okay.

25 A. -- still in effect.

1 Q. And then in July of 2003, you went out and filed
2 an APD for the Yates well and dedicated the west-half unit
3 to it; is that correct?

4 A. Yes, I called the Hobbs District and discussed it
5 with Donna, and verified with her that the APD that Yates
6 had had for two years had terminated and asked her whether
7 I was permitted to apply for an APD, and she said yes, and
8 that's -- at which time I did so.

9 Q. Okay. Now, before you applied for that APD, did
10 you propose any well to Yates?

11 A. Didn't think I had the right to, since they had
12 the approved APD.

13 Q. Well at that time they didn't -- the APD had
14 expired, right?

15 A. At which time?

16 Q. At which time? When you got your APD in July of
17 2003, the Yates APD had expired?

18 A. I believe theirs expired in May.

19 Q. Okay.

20 A. Just before that.

21 Q. All right. Then prior to the time that you filed
22 for an APD in July, did you propose any well to Yates?

23 A. I proposed the well to Yates, my letter dated
24 July 15th.

25 Q. So this was after you applied for the APD?

1 A. I believe that's true.

2 Q. Okay, and you didn't file any pooling application
3 prior to filing for your APD?

4 A. Right.

5 Q. Okay. And in fact, you didn't provide Yates with
6 any notice of the fact that you were going to apply for an
7 APD that was going to -- for the re-entry of a well in its
8 lease acreage, did you?

9 A. No, I did not, other than this letter dated July
10 15th.

11 Q. And then if I understand it correctly, this west-
12 half APD was initially approved by the Division based on
13 your filing; is that right?

14 A. Yes.

15 Q. And then on August 23rd, the Division canceled
16 your APD; is that correct? By letter --

17 A. They canceled, I want to see what date it was.

18 Q. August 26th.

19 A. Their letter was dated August 26th.

20 Q. Okay, and that's been marked as your Exhibit
21 Number 3?

22 A. Yes.

23 Q. And it indicates in here that they did so based
24 upon a further review of the area, the north half of this
25 section is leased to another operator. Do you see that?

1 A. Yes.

2 Q. Okay. So after you had filed your APD, according
3 to this letter they went and examined the area and
4 determined that the north half was leased to Yates, right?

5 MR. BRUCE: I object. Mr. Pride, don't answer if
6 you don't know what the Division did.

7 THE WITNESS: Yeah, I do not know what they did.

8 Q. (By Mr. Feldewert) In other words, this letter
9 indicates that there was already a spacing unit that was
10 available for this well without the need for any pooling?

11 MR. BRUCE: I'd object, that's not what this
12 letter says, Mr. --

13 MR. FELDEWERT: That's all right.

14 MR. BRUCE: -- Feldewert.

15 Q. (By Mr. Feldewert) At the time that you filed
16 your APD with the Division's District Office, Mr. Pride,
17 did you tell them that you didn't have a right to use that
18 well on Yates's acreage?

19 A. Did I tell who?

20 Q. Did you tell the Division when you filed your APD
21 that you didn't have a right to use the well that's located
22 on Yates's acreage?

23 A. No, I assumed that I did, and I talked with them,
24 and they did say that I had the right, once I got the
25 approved APD.

1 Q. I'm going to hand you Order Number R-11,700-B.
2 Jim, do you have a copy of this?

3 MR. BRUCE: I have a copy of it.

4 Q. (By Mr. Feldewert) I want to read, Mr. Pride, to
5 you a finding by the Commission. It's Finding Number 28.
6 It's on page 5. Are you with me?

7 A. Yes.

8 Q. Okay. It says, "It is the responsibility of the
9 operator filing an application for a permit to drill to do
10 so under a good faith claim to title and a good faith
11 belief that it is authorized to drill the well applied
12 for." Correct?

13 A. Yes, that's what it says.

14 Q. Were you aware of that obligation?

15 A. Which obligation are you referring to?

16 Q. Well, let me ask you this. Could you please tell
17 the Examiner why Pride believed that it had a right to re-
18 enter the well on Yates's acreage when it's filed its APD
19 with the Division in July of 2003?

20 A. Well, because it's -- the well's located within
21 the 320 acres designated as the west half, which that's
22 what I was applying for in the APD that was approved.

23 Q. Do you think the mere filing of an APD gives you
24 a right to use a well located on the acreage of another
25 leaseholder?

1 A. Well, the State 1 "M" well was located on the
2 acreage of another leaseholder, and it was approved.

3 Q. Did you have a pooling order at that time?

4 A. No.

5 Q. Did you have an agreement?

6 A. Yates approved it, went along with it.

7 Q. Okay. So you had an agreement with the holder of
8 the lease acreage to use the wellbore before you filed your
9 APD, right?

10 A. Yes.

11 Q. Did you have an agreement with Yates in this case
12 to use their wellbore before you went out in July of 2003
13 and filed your APD?

14 A. I have not used the wellbore, I'm just applying
15 for the APD --

16 Q. I understand.

17 A. -- at this time.

18 Q. My question, did you have an agreement with them
19 to use their wellbore before you filed your APD in July of
20 2003?

21 A. No, they did not respond to my letter dated July
22 15th.

23 Q. Did you have -- Well, let me ask you this. You
24 didn't send that letter until after you'd already received
25 your APD?

1 A. Correct.

2 Q. All right. Did you have a pooling order from the
3 Division that authorized you to use the well on their lease
4 acreage filing your APD?

5 A. No.

6 Q. Did you even have a pooling application on file
7 at that time? You didn't, did you?

8 A. No

9 Q. All right. Now, after the Division ascertained
10 in August of 2003 that this well was located on acreage
11 leased to another operator, that is when they rescinded
12 your APD and reissued one to Yates; is that correct?

