

STATE OF NEW MEXICO
 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
 OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
 THE OIL CONSERVATION DIVISION FOR THE)
 PURPOSE OF CONSIDERING:) CASE NO. 13,020
)
 APPLICATION OF YATES PETROLEUM)
 CORPORATION FOR ADOPTION OF SPECIAL)
 POOL RULES, LEA COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

MAR 27 2003

March 13th, 2003

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 13th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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March 13th, 2003
 Examiner Hearing
 CASE NO. 13,020

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APPLICANT'S WITNESS:

DAVID F. BONEAU (Engineer)

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:22 a.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order. I'll call Case Number 13,020. This is the
5 Application of Yates Petroleum Corporation for adoption of
6 special pool rules, Lea County, New Mexico.

7 Call for appearances.

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

12 EXAMINER STOGNER: Any other appearances?

13 Will the witness please stand to be sworn?

14 (Thereupon, the witness was sworn.)

15 DAVID F. BONEAU,
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. CARR:

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

21 A. David Francis Boneau.

22 Q. Dr. Boneau, where do you reside?

23 A. Artesia, New Mexico.

24 Q. By whom are you employed?

25 A. I'm employed by Yates Petroleum Corporation as

1 engineering manager.

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

4 A. Yes.

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

8 A. Yes, they were.

9 Q. Are you familiar with the Application filed in
10 this case on behalf of Yates Petroleum Corporation?

11 A. Yes, I am.

12 Q. Have you made an engineering study of the area
13 and the well which are involved in this case?

14 A. I have done that, yes, sir.

15 Q. And are you prepared to share the results of that
16 work with Mr. Stogner?

17 A. Correct, yes.

18 MR. CARR: Mr. Stogner, are Dr. Boneau's
19 qualifications acceptable?

20 EXAMINER STOGNER: They are.

21 Q. (By Mr. Carr) Dr. Boneau, would you initially
22 explain to the Examiner what it is that Yates seeks in this
23 case and why we're here?

24 A. We're seeking special pool rules for the Salt
25 Lake Delaware Pool, which include basically 80-acre spacing

1 for Delaware wells. This is a one-well pool.

2 The purpose of our Application, or what we're
3 trying to obtain, is an increased allowable for this one-
4 well pool. As amazing as it sounds, we have a well that's
5 ten-plus years old that can make more than the present
6 allowable.

7 The Examiner will quickly see as we get into this
8 that there's an issue of some overproduction early in the
9 life of this pool, and we'd like that ignored or canceled
10 or some such thing. And the Application does not
11 specifically talk about that, and that may be a notice
12 issue that -- I'm not sure, there may be some problems. If
13 there are, we might -- we would address them now, or they
14 might address them now, or -- shall we go on, or is that --

15 EXAMINER STOGNER: Yeah, let's go on.

16 MR. CARR: Let me explain. When we started
17 working on this, looking at an increase in allowable, we
18 discovered that in the early 1990s this well overproduced.
19 It was choked back in 1996 and since that time has been
20 producing within the oil allowable. And because of the
21 date of this and all, we simply had missed that part of the
22 case.

23 We'd be prepared to file a subsequent application
24 to address that, to fall back and do whatever needs to be
25 done, but it's a problem and we're aware of that.

1 And we discussed whether or not we would fall
2 back and come before you, and we thought perhaps that it
3 would be prudent, or at least we felt we ought to come
4 forward now that we've got our hands sort of around all the
5 issues in the situation that we're dealing with, and
6 provide you with not only some drainage information but a
7 history of the well and put it in some sort of a context,
8 and we're prepared to do whatever you direct.

9 EXAMINER STOGNER: You said the early 1990s. How
10 much overproduction are we talking about?

11 THE WITNESS: The total is substantial. I'd say
12 like 120,000 barrels. It's a really strange story.

13 EXAMINER STOGNER: In the pool rules that you're
14 seeking, it would go from what depth bracket allowable to
15 what?

16 THE WITNESS: Well, the producing zone is just
17 about 5000 feet, so -- it's 4950 feet, so it's the top line
18 of --

19 MR. CARR: It goes 80 to 160, I believe.

20 EXAMINER STOGNER: A little too much to -- Okay,
21 well, let me ask another question at this point. What is
22 the well capable of producing? What is the production?

