

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

DEC

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 11,651

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 5th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, December 5th, 1996, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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December 5th, 1996
 Examiner Hearing
 CASE NO. 11,651

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:58 a.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order. I'll call next case, Number 11,651.

5 MR. CARROLL: Application of Yates Petroleum
6 Corporation for compulsory pooling, Eddy County, New
7 Mexico.

8 EXAMINER STOGNER: At this time I'll call for
9 appearances.

10 MR. VANDIVER: Mr. Stogner, I'm David Vandiver of
11 the Artesia firm of Vandiver and Bowman, appearing on
12 behalf of the Applicant, Yates Petroleum Corporation, and I
13 have two witnesses to be sworn.

14 EXAMINER STOGNER: Any other appearances?

15 Will both witnesses please stand to be sworn at
16 this time?

17 (Thereupon, the witnesses were sworn.)

18 ROBERT BULLOCK,

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

21 DIRECT EXAMINATION

22 BY MR. VANDIVER:

23 Q. State your name, please, sir.

24 A. My name is Robert Bullock.

25 Q. Mr. Bullock, what's your occupation and by whom

1 are you employed?

2 A. I'm a landman, employed by Yates Petroleum
3 Corporation.

4 Q. Have you previously testified before the Oil
5 Conservation Division as a petroleum landman and had your
6 qualifications as such accepted, and are your
7 qualifications a matter of record?

8 A. Yes, sir.

9 Q. Have you investigated and are you familiar with
10 the title to the mineral and leasehold estate within the
11 spacing unit for the well which is the subject of Yates's
12 Application in this case?

13 A. Yes, I have.

14 Q. And are you familiar with the Application for
15 compulsory pooling filed by Yates in this case?

16 A. Yes.

17 MR. VANDIVER: Mr. Examiner, is the witness
18 qualified?

19 EXAMINER STOGNER: Mr. Bullock is so qualified.

20 Q. (By Mr. Vandiver) Mr. Bullock, briefly summarize
21 the purpose of Yates's Application in Case 11,651.

22 A. Yates seeks an order pooling all the mineral
23 interests from the surface to the base of the Morrow
24 formation in the north half of Section 27, 18 South, 26
25 East.

1 And in this Application we'd also like to
2 consider the cost of completing the well. We would like to
3 be designated as operator of the well and we would like a
4 charge for the risk involved in completing the well.

5 Q. Mr. Bullock if you could identify the Applicant's
6 Exhibit 1, which is the land plat, and orient the Examiner
7 as to the location in the spacing unit for the Hawkins "GY"
8 Number 4 well, which I believe is an existing wellbore.

9 A. Yes, we have designated the north half of Section
10 27. We've highlighted that in the yellow. That will be
11 the acreage dedicated to the well. In the red I've
12 highlighted the location of the existing wellbore --

13 Q. And --

14 A. -- which is 16- -- It's an orthodox location.
15 It's 990 feet from the north line and 1650 feet from the
16 east line, Unit C.

17 All that acreage in that spacing unit is fee
18 acreage. There is no state or federal acreage in that
19 spacing unit.

20 Q. And I would suppose that if you complete a well
21 from a deep formation, that the well might be called the
22 Hawkins "GY" Com Number 4 well?

23 A. That's correct.

24 Q. As to those mineral interests which are currently
25 subject to oil and gas leases in the spacing unit, what

1 percentage does Yates Petroleum Corporation and affiliated
2 entities, Yates Drilling Company, Abo Petroleum Corporation
3 and MYCO Industries, Inc., own?

4 A. We have under lease approximately 98 percent of
5 the 320-acre spacing unit. Outstanding is two percent.

6 Q. As to the land within the spacing unit, the
7 entire northeast quarter and the north half-northwest
8 quarter and the southwest quarter-northwest quarter and the
9 north half-southeast quarter-northwest quarter, is all
10 subject to lease, is it not?

11 A. That's correct.

12 Q. And there's a certain portion of the mineral
13 interest in the 20-acre tract described as the south half-
14 southeast quarter-northwest quarter that's currently
15 unleased?

16 A. Yes, approximately six acres in that 20-acre
17 tract, or six acres under the 320, however you like to look
18 at it, is unleased at this time, which equates to about two
19 percent of the well.

20 Q. And therefore as to the proposed operation, it's
21 not necessary for any compulsory pooling order to affect a
22 well to be located -- to be completed in an oil-producing
23 zone for the northeast quarter-northwest quarter, because
24 that's entirely leased?

25 A. That's correct.

1 Q. Okay. And there are parties with unleased
2 mineral interests in the south half-southeast quarter-
3 northwest quarter of Section 27?

