

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

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

CASE NO. 11,691

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 9th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 9th, 1997, 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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January 9th, 1997
 Examiner Hearing
 CASE NO. 11,691

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

RAND L. CARROLL
Attorney at Law
Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 11:05 a.m.:

3 EXAMINER STOGNER: Call next case, Number 11,691.

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

7 EXAMINER STOGNER: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent Yates Petroleum
11 Corporation. I have two witnesses.

12 EXAMINER STOGNER: Will the witnesses please
13 stand at this time?

14 Are there any other appearances?

15 (Thereupon, the witnesses were sworn.)

16 (Off the record)

17 EXAMINER STOGNER: Mr. Carr?

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. CARR:

23 Q. Would you state your name for the record?

24 A. My name is Robert Bullock.

25 Q. Where do you reside?

1 A. I reside in Hope, New Mexico.

2 Q. By whom are you employed?

3 A. Yates Petroleum Corporation.

4 Q. And what is your current position with Yates?

5 A. I'm a landman.

6 Q. Mr. Bullock, have you previously testified before
7 this Division?

8 A. Yes, I have.

9 Q. At the time of that testimony, were your
10 credentials as an expert in petroleum land matters accepted
11 and made a matter of record?

12 A. Yes.

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

15 A. Yes, sir.

16 Q. And are you familiar with the status of the lands
17 in this area?

18 A. Yes, sir.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 EXAMINER STOGNER: Mr. Bullock, are you from
22 Hope, New Mexico, or Hope, Arkansas?

23 THE WITNESS: Hope, New Mexico.

24 EXAMINER STOGNER: Okay, you're so qualified.

25 MR. CARR: Otherwise, might not have been.

1 EXAMINER STOGNER: No comment.

2 Q. (By Mr. Carr) Mr. Bullock, would you briefly
3 state what Yates seeks with this Application?

4 A. We seek an order pooling all the mineral
5 interests from 100 feet below the base of the Loco Hills
6 sands to the base of the Morrow formation under the west
7 half of Section 6, Township 18 South, Range 30 East.

8 Q. And this is a change from what was recited in the
9 Application and the ad, where we were seeking an order
10 pooling everything from the surface to the base of the
11 Morrow; is that right?

12 A. That's correct.

13 Q. Yates does not have the shallow rights in this
14 area?

15 A. We have a partial ownership in the shallow
16 rights, and they're quite a bit different from the deep
17 rights, so that's the reason for --

18 EXAMINER STOGNER: Okay, what was that vertical
19 limit again?

20 MR. CARR: 100 feet below the base of the Loco
21 Hills to the base of the Morrow.

22 EXAMINER STOGNER: Okay, below the base of the
23 Loco Hills.

24 MR. CARR: Yes, sir.

25 EXAMINER STOGNER: That one is a new one on me.

1 I don't know what the Loco Hills formation is. Are you
2 talking about 100 feet below Loco Hills, New Mexico?

3 THE WITNESS: No, we've defined it in the
4 operating agreement here --

5 EXAMINER STOGNER: Okay --

6 THE WITNESS: -- in our Exhibit 9.

7 EXAMINER STOGNER: -- then we'll get to that.

8 THE WITNESS: Yeah, we define it here.

9 EXAMINER STOGNER: Okay. All right. Then I'll
10 let you continue, Mr. Carr.

11 Q. (By Mr. Carr) Mr. Bullock, would you refer to
12 what has been marked Yates Exhibit Number 1, identify it
13 and review it for Mr. Stogner?

14 A. Okay, Exhibit Number 1 is our land map. We show
15 the proration unit dedicated to the well by the orange
16 designation, being the west half of Section 6. We have two
17 federal leases involved here in this proration unit.

18 And then we've designated the location of the
19 well. We call it our Cerros Locos AQM Fed Com Number 1.
20 We designate that with the red dot in that proration unit.

21 Q. What will be the primary objective in the
22 proposed well?

23 A. It will be the Morrow formation.

24 Q. Could you identify what has been marked as Yates
25 Exhibit Number 2?

1 A. Exhibit Number 2 is the AFE that we have proposed
2 to drill the well by. We've designated dry hole cost
3 \$510,000, the completed well cost \$848,500.

