

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. 13,033  
)  
APPLICATION OF READ AND STEVENS, INC., )  
FOR APPROVAL OF A UNIT AGREEMENT, )  
CHAVES COUNTY, NEW MEXICO )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

March 27th, 2003

Santa Fe, New Mexico

**RECEIVED**

APR 10 2003

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 27th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

March 27th, 2003  
 Examiner Hearing  
 CASE NO. 13,033

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>ROBERT H. WATSON</u> (Landman)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Jones	10
Examination by Mr. Brooks	11
<u>BILL BRADSHAW</u> (Geologist)	
Direct Examination by Mr. Bruce	11
Examination by Examiner Jones	15
REPORTER'S CERTIFICATE	19

\* \* \*

## E X H I B I T S

Applicant's	Identified	Admitted
Land		
Exhibit 1	6	10
Exhibit 2	6	10
Exhibit 3	7	10
Exhibit 4	8	10
Exhibit 5	9	10
Exhibit 6	9	10
Exhibit 7	12	15
Exhibit 8	14	15
Exhibit 9	15	15

\* \* \*

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

## FOR THE DIVISION:

DAVID K. BROOKS, JR.  
Attorney at Law  
Energy, Minerals and Natural Resources Department  
Assistant General Counsel  
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

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:30 a.m.:

3 EXAMINER JONES: Okay, at this time we'll call  
4 Case 13,033, Application of Read and Stevens, Incorporated,  
5 for approval of a unit agreement, Chaves County, New  
6 Mexico.

7 Call for appearances in this case.

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

11 EXAMINER JONES: Any other appearances in this  
12 case?

13 There being none, witnesses please stand for  
14 swearing in.

15 (Thereupon, the witnesses were sworn.)

16 ROBERT H. WATSON,  
17 the witness herein, after having been first duly sworn upon  
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

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

22 A. My name is Bob Watson.

23 Q. Where do you reside?

24 A. Roswell, New Mexico.

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

1           A.    I'm land manager for Read and Stevens,  
2 Incorporated.

3           Q.    Have you previously testified before the  
4 Division?

5           A.    No, I have not.

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

8           A.    I have a BA from Texas Tech University. I've  
9 been in the land business for 25 years, working for a  
10 number of companies. I've been with Read and Stevens for  
11 12 1/2 years, 10 of those years as land manager and, like I  
12 say, handled all their land and legal matters for Read and  
13 Stevens.

14          Q.    Does your area of responsibility include  
15 southeast New Mexico?

16          A.    Yes, it does.

17          Q.    And are you familiar with the land matters  
18 involved in this Application?

19          A.    Yes, I am.

20               MR. BRUCE: Mr. Examiner, I tender Mr. Watson as  
21 an expert petroleum landman.

22               EXAMINER JONES: He is so qualified.

23          Q.    (By Mr. Bruce) Mr. Watson, briefly what does  
24 Read and Stevens seek in this case?

25          A.    We're seeking an order to approve a federal

1 exploratory unit known as the West Haystack Unit Area.

2 Q. Would you refer to Exhibit 1 and describe the  
3 lands involved in the unit area?

4 A. Yes, the lands in the unit area consist of all of  
5 Sections 7, 8 and 18 of Township 6 South, Range 27 East,  
6 Chaves County, New Mexico.

7 Q. What type of lands are in the unit?

8 A. All lands are federal lands, except for the north  
9 half of Section 18, which are fee lands.

10 Q. What is Exhibit 2?

11 A. Exhibit 2 is a copy of the proposed unit  
12 agreement on the standard form commonly used, and it lists  
13 all working, royalty, overriding royalty interest owners in  
14 each tract.

15 Q. Okay.

16 A. And the exhibit's attached.

17 Q. Exhibit B lists all the tracts and the interest  
18 owners?

19 A. Yes.

20 Q. Who are the working interest owners in the unit?

21 A. Working interest owners of record are Read and  
22 Stevens, Inc.; Lincoln Oil and Gas, L.L.C.; Yates Petroleum  
23 Corporation.

24 Q. Have any of the working interest owners not  
25 ratified or not agreed to ratify the agreement?

1           A.    Yates Petroleum Corporation has not ratified the  
2   unit.

3           Q.    Okay.  With Yates not having ratified, what is  
4   the percentage of working interest owners who have ratified  
5   the unit?