23 THE WITNESS: Like Mr. Carr said, the well has
24 been essentially choked back to 80 barrels a day since
25 1997. We think it can still produce 120, 125 barrels a

1 day.

2 EXAMINER STOGNER: So the increase would not be
3 enough to make up over time?

4 THE WITNESS: Yeah, but it would take quite a bit
5 of time.

6 EXAMINER STOGNER: Uh-huh.

7 MR. CARR: You know, if I might suggest, it's a
8 unique kind of a situation, a one-well pool in the potash
9 area, and we might provide you -- run through Dr. Boneau's
10 testimony and -- so it puts it in some sort of a context --
11 we've got production figures and that, if that's agreeable
12 with you. And then we could discuss about how we proceed
13 with it.

14 Or if you'd like to have us pull it, file a new
15 application seeking perhaps cancellation of overproduction
16 and then explain those circumstances in that case, we can
17 do that as well.

18 EXAMINER STOGNER: Let's proceed on today and pay
19 particular attention as you're questioning Dr. Boneau about
20 the location of this well, the size of the lease --

21 MR. CARR: Yeah, I will.

22 EXAMINER STOGNER: -- the size of the acreage --

23 MR. CARR: I'm prepared --

24 EXAMINER STOGNER: -- and perhaps, if I might
25 suggest something, maybe readvertise it as a -- make the

1 special pool rules retroactive.

2 MR. CARR: But we started talking about it and we
3 didn't know what to do, and so we decided instead of coming
4 back another day, that we'd try and put it on and then do
5 whatever the Division thought we ought to do.

6 EXAMINER STOGNER: And the reason I stated that,
7 it looks like we're in a one-well pool --

8 MR. CARR: Right.

9 EXAMINER STOGNER: -- in the potash area, and
10 just by glancing it appears like we're in a big lease in
11 some federal acreage.

12 THE WITNESS: Yeah, there's --

13 MR. CARR: You're correct.

14 THE WITNESS: They're not waste issues, they're
15 not correlative-rights issues. It's a reasonable story, if
16 we can go through it.

17 EXAMINER STOGNER: Let's do that, bear it in mind
18 and perhaps, instead of taking it under advisement today,
19 readvertise it for a retroactive date, and that way I don't
20 see where it would be necessary, unless somebody objected
21 to it -- I doubt it -- for Dr. Boneau to return. And then
22 at that time, in the two weeks or four weeks, whatever the
23 case may be, we can take it under advisement and issue an
24 order. So let's proceed today.

25 Q. (By Mr. Carr) Dr. Boneau, let's go to what has

1 been marked for identification as Yates Exhibit Number 1.

2 A. Okay.

3 Q. Would you identify that and review the
4 information on this exhibit?

5 A. Exhibit 1 is a map, an orientation plat. The
6 important things are, the well we're talking about is in
7 Section 14, in kind of the middle, the lower middle of the
8 plot. The well in question is called Belco AIA Federal
9 Number 1. It's located sort of in the -- well, in Unit J,
10 but kind of in the middle of Section 14.

11 The yellow area shows Yates leases in the area.
12 Section 14 is a single federal lease with Yates as the only
13 owner. So all the ownership is identical in Section 14,
14 and there are pretty much no other wells around. It's a
15 potash area. As you'll see, it's a good well. And we
16 tried really hard to offset it and have had all sorts of
17 APDs rejected by the BLM. You know, you're familiar with
18 some of those details. But we're talking about the well in
19 Section 14.