4 A. Yes.

5 Q. And have you attempted to locate the parties
6 owning the unleased mineral interests?

7 A. Yes, we have. We've made an attempt. There's
8 approximately 100 mineral owners involved in that 20-acre
9 tract.

10 Q. And this is -- This spacing unit is adjacent to
11 the town site of Dayton?

12 A. Yes.

13 Q. Of those 100 mineral owners, how many have you
14 been able to obtain oil and gas leases from?

15 A. We have obtained leases from 73 parties out of
16 those approximately 100.

17 Q. What efforts have you made to attempt to locate
18 those parties who have not leased to Yates?

19 A. Well, we began by -- I had a good base source to
20 work from, I had a quiet-title suit. It was brought about
21 by one of the mineral owners. And as a result of that
22 quiet-title suit and court case, a document came from the
23 court, 1958, that set out the ownership involved at that
24 point in time, and I worked from that.

25 I went from that to checking the courthouse

1 records, which included the probate proceedings of all the
2 mineral owners, looking at -- as well as looking at mineral
3 deeds.

4 From that information, I -- A lot of times, you
5 are able to acquire the whereabouts of your unknown parties
6 from the other parties involved in the tract. We did that
7 as we went along, trying to find out -- There were quite a
8 few unknown mineral owners, like in this 1958 deal, so we
9 went from that to checking -- there's a historical -- Eddy
10 County historical book that includes a lot of the old
11 families that were involved in this tract. We checked that
12 source of information.

13 I also have a computerized telephone system. We
14 used that system at several points throughout the search.
15 So I think we did look hard for these mineral owners.

16 MR. VANDIVER: Mr. Examiner, this is out of
17 order, but Exhibits 4 and 5 are affidavits of mailing
18 prepared by my office which reflect that pursuant to Rule
19 1207, service by certified mail of the Application of Yates
20 in this case was sent to the owners of the unleased mineral
21 interests who have not responded to Yates's attempts to
22 obtain oil and gas leases or joinder in their operations at
23 their last known address, and where available we've
24 attached the return receipts. Many of the parties
25 originally served have since executed oil and gas leases to

1 Yates.

2 Q. (By Mr. Vandiver) Mr. Bullock, would you refer
3 to the Applicant's Exhibit 3, which is the packet of
4 correspondence to the owners of unleased mineral interests,
5 and review that exhibit for the Examiner?

6 A. This is the last -- I tried to find the -- In my
7 file, I tried to find the last offer that we made to the
8 parties involved here, and that's the attempt, that I've
9 tried to show on this exhibit, along with the certified
10 return receipts, the letter of offer, and the oil and gas
11 lease that I did send them, to each of these unleased
12 mineral owners.

13 It doesn't -- This exhibit did not include every
14 piece of documentation I have in my files; it was just an
15 attempt to show that the effort has been made on at least
16 two occasions, on some of these people I've made three
17 attempts, to make some kind of deal with them.

18 We began this project back in the summer, so
19 through -- approximately the last three to four months,
20 I've made two if not three attempts to make some kind of
21 oil and gas lease with these mineral owners.

22 Q. And did the return receipts indicate that some of
23 those mineral owners received your correspondence and some
24 never received the correspondence?

25 A. Yes, that's what this shows.

1 MR. VANDIVER: Mr. Examiner, if you'd like, we
2 will supplement the record with the other correspondence
3 that Mr. Bullock sent to the mineral owners for the period
4 starting in approximately July through October.

5 EXAMINER STOGNER: I think that would be
6 advisable, considering -- even though it's a small amount,
7 considering the amount of work and everything done, and
8 interest. It would make the record more complete.

9 MR. VANDIVER: Okay.

10 EXAMINER STOGNER: I would advise that that be --

11 MR. VANDIVER: We'll submit that. I don't have
12 it at this time, but I'll send it to you.

13 EXAMINER STOGNER: Okay.

14 Q. (By Mr. Vandiver) You have received responses
15 from most of the mineral owners in this 20-acre tract.
16 Have any of the unleased mineral owners expressed a desire
17 to participate in your drilling operations?

18 A. No, sir, they have not.

19 Q. Have you been unable to reach agreement with
20 regard to execution of oil and gas leases as to any of the
21 mineral owners?

22 A. Yes, we've -- Approximately 1.39 acres of the
23 outstanding six are people that have not wanted to commit
24 their interest to a lease.

25 Q. Okay. But none of them have expressed any

1 interest in paying their share of the cost or farming out
2 or entering into any other type of arrangement?

3 A. That's right, that's correct.

4 Q. And if the Oil Conservation Division enters an
5 order force-pooling the unleased mineral interests, would
6 Yates during the period of election still be willing to
7 take oil and gas leases, as well as allowing the mineral
8 owners to participate in drilling operations?

9 A. Yes.

10 Q. Now if you would, please refer to the Applicant's
11 Exhibit 2 and describe what that is.

12 A. Well, this is the operating agreement that Yates
13 proposes to use for the operation of this well. Basically,
14 the reason we've submitted it is because of the rates that
15 we would like to use and be subject to this Order. A
16 drilling well rate of \$5400 per month and a producing well
17 rate of \$540 per month are the rates that we would like to
18 use and be subject to this Order.