4 Q. Are these costs in line with what is charged for
5 similar wells in this area?

6 A. Yes, sir.

7 Q. Let's go to Exhibit Number 3. Would you identify
8 that?

9 A. Exhibit Number 3 is the operating agreement that
10 we propose to use for the drilling of the well.

11 Q. Is the unitized interval, or the interval we're
12 requesting be unitized, identified in the operating
13 agreement?

14 A. Yes, it's identified on Exhibit B to the
15 operating agreement, paragraph 2.

16 Paragraph 3 shows the percentage interest of the
17 parties to the agreement.

18 4 identifies the leases subject to the agreement.

19 And then we also would like to refer to the COPAS
20 of that agreement for the drilling well rates and the
21 producing well rate. We would like to use a \$5400 and \$540
22 for those rates.

23 Q. And what is the basis for those rates?

24 A. We feel those rates are below what are being used
25 in the area right now by other operators, and they would be

1 -- We think all the operators would sign off on those
2 rates.

3 Q. Now, Mr. Bullock, what percentage of the acreage
4 in this spacing unit has been voluntarily committed to the
5 well?

6 A. Approximately 90 percent.

7 Q. And could you identify the interest owners who
8 have not voluntarily committed at this time?

9 A. Southland Royalty Company, who has 6.685 percent,
10 has not committed. And then an individual by the name of
11 Michael R. Mann with 2.501 percent is uncommitted.

12 Q. Could you summarize the efforts you have made to
13 obtain the voluntary joinder of Southland and Mr. Mann in
14 this proposed well?

15 A. We have submitted an AFE to Southland, along with
16 a letter proposing the well by certified mail. That was
17 delivered December 9.

18 Q. Is that letter included in the material marked
19 Exhibit Number 4?

20 A. Yes, sir. And then we've made several attempts
21 with Mr. Mann over a period -- actually beginning on
22 December 6th to get voluntary joinder of his interest, with
23 no success to this time.

24 Q. Let's go to the last page of Exhibit 4.
25 Referring to this, could you just explain the current

1 status of the negotiations with Mr. Mann?

2 A. We have -- We originally made him an offer on
3 December 6th, and he rejected that offer. Then we
4 increased the offer at a later date; I think it was around
5 December 13. And then he has kind of -- he's been an
6 individual that has just not wanted to communicate with us,
7 basically, and we're at a standoff for reaching any type of
8 deal on the interest that he has.

9 Q. The last proposal to him -- from him, was, he
10 wanted \$10,000 an acre; isn't that right?

11 A. Well, he kind of hedged when he said that. I
12 mean, he didn't flat out say that he would take \$10,000. He
13 hedged around that, so...

14 Q. And when you discussed with Mr. Mann the upcoming
15 hearing, did he not advise you that he was not opening a
16 letter from the Campbell Carr firm concerning that matter?

17 A. He indicated to me that he had seen the letter
18 out in his post office box there for several days and
19 hadn't gotten around to opening it.

20 Q. In your opinion, have you made a good-faith
21 effort to get Mr. Mann to voluntarily commit his interests
22 somehow to this venture?

23 A. Yes, sir, I think I have.

24 Q. What is the status of negotiations with Southland
25 Royalty?

1 A. Well, Southland hasn't communicated with us yet.
2 We've made several attempts to get ahold of their land
3 person, without success, and Mike has made an effort to
4 find out what geologist is working this area, with no
5 success, so basically we're just waiting on their answer.

6 Q. Okay. Is Exhibit Number 5 an affidavit with
7 attached letters confirming that notice of today's hearing
8 has been provided in accordance with OCD rules to the
9 affected interest owners, including Michael Mann and
10 Southland Royalty Company?

11 A. Yes, sir.

12 Q. If we look at Exhibit A to this affidavit, has
13 there been a recent change in ownership in the acreage
14 involved?

15 A. Yes, the interests that were -- the interest that
16 was credited to LAE Energy, Inc., and their limited
17 partnerships, being 1987-I and -VI STEA, that interest has
18 subsequently been purchased by Rialto Energy, Inc.