20 Q. And Dr. Boneau, what acreage is dedicated to the
21 well? Forty acres?

22 A. The acreage dedicated to the well is the 40 acres
23 in Unit J, yes, sir.

24 Q. The northwest of the --

25 A. The northwest of the southeast of Section 14.

1 Q. We have identical ownership throughout Section
2 14, working interest and royalty interest?

3 A. That's correct.

4 Q. We have no other operator in this pool?

5 A. That's correct.

6 Q. There is no other Delaware well within a mile of
7 this pool?

8 A. That's correct.

9 Q. And attempts to offset this with additional
10 Delaware wells have been impossible because the BLM has
11 denied APDs?

12 A. That's correct, yes, sir.

13 Q. Let's go to Exhibit 2, and using this composite
14 exhibit, first provide a history of the well and then
15 review the general spacing and production information shown
16 on this exhibit.

17 A. Okay, there's a whole lot of things on this page
18 to try to orient to what we're talking about here. So
19 we're talking about the Belco AIA Federal Number 1, and we
20 talked about its location.

21 It was originally drilled by Belco Petroleum in
22 1981 as a deep Morrow test; 13,250 feet is the total depth
23 of the original well. And it was DST'd in the Morrow and
24 abandoned.

25 Belco Petroleum, when they drilled it, set a long

1 intermediate string down to 11,074 feet of 7-5/8-inch
2 casing, and the only logs available on the well from Belco
3 are from 11,000 feet on down to TD. So just the deep zones
4 were logged, there's no shallow logs at all. So it was a
5 dry hole out there.

6 And Yates re-entered -- bought the lease and re-
7 entered the well in August of 1990. And our original idea
8 was to test the Wolfcamp zone that was in the open hole and
9 on the old Belco logs. And we did that, and it actually
10 IP'd one day for 180 barrels a day. And over the next six
11 months or so it produced about 3000 barrels of oil and died
12 away, like Wolfcamp sometimes does.

13 Then as we have next to the number 3 there, about
14 in the middle of the page, in February of 1991, Yates moved
15 uphole into the old casing and tested the Bone Springs
16 interval at 9600 feet down to 10,000, and that was not
17 productive.

18 And then we tested some what you call lower
19 Delaware in the 7300-to-7500-foot range. And over this
20 six-month period in 1991, those various zones produced
21 about 1500 barrels of oil and were not really commercial,
22 we thought.

23 And so we -- In item number 4, in October of
24 1991, actually on the 4th of October, Yates opened this
25 Delaware zone, 4928 to 4956 feet. And the well immediately

1 flowed about 200 barrels of oil a day and 150 barrels of
2 water a day. And we ended up completing the well in that
3 zone in February, 1992, with an IP of 210 barrels of oil a
4 day, 95 barrels of water and some associated gas.

5 Since that time -- And that's the zone that has
6 been produced since October of 1991. In that time, that
7 one Delaware zone, upper Delaware zone, has produced
8 461,000 barrels of oil from the Salt Lake-Delaware Pool.

9 So that's pretty much a history of the well. It
10 was a re-entry, and then we tried several zones and ended
11 up in this upper Delaware zone, which has turned out to be
12 a sensational producer.

13 Okay. Down at the bottom of the page I've listed
14 some semi-facts, at least, that help more in the
15 orientation.

16 So there have been no offset wells drilled
17 because the BLM has rejected all our permits and, you know,
18 all sorts of fun has been going on with the potash in the
19 last ten years.

20 So the spacing, probably just through our
21 neglect, has been 40 acres with a depth bracket allowable
22 of 80 barrels a day. And you'll see the details, but the
23 well produced above that 80 barrels a day from October,
24 1991, till early 1997 when we woke up and restricted the
25 production to 80 barrels a day. And you'll see it's been

1 held back at real close to 80 barrels a day since April,
2 1997.

3 Our field people think the well can still produce
4 120 barrels of oil a day, and it's been clear for 10 years
5 that the well is draining more than 40 acres, and -- but
6 anyway, increasing the spacing unit to 80 acres would raise
7 the allowable to 160 barrels a day.

8 Q. What is Exhibit 3?

9 EXAMINER STOGNER: I'm sorry, what was the
10 question?

11 Q. (By Mr. Carr) What is Exhibit Number 3?

12 A. Exhibit Number 3 is another map, and its purpose
13 is simply to show the pools in the area. The Salt Lake-
14 Delaware Pool is -- the southeast quarter of Section 14 has
15 been designated as the pool. This Belco well is the only
16 well in that pool.