19 Q. Yates has drilled and completed numerous Morrow
20 and Atoka wells in this general area, and the overhead
21 rates established in this joint operating agreement are
22 consistent with Yates's charges at the current time for
23 supervision of wells in this area at this depth?

24 A. Yes, sir.

25 Q. If you would, refer to the -- page 15 of the

1 operating agreement. It indicates that Eugene Nearburg,
2 Gretchen Nearburg and Legend Resources are parties to the
3 agreement. Have they executed this operating agreement?

4 A. No, Legend Resources, their interest was acquired
5 by Yates in 1995, and when I submitted this operating
6 agreement to Legend, I wasn't aware of that.

7 Gretchen and Eugene Nearburg have subsequently
8 signed an oil and gas lease as to their interest and will
9 be -- will not be a party as a working interest participant
10 in this well, so that the only working interest
11 participants are the four Yates companies.

12 Q. Has Yates, in your opinion, made reasonable
13 efforts to locate the owners of all mineral interests in
14 the spacing unit and to obtain oil and gas leases or
15 participation in Yates's proposed operations?

16 A. Yes, sir, I believe we have.

17 Q. And were Exhibits 1 through 5 prepared by you or
18 under your direction and supervision?

19 A. Yes.

20 MR. VANDIVER: Mr. Examiner, we would move at
21 this time admission of the Applicant's Exhibits 1 through
22 5, and I have no further questions of this witness.

23 EXAMINER STOGNER: The additional information
24 that you're going to be submitting, will that be a part of
25 one of the existing exhibits, or do you propose to make

1 that an exhibit, or will it just be additional information
2 for the record?

3 MR. VANDIVER: I'd like to -- Well, if I could,
4 I'd like to make it an additional exhibit, similar to the
5 packet of documents we submitted as Exhibit 3.

6 EXAMINER STOGNER: Why don't we call it 3A,
7 then --

8 MR. VANDIVER: Okay.

9 EXAMINER STOGNER: -- or label it 3A?

10 MR. VANDIVER: All right.

11 EXAMINER STOGNER: That way we can keep them --
12 I'll hold the record open pending the submittal of 3A.

13 Exhibits 1 through -- What did we say? Four?

14 MR. VANDIVER: Through 5.

15 EXAMINER STOGNER: Exhibits 1 through 5 will be
16 admitted into evidence at this time.

17 Mr. Carroll, do you have any questions?

18 MR. CARROLL: Yes.

19 EXAMINATION

20 BY MR. CARROLL:

21 Q. How much -- What percentage of this unit is under
22 lease?

23 A. Ninety-eight percent.

24 Q. Ninety-eight percent.

25 EXAMINER STOGNER: Now, that's 98 percent of the

1 north half?

2 THE WITNESS: Of the north half.

3 EXAMINER STOGNER: Okay.

4 THE WITNESS: That's correct, of the north half.

5 Q. (By Mr. Carroll) And of the two percent -- What
6 percentage of the two percent have you reached agreement
7 with?

8 A. About 7- -- Well, let's see, of the two percent,
9 4.6 acres -- it's roughly six acres; that's what the two
10 percent equates to -- 4.67 of those six acres are unknown
11 mineral owners. We were not able to find their
12 whereabouts.

13 1.39 acres of those 6 acres are people that we
14 have -- that have not chosen to commit their interest, for
15 one reason or another, that we have found their
16 whereabouts, they just have not signed an oil and gas
17 lease.

18 So there are some unknown mineral owners out
19 there that we have not been able to find.

20 Q. And who are the other working interest owners in
21 this unit, besides Yates?

22 A. Well, if -- at this point in time, Yates has all
23 the working interest, the other -- if these other parties
24 do not choose to lease, I assume we -- and want to
25 participate, they will be subject to an AFE and operating

1 agreement and have the right to be a working interest
2 owner.

3 Q. Okay, and who are the Nearburgs and who is
4 Legend?

5 A. Well, they -- Legend had some interest in this
6 property, under the 320. Yates purchased their interest.

7 Q. Okay.

8 A. Eugene Nearburg and Gretchen had some minerals
9 under this 320, and rather than participate they chose to
10 lease to us. So we have them currently under an oil and
11 gas lease.

12 Q. Okay, are they related to Nearburg Operating or
13 Charlie Nearburg?

14 A. Yeah, Eugene is the father, father of Charles.

15 MR. VANDIVER: I might also point out, these
16 other working interest owners are all affiliated with
17 Yates, the other parties executing this operating
18 agreement, Yates Drilling Company, Abo Petroleum Company
19 and MYCO Industries, Inc., are all affiliated entities.