13 A. August is when -- Yes, it was in August that they
14 rescinded my APD.

15 Q. Okay. And then on September 5th, on or around
16 September 5th, is when Yates moved a rig to the well and
17 commenced their re-entry operations that we've already gone
18 through, correct?

19 A. Yes, I suppose around the 5th.

20 Q. That was before you filed your -- And you didn't
21 file your pooling application until what, September 10th?
22 Is that right?

23 A. I guess -- I think that's about right.

24 Q. Okay, I think the record will reflect that.

25 A. Yes, okay.

1 Q. All right, let me mark -- Give me one minute, I'm
2 going to mark this document as Yates Exhibit Number 4.
3 Actually, let me mark it as Yates Exhibit Number 3. And
4 I'm doing so in my handwriting, I hope everyone can read
5 it.

6 What I've marked as Yates Exhibit Number 3 is a
7 timeline of the events that we just went through, Mr.
8 Pride.

9 Okay, and if I understand what you're asking for
10 here today -- and correct me if I'm wrong -- you're asking
11 the Division to cancel the APD for the well that is on
12 Yates's acreage, that was issued to Yates, correct?

13 A. Yes.

14 Q. Okay. You're asking them to cancel the north-
15 half spacing unit that's been dedicated to this well --

16 A. Yes.

17 Q. -- which is comprised of a lease that's owned a
18 hundred percent by Yates?

19 A. Yes.

20 Q. You're asking the Division to exercise its
21 compulsory pooling authority for a west-half spacing unit
22 comprised of different ownership and different state
23 leases; is that right?

24 A. Yes.

25 Q. And thereby take away Yates's right to re-enter

1 and continue its recompletion operations on the well that
2 is located on Yates's acreage?

3 A. Yes.

4 Q. And turn over operations of this well at this
5 point to Pride?

6 A. Yes.

7 Q. And in essence, then, force Yates to share half
8 of its well and its recompletion project with your company?

9 A. Yes.

10 Q. Is that what you're asking?

11 A. (Nods)

12 Q. Okay. Now, do you believe that you could file
13 this pooling application after Yates had completed this
14 well?

15 A. I didn't know that Yates was going to move a rig
16 in on the location.

17 Q. Well, I'm trying to find out what you think you
18 can do with the pooling authority. If Yates has -- Let's
19 suppose that Yates has completed its well. Do you think
20 you have the right to come in and ask the Division to form
21 a west-half unit for purposes of pooling after that well
22 has been completed?

23 A. What I'm objecting to is, the APD was taken away
24 from us and then reinstated for Yates after they had two
25 years to do some activity on the well.

1 Q. Okay, I understand. I'm trying to figure out
2 what you understand as a landman. Do you think you can
3 come in and pool that acreage after Yates has already -- if
4 Yates had already completed that well?

5 A. In this particular situation, I would think that
6 the -- which APD or approved APD would be valid, would be
7 the question that would have to be answered first.

8 Q. So do you think you could?

9 A. It depends on the outcome today.

10 Q. Okay. If they had already completed that well
11 and they were selling -- had hooked it up and they were
12 selling gas out of that well, do you think you could come
13 in and ask the Division to reorient the spacing unit, force
14 Yates to give up that well and turn over half of the
15 proceeds and then turn over the operations to your company?
16 Do you think that you could do that?

17 A. That's possible.

18 Q. What about if they had drilled that well, they
19 were producing from that well, and had been producing from
20 that --

21 MR. BRUCE: Mr. Examiner, I'd object to the
22 speculative questions. That has nothing to do with what
23 we're here for today. We're here where -- The APD in our
24 view was illegally canceled and another one was reinstated.
25 We would have moved forward with force pooling if we had

1 known Yates was going to do this. What might happen if an
2 APD is canceled and a well is hooked up to a pipeline, et
3 cetera, et cetera, et cetera, has nothing to do with what's
4 before you today.

5 EXAMINER CATANACH: I would tend to agree with
6 Mr. Bruce, Mr. Feldewert.

7 MR. FELDEWERT: Okay. Bear with me here one
8 minute.

9 Q. (By Mr. Feldewert) Is there anything you've
10 done, Mr. Pride, to reach a voluntary agreement with Yates,
11 other than to send the letter which has been marked as
12 Exhibit Number 4, which was sent after you had obtained an
13 APD from the Division's District Office?

14 A. Well sending that letter proposing the well is
15 what I did, and I thought that would be sufficient. But I
16 never heard a response from Yates.

17 Q. So you haven't done anything else to reach a
18 voluntary agreement, other than send this letter?

19 A. Right.

20 Q. Okay. Did you ever consider forming a south-half
21 spacing unit to develop your acreage?

22 A. No.

23 Q. Why not?

24 A. Well, for one reason, geologically -- and my
25 geologist will address this in more detail -- it's better

1 located north and south since the geology is running that
2 way, as well as re-entering a plugged and abandoned
3 wellbore, obviously, is less expensive to do, so -- as
4 opposed to drilling a new well.

5 Q. Anything else?

6 A. (Shakes head)

7 Q. Okay. Now, if you had pooled for a south-half
8 spacing unit, you would have to drill the well, right?

9 A. Yes.

10 Q. To develop your acreage; is that right?

11 A. Yes.

12 Q. Okay. And you would receive the same production
13 as you would from a west-half unit, because you --

14 A. Same percentage, yes.

15 Q. -- only own a quarter section? Because you only
16 own a quarter section, right?

17 A. Yeah, that would be 50 percent, right.

18 Q. Okay. And if we allow a north-half spacing unit
19 to continue here and Yates to continue with its operations
20 to recomplete that well, you would have the benefit of that
21 well to the north before deciding whether it was necessary
22 to drill a well to develop your acreage, correct? Or
23 whether it made any sense to drill a well to develop your
24 acreage?

25 A. I would have the benefit? What benefit would it

1 be?