17 The other Delaware pool on the map is up to the
18 north. It's called East Lusk-Delaware Pool, and there
19 actually is a Delaware producer, as we'll see, in Section
20 1. It's made like 3000 barrels.

21 And there is a Delaware pool off the map to the
22 south, but it's more than a mile away.

23 So there's no other Delaware production within a
24 mile or two of this well.

25 Q. Okay, Dr. Boneau, let's now go to Yates Exhibit

1 Number 4, the table with information on wells near the
2 Belco Federal Number 1, and review the exhibit -- explain
3 how it's set up and review the information on the exhibit.

4 A. Okay, so Exhibit 4 contains spud dates and IPs,
5 et cetera, for all the wells on the map that we've seen,
6 and I don't intend to go through it in detail. Make a
7 couple points.

8 The top well, Snyder AKY Number 1, the first well
9 listed there, is the other Delaware producer. It actually
10 produces from an upper Delaware zone. And like I said,
11 it's made 3000 barrels, and it was a big struggle to get a
12 permit to drill that and we ended up with 3000 barrels.

13 Probably the other interesting thing -- There's
14 been some deep wells drilled here, a lot of dry holes. The
15 other real production in the area has been from the Bone
16 Spring. If you look way out on the right-hand column,
17 there's a well that's made 37,000 barrels from the Bone
18 Spring, a well that's made 62,000 from the Bone Spring, a
19 well that's made 26,000 from the Bone Spring. So there
20 hasn't been -- Well, because of the potash, et cetera,
21 there hasn't been much development here, but there's been a
22 little bit of Bone Spring production in this one Delaware
23 well.

24 Q. All right, let's go to the first production plot,
25 Exhibit Number 5.

1 A. Okay. The rest of the exhibits are really only
2 aimed at one thing. They're aimed at making a case that
3 the drainage is more than 40 acres, is 80, you know, 80 or
4 whatever acres.

5 And so Exhibit 5 is a multi-colored picture of
6 the production history of this well. The oil is in green,
7 the gas is in red, the water is in blue. And it's kind of
8 a jumble to see, and I don't know that it's worth trying to
9 get the details. I think moving to Number 6 --

10 Q. Okay.

11 A. -- is an easier way to say what we're trying to
12 say.

13 Q. Let's go to Exhibit 6.

14 A. Exhibit 6 is the same kind of production plot,
15 but it just shows the oil so that its clear what we're
16 talking about.

17 Before October of 1991 there's some production in
18 the maybe 10- to 40-barrel-a-day range down in the lower
19 left corner, and that's the Wolfcamp and other zones that
20 we're really not talking about. But the production from
21 this Delaware zone started over 200 barrels a day and
22 drifted around and down in the 96, 97 -- you know, after
23 six years of production was still making around 100 barrels
24 a day.

25 And then the right-hand part of the plot is

1 essentially a flat line at 80 barrels of oil a day, with a
2 few months that are below that due to -- well, a little bit
3 mechanical, but mostly to times when Yates restricted the
4 well because of prices.

5 So the well has -- like I say, the last six years
6 it's made 80 barrels a day, but before that it made quite a
7 bit more. And if you extrapolate that on down, I think it
8 could still make quite a lot of oil. It's made 461,000
9 barrels through January, as I said, and my estimate is that
10 it can make 700,000 barrels of oil. There's at least 200-
11 and-some-thousand barrels left in this well.

12 Q. A very good Delaware well?

13 A. A very good Delaware well, yes?

14 Q. And although we just looked at the graph that
15 showed only the oil production, in fact the well does
16 produce a fairly substantial volume of water; isn't that
17 right?

18 A. Yes, in recent times the well has been producing
19 around 80 barrels of oil and 100 barrels of water.

20 Q. I mean, what would happen to the well if you just
21 shut it in to make up overproduction?

22 A. I'd be really afraid that you'd hurt the well
23 badly, that the water would shut off all or a portion of
24 the oil.