20 MR. CARROLL: Uh-huh.

21 MR. VANDIVER: So when he says 98 percent is
22 leased by Yates, he means that group --

23 MR. CARROLL: Right.

24 MR. VANDIVER: -- Yates Petroleum --

25 MR. CARROLL: Right.

1 I don't have anything further.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. This 20 acres, I got a little bit confused. I
5 want to make sure that I know where that 20 acres -- where
6 the problem lies, or where this situation lies. What 20
7 acres is that again?

8 A. It's the south half --

9 Q. South half --

10 A. -- of the southeast quarter --

11 Q. -- of the southeast quarter --

12 A. -- of the northwest quarter.

13 Q. -- of the northwest quarter. So that would
14 essentially be the south half of Unit letter --

15 A. -- C.

16 Q. -- F.

17 A. No, excuse me, F, that's right.

18 Q. Okay.

19 A. Yeah.

20 Q. Are those city lots or --

21 A. No, this was purchased by 30 citizens of
22 Carlsbad. It was divided up in 1/30s, back in 1919, and
23 we're now in the fourth generation on this stuff and it's
24 just really -- Just like the Lea County minerals, it's
25 split up real big and we're looking at over 100 mineral

1 owners. It's not lots; it was just split up among 30
2 Carlsbad business people back in 1919.

3 MR. CARROLL: Well, what was the purpose of that
4 back in 1919?

5 THE WITNESS: They put it into a trust, and -- I
6 don't know. It was just probably investment, and that's
7 how they chose to divvy it up.

8 MR. CARROLL: I'm just curious, what type of
9 investment? What would they be using that --

10 THE WITNESS: Well, an oil and gas investment.
11 Their grandchildren are going to reap the benefits, like a
12 lot of mineral interests happens here in southeast New
13 Mexico.

14 Q. (By Examiner Stogner) Okay, what can you tell me
15 about this well? It's an existing well, is it not?

16 A. Right.

17 Q. Is it plugged and abandoned or --

18 A. I'm going to let Mr. Boneau speak to all that.

19 Q. Okay, all right. I'll wait and ask those
20 questions of him then. The overhead rates are \$5400 while,
21 I guess in this instance, a re-entry and recompletion?

22 A. Yes, sir.

23 Q. And \$540 for producing?

24 A. Yes.

25 Q. Okay. On Exhibit Number 4, you have a Schedule

1 A, that's about on the third page. Now, do these represent
2 the known parties that have been notified but have not
3 leased?

4 A. That's all that represents. That does not
5 represent the unknown parties. You know, we did not name
6 the unknown parties because we didn't have addresses for
7 them. So all we named on that exhibit were parties that we
8 knew about, that had not come -- that did not want to
9 commit their interest to an oil and gas lease.

10 Q. The parties that could not be found, are there
11 names associated with that?

12 A. We do have some names, yes.

13 Q. Now, are they identified anywhere in here?

14 A. No, sir, we have not identified them.

15 Q. That correspondence that you're going to send, is
16 that going to include those?

17 A. It could. I've got some names. They just
18 couldn't -- They couldn't find these people back in 1958
19 when the court went through the quiet-title suit and, you
20 know, we didn't do very good.

21 MR. VANDIVER: Do you have any last known
22 addresses for any of those parties?

23 THE WITNESS: Several, several, not -- Yeah, I've
24 got some last known addresses.

25 MR. CARROLL: And why are there two exhibits?

1 I'm confused. Exhibit Number 4 and Exhibit Number 5. Are
2 the parties listed on Exhibit 5 somehow in a different
3 position than --

4 MR. VANDIVER: I believe there were some
5 additional parties discovered. There were, I think, just
6 two additional parties --

7 MR. CARROLL: Right.

8 MR. VANDIVER: -- Katharine Houston Knorr and
9 Ruth Houston.

10 THE WITNESS: One of those parties has
11 subsequently leased to us, and I anticipate getting a lease
12 from the other party. They were just people that --

13 MR. CARROLL: -- were discovered after the --

14 THE WITNESS: -- were discovered, you know --

15 MR. CARROLL: -- later than the notice that was
16 sent out in Exhibit Number 4?

17 THE WITNESS: Yeah, that's right.

18 EXAMINER STOGNER: Mr. Vandiver, I know it's a
19 little bit difficult to -- especially with the unknown
20 party -- well, with the unknown parties. I just have a
21 little bit of a problem with having a file at least not
22 referencing something back at this point. If you could
23 supplement that data maybe -- What do you have on that 1958
24 search or --

25 THE WITNESS: I've got something there that we

1 could show you as another part of an exhibit that we worked
2 off of, that showed at that point in time what they
3 determined the mineral interest to be, and that was quite
4 helpful for me to work on this project. Of course, it's
5 changed a lot. It's changed a lot since then.