6           A.    I believe it's 85.3 percent of the working  
7   interest, is -- has ratified.

8           Q.    And does that percentage satisfy the BLM's  
9   requirement for the operator to have effective working  
10  interest control in the unit area?

11          A.    Yeah, to my understanding it does.  To my  
12  understanding, 85 percent is required.

13          Q.    What about the royalty interests?  Have they  
14  ratified the unit agreement?

15          A.    Yes, they have.  The fee owner has ratified the  
16  unit, the two current overriding royalty owners have  
17  ratified the unit, so we have full ratification by the  
18  royalty owners.

19          Q.    Okay.  So at this point, other than Yates  
20  Petroleum Corporation, all of the other interest owners  
21  have ratified the unit?

22          A.    Yes, that's correct.

23          Q.    And is Exhibit 3 the letter of preliminary  
24  approval from the BLM?

25          A.    Yes.

1 Q. What is Exhibit 4, Mr. Watson?

2 A. Exhibit 4 are copies of notification letters sent  
3 to all owners, working interest, royalty owners, notifying  
4 of the hearing, with the attached copy of the Application  
5 for approval of the unit agreement.

6 Q. Okay. Are some of these, or at least a couple of  
7 these entities in-house or related to Read and Stevens?

8 A. Yes, First Century Oil, Inc., is an affiliated  
9 company of Read and Stevens. President is Charles B. Read.  
10 Read and Stevens Employee Royalty Pool is affiliated with  
11 Read and Stevens. Lincoln Oil and Gas is owned by an  
12 internal employee, William Bradshaw. So yes.

13 Q. Okay. Has Read and Stevens made a good-faith  
14 effort to obtain the voluntary joinder of the interest  
15 owners in the unit area?

16 A. Yes, we have, and in accordance with the  
17 requirements.

18 Q. Okay, but this is a voluntary unit, so anyone who  
19 doesn't voluntarily join is just governed by the terms of  
20 his own lease; is that correct?

21 A. That's correct.

22 Q. Is there an upcoming deadline regarding approval  
23 of the unit and drilling of a well?

24 A. Yes, there is. The three federal leases all have  
25 an expiration date of May 31st, 2003, so we are facing that



1 deadline.

2 Q. What are your plans for the initial unit well?

3 A. We plan to drill the initial well at a legal  
4 location in the west half of Section 18 to a depth of 5600  
5 feet to test the Cisco formation.

6 Q. What is the cost, estimated cost of the initial  
7 unit well?

8 A. Estimated total cost is \$450,000. Of that the  
9 dryhole cost is approximately \$290,000, and with a  
10 completion cost of approximately \$150,000.

11 Q. Does Read and Stevens request that it be  
12 designated operator of the unit area?

13 A. Yes, we do.

14 Q. You are the largest working interest, are you  
15 not?

16 A. Yes, we do have the largest interest in the unit.

17 Q. And Yates Petroleum Corporation, as you said, did  
18 not ratify the unit. Were they notified of this hearing?

19 A. Yes, they were notified and have not ratified the  
20 unit.

21 Q. Okay. And is Exhibit 6 the notice letter sent to  
22 Yates Petroleum?

23 A. Yes.

24 Q. Were Exhibits 1 through 6 prepared by you or  
25 under your supervision or compiled from company business

1 records?

2 A. Yes, they were prepared by me in all instances.

3 Q. And is the granting of this Application in the  
4 interests of conservation and the prevention of waste?

5 A. Yes, it is.

6 MR. BRUCE: Mr. Examiner, at this time I'd move  
7 the admission of Read and Stevens Exhibits 1 through 6.

8 EXAMINER JONES: Exhibits 1 through 6, Read and  
9 Stevens, will be admitted to the record.

10 EXAMINATION

11 BY EXAMINER JONES:

12 Q. Mr. Watson, none of the Yates parties in that  
13 Tract 4 sent you a letter back --

14 A. They have -- My understanding is, they have  
15 returned the letter, but I did not have it yesterday  
16 morning before I left the office, but I understand it's at  
17 the office now, so... We had to leave before the mail was  
18 delivered, but I have had verbal communication with them to  
19 the effect that they will not -- or do not plan to ratify  
20 the unit or join in the unit.