25 Q. And as you stand right now, you have a one-well

1 pool; isn't that correct?

2 A. We have a one-well pool with nobody around us.

3 Q. And as we finish your presentation up, is it your
4 opinion that this one well is going to drain the reserves
5 from that pool as it stands today?

6 A. Oh, it's going to drain a substantial portion of
7 that 160, but not all of it.

8 Q. Let's go to the table, Exhibit Number 7, and I'd
9 ask you to review that -- First, explain what it shows, and
10 then review the information on the exhibit for Mr. Stogner.

11 A. Exhibit 7 is a table that puts into perspective
12 the same thing that was plotted in Exhibit 6, so it's a
13 year-by-year tabulation of the barrels of oil, gas and
14 water per day from this well. And like we said -- Well,
15 the barrels of oil per day are in the third column from the
16 right, and they're bolded in black so they're the thing
17 that should be focused on, probably.

18 But early in its life the well produced some 205
19 barrels a day, and in 1996 it was still making 116 barrels
20 a day. It was above the allowable that whole time. And
21 since then it's been 85, 59, 66, 78, 76, 77, 74, as close
22 as we could keep it to being under 80 barrels a day.

23 In the lower left are the totals for the well and
24 -- anyway, the 461,680 barrels of oil have been produced
25 through January of this year, about a half a BCF and about

1 a half a million barrels of water.

2 Q. Let's go to Exhibit 7.

3 A. And Exhibit -- Is it 7 or 8? Which one are we
4 on? I think we're on 8 now.

5 Q. Right.

6 A. And 8 we're only going to spend ten seconds on.
7 It's a month-by-month tabulation for the whole life of the
8 well, and we talked about that.

9 If there's -- Well, probably the only thing I
10 thought was of interest in 8 is, if you look in the middle
11 of the second page I've bolded April of 1997. And if you
12 look down those columns you see that it was producing 3500
13 barrels a month, which is 120 barrels a day, and in April,
14 1997, it went down to 2413 barrels, right at 80 barrels a
15 day, and it's -- just look at the numbers. Anyway, there's
16 a real drop there, and then it flattens off. But it's the
17 same information that was on the previous exhibits.

18 Q. All right, let's now go to the section from the
19 porosity log, Exhibit Number 9.

20 A. Okay, Exhibit -- Well, Exhibit Number 9 is a
21 neutron porosity log of the zone that's producing. This
22 log was taken through casing by Yates at the time we re-
23 entered the well, and so the zone around 4950 is the zone
24 of interest. It has porosity in the -- over 20 percent,
25 I'd say about 24-percent porosity, a really -- and whether

1 you can exactly believe this through casing is a subject
2 question.

3 But it's a high-porosity zone, it's about 34 feet
4 thick, 24-percent porosity, pretty good-looking on the
5 logs.

6 Q. All right. Let's now go to your drainage
7 calculations, Yates Exhibit 10.

8 A. Okay, and we have no resistivity log through
9 casing, we have no resistivity log.

10 So Exhibit 10 is a calculation of the drainage
11 area of this well, and it's the drainage area that has been
12 drained to date, is what we're after, and in the future the
13 drainage area would expand somewhat.

14 So item number 1 on Exhibit 10 is the equation
15 for the original oil in place in terms of hydrocarbon pore
16 volume, et cetera.

17 Item number 2 talks about the hydrocarbon pore
18 volume. We have 34 feet of pay. I'm estimating about 24
19 percent porosity on average. There's really no information
20 on the water saturation, but since it makes oil and water
21 the water saturation has got to be relatively high. And I
22 estimated about 45 percent, which would make 55 percent
23 oil, 45 percent water. You put those numbers together, and
24 the hydrocarbon pore volume is that number there, 4.49.

25 So there are four and a half feet in this well of

1 void filled with oil. If you took the whole 34 feet and
2 condensed the oil in there down you'd get four and a half
3 feet of oil. So anyway it's a big volume of oil, actually.