6 EXAMINER STOGNER: Just something in there. I
7 have a problem with having unknown parties not even
8 mentioned, or at least not even brought forth or nothing --

9 MR. VANDIVER: Okay, why don't we have an
10 additional exhibit that has the list of all those parties
11 named in that quiet-title suit, and -- I don't know where
12 to send a notice -- a hearing notice, when their last known
13 addresses are --

14 EXAMINER STOGNER: I'm not asking for that. I'm
15 just asking for some sort of --

16 MR. VANDIVER: Just names?

17 EXAMINER STOGNER: -- keeping the record
18 complete.

19 MR. VANDIVER: Yes, sir.

20 EXAMINER STOGNER: That way, if somebody is --
21 Who knows? Somebody could be researching the records.

22 MR. CARROLL: And that quiet-title order, that
23 accounted for 100 percent of the interest?

24 THE WITNESS: Sure did, 100 percent of the
25 interest.

1 EXAMINER STOGNER: I think that would be helpful
2 to have in the record, at least. something referencing
3 back.

4 MR. CARROLL: Yeah, you can start with that 1958
5 quiet-title order with the names listed and then -- I don't
6 know, let's say -- we don't know where this interest --
7 what happened to the heirs of the party or -- and then
8 which ones you could locate --

9 THE WITNESS: Uh-huh.

10 MR. CARROLL: -- just to account for the interest
11 as determined in 1958, anyway.

12 EXAMINER STOGNER: I think that would be helpful
13 to mark that as Exhibit 3B in this instance.

14 MR. CARROLL: What was 3A?

15 EXAMINER STOGNER: 3A was the additional
16 correspondence; is that correct?

17 MR. VANDIVER: Yes, sir. We'll have -- 3A will
18 be the additional correspondence and 3B will be the 1958
19 quiet title, the judgement entered in the quiet-title suit,
20 and I guess maybe we could add 3C, being those -- a list of
21 those parties --

22 THE WITNESS: -- who were unknown.

23 MR. VANDIVER: Who --

24 THE WITNESS: Unknown and no addresses.

25 MR. VANDIVER: Well, there will be names, but for

1 whom no last known address is known.

2 THE WITNESS: Yeah, okay.

3 MR. CARROLL: Yeah, unaccounted for.

4 EXAMINER STOGNER: Yes.

5 MR. VANDIVER: Okay. Yes, sir, we'll take care
6 of that.

7 EXAMINER STOGNER: Okay, we'll leave the record
8 open for those supplemental Exhibits 3A, 3B and 3C to be
9 entered and made a part of the record.

10 MR. VANDIVER: Thank you.

11 EXAMINER STOGNER: Are there any other questions
12 of Mr. Bullock?

13 MR. VANDIVER: No, sir.

14 EXAMINER STOGNER: He may be excused.

15 MR. VANDIVER: At this time I call Dave Boneau,
16 Mr. Examiner.

17 (Off the record)

18 EXAMINER STOGNER: You may continue, Mr.
19 Vandiver.

20 DAVID F. BONEAU,

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

23 DIRECT EXAMINATION

24 BY MR. VANDIVER:

25 Q. Please state your name.

1 A. My name is David Francis Boneau.

2 Q. What's your occupation and by whom are you
3 employed?

4 A. I work as a reservoir engineer for Yates
5 Petroleum in Artesia.

6 Q. You have on numerous occasions testified before
7 the Oil Conservation Division as a reservoir engineer, had
8 your qualifications as such accepted, and your
9 qualifications are a matter of record, are they not?

10 A. That's correct.

11 Q. Have you made a study of the available data with
12 respect to the Yates Petroleum Corporation Hawkins "GY"
13 Number 4 well and the reservoir characteristics in the
14 proration unit for the purpose of presenting evidence
15 relating to the risk involved in Yates' proposed re-entry
16 and recompletion attempts?

17 A. Yes, I have done that.

18 Q. And for the purpose of recommending to the
19 Examiner a risk factor penalty in the requested compulsory
20 pooling order?

21 A. Yes, sir.

22 Q. And you're familiar with Yates's Application in
23 this case?

24 A. Yes.

25 Q. And have you prepared certain exhibits for the

1 purpose of illustrating the data relied upon and the
2 opinions you've formed in connection with your study?

3 A. I have that data in the form of some exhibits,
4 yes, sir.

5 MR. VANDIVER: Mr. Examiner, is the witness
6 qualified?

7 EXAMINER STOGNER: They are.

8 Q. (By Mr. Vandiver) Before giving the basis for
9 your opinion, let me ask, have you concluded that there's
10 risk involved in the proposed completion attempts that
11 Yates proposes to make in the various zones in this
12 existing wellbore?

13 A. It's very clear that there's risk in this well,
14 yes, sir.

15 Q. In order to illustrate some of the factors
16 relating to risk, if you could review for the Examiner the
17 information contained in your exhibits, and you might begin
18 with Exhibits 6, 7 and 8, which are related to the various
19 Atoka San Andres wells in the area.