2 Q. Well, you could determine whether or not that
3 well was successful or not, right?

4 A. Well, I don't know if Yates would even provide
5 that information. But I would -- Like I say, my preference
6 would be to operate and re-enter the wellbore ourselves.

7 MR. FELDEWERT: Mr. Examiner, at this time I
8 would move the admission into evidence of Yates Exhibits 1,
9 2 and 3.

10 MR. BRUCE: I have no objection.

11 EXAMINER CATANACH: Yates Exhibits 1, 2 and 3
12 will be admitted.

13 MR. FELDEWERT: And I have no further questions.

14 EXAMINATION

15 BY EXAMINER CATANACH:

16 Q. Mr. Pride, with regards to the APD that was
17 canceled by the Hobbs Office, that was canceled by a letter
18 dated August 26th, and your testimony is that you never
19 received that letter?

20 A. That is correct.

21 Q. So when did you become aware of this
22 cancellation?

23 A. I had called and spoke with Donna at the Hobbs
24 District, and she informed me that there was a letter.

25 And I asked her what letter?

1 And she informed me there was a letter from Mr.
2 Chris Williams there at that District, sent to me, or
3 written to me, that was canceling my APD, which I was
4 surprised to hear.

5 And I asked her to fax a copy of that letter to
6 me, which she did, and that's what this is.

7 Q. Okay, and that was faxed on what date?

8 A. September 9th.

9 Q. On that letter that Hobbs wrote, is that your
10 correct mailing address?

11 A. Yes.

12 Q. But you never got it in the mail?

13 A. No, no.

14 Q. Your Exhibit 1 shows some standup spacing units.
15 Why is it significant that there are some standup spacing
16 units in this area? Just for general orientation or --

17 A. Yes, to show that 320 standups is a reasonable
18 thing to do, and particularly one to the north which is
19 producing from the same formation, which is our target
20 formation here. And it's also along the same fault line
21 and geologically very similar.

22 Q. So you're saying that -- In testimony that you
23 haven't given yet, you're saying that the north-half -- I
24 mean, standup units are more suited to the geology?

25 A. In the west half of 12 it would be, yes.

1 Q. Okay.

2 A. And my geologist will address that in more detail
3 and the reasons why.

4 EXAMINER CATANACH: I have no more questions of
5 this witness.

6 MR. BRUCE: I have just a few follow-up
7 questions.

8 REDIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. I want to -- Mr. Feldewert asked some questions
11 about timing, and perhaps -- You have this Exhibit 3 in
12 front of you, Mr. Pride?

13 A. Yes.

14 Q. And maybe keep your Exhibit 1 in front of you so
15 we can make sure of the timeline along here.

16 Now first of all, the well in Section 1, you
17 said, was drilled in 2001?

18 A. Yes.

19 Q. Now, looking at this -- I can't quite see it, but
20 it looks like -- Again we're dealing with state acreage,
21 but there's a couple of older leases in there, is there
22 not?

23 A. In where?

24 Q. In Section 1?

25 A. Yes.

1 Q. And those are the Pride leases?

2 A. Yes.

3 Q. I'm not sure of the vintage of those leases, but
4 from their numbers they appear to be what, several decades
5 old?

6 A. Yes.

7 Q. So they were held by production from other
8 acreage?

9 A. That's correct.

10 Q. So you on behalf of Pride got a voluntary
11 agreement on the west half of Section 1 with Yates?

12 A. Yes.

13 Q. And so that had to have taken some time, several
14 months, perhaps, to acquire all the necessary signatures
15 and propose the well?

16 A. Yes, it took some time. I'm not sure if it's
17 actually months or weeks, but yes.

18 Q. It took a little time?

19 A. Yes.

20 Q. And that was before -- on Mr. Feldewert's
21 timeline, before May 25th of 2001?

22 A. Yes.

23 Q. And so you got that agreement together, and I
24 don't know what the date of it is, but then Pride re-
25 entered the well on Yates's acreage?

1 A. In Section 1, the State 1 "M", yes, we re-entered
2 that well.

3 Q. Okay, and completed that in the Mississippian?

4 A. Correct.

5 Q. And after it was completed, then Yates -- You
6 spoke with someone, John Amiet --

7 A. Yes.

8 Q. -- from Yates, and he asked you about what you
9 intended to do in Section 12?

10 A. Yes, he called me, yes.

11 Q. And before you did anything, Yates went out and
12 obtained a north-half APD?

13 A. That's correct.

14 Q. In May of 2001?

15 A. Right.

16 Q. Okay. And at that point you said -- Well, you
17 weren't there in particular to fight with Yates at that
18 point, were you?

19 A. No.

20 Q. So you completed your well. Was it evaluated for
21 a while?

22 A. Yes.

23 Q. And Yates had that APD for two years. Did they
24 ever take any action --

25 A. No.

1 Q. -- on that well?

2 And you thought that since Yates had the APD, you
3 weren't going to take any action to cancel that APD?

4 A. That's correct.

5 Q. But once it expired, you did call the Hobbs
6 District Office and speak with them?

7 A. After the second year --

8 Q. Okay --

9 A. -- the extension --

10 Q. -- so sometime in June or July --

11 A. -- terminated.

12 Q. -- of 2000, of this year?

13 A. Yes, that's when I called them.

14 Q. And looking at your Exhibit 2, your APD was filed
15 on either the 15th or the 16th of July, was it not?

16 A. Yes.

17 Q. And approved on the 16th?

18 A. Approved on the 16th.

19 Q. And then on the day that you filed the APD, July
20 15th, you sent the proposal letter to Yates?

21 A. Yes.

22 Q. And on this timeline --

23 A. Excuse me just one second.

24 Q. Yes, sir.

25 A. Let me add one other thing. I did ask Donna to

1 give me a verbal approval once this was approved by the OCD
2 and asked her to give me a call, and she did.