4 Item number 3, then, is the formation volume
5 factor that relates the volume in the ground to the volume
6 on the surface, and that's 1.26.

7 You need to estimate how much of the oil in place
8 we're recovering, and the correlations in the literature
9 say something about 20 percent recovery is reasonable.

10 And then item number 5, you put all those numbers
11 together in terms of what's been produced and recovery
12 factor, et cetera, and the 461,000 barrels have been
13 recovered from about 83 acres. And -- to me, almost a
14 surprisingly small number, really, but this 461,000 barrels
15 to date has come out of about 80 or 85 acres, and the
16 future production would bring that drainage up to around
17 120 acres or something, is what I think the ultimate
18 drainage of the well is.

19 So anyway, it's an easy conclusion that the well
20 is draining more than 40 acres, and that an 80-acre spacing
21 unit is not unreasonable.

22 Q. If Yates' Application is granted, you would hope
23 to be in a position where you would not have to restrict
24 the production from this well; is that correct?

25 A. Very much correct, yes, we just worried about

1 restricting the production, and --

2 Q. As to the correlative rights issue, would
3 approval of this Application adversely impact the ability
4 of any other operator or the rights of any other operator
5 to produce hydrocarbons from this area?

6 A. No, this well is near the middle of this section,
7 and an 83-acre drainage circle or 120-acre drainage circle
8 would not extend off of the lease that's uniformly owned by
9 Yates and the federal government.

10 Q. There are no other operators in this pool?

11 A. There's no other operators in the pool, there's
12 no other --

13 Q. There are no other Delaware wells within a mile
14 of this --

15 A. There are no other Delaware wells.

16 Q. There was no one to notify under Division Rules
17 of this hearing; is that right?

18 A. That's what you tell me.

19 Q. What about waste? If you can believe what I've
20 said so far, you tell me something about waste.

21 A. Well, I think the only worry about waste is if we
22 are forced to shut in the well. The well is -- It's not a
23 1000-barrel-a-day well, zip, zip; it's been flowing along
24 at a relatively -- 200, 100 barrels a day while pumping at
25 that, it's pumping water and oil. It's just an unusual

1 situation where this well has been allowed to drain a
2 pretty big area, and there's no sign of waste.

3 The only possibility of waste would be if we had
4 to shut it in and water -- shut off our oil, and we're
5 not -- We didn't follow the rules exactly in long-ago
6 times, but we've done a good job of producing this well,
7 and it's got a lot of life left, and the reasonable thing
8 is just let it keep producing and --

9 Q. Dr. Boneau, in your opinion would approval of
10 this Application be in the best interests of conservation,
11 the prevention of waste and the protection of correlative
12 rights?

13 A. Yes, very much so.

14 Q. It would afford Yates an opportunity to continue
15 to produce this well without waste?

16 A. Correct.

17 Q. Were Exhibits 1 through 10 prepared by you?

18 A. Yes.

19 MR. CARR: At this time, Mr. Stogner, we would
20 move the admission into evidence of Yates Exhibits 1
21 through 10.

22 EXAMINER STOGNER: Exhibits 1 through 10 will be
23 admitted into evidence.

24 MR. CARR: And that concludes my direct
25 examination of Dr. Boneau.

EXAMINATION

BY EXAMINER STOGNER:

Q. Let's see, Dr. Boneau, what kind of reservoir is this? What's the drive mechanism?

A. It's almost entirely -- It's a solution drive reservoir, pressure depletion reservoir. I don't think the water contributes that much in the way of additional recovery. Maybe a little, but not a significant amount.

Q. Will there be any effect to the well if it's -- Is it pumping or --

A. It's pumping.

Q. It is pumping?

A. It's pumping. It originally flowed for a short time. It's been pumping for the vast majority of its life.

Q. Increasing the allowable to -- or increasing the production rate, will there be any adverse effect to the solution drive or to the reservoir?

A. No, I don't think -- I'm convinced it will not. I thought that I'm proving it to you, but -- Doing what we're asking to do would be a continuation of its kind of natural decline. It's sort of been an unnatural situation trying to hold it back the past six years.