20 A. Yes, I'll attempt to do that.

21 The Examiner needs to realize, or I think it's
22 interesting to realize, that this story starts with the
23 Atoka San Andres Pool. And my Exhibit 6 is a map of
24 Sections 21, 22, 27 and 28 that lists -- These are San
25 Andres wells that are about 1800 feet deep, and what's

1 listed there are the -- a two-number designation for the
2 year in which each well was completed. So if it was
3 completed in 1975, it just says 75.

4 Anyway, the story is, Yates has about 60 San
5 Andres wells in this area, and the first ones were drilled
6 in 1975, 1976, that time period, and the field was
7 developed on 40-acre spacing.

8 In 1983, there were six infill wells drilled so
9 that there were second wells on a number of 40s.

10 And then in the 1994-1995-1996 time period there
11 were 20 additional wells added. Quite a few of these, as
12 you'll see on one of the other exhibits, were recompletions
13 of existing wellbores.

14 And kind of the point of all this is that the
15 subject well, which is shown there in Unit C of Section 27,
16 as a location circle, the subject well, which is an
17 existing wellbore, was selected as a candidate for
18 recompletion to the San Andres, and I think it's reasonable
19 in looking at the map and where the wells are, that it
20 would a good place to try for a San Andres, since actually
21 that area kind of where four sections meet is really the
22 best part of the pool.

23 So this starts as a San Andres story, Atoka San
24 Andres story, and this wellbore came up along with some
25 others as recompletion candidates.

1 Exhibit Number 7, just kind of for background, is
2 a production map -- or production plot, for gas and oil
3 from the San Andres -- from the Yates wells in the San
4 Andres Pool, and there are about 60 wells now, so there
5 were about 40 wells in 1993, producing 70 barrels a day.
6 So you know, two barrels a day, and these 20 additional
7 wells Yates have drilled have raised the production to
8 about 300 barrels a day. So this latest phase of it has
9 been quite successful, and it's reasonable that we want to
10 add this Hawkins "GY" Number 4 well as a San Andres
11 producer.

12 Exhibit 8 is a -- is just a list of all those San
13 Andres wells, and it's actually arranged by completion
14 date. Just to have it handy in case you ask any questions
15 is probably its real purpose.

16 But Exhibits 6, 7 and 8 give you some detail of
17 the Atoka San Andres, which is where the story started. We
18 were looking for Atoka San Andres. We came to this
19 existing wellbore, this one we're calling Hawkins "GY"
20 Number 4, and it has an interesting history, is basically
21 the story, and it was drilled to -- well, it was drilled to
22 9000 feet, and it had some DSTs that never were tested,
23 just a story to it that we need to tell you, and it ends up
24 that we want to try to produce some of these deep zones,
25 and it required this 320-acre spacing and required all

1 these deep leases.

2 And so this really started at least a year ago,
3 when some of these other wells were being recompleted in
4 the San Andres, we came upon this well, and it looked
5 interesting in the deep zones, and it's essentially taken
6 us this long to get enough of the leases rounded up to come
7 and tell you the story.

8 Q. If I could, would you refer to -- Well, let me
9 ask you this: You expect that there's a good chance you
10 can make a San Andres well out of this well, but that's not
11 the purpose of this Application?

12 A. Yeah, I think there's no question, you know, a
13 95-percent chance we'll make an economic San Andres well,
14 and we don't need force-pooling to do that, so that's not
15 what's going on here, but just what -- just what you said.

16 Q. And if you would refer to Exhibit 9, which is a
17 summary showing the history of the Hawkins -- what you're
18 calling the Hawkins "GY" Number 4 well, originally the
19 Nearburg and Ingram Hawkins Number 2, and briefly outline
20 the history of that well.

21 A. Okay. This wellbore was originally called the
22 Nearburg and Ingram Hawkins Number 2. It was spudded,
23 drilled, in 1959. It was drilled to below 9000 feet, and
24 there was some DSTs run on it, and the DSTs actually are on
25 the following page. That's the last DST, DST Number 9,

1 showed quite a good Morrow zone.

2 And the -- I'm not going to sit here and read
3 everything, but the well was completed in that bottommost
4 Morrow zone in 1959, and it produced from the Atoka, what
5 was called the Atoka Penn field, really a Morrow zone. It
6 produced 2.3 BCF up until -- well, from about 1960 to 1968.
7 And then that zone kind of petered out, and the operators
8 recompleted to another Morrow zone that had 5150 to 5158 --
9 that's not true --

10 Q. You mean 9150?

11 A. I can't read, and I can't talk. The original
12 perforations were at 9150 to 9158. They were squeezed, and
13 it was recompleted to 9070 to 9074, and it was actually
14 frac'd, and that zone was put on production. That second
15 Morrow zone produced about 50 MCF a day for six or eight
16 years, and the well was shut in and TA'd and, as best we
17 know, has been sitting there since that time.