19 Q. Has Rialto signed the operating agreement?

20 A. They have signed the AFE.

21 Q. Okay.

22 A. They have indicated they would like to join the
23 drilling of the well.

24 Q. Does Yates seek to be designated operator of the
25 proposed well?

1 A. Yes.

2 Q. In your opinion, will the approval of this
3 Application and the drilling of the proposed well be in the
4 best interest of conservation, the prevention of waste and
5 the protection of correlative rights?

6 A. Yes, sir.

7 Q. Were Exhibits 1 through 5 prepared by you or
8 compiled at your direction?

9 A. Yes.

10 MR. CARR: At this time, Mr. Stogner, we would
11 move the admission into evidence of Yates Petroleum
12 Corporation Exhibits 1 through 5.

13 EXAMINER STOGNER: Exhibits 1 through 5 will be
14 admitted into evidence.

15 MR. CARR: And that concludes my direct
16 examination of Mr. Bullock.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Bullock, when was the first written
20 communications to try to get some sort of a joinder from
21 these parties?

22 A. December 9th is the day our letter went out to
23 all the working interest owners.

24 Q. And when did Yates --

25 A. With --

1 Q. I'm sorry.

2 A. With the exception of Michael R. Mann.

3 Q. Okay. When did you first send him, Mr. Michael
4 Mann, some sort of a request for joinder?

5 A. We have not requested joinder from him. We have
6 tried to purchase his interest in the operating rights in
7 one of these leases, and that was sent to him December 6th.

8 Q. Do you have a copy of that? It's toward the back
9 of Exhibit 4; is that correct?

10 A. Yes, sir, it's in Exhibit 4.

11 Q. Okay. Essentially, by this letter you're
12 requesting to buy his interest?

13 A. Yes, sir. We followed that up with a letter of
14 December 31, which is in front of this letter, which was a
15 better offer, and --

16 Q. Again for purchase?

17 A. Yes, sir, for purchase. And I have talked with
18 him several times over the telephone during this
19 negotiation period.

20 Q. And those conversations essentially --

21 A. What you have basically here is a man that
22 doesn't know what he wants to do or doesn't want to do
23 anything. I can't get him to tell me exactly what he will
24 do. That's basically what we have here.

25 Q. I guess what I was trying to get at, Yates has

1 requested to buy his interest?

2 A. Yes.

3 Q. At any time have you approached him about his
4 interest being joined into this proration unit?

5 A. I have indicated that would be an option to him.
6 I did not send him an AFE. He knows that is an option, and
7 I think I told him -- Well, I know I told him approximately
8 what the well would cost to drill. We have not submitted
9 an AFE to him at this time.

10 Q. Okay. When did Yates make an application for
11 this matter to come to hearing for force pooling?

12 A. Bill, do you have that?

13 MR. CARR: December the 18th.

14 Q. (By Examiner Stogner) Okay, so you first
15 contacted Mr. Mann, and Southland Royalty for that matter,
16 on -- Well, December 6th, for Mr. Mann and December 9th for
17 the remainder?

18 A. Yes. Primarily why we did that is because we
19 could tell -- this is not the first time the Yates
20 companies has gone to this Michael Mann. Doug Hurlbut,
21 another Yates landman, has approached him on prior
22 occasions, and we knew he was going to be a hard guy to
23 make a deal with, and that was why we got this done at an
24 early date, because we knew we were going to have some
25 difficulty with him.

1 Q. Is there still a Southland Royalty Company?

2 A. Well, there's not a company, but they still
3 retain some of these interests in that name. That entity
4 is still alive.

5 Q. Okay, and perhaps, for the record, what happened
6 to Southland Royalty? I know what happened, you know what
7 happened, but for the record.

8 A. Burlington Northern is now managing these
9 properties.

10 Q. And that is the entity which you have written
11 letters and correspondence to, Southland Royalty?

12 A. Yeah, in care of Meridian, P.O. Box 51810, which
13 they're still receiving their mail there now.

14 Q. And that's in Midland?

15 A. Midland, Texas, right.

16 Q. Okay. So Southland Royalty Company sold to
17 Meridian Oil, who has now changed to Burlington Northern?

18 A. That's right.

19 Q. And there are two federal tracts out there, are
20 there not?

21 A. Yes, sir, two federal leases.

22 Q. Okay, what's the expiration date on those federal
23 leases?

24 A. One of them is an HBP lease and the other one
25 expires -- has an expiration date of -- I believe -- Let's

1 see, it's in my exhibit there.