3 And I said, Well, can I go ahead and proceed from
4 this point?

5 And she said yes.

6 And that's when I sent my letter.

7 Q. Okay. And then your APD was canceled -- On the
8 timeline it's marked August 23, but it's actually August
9 26th, is it not? Just --

10 A. Yes, the letter was dated August 26th.

11 Q. Okay. And from what Mr. Feldewert showed you on
12 Exhibit 2 on that same day, Yates filed and received
13 approval of its APD?

14 A. Yes.

15 Q. Then Mr. Feldewert's timeline says Yates moved a
16 drilling rig on, on September 5th.

17 On about what date were you informed by your
18 field hand about Yates's activity?

19 A. Within a day or two after that.

20 Q. Okay, and you called me about the same time, did
21 you not?

22 A. Yes.

23 MR. BRUCE: That's all I have, Mr. Examiner.

24 EXAMINER CATANACH: Okay, this witness may be
25 excused.

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

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

7 A. Jeff Ellard.

8 Q. Where do you reside?

9 A. Tulsa, Oklahoma.

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

11 A. I'm a geologist for Pride Energy Company.

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

14 A. Not this Division, no, sir.

15 Q. Could you summarize your educational and
16 employment background for the Examiner?

17 A. I have a bachelor's degree in geology from the
18 University of Tulsa, master's degree from Oklahoma State,
19 preliminary doctorate work. I've been employed in the oil
20 industry for multiple companies since 1981, most recently
21 with Pride.

22 Q. And as part of your work have you reviewed the
23 geology in southeastern New Mexico where Pride has its
24 holdings?

25 A. Yes, I've worked off and on in southeastern New

1 Mexico for the past eight years.

2 Q. And are you familiar with the geology involved in
3 this Application?

4 A. I am.

5 MR. BRUCE: Mr. Examiner, I'd tender Mr. Ellard
6 as an expert petroleum geologist.

7 EXAMINER CATANACH: Any objection?

8 MR. FELDEWERT: If I could just ask a couple
9 questions.

10 VOIR DIRE EXAMINATION

11 BY MR. FELDEWERT:

12 Q. Mr. Ellard, how long have you been working with
13 Pride?

14 A. Approximately three months.

15 Q. Prior to that time, you were employed by whom?

16 A. Newfield Exploration.

17 Q. Newfield. And where was their principal
18 activities?

19 A. I worked southeast New Mexico, that was part of
20 the area that I covered.

21 Q. Okay. How long -- You said you'd been working in
22 southeast New Mexico off and on for eight years. What do
23 you mean by that? Or did you say for eight years?

24 A. Off and on for eight years. I originally worked
25 in southeast New Mexico, oh, around 1995, 1996, and then

1 was pulled back out of -- you know, just through different
2 projects, was pulled back out of there and then back into
3 it.

4 Q. I'm trying to get a handle on -- You had a year's
5 experience in 1995-96, right, in southeast --

6 A. Approximately, yes.

7 Q. Okay. And then -- That was your first time in
8 southeast New Mexico?

9 A. Yes.

10 Q. Okay. And then what projects did you have in
11 southeast New Mexico after 1996?

12 A. Various exploration and development projects,
13 acquisition, evaluations, divestments with the previous
14 company I just mentioned, Newfield, and Lariat Petroleum.

15 Q. How many projects?

16 A. I've never counted them.

17 Q. Two, 10, do you have an estimate?

18 A. Over a dozen.

19 Q. Over a dozen projects involving southeast New
20 Mexico?

21 A. Would you define "projects"?

22 Q. Well, I think that's -- All right, let me ask you
23 this. How many times -- How often have you been asked to
24 examine the Morrow channels in southeast New Mexico?

25 A. I've examined the Morrow channels resulting in

1 the drilling of multiple wells in Eddy County.

2 Q. Was that a single -- multiple wells, more than
3 one project?

4 A. That was multiple wells, more than one project.

5 Q. Okay, and when was that?

6 A. Over the course of the last three years, roughly,
7 four years --

8 Q. Okay.

9 A. -- something like that.

10 Q. And those involved Morrow wells?

11 A. Yes, in addition to the Atoka, Bone Spring,
12 Devonian.

13 Q. And that was for Newfield Exploration?

14 A. And Lariat Petroleum.

15 Q. All right, okay. Can you give us an idea of how
16 many wells you're talking about?

17 A. We're talking about drilling wells?

18 Q. Into the Morrow, that you were involved in, in
19 examining the Morrow formation.

20 A. I would have to tally them. Wells which I was
21 involved with would run -- Including drilling or
22 acquisitions, divestments?

23 Q. Well, I'm just trying to --

24 A. I'm confused by your question --

25 Q. I'm sorry, Mr. Ellard --

1 A. -- if I knew where you were going I could help
2 you.

3 Q. -- I haven't met you before, and I haven't had
4 any opportunity to question you before about your
5 experience. I'm trying to get a handle.

6 Over the last three years you mentioned the fact
7 that you had been involved in Morrow wells in southeast New
8 Mexico, right?

9 A. Yes.

10 Q. And that you have been examining -- that you've
11 been called upon to do some examinations of the Morrow
12 formation?

13 A. Yes.

14 Q. Okay. I'm trying to get a handle on how many
15 wells you've been involved in, in which you have been
16 called upon to examine the Morrow formation.

17 A. Probably a hundred.

18 MR. FELDEWERT: Okay, that's all the questions I
19 have.

20 EXAMINER CATANACH: Thank you. Mr. Ellard is so
21 qualified.

22 DIRECT EXAMINATION (Resumed)

23 BY MR. BRUCE:

24 Q. Mr. Ellard, what is the primary zone of interest
25 in the west half of Section 12?

1 A. Mississippian.

2 Q. Could you refer to your exhibits marked Exhibits
3 6 and 7 --

4 A. Yes.

5 Q. -- and describe for the Examiner what you -- two
6 things, perhaps: what was achieved in the State 1 "M" well
7 in Section 1 to the north, and then what you -- what
8 probably both you and Yates hope to achieve in the well in
9 Section 12?