18 What's not on this paper -- and what is the only
19 additional information that we really know for sure, is
20 that at this time the gauge on the gop of the well has 2700
21 pounds on it.

22 Okay. So the short story of the well is that it
23 was a Morrow well, it produced really good out of this one
24 zone, 2.3 BCF. Over about eight years that zone was
25 depleted. It was recompleted to a second Morrow zone,

1 which was a marginal producer for six or eight years. And
2 then it was abandoned and is sitting there.

3 So we are interested in it because of several
4 facts. We're interested in it because the zone that -- we
5 assume the zone that is still open has 2700 pounds on it.
6 I don't know -- You know, not totally sure why it has 2700
7 pounds on it, but if there are 2700 pounds and that zone is
8 open, maybe it has high skin and we could treat it and make
9 a well out of the present perforations.

10 There also are the DSTs listed on page 2 of
11 Exhibit 9, and at least three of those were encouraging.
12 So there's some other zones to try on the way up.

13 This well was logged by Schlumberger in 1959,
14 which I guess means they had state-of-the-art logs in 1959,
15 but me and the rest of our engineers can't do much in the
16 way of reading those logs, frankly. But we do have this
17 DST data.

18 Okay. So Exhibit 9 is kind of a -- first page is
19 a word summary of what has happened, the second page is a
20 list from the NMOCD records of the drill stem tests. The
21 third page of Exhibit 9 is a production plot, and it
22 illustrates pretty quickly what happened. It was a good
23 producer out of the one zone. It's been a poor producer
24 out of the second zone and -- walked away.

25 And the rest of that exhibit is a table listing

1 all the production back to 1960 that doesn't exist in any
2 computer base, and we just went back and dug it out so that
3 our record would be complete. So kind of that's the story
4 on the well.

5 Exhibit 10 shows -- tries to show what Yates
6 would be interested in doing in the deep portion of the
7 well, the portion that we need to force-pool. And I've
8 listed there under the heading "Testing Proposed by Yates",
9 what we really propose to do, is figure out what -- first
10 of all, is figure out whether the present zone that's open
11 in the Morrow is potentially productive in economic
12 quantities.

13 And the first thing we would do is find out where
14 that 2700 pounds is coming from, and we would flow-test the
15 Morrow and then run a fairly long pressure buildup and try
16 to determine permeability and skin. And if the skin is
17 large, we propose to re-frac the well and try to get back
18 to that economic gas, try to reach back into the formation
19 to that economic gas.

20 Item 2 on Exhibit 10 shows that there's another
21 little Morrow zone. It was not drill stem tested but looks
22 like good clean sand on the log, and we would test that.

23 Item number 3 is an Atoka zone that was DST'd at
24 50 MCF a day, but we would test that.

25 Item number 4 is a Permo-Penn zone that was DST

1 number 3, and that tested about 50 MCF a day, and while
2 that's not sensational we would try that.

3 Item Number 4 [sic] is another Permo-Penn zone
4 that was DST'd for 427 MCF a day, and that's actually
5 fairly encouraging. We'd surely test that.

6 And then the San Andres, I know it produced, but
7 that's really not the subject of what we're talking about.

8 So there are five deep zones that Yates would
9 test, listed as items 1 through 5 on the first page of
10 Exhibit 10.

11 The rest of Exhibit 10 is a detailed procedure,
12 prepared by the operations group at Yates, of how exactly
13 we would test all these zones. And the Examiner might
14 notice that it was prepared on November 3rd of 1995, so
15 that's how long we've been working, trying to get to the
16 point where we can test this well. And in the meantime,
17 we're not producing any San Andres out of it.

18 Q. I might point out on Exhibit 10, your first
19 proposed test, you've got some numbers transposed. It
20 shows perforations 7090; it should be 9070 --

21 A. Should be 9070. Right at the top under item
22 number 4, I guess. Thank you, Mr. Vandiver, that's
23 correct.

24 Okay, so we tried to kind of explain how we've
25 gotten to where we are.

1 Exhibit 11 are two AFEs showing the kind of money
2 that we're talking about here, and actually if I would have
3 stapled them together I would have stapled them in the
4 other order.

5 Page 2 of Exhibit 11 says that we anticipate
6 spending as much as \$172,000 testing the current Morrow
7 zone, and that includes a lot of money for new tubing, to
8 replace what's been in there for 10-plus years, and to re-
9 frac the well, which we may or may not end up doing.

10 The first page of Exhibit 11 attempts to say that
11 we anticipate spending \$283,000, if we end up doing all
12 five of those tests. The current Morrow zone, \$172,000,
13 plus another Morrow zone, an Atoka zone and two Permo-Penn
14 zones, we think all of that would cost \$283,000, so that
15 the costs on page 1 include the costs on page 2. They're
16 not incremental; they include the cost on page 2. We're
17 talking about \$200,000 or \$300,000 to test these deep
18 zones.