Essentially we've been -- we slow down -- we put in a smaller pump and slow down the pump, let the fluid level in the well rise, is how we're holding it at 80

1 barrels a day.

2 Q. Now, you had mentioned this is in the potash
3 area, and you have requested from the BLM to drill other
4 wells -- Delaware wells, I would assume -- around that
5 well?

6 A. Yes, sir.

7 Q. And what, just in this lease, or how about in
8 some of the surrounding acreage?

9 A. The ones I'm aware of have been denied have been
10 in this lease. More than five -- seven, I believe, that I
11 know of, have been denied. We hope this reservoir -- This
12 reservoir has the potential has the potential to go a
13 couple miles. We'd like to drill an offset, we'd like to
14 drill a well where we could run real logs. You know, I'm
15 convinced that some of the lower Delaware will eventually
16 produce if we could just get it logged and perforate and
17 treat the right zone.

18 But anyway, the answer to your question is, I
19 know of at least seven offsets that have been denied.

20 Q. Just within Section 14?

21 A. Within Section 14. And they're the subject of
22 the -- well, I don't -- the IBLA case that's been pending
23 for eight years or so. A whole bunch of Livingston Ridge
24 wells and this well and other wells. Anyway, it's a long,
25 struggle story.

1 EXAMINER STOGNER: Mr. Carr, just for the
2 record --

3 MR. CARR: Yes, sir.

4 EXAMINER STOGNER: -- what is the notification --
5 Enlighten me, what is the notification procedures in the
6 matter as it stands as being requested today?

7 MR. CARR: The rules provide for notifying all
8 operators in the pool. If there are tracts within the pool
9 boundary for which there is no Division-designated
10 operator, you fall down and go working interest owner,
11 mineral owner, but there are none of those, and all
12 operators of Delaware wells within a mile, and there are
13 none of those.

14 EXAMINER STOGNER: Okay, so changing the -- if we
15 continue this case and readvertised it to address either a
16 retroactive request or to address the cancellation of the
17 overproduction --

18 MR. CARR: Yes, sir.

19 EXAMINER STOGNER: -- what would notification
20 require?

21 MR. CARR: Again, it would simply be the notice
22 by publication that the Division would run when the case --
23 you know, advertising the case for a subsequent docket.

24 EXAMINER STOGNER: Because of the acreage the way
25 it is and where the well is situated on the lease, I'm

1 going to suggest that we ask for -- or you seek a
2 retroactive -- it seems like a backwards way, but -- and in
3 a way it is, but considering the circumstances in this it
4 would be an easy order to write. It would just be the
5 readvertisement and the publication. Essentially what --
6 how it's going to affect your client, an order will be just
7 about a month later. But gee, it's not like the operators
8 haven't waited a month for orders before.

9 MR. CARR: Well, we looked at this and we were
10 trying to figure out what we needed to do to address this
11 problem yesterday and basically concluded we should bring
12 the story here and hopefully have some guidance from you on
13 how to deal with this problem.

14 We looked at the standards in the 500 section of
15 the Rules, and it was waste and correlative rights, and we
16 really felt there weren't those kinds of issues here, that
17 there was no notice requirement.

18 And so with your permission, Mr. Stogner, we will
19 file an amended application to make this change in the pool
20 rules retroactive and then request that it be set on the
21 docket. I suspect now we're looking at the 24th of April,
22 would be the next available docket. The 10th, I believe --
23 I'll check that.

24 EXAMINER STOGNER: Yeah, check with --

25 MR. CARR: It may be the Tuesdays that cut off on

1 the 10th, but we'll get it on the next available docket and
2 amend the Application, keeping the same case number.

3 EXAMINER STOGNER: I think it's going to be able
4 to be put on the 10th, because I just wrote an ad on a
5 matter the other day, and it was to be set for the 10th.