21 Q. So they want Tract 4, which is Section 8, they  
22 want to just be on their own on that one?

23 A. Yes, that's my understanding.

24 EXAMINER JONES: And David, do you have any  
25 questions?

## EXAMINATION

BY MR. BROOKS:

Q. Well not really pertinent questions, but the name West Haystack Federal is ringing a bell with me. I was wondering if this is in the same area as the inactive wells that Read and Stevens had that were the subject of Case Number 12,733?

A. I'm not familiar with the specifics of that case, but we do have two producing wells in the area, the West Haystack Number 1, Federal Number 1, and the West Haystack Federal Number 4, which are still currently producing wells, to the south of this acreage.

Q. Okay, but this proceeding doesn't have anything to do with these other inactive wells that we've been looking at?

A. I don't know.

MR. BROOKS: Okay, thank you. Nothing further.

EXAMINER JONES: I have nothing further of the witness, Mr. Bruce.

BILL BRADSHAW,

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

## DIRECT EXAMINATION

BY MR. BRUCE:

Q. Would you please state your name and city of

1 residence?

2 A. Bill Bradshaw, Roswell, New Mexico.

3 Q. Who do you work for?

4 A. Read and Stevens.

5 Q. What's your job with Read and Stevens?

6 A. I've been a petroleum geologist for about 15  
7 years.

8 Q. Have you previously testified before the  
9 Division?

10 A. Yes, I have.

11 Q. And were your credentials as an expert geologist  
12 accepted as a matter of record?

13 A. Yes, they were.

14 Q. And are you familiar with the geology involved in  
15 this Application?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd tender Mr. Bradshaw  
18 as an expert petroleum geologist.

19 EXAMINER JONES: Mr. Bradshaw is so tendered.

20 Q. (By Mr. Bruce) Mr. Bradshaw, could you identify  
21 Exhibit 7, describe it for the Examiner and discuss the  
22 primary zone of interest in the proposed unit?

23 A. We've included a -- This is a structure map, it's  
24 made on the Mississippian formation, and your control out  
25 here is, we're using subsurface control, and we've also

1 purchased 2-D seismic. So basically we're looking at a  
2 seismic structure map on top of the Mississippian.

3 The primary objective is the Cisco formation.  
4 This is about 200 to 300 feet deeper -- the map is 200 to  
5 300 feet deeper than the Cisco, so the Cisco is reflected  
6 by the Mississippian structure.

7 Q. Mr. Watson mentioned some wells in this area.  
8 Are those depicted on this map, existing wells?

9 A. Yes, we've drilled -- Read and Stevens drilled  
10 four wells, two wells in Section 19: There's a dryhole  
11 that we've drilled most recently, the Number 5 in the north  
12 half of 19; we also have the Haystack Number 1 which is in  
13 the south half of 19. The north half of 30 is the Number 4  
14 Haystack. Those wells are going to make about 1.3 BCF per  
15 well. And then we have the Number 2 Haystack in the  
16 southwest quarter of Section 20, which was a marginal  
17 producer. It came on making quite a bit of gas, and  
18 basically it watered out, and we believe that that defines  
19 more or less the downdip edge of the field.

20 Q. Looking at this map, at the Number 5 well in the  
21 north half of the section, why did that well not produce --

22 A. It came in the highest of all wells out there,  
23 and the Cisco sometimes is -- when you get too high on the  
24 structure sometimes it can be tight. It's a stratigraphic  
25 problem. As you move off the edge of the structure you

1 pick up porosity, like we picked porosity in the Number 1  
2 and the Number 4 and the Number 2 wells. So your downdip  
3 wells have got all the porosity, and the Number 2 well was  
4 the downdip wet well.

5 Q. Okay, so for your initial unit well, you are  
6 moving -- you are not drilling at the top of the structure?

7 A. That's correct. We're drilling a different  
8 structure also, to the north. We feel like we have kind of  
9 a different block to the north.

10 Q. Based on your geology, is the outline of your  
11 unit area, the three-section area, fair and reasonable?

12 A. Yes.

13 Q. Okay.

14 Q. Briefly, what is Exhibit 8?

15 A. I've included a structural cross-section, D-D'.  
16 I just put it in there, just to show you what the section  
17 looks like. We have a type log. It goes through the  
18 producing wells.

19 This is a cross-section, and it goes through  
20 the -- If you look at your key at the bottom here, there's  
21 a well on the west side here, the left side in Section 30.  
22 That was a well that we re-entered and it's a commercial --  
23 We ended up re-entering that well and producing.