19 Q. And the estimated costs reflected on the AFE, are
20 those obtained by Yates' experience in similar re-entry and
21 recompletion attempts in the area?

22 A. That's correct, yes, we've worked this area
23 pretty hard.

24 Q. Are the estimated costs shown on the AFE
25 reasonable and necessary to be incurred in the various

1 completion attempts to be made by Yates in this well?

2 A. They're representative of reasonable costs for
3 these operations, yes, sir.

4 Q. But naturally, you're not going to be spending
5 that much unless you have to go -- unless and until you go
6 through all the proposed recompletion attempts?

7 A. No, and obviously we hope we don't have to go
8 through everything. But even to do the first one, it's
9 going to cost \$150,000 to \$175,000, to do even one of these
10 deep tests, just because of -- You've got to replace so
11 much of the stuff that's out there.

12 Q. Okay. Would you please refer to the Applicant's
13 Exhibit 12 and identify that exhibit and the information
14 contained in that exhibit?

15 A. Exhibit 12 tries to give the Examiner some peek
16 at the risks involved here. The top of Exhibit -- of the
17 first page of Exhibit 12 is a tabular compilation of the --
18 what I'm calling the deep completions, and "deep" means
19 it's below 4000 feet, so it does not include San Andres and
20 does not include Yeso.

21 And it's talking about a fairly big area around
22 here, all of Township 18-26 and all of Township 19-26.
23 Anyway, there are 80 deep completions in those, and what is
24 really produced is Morrow, and a lot of those are old
25 Morrow wells that are no longer active. There's a little

1 Strawn production, and there's a little Abo production.

2 In these two townships there is no Atoka
3 production, no current Atoka production, there's no Permo-
4 Penn production, and what Morrow production has existed in
5 the nine sections around this location has all been
6 abandoned.

7 So at the bottom of page 1 it says, In the nine
8 sections around this well, there were ten Morrow producers,
9 and some of these were 5-BCF wells. And that production
10 was called Morrow, or sometimes it was called Penn, but
11 it's really Morrow. All ten of those wells have ceased
12 production, so there's no Morrow production in the
13 immediate area of this well, there's no Atoka production,
14 there's no Permo-Penn production. The zones that we're
15 talking about testing do not produce in this area, and I
16 think that makes them risky.

17 The rest of Exhibit 10 is a compilation,
18 basically, of -- well, it is a compilation of these 80
19 completions and what fields and pools and locations and
20 cums, et cetera, they all produced or didn't produce.

21 Q. Based upon your review and evaluation of the data
22 relating to this wellbore, the production history, do you
23 have a recommendation to make to the Examiner for a risk
24 factor penalty to be established in the compulsory pooling
25 order Yates is requesting in this case?

1 A. Yes, my recommendation is the maximum 200-
2 percent, and I think the data in this case makes a real
3 strong case for that kind of maximum risk. This is a risky
4 fishing expedition. Yates just likes to test zones, and we
5 don't pass up shows, and this well has shows. And so we're
6 going to try every one, but that doesn't always work out,
7 and very often it doesn't work out.

8 Q. In your opinion, will the granting of Yates's
9 Application in this case be in the interest of conservation
10 of oil and gas, the prevention of waste and the protection
11 of correlative rights?

12 A. Yes, sir.

13 Q. Were Exhibits 6 through 12 prepared by you or
14 under your direction and supervision?

15 A. They were, yes, sir.

16 MR. VANDIVER: Mr. Examiner, we would move the
17 admission of the Applicant's 6 through 12 as evidence in
18 this case, and that concludes my examination of this
19 witness.

20 EXAMINER STOGNER: Exhibits 6 through 12 will be
21 admitted into evidence at this time. And I have no
22 questions of Mr. Boneau.

23 I do have one more question of Mr. Bullock,
24 though.

25 Mr. Bullock, is there any need to include the 40-

1 acre spacing unit under the compulsory pooling portion of
2 this Application today?

3 MR. BULLOCK: No, sir.

4 EXAMINER STOGNER: So that can be withdrawn or
5 dismissed?

6 MR. BULLOCK: Yes, sir.

7 EXAMINER STOGNER: Okay. With that, I don't have
8 anything further, any questions of either one of the
9 witnesses.

10 Mr. Vandiver?

11 MR. VANDIVER: We will immediately submit the
12 additional exhibits we discussed.

13 EXAMINER STOGNER: I'll hold the record open
14 until the submittal of that information is made available.

15 Does anybody else have anything further in this
16 matter?

17 Okay, we'll stand adjourned as far as this
18 particular case goes.

19 (Thereupon, these proceedings were concluded at
20 10:50 a.m.)

21 I do hereby certify that the foregoing is
22 a complete and correct transcript of the proceedings in
23 the case of No. 11651,
24 heard by me on 5 December 1961.
25  , Examiner
Oil Conservation Division

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 December 8th, 1996.


 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998