

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. 12,183
)
APPLICATION OF McKAY OIL CORPORATION FOR)
AN UNORTHODOX INFILL GAS WELL LOCATION,)
CHAVES COUNTY, NEW MEXICO) ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

May 13th, 1999

Santa Fe, New Mexico

99 MAY 27 AM 5:46

OIL CONSERVATION DIV

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, May 13th, 1999, 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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May 13th, 1999
Examiner Hearing
CASE NO. 12,183

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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:

BILL MILSTEAD
 Vice President of Land
 McKay Oil Corporation
 P.O. Box 2014
 Roswell, NM 88202

* * *

1 WHEREUPON, the following proceedings were had at
2 11:19 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 Number 12,183.

5 MR. CARROLL: Application of McKay Oil
6 Corporation for an unorthodox infill gas well location,
7 Chaves County, New Mexico.

8 EXAMINER CATANACH: And we'll call for
9 appearances in this case at this time.

10 MR. MILSTEAD: Mr. Examiner, my name is Bill
11 Milstead, and I'm vice president of land for McKay Oil
12 Corporation.

13 EXAMINER CATANACH: Okay, I believe -- Are you
14 going to testify in this case, Mr. Milstead?

15 MR. MILSTEAD: No, sir. Well, I can. I mean --

16 MR. CARROLL: Better swear him in.

17 MR. MILSTEAD: Pardon me?

18 MR. CARROLL: I said we'd better swear you in, if
19 we have questions.

20 (Thereupon, the witness was sworn.)

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Okay, what we've got here is an application for
24 an unorthodox infill well, Mr. Milstead. This would be the
25 second well on the proration unit; is that correct?

1 A. That's correct.

2 Q. Okay, and that would be the northeast quarter of
3 Section 24. And there's already -- The existing well on
4 there is the -- How do you say that?

5 A. Remmele.

6 Q. Remmele Federal Com Number 8?

7 A. Yes, sir.

8 Q. Okay, that's a producing well on that unit?

9 A. Yes, sir.

10 Q. Okay, and you guys seek authority to drill the
11 four-mile draw Federal B Com Number 12?

12 A. That well has already been drilled. We were
13 granted authority by the District Office to drill it in
14 this location and could not produce it pending approval of
15 the Examiner in a hearing.

16 Q. And do you have knowledge of the reason that the
17 well was drilled at an unorthodox location?

18 A. Yes, sir, the reason it was located where it was
19 was, we ran into some topographic problems. It's sitting
20 in a draw. Had we moved it even the 60 feet south to make
21 it a legal location, number one, we would have cut a
22 drainage that came through it, and number two, the surface
23 lessee had an earthen dam constructed that we would have
24 destroyed, and the earthen dam was to hold water runoff for
25 his livestock. It was basically one of the widest areas in

1 the draw, the place of the location.

2 Q. So you're not -- You're not very unorthodox? I
3 mean, you're --

4 A. Only 60 feet, sir.

5 Q. Sixty feet, okay. Okay, it's standard with
6 respect to the east and west?

7 A. Yes, sir.

8 Q. Okay. So you're only moving 60 feet to the
9 north. Okay.

10 A. The surrounding mineral owner is the Bureau of
11 Land Management. McKay -- As you can see by the letters in
12 Exhibits 1 through 3, the McKay Living Trust, the McKay
13 Children's Trust, are leasehold owners in the surrounding
14 acreage. Sanders Petroleum Corporation is a wholly owned
15 corporation of the Children's Trust, so it wouldn't be
16 detrimental to any other entities.

17 Q. So those would be the only -- the area that
18 you've outlined in green on this map, that would be owned
19 by McKay?

20 A. Yes, sir. Actually, it's larger than that. If
21 you'll look -- I just outlined the offsetting 160s, but if
22 you'll look, McKay Oil controls the leasehold around the
23 six sections around it, and, you know, with the exception
24 of Section 20 in 6-23, own the nine sections around it.

25 Q. Okay. Specifically in Section 13, that's -- he

1 owns all of Section 13?

2 A. Yes, sir.

3 Q. Is that the same interest ownership in Section 13
4 as it is in Section 24; do you know?

5 A. Yes, sir. Well, the interest between these
6 companies varies a little bit but not -- you know,
7 essentially are the same. One company may have 20 percent
8 in one and 25 in another.

9 Q. But these are all the interest owners that have
10 been notified, are all the --

11 A. Yes, sir.

12 Q. -- all the parties that own interest in both
13 sections?

14 A. Yes, sir.

15 EXAMINER CATANACH: Okay.

16 EXAMINATION

17 BY MR. CARROLL:

18 Q. And it's a federal lease?

19 A. Yes, sir.

20 Q. The federal lease encompasses both Sections 13
21 and 24?

22 A. It's separate federal leases. If you'll look,
23 Section 13 is covered under Lease Number 36192. Section
24 24, the drill-site spacing unit or the com unit, is covered
25 under 36194 and 36195.

1 Q. On this topographic map, where is this earthen
2 dam?

3 A. The earthen dam doesn't show up on the
4 topographic map, because it was built newer than the
5 topographic map. The dam is -- and maybe -- Let me
6 approach, and I can show you a little easier.

7 The dam location is right in here. Actually,
8 this draw comes back and comes over this way, and the dam
9 location is right here. And there's an area back in here
10 that he fills up with water.

11 FURTHER EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. So a move south from that location would have --

14 A. Well, a move south from that location -- This is
15 a lot steeper here than it is here.

16 Q. Uh-huh.

17 A. So a move south would have caused us to have to
18 cut into this, would have greatly increased our location.

19 MR. CARROLL: Costs?

20 Q. (By Examiner Catanach) Even by 60 feet?

21 A. And, you know, the existing road that's in there.

22 It was a very tight area to put it. We went in
23 and drilled the well with air so that we would have a
24 smaller-than-normal location as it was.

25 EXAMINER CATANACH: Okay. That's all we need.

1 We'll enter this as -- They're not marked or anything.

2 THE WITNESS: Exhibits 1 through 5 in there, yes.

3 EXAMINER CATANACH: We'll admit these as Exhibits
4 1 through 5 in this case.

5 And I believe that's all we need Mr. Milstead.

6 MR. MILSTEAD: Thank you very much.

7 EXAMINER CATANACH: Thank you.

8 MR. CARROLL: Thank you.

9 EXAMINER CATANACH: There being nothing further,
10 Case 12,183 will be taken under advisement.

11 (Thereupon, these proceedings were concluded at
12 11:27 a.m.)

13 * * *

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15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
the Examiner hearing of Case 12,183,
19 heard by me on May 13, 1957.
20 David H. Catnach, Examiner
Of Conservation Division

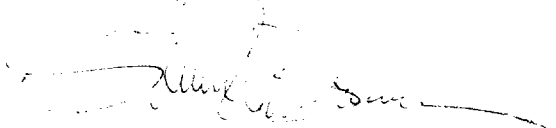
CERTIFICATE OF REPORTER

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 May 16th, 1999.



 STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002