10 A. Certainly. Exhibit 6 is just a very basic Geomap
11 reproduction on the Devonian, exhibiting two faults which
12 create the South Four Lakes field, which is a multi-pay
13 field. The eastern fault, which is downthrown to the east,
14 had a well located -- which was low on, you know, most of
15 the target zones up on the field. However, evaluation of
16 the well logs indicated there was potential in the
17 Mississippian. That's why the well was re-entered.

18 And it is the second log which appears on Exhibit
19 7. You can see approximately 36 feet of gross zone
20 development, 25 feet of net 7-percent porosity development.
21 And we believe that what we see here, we are also finding
22 indications on this 40-some-year-old log due to the reduced
23 resistivity. This is in the "X" 1 well, located in the
24 northwest of Section 12. So that's basically why we're
25 here.

1 We believe that the zone which we are completed
2 in, in the "M" 1 well, exists in the "X" 1.

3 Q. Now, in looking at both your maps put together,
4 you do need to be east of the fault, do you not?

5 A. Yes, what's fairly obvious if you travel from A
6 to A' on the Geomap is, coming off of the apex on the
7 upthrown block, the Mississippian section here, the
8 uppermost increment of deposition in the Mississippian --
9 it's outlined in blue -- is very thin.

10 When you cross over to the second point on the
11 cross-section, this is the "M" 1 well, and you can see
12 there's over -- well, there's approximately 110 feet, maybe
13 even 120 feet of carbonate there. In the middle of it is
14 the porosity development.

15 Moving further south on the cross-section to the
16 "X" 1, we can see that we have a very consistent thickness
17 of development, and we have the indication of porosity due
18 to the low resistivity in the middle.

19 When we move to the terminus end or A', we see
20 that we are losing development, and we also have very high
21 resistivity, not indicative of a porosity development.

22 The furthest well, which is the State "QE" 13
23 Number 1, if you look on the cross-section it's located
24 distally from the trace of the eastward bounding fault.
25 We're on the downthrown side. What would appear to be

1 occurring is that the reservoir in the Mississippian
2 develops along a north-south trend, much like the Morrow
3 out here, particularly your Morrows in the north-south
4 trend.

5 The Mississippian is developing in the same
6 trend, and the primary porosity within this increment of
7 deposition is being altered tectonically, it's being
8 fractured due to its closeness to the faulting, which is
9 further enhancing, you know, obviously through post-
10 diagenic solution modification, and is creating this 7-
11 percent porosity block.

12 What we find when we move out a little over a
13 half a mile from the trace of the fault, when we move to
14 the east, we lose porosity development within the same
15 interval. The interval roughly occupies the same position
16 here, but very, very tight.

17 Q. So the State "QE" well, which is at A' on your
18 cross-section, is what, approximately a half a mile, maybe
19 slightly more, east of that fault trace?

20 A. Yes. I would liken the porosity development in
21 the Mississippian in relationship to where the fault is, to
22 an alluvial fan. As you come off of the slope with your
23 heavier, coarser material, being grain-size, sand-size
24 material, is going to be close to the fan. As you move
25 further out, you're going to get silt- to clay-sized

1 material. That, I believe, is part of the reason for the
2 development next to the fault. When you move distally, you
3 have no development.

4 Q. Based on what you've just testified, would you
5 expect the east half of Section 12, the section we're here
6 for today, to be prospective in the Mississippian?

7 A. At this time it is highly suspect. Based on the
8 location of the State "QE" 2 well -- I'm sorry, "QE" 1
9 well, and its distance from the fault, as compared to the
10 two wells in the middle, the "M" 1 and the "X" 1, we would
11 have great concern that we would be located too far from
12 the fault for the fracturing to have allowed solution-
13 developed porosity.

14 Q. Let me ask you one thing. The State 1 "M" well,
15 the well in Section 1 that Pride and Yates drilled together
16 or recompleted together, does that well have any water
17 production?

18 A. At this time I don't believe so.

19 Q. Okay. But both that well and the State X Number
20 1 are updip, are they not?

21 A. Yes, regional dip is to the south -- well, it's
22 to the east-southeast, as demonstrated by the contour lines
23 on the map. And, you know, at some point there is a
24 potential that you would run downdip and into water in this
25 reservoir.

1 Q. And the east half of Section 12 is downdip from
2 the west half of Section 12?

3 A. Yes.

4 Q. Okay. In your opinion, is the proper way to
5 develop this reservoir to re-enter the well on a -- the
6 State "X" Well Number 1 on a standup basis?

7 A. Yes, it is.

8 Q. And just one final question, kind of out of
9 order, but what is the date of the log on the State 1 "M"
10 well?

11 A. I believe that it was logged in March of 2001.

12 Q. Okay.

13 A. I do not have those copies with me, but I believe
14 that's correct.

15 Q. Okay, so about two and a half years ago?

16 A. Roughly, yes.

17 Q. Okay, were Exhibits 6 and 7 prepared by you or
18 under your supervision?

19 A. Yes, they were.

20 Q. And in your opinion is the granting of Pride's
21 Application in the interests of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I'd move the admission
25 of Pride Exhibits 6 and 7.

1 EXAMINER CATANACH: Any objection?

2 MR. FELDEWERT: No, Mr. Examiner.

3 EXAMINER CATANACH: Exhibits 6 and 7 will be
4 admitted.

5 Mr. Feldewert?

6 CROSS-EXAMINATION

7 BY MR. FELDEWERT:

8 Q. Mr. Ellard, you should have hit me upside of the
9 head earlier. I kept asking you about Morrow experience.
10 I guess I should be asking about Mississippian experience.
11 Can you just tell me what experience you have with the
12 Mississippian formation in this part of the country?