2 Q. Which exhibit?

3 A. It's Exhibit A. It's a ten-year renewable lease.
4 We have a preferential right for renewal, and I think we
5 renewed it in 1989. 1999, 1-1 of 1999, is the next
6 expiration date.

7 Q. Okay.

8 A. But it's a ten-year renewable federal lease.

9 Q. Now, are -- All the other parties that is covered
10 in the unit agreement, Exhibit A, those have either joined
11 or signed or --

12 A. Yes, sir, uh-huh, they've all signed an AFE.

13 EXAMINER STOGNER: I have no other questions of
14 Mr. Bullock. Are there any other questions of this
15 witness?

16 MR. CARR: No further questions.

17 At this time we call Mr. Hayes.

18 MICHAEL D. HAYES,

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. CARR:

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

24 A. Michael D. Hayes.

25 Q. Where do you reside?

1 A. Artesia, New Mexico.

2 Q. By whom are you employed?

3 A. Yates Petroleum Corporation.

4 Q. What is your position with Yates?

5 A. I'm a geologist.

6 Q. Mr. Hayes, have you previously testified before
7 this Division?

8 A. Yes, I have.

9 Q. At the time of that testimony, were your
10 credentials as an expert witness in petroleum geology
11 accepted and made a matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the Application filed in
14 this case?

15 A. Yes, I am.

16 Q. Have you made a geological study of the area
17 which is involved?

18 A. Yes.

19 Q. Are you prepared to share the results of that
20 study with the Examiner?

21 A. Yes, I am.

22 MR. CARR: Are the witness's qualifications
23 acceptable?

24 EXAMINER STOGNER: They are.

25 Q. (By Mr. Carr) Let's refer to what has been

1 marked for identification as Yates Petroleum Corporation
2 Exhibit 6. Would you identify and review that for Mr.
3 Stogner?

4 A. Exhibit 6 is a stratigraphic cross-section going
5 from west to east, a two-well cross-section. I'm showing
6 the cross-section for several reasons, principally to show
7 the horizon of a mapping unit that I'm going to be mapping
8 on for a primary target in the Morrow.

9 The cross-section datum is the Morrow clastics
10 top, lower Morrow clastics. The primary pay zone is the
11 lower Morrow clastics that you can see referred to on the
12 cross-section, basically goes from the top of the
13 Mississippian to the lower Morrow clastics marker, which is
14 the datum.

15 The quality sandstone on the cross-section is
16 colored in yellow, I believe, and it's basically less than
17 50 API units for clean sandstone.

18 Above the lower Morrow clastics we have what we
19 could refer to as the Morrow clastics, upper Morrow
20 clastics, and then above that, up at the top on the Atoka
21 marker at the top.

22 Q. Are your objectives in drilling this well each of
23 the intervals that are shown by the yellow-shaded area on
24 the cross-section?

25 A. We are interested in all those intervals. The

1 primary target is the lower Morrow clastics, however.

2 Q. Let's go to Exhibit Number 7. Can you identify
3 and review that, please?

4 A. Exhibit Number 7 is a nine-section map that is a
5 combination of structure map and isopach map. The
6 structure is -- structural horizon is mapped on the lower
7 Morrow clastics marker, as shown on the cross-section.
8 There's 11 wells here that penetrate the Morrow interval.

9 The contour interval on the structure map is 100
10 feet. The strike is basically northeast to the southwest
11 with a dip to the southwest direction.

12 I've circled -- What's shown on here is just the
13 deeper penetrations to the Morrow.

14 The isopach map is lower Morrow sand gross
15 thickness. The contour interval on that is ten feet.

16 As can be seen on the datum points -- The upper
17 left-hand corner from those well symbols, you can see the
18 thickness of the -- isopach thickness in the cross-section
19 wells, you can see where it's 36 feet in the well to the
20 west, and then 47 feet in the well to the east.