6 MR. CARR: Okay.

7 EXAMINER STOGNER: Check with Ms. Davidson on
8 that.

9 MR. CARR: I will.

10 EXAMINER STOGNER: If that's a solution or if
11 that's a viable agreement with you, that's what I suggest.
12 If there's other circumstances evolve, a small lease around
13 the area where correlative rights -- like maybe the Dagger
14 Draw, it would be a different situation, different matter.

15 MR. CARR: We really didn't want to discuss
16 Dagger Draw.

17 EXAMINER STOGNER: I was just using that as an
18 example. I don't want to discuss that either. The
19 circumstances --

20 MR. CARR: All right.

21 EXAMINER STOGNER: -- the circumstances are
22 different in this case than perhaps in the other matter.

23 MR. CARR: So with your permission, we will ask
24 that the case be continued -- I'm sure you're right, it's
25 April the 10th -- to April the 10th. We will file an

1 amended Application at that time. If there's no objection,
2 we would ask that the case be taken under advisement on the
3 record made here today.

4 Q. (By Examiner Stogner) Okay. Now, in looking at
5 Exhibit Number 8, I show production starting on October of
6 1991. Was the well producing prior to then, or --

7 A. It was producing from other zones, those other
8 test zones, prior to then. That's when it began producing
9 from this upper Delaware zone that's --

10 EXAMINER STOGNER: Okay, what I might suggest is
11 we go back to the data, the formation of the pool, which
12 according to your Application the Salt Lake-Delaware Pool
13 was created by Order Number R-9685, dated July 1st, 1992.
14 I think that would be a --

15 MR. CARR: Yes, sir.

16 EXAMINER STOGNER: -- perhaps a date to go back
17 to --

18 MR. CARR: Yes, sir.

19 EXAMINER STOGNER: -- and with the increased
20 allowable, just what I see here, visualize. But if you
21 find something different or --

22 THE WITNESS: No, that will work.

23 EXAMINER STOGNER: -- that's not the case --

24 THE WITNESS: That will work great.

25 EXAMINER STOGNER: -- let me know, but --

1 MR. CARR: Okay.

2 EXAMINER STOGNER: -- let's go back to the
3 retroactive -- that July 1st, 1992, date of the creation of
4 the pool, and submit that to Ms. Davidson. And again, if
5 you would double-check the notification requirements.

6 MR. CARR: I will.

7 EXAMINER STOGNER: Let's see, this case was --
8 There was nothing mentioned about temporary rules or
9 permanent rules.

10 MR. CARR: No, we were hoping that we would have
11 permanent rules.

12 EXAMINER STOGNER: That's what I would suggest in
13 this particular instance, no need to -- re-looking at it
14 with as much production history that one has in this
15 matter.

16 Okay, with that, then this matter will be
17 continued to the April 10th docket. It looks like I'm
18 going to be here for that one, that hearing, for another
19 matter, so I can take it under advisement at that time.

20 MR. CARR: Thank you very much.

21 EXAMINER STOGNER: And unless you see fit, I
22 don't see that it would be necessary for Dr. Boneau to come
23 up.

24 MR. CARR: Okay.

25 EXAMINER STOGNER: But if there's something

1 that --

2 MR. CARR: If something happens and someone's
3 concerned, we'll be back.

4 EXAMINER STOGNER: Okay. With that, this case
5 will be continued to April 10th.

6 MR. CARR: Thank you.

7 EXAMINER STOGNER: Okay, Dr. Boneau, you may be
8 excused.

9 THE WITNESS: Thank you.

10 (Thereupon, these proceedings were concluded at
11 10:15 a.m.)

12 * * *

13
14
15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 13D20.
18 Heard by me on 13 March 2008
19 Michael B. Stogner Examiner
20 Oil Conservation Division
21
22
23
24
25

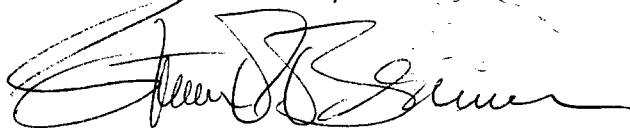
CERTIFICATE OF REPORTER

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 March 15th, 2003:



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006