13 A. I have worked looking at various fractured
14 Mississippian systems specifically to this area. This is
15 in a regional study I've looked at it; I have not looked at
16 it in specific here until this time.

17 Q. All right, so this is the first time that you've
18 been asked to interpret the Mississippian formation in the
19 southeast part of New Mexico?

20 A. No, that isn't correct. I've looked at it on a
21 regional basis. I have not looked at it in specific to
22 these sections --

23 Q. Okay, all right.

24 A. -- prior to six weeks ago.

25 Q. When you say "regional basis", how big of a

1 regional basis are we talking about?

2 A. Across the Permian Basin.

3 Q. Now, in terms of this cross-section, the
4 information that you have for the "M" 1 well, is that from
5 -- That's not from information that Pride -- Pride is the
6 one that re-entered that well, correct?

7 A. Correct.

8 Q. And did they do a log when they entered that
9 well?

10 A. Oh, yes.

11 Q. Is this the log that Pride developed when they
12 re-entered that well?

13 A. I believe that that was an original well. That
14 is an acoustic, which I believe demonstrated more closely
15 the porosity development for this display.

16 Q. I guess I'm wondering why you wouldn't have used
17 the updated information that Pride had when they re-entered
18 that well?

19 A. I felt that this demonstrated it better for
20 presentation purposes. It stands out better with the
21 acoustic curve.

22 Q. Okay. Where did you get the information for the
23 "X" 1 well, located in the north half of Section 12?

24 A. The information, you mean the log?

25 Q. The log, yes.

1 A. I assume that it originated with state records.
2 It was in my files.

3 Q. Okay.

4 A. It may have come from Riley's. I don't know
5 where it originated.

6 Q. Is this a log -- This A-A', is this a log that
7 you put together?

8 A. The cross-section?

9 Q. Yes.

10 A. Yes.

11 Q. Okay.

12 A. Or at my direction, yes.

13 Q. All right. Now as I understand it, you indicate
14 on your map, which has been marked as Exhibit 6, a fault
15 that extends down through Section 1 into Section 12 --

16 A. Yes.

17 Q. -- then you have a dotted line through Sections
18 14 and 23. Is there a reason why you have a dotted line?

19 A. Oh, I haven't picked the exact trace of the
20 fault. It could run a hundred feet east or west of that.
21 So rather than drawing it in as a hard and fast line, I
22 projected through there.

23 Q. Now, this map that's been marked as Exhibit 6
24 doesn't have a legend. Can you tell me where this came
25 from?

1 A. This is this one?

2 Q. Yes.

3 A. That's a Geomap.

4 Q. And when was this map developed?

5 A. I don't know the date on the -- I don't know the
6 update dates on it. Geomap is a commercial company which
7 maps various formations across the United States. They've
8 been in business for at least 20 years, and they could have
9 been in business for 50 for all I know, but I've been using
10 their maps for regional data and specific investigations
11 for 20 years.

12 Q. Okay. Do you know the date that this -- This
13 particular Geomap that's been marked as Exhibit 6, do you
14 know when it was generated?

15 A. When Geomap constructed it?

16 Q. Yes.

17 A. I do not.

18 Q. Okay. In terms of what you added to this map,
19 you added the lines for A-A', correct?

20 A. That's right.

21 Q. You added the dashes?

22 A. That's all.

23 Q. That's all, the rest of it was on the Geomap?

24 A. Well, the coloring is not on there, but --

25 Q. I'm sorry.

1 A. -- the rest of it is on the Geomap --

2 Q. Okay.

3 A. -- yes. I have not contoured this, I have not
4 interpreted new faults or spotted any new wells. The map
5 -- wellspots, I believe that you'll see that there are some
6 on here that are updated to 2002, I see just off the top of
7 my head, so the maps are current.

8 Q. Do you see the well up there in Section 1 that
9 has "Humble" by it, up in the north half of Section 1?

10 A. Yes.

11 Q. Do you know whether that well was completed?

12 A. That well was not completed. It was a dryhole,
13 and it was drilled to approximately 4984 feet total depth.

14 Q. Okay.

15 A. It did not reach a depth sufficient to test any
16 of the zones of interest.

17 Q. Okay. Are there any other wells to the east side
18 of this fault that are completed or have been drilled to
19 the Mississippian, other than the three wells that you have
20 used for your A-A'?

21 A. There is a well in Section 9 [sic] that would be
22 on the south tier that I am assuming went deep enough.
23 It's the Yates Petroleum 1 AXZ -- I can't read what the
24 other name is. It shows a TD of 13,951 feet.

25 Q. Why didn't you include that well in your cross-

1 section?

2 A. I didn't have access to the logs.

3 Q. Okay. Are there any other wells that you're
4 aware of to the east of this fault that have been drilled
5 or completed -- drilled to the Mississippian?

6 A. There's the well in Section 6 and Section 7,
7 immediately north.

8 Q. Which have a total depth of over 13,000, right?

9 A. That's correct.

10 Q. Okay, are they completed in the Mississippian, do
11 you know?

12 A. I do not believe either one of those are
13 completed in the Mississippian. In fact, I think that the
14 Four Lakes Yates 1 Indigo State is completed in the Morrow.
15 So penetration of the Mississippian, I would deduce they
16 determined they did not have any pay zone out there.

17 Q. But you didn't look at those -- You didn't do any
18 analysis of those wells, did you?

19 A. I don't -- no.

20 Q. I'm sorry?

21 A. No.

22 Q. Okay, so you don't know one way or the other?

23 A. I have no information to form a basis of opinion
24 on it.

25 Q. Okay, did you --

1 A. I don't have access to those logs.

2 Q. Okay. Are there any other wells to the east of
3 that fault line?

4 A. That went to the Mississippian?

5 Q. Yeah.

6 A. A quick glance, I don't think so -- Well, let's
7 see, there's the Indigo State Number 3 located in Section
8 5, and it's either 11,000 or 12,900 -- My copy is not good
9 enough to tell.