21 There's generally little sandstone in this lower
22 Morrow interval that we're primarily chasing in this
23 proposed location. You can see from some of the other
24 wells surrounding there, none of the other wells even have
25 as much as ten feet of gross sand in them.

1 The sand thick that we're chasing is roughly
2 running east to west or west to east, and the proposed
3 location is the best location, primary target of the lower
4 Morrow.

5 Q. When we look at this exhibit, was it prepared
6 from well control or did you integrate seismic into it?

7 A. It's just well control.

8 Q. What is the risk that's associated with this
9 proposal?

10 A. Well, the trap in this area appears to be
11 stratigraphic entirely, so there's stratigraphic involved,
12 primarily because we're chasing the Morrow and particularly
13 the lower Morrow interval.

14 It has a tendency -- That reservoir is highly
15 unpredictable, difficult to chase well, even with a fair
16 amount of control, you can see where we don't really have
17 any control at the moment, just to the north of us, and so
18 there's substantial risk in that.

19 There is -- In the area that's on this map,
20 there's 11 wells. These are almost all brand-new ones.
21 I'd say more than half of them are drilled since early
22 1996, and so this is fairly new production. It's a little
23 hard to establish at this point the commerciality of the
24 wells, but it appears that based on the evidence that there
25 is right now, that four of these 11 wells are noncommercial

1 at this time from the Morrow.

2 So there's substantial risk.

3 Q. Are you prepared to make a recommendation to Mr.
4 Stogner as to what the risk penalty should be for those
5 interest owners that do not join in the well?

6 A. Yes.

7 Q. And what is that, you're recommending?

8 A. Two hundred percent.

9 Q. Mr. Hayes, were Exhibits 6 and 7 prepared by you?

10 A. Yes.

11 MR. CARR: At this time, Mr. Stogner, we would
12 move the admission into evidence of Yates Petroleum
13 Corporation Exhibits 6 and 7.

14 EXAMINER STOGNER: Exhibits 6 and 7 will be
15 admitted into evidence.

16 MR. CARR: And that concludes my direct
17 examination of Mr. Hayes.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Mr. Hayes, in looking -- I'm going to refer to
21 Exhibit Number 1, because in that exhibit, which is the
22 plat, a lot of well activity is shown here.

23 A. Yeah.

24 Q. I take it there's not much deep exploration
25 around here, other than what's shown on your Exhibit 7?

1 A. The other well activity in the deeper horizons
2 that I'm aware is that there is a proposed -- I think
3 there's a force-pooling going to be going on in the west
4 half of 36, as I understand. I believe there's something
5 coming up on the docket in the west half of 36 in 17-29, up
6 to the northwest. That's what I understand from hearsay.

7 And there has been a well drilled in the
8 southwest quarter of the southeast quarter of 31, just to
9 the north and east of our proposed location. Enron has
10 drilled what's an Ellenburger test, I understand, in the
11 southwest of the southeast of 31. And I've heard second-
12 hand basically that they've drilled to the Ellenburger and
13 they're currently testing in the Bone Spring, so my
14 indications at this time, from hearsay, are that they have
15 struck out in the Morrow at that particular location.

16 Q. So in the preparation of your Exhibit Number 7,
17 there's a lot more information back to the west than what
18 is depicted?

19 A. In the shallow or the deeper?

20 Q. The deeper

21 A. Yeah, the deeper, there's some more, but not a
22 lot more, I don't think, really. I'm not aware of a lot
23 more wells to the west. Most of those wells are shallow
24 wells that you're looking at on the plat.

25 EXAMINER STOGNER: No other questions of Mr.

1 Hayes. He may be excused.

2 Mr. Carr, anything further?

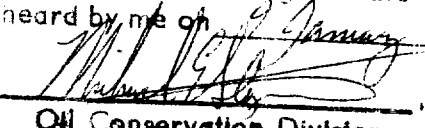
3 MR. CARR: That concludes our presentation in
4 this case.

5 EXAMINER STOGNER: Does anybody else have
6 anything further in Case 11,691?

7 Then this matter will be taken under advisement.

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

10 * * *

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12
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19
20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the examiner hearing of Case No. 11691,
24 heard by me on 9 January 1997.
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 January 15th, 1997.



 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998