24 We have the West Haystack Number 1, which is the  
25 type log, is really what I wanted to show you. It shows

1 the Cisco section at 5600 feet. You can see that it's a  
2 tight limestone, it's fractured, it doesn't really show a  
3 lot of porosity in the logs, but that's the kind of type  
4 log that I wanted to include in the testimony.

5 Q. Okay. Mr. Watson mentioned that the test well  
6 will be drilled to what, at least 5600 feet?

7 A. Yes, that's right.

8 Q. And that will adequately test the Cisco?

9 A. Yes.

10 Q. Okay. Finally, is Exhibit 9 simply a summary of  
11 your geologic estimate?

12 A. Yes.

13 Q. Were Exhibits 7, 8 and 9 prepared by you?

14 A. Yes.

15 Q. And in your opinion is the granting of this  
16 Application in the interests of conservation and the  
17 prevention of waste?

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I'd move the admission  
20 of Read and Stevens Exhibits 7, 8 and 9.

21 EXAMINER JONES: Exhibits 7, 8 and 9 are admitted  
22 to evidence.

23 EXAMINATION

24 BY EXAMINER JONES:

25 Q. Mr. Bradshaw, you don't show much porosity at all

1 in --

2 A. I know.

3 Q. Are you just going for fractures, or is the  
4 porosity just now showing up on the log?

5 A. Well, the way that you have to deal with this  
6 formation is, you drill stem test it.

7 If you're drilling through it, like you said,  
8 there's not much to see on the logs. But through drill  
9 stem testing I think they've discovered that zone out  
10 there.

11 Q. So the drill stem tests would be in the scout  
12 ticket data that someone could find?

13 A. Right.

14 Like for instance over here, I put a DST on this  
15 type log right in here. They drill stem tested it. It was  
16 gas to surface, 950 MCF a day.

17 As you continue back to the east on the cross-  
18 section you can see you have the same porosities, and  
19 there's a downdip log. And basically that's the one that  
20 was -- it tested some gas and was wet. But you can see you  
21 have the same section present all the way across there,  
22 just on the electric logs.

23 Q. Okay. You came out with 1.3 BCF per well --

24 A. Yes.

25 Q. -- based on a decline curve or --



1           A.    On -- Yes, our engineer did that for both  
2           producing wells.  And they've made around about a BCF right  
3           now.

4           Q.    Oh, really?

5           A.    Uh-huh.

6           Q.    And did you already say what pool these are in,  
7           the Cisco?  Is it pre-Permian?

8           A.    It's the Pennsylvanian.

9           Q.    Cisco-Pennsylvanian, but do you know what pool?  
10          I can look that up.

11          A.    I don't know.

12          Q.    Okay, so basically you're going to drill to the  
13          -- On the well you're going to drill, you're not going to  
14          drill as deep as these on the --

15          A.    We'd like to take the well to basement, but -- I  
16          mean, you've got a couple more hundred feet to go, but the  
17          bottom lines is, you know, that we're drilling it primarily  
18          for Cisco.

19                EXAMINER JONES:  Okay, Mr. Brooks, do you have  
20          any questions?

21                MR. BROOKS:  Nothing further.

22                EXAMINER JONES:  Okay, Mr. Bradshaw, thank you.

23                THE WITNESS:  Okay.

24                EXAMINER JONES:  Any more witnesses, Mr. Bruce?

25                MR. BRUCE:  I have nothing further, Mr. Examiner.

1 EXAMINER JONES: Okay. With that, Case Number  
2 13,033 will be taken under advisement.

3 (Thereupon, these proceedings were concluded at  
4 8:46 a.m.)

5 \* \* \*

6  
7  
8  
9  
10 I do hereby certify that the foregoing is  
11 a complete record of the proceedings in  
12 the Examiner hearing of Case No. 13033  
13 heard by me on 3/27 1953  
14 W. T. Jones, Examiner  
15 Oil Conservation Division  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

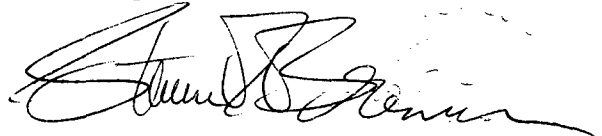
CERTIFICATE OF REPORTER

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 April 1st, 2003.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006