10 Q. Okay, and you didn't look at it --

11 A. I don't know if it went deep enough or not.

12 Q. Okay, so you didn't examine that well --

13 A. No.

14 Q. -- or the records from that well?

15 So am I correct that your interpretation of the
16 Mississippian with respect to the fault and your contention
17 that as you move east you lose porosity is based primarily
18 on the well that you've marked down there as A'?

19 A. That's right.

20 MR. FELDEWERT: Okay, that's all the questions I
21 have.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Ellard, where you have the fault line that
25 stops in Section 11, is that -- did Geomap do that -- Did

1 that line stop there on their map?

2 A. Yes, it does.

3 Q. Okay, so you just projected the dotted line
4 further south?

5 A. Yes.

6 Q. Okay, so do you know, in fact, that that fault is
7 there at that --

8 A. I have a high degree of confidence that fault
9 continues for several miles to the south.

10 Q. And that's based on what?

11 A. Well-log examination to the south.

12 Q. You have looked at some well logs to the south?

13 A. Yes, I have.

14 Q. According to your interpretation, would the
15 southwest quarter of Section 12 be productive?

16 A. We're beginning to deal -- what we have here is
17 basically a new zone discovery in the well in the southwest
18 of Section 1. We believe that the zone is present and at
19 least warrants testing in the northwest of 12, the "X" 1
20 well.

21 Right now we have a well and we have an
22 indication. If we're looking to the southwest quarter
23 today, would it stand the test, would it stand with low
24 enough risk to drill a test for that zone specifically?
25 That's a hard sell. You almost have to have the well to

1 the north completed, and this would be a very methodical
2 proving as you run down the face of that fault, for the
3 zone development. At this time I wouldn't step out and
4 drill the southwest of 12, until I knew what I could test
5 in the northwest of 12.

6 Q. Well, according to your logic, if you've got
7 close enough to the fault, you may encounter some
8 production?

9 A. Yes.

10 Q. Now, you believe the east half of Section 12 does
11 not have any porosity development at all?

12 A. At this time I cannot make a convincing case for
13 the zone to be developed more than half a mile east, based
14 on the well located down in Section 13.

15 Q. Would you say that the east half of Section 12
16 would not contribute any reserves to a well that was
17 drilled in the west half?

18 A. As -- With the knowledge I have today, that
19 statement is correct.

20 Q. Do you have some knowledge about the well in
21 Section 1?

22 A. The "M" 1 well?

23 Q. Yeah.

24 A. Yes.

25 Q. Is that a pretty good well?

1 A. It has been commercially successful. It
2 continues to produce today at between -- oh, approximately
3 350,000 cubic feet per day plus distillate. And this is
4 some two and a half years after initial completion, if I'm
5 correct.

6 Q. Okay, it currently produces 350 MCF per day; is
7 that what you said?

8 A. The last production records which were discussed
9 with me, that's what the well was producing, yes.

10 Q. You don't know what the cumulative production is
11 on that well?

12 A. I do not have that number, no. I can get it for
13 you, but I don't have it today.

14 Q. Is Pride considering drilling an additional well
15 in Section 1, in the west half?

16 A. We have not discussed that yet.

17 Q. What would your recommendation be?

18 A. I would need to have volumetrics run on that
19 before I would commit to that. We have not targeted the
20 Mississippian for further development in the west half of 1
21 as of this date. It may be something to look at on the
22 boards at a later time, but right now I have made no
23 recommendation for that.

24 Q. Has there been any drainage data work done on
25 that State 1 "M"?

1 A. I have not done any myself. I'm unfamiliar what
2 the latest update is. I couldn't quote you any numbers.

3 EXAMINER CATANACH: Okay, I believe that's all
4 the questions I have of Mr. Ellard.

5 Any redirect?

6 MR. BRUCE: I have no redirect.

7 MR. FELDEWERT: I have one, or two.

8 FURTHER EXAMINATION

9 BY MR. FELDEWERT:

10 Q. Mr. Ellard, I think you said it would be a hard
11 sell to recommend a well in the southwest quarter; is that
12 correct? Of Section 12?

13 A. With what we know today?

14 Q. Yeah.

15 A. It would be very high risk, in my opinion.

16 Q. Okay, so you can't say for sure that a well at
17 the acreage in the southwest quarter is going to contribute
18 to the well in the northwest quarter?

19 A. I didn't say that, I said it would be high risk
20 to step out there and drill.

21 Q. Okay.

22 A. I believe that the reservoir -- It is my opinion
23 that the reservoir found in Section 1 continues to parallel
24 and run along the axis of that fault trace, running back to
25 the southwest. The fracture network apparently is most

1 active, based on my cross-section, within a half a mile.
2 The zone is present and may be productive in the "X" 1
3 well, based on 45-year-old logs.

4 Q. I understand.

5 A. I don't know what's going on south of there yet.

6 Q. Okay.

7 A. If the production were to be found commercial in
8 the "X" 1, then certainly the risk is much greater reduced
9 for the southwest of 12.

10 Q. But I'm trying to figure out, can you sit here
11 today and say that -- and form an opinion that the acreage
12 in the southwest quarter is going to contribute production
13 to a well in the northwest quarter?

14 A. Can you restate that?

15 Q. Can you sit here today and say that the acreage
16 in the southwest quarter of Section 12 is going to
17 contribute to any production from a well in the northwest
18 quarter?

19 A. I would say that there is a high likelihood -- If
20 the completion in the well -- or the recompletion in the
21 "X" 1 is successful, that success will be indicative of
22 reservoir continuing to the southwest, which would be
23 across the southwest quarter.

24 Q. Okay.

25 A. So it would be contributing --

1 Q. All right.

2 A. -- to the "X" 1 well.

3 Q. But as of today, we don't have any data to
4 ascertain whether that would be the case or not?

5 A. No, you asked for my opinion. That would be --
6 That's my best opinion.

7 MR. FELDEWERT: Okay, that's all the questions I
8 have.

9 EXAMINER CATANACH: Okay, anything further, Mr.
10 Bruce?

11 MR. BRUCE: No, sir.

12 EXAMINER CATANACH: Nothing further, okay.

13 MR. BRUCE: That concludes our presentation.

14 EXAMINER CATANACH: Would you like to make
15 statements or -- No? Mr. Feldewert?

16 MR. FELDEWERT: You know, I can be very brief. I
17 know you've heard arguments on this.

18 I went through this a little bit as I prepared,
19 trying to get a handle on what we have here, and I think,
20 Mr. Catanach, what we have is that Pride is contending that
21 because it filed an APD to re-enter a property on a lease,
22 or re-enter a well that's owned -- located on a lease owned
23 by another operator, that by that administrative act alone
24 it has suddenly acquired a right in that well and can
25 prevent the lessee that owns that well from using it to

1 develop its acreage.

2 I believe that Mr. Pride testified that he didn't
3 believe that if the APD issued to Yates was valid that he
4 could come in and now pool the property and take that well
5 away. So it really falls down to the APD issue.

6 And as I look at that, I mean, it seems to me
7 that the Commission has said very clearly that before you
8 file an APD you need to have a good-faith belief that
9 you've got a right to use that well. And that either comes
10 about as a result of a voluntary agreement or because of a
11 pooling order. And we don't have that in this case.

12 So when they filed that APD they had no good-
13 faith belief whatsoever that they had a right to use that
14 well. And in my mind, when the Division found -- the
15 District Office found that out, they acted properly in
16 revoking that APD and in granting the APD to the operator
17 that clearly does have a right to use that well.

18 Yates in this case has dedicated 320 acres of its
19 lease acreage to that well, it has commenced operations on
20 that well, and as a result that acreage is not available
21 for pooling. And they have proceeded properly in this
22 case, they have done everything they are required to do
23 under the Division Rules to proceed with the completion
24 efforts in their well, on their acreage, to develop their
25 acreage. And if Pride wants to go out and drill their own

1 well to develop their acreage, they certainly have the
2 opportunity to do that, and I think that's what this boils
3 down to.

4 Thanks.

5 EXAMINER CATANACH: Thank you, Mr. Feldewert.

6 Anything, Mr. Bruce?

7 MR. BRUCE: Yeah, Mr. Examiner, let me address a
8 couple of Mr. Feldewert's points.

9 First, I think Mr. Pride testified that he did in
10 good faith believe that he was authorized to seek to apply
11 for the APD. Even the order that Mr. Feldewert submitted,
12 in paragraph 34 that you can drill first or pool first.
13 Pride was seeking to pool first.

14 Furthermore, that same paragraph states that the
15 issuance of an APD does not prejudice the results of a
16 compulsory pooling proceeding.

17 Yates tried to paint Pride as being dilatory in
18 this proceeding. The fact of the matter was, at Pride's
19 instigation the State 1 "M" well was drilled, it was a
20 successful well. Yates was in that well, they saw the
21 results of that well, they immediately went out and filed a
22 north-half APD in Section 12.

23 What do they do? Nothing, for two years.
24 They're the ones who are dilatory.

25 Finally, when that expired, Pride obtained its

1 APD and proposed the well.

2 At the same time, Yates surreptitiously goes over
3 to the OCD after getting Pride's proposal, gets Pride's APD
4 revoked and its own APD approved.

5 Two primary points to be made: Pride's APD was
6 illegally canceled. It was good for one year. There is no
7 procedure for the Hobbs District Office to cancel that APD.
8 Furthermore, Yates never filed an application with the
9 Santa Fe office of the Division to cancel that APD.

10 Many of Yates's points may be right if it had a
11 valid APD. It does not. The only way to protect the
12 correlative rights in this section is to form a standup
13 unit. The Mississippi reservoir runs north-south and only
14 covers the west half of Section 12. If Yates gets its way,
15 there will probably have to be another well drilled in the
16 southwest quarter to protect Pride's rights.

17 The problem is, if Yates wins, Yates will get a
18 hundred percent of production from the State "X" well.
19 Because it also owns an interest in the south half, it will
20 get 50 percent of production from the second well. In
21 other words, it will get three-quarters of the production
22 from this reservoir. The problem is, it only has half of
23 the productive acreage. This severely impairs Pride's
24 correlative rights.

25 Pride followed the rules, it got a standup APD,

1 it proposed the well. Pride's geology shows that an APD --
2 or I should say a west-half well unit, is proper, and its
3 Application must be granted. Yates's APD must be revoked.

4 Thank you.

5 EXAMINER CATANACH: Thank you, Mr. Bruce.

6 Okay, there being nothing further in this case,
7 Case 13,153 will be taken under advisement, and this
8 hearing is adjourned.

9 (Thereupon, these proceedings were concluded at
10 11:30 a.m.)

11 * * *

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16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. 13153,
heard by me on October 9 2003.

19 David R. Catnach, Examiner
20 Oil Conservation Division
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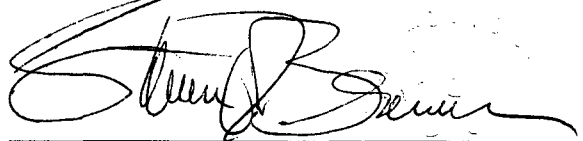
CERTIFICATE OF REPORTER

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 October 25th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006