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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION
CASE NOS. 10,771, 10,345, 10,346, 10,772,
10,823, 10,788 and 10,790

CONTINUED AND DISMISSED CASES

TRANSCRIPT OF PROCEEDINGS

BEFORE: WILLIAM J. LEMAY, CHAIRMAN
WILLIAM WEISS, COMMISSIONER
JAMI BAILEY, COMMISSIONER

FFR | | 1994

January 13, 1994
Santa Fe, New Mexico

This matter came on for hearing before the Oil
Conservation Commission on January 13, 1994, at Morgan
Hall, State Land Office Building, 310 Old Santa Fe Trail,
Santa Fe, New Mexico, before Steven T. Brenner, Certified
Court Reporter No. 7 for the State of New Mexico.

* * *

1 WHEREUPON, the following proceedings were had at
2 9:02 a.m.:

3 CHAIRMAN LEMAY: Good morning, happy new year.
4 This is the Oil Conservation Commission, and my name is
5 Bill LeMay, I'm chairman.

6 To my left is Commissioner Bill Weiss, to my
7 right Commissioner Jami Bailey, representing the
8 Commissioner of Public Lands, State of New Mexico.

9 We will start by calling Cases 10,345 and 10,346,
10 Louise Locke.

11 MR. STOVALL: Applications of Louise Locke to
12 consider objections to well costs, San Juan County, New
13 Mexico.

14 Mr. Bruce, as I understand, Louise Locke has
15 recently received the well cost information and has
16 requested some additional time to audit the information
17 before this case goes forward; is that correct?

18 MR. BRUCE: Yes, Mr. Tully requested some extra
19 time, and we have no objection on behalf of BHP.

20 CHAIRMAN LEMAY: Thank you. Without objection,
21 those cases will be continued to the -- I have March 10th
22 docket.

23 * * *

24 CHAIRMAN LEMAY: And call Case Number 10,772,
25 Barber Oil. I'm jumping on you here, Counselor.

1 MR. STOVALL: Application of Barber Oil, Inc.,
2 for saltwater disposal, Eddy County, New Mexico.

3 Applicant has requested this case be continued to
4 the February 10th docket.

5 CHAIRMAN LEMAY: Without objection, that case
6 will be continued to the February 10th docket.

7 * * *

8 CHAIRMAN LEMAY: And call Case Number 10,771.

9 MR. STOVALL: Application of OXY USA, Inc., to
10 authorize the expansion of a portion of its Skelly Penrose
11 "B" Unit Waterflood Project and qualify said expansion for
12 the recovered oil tax rate pursuant to the New Mexico
13 Enhanced Oil Recovery Act, Lea County, New Mexico.

14 Applicant has requested that case be continued to
15 the February 10th docket.

16 CHAIRMAN LEMAY: Is there any objection? If not,
17 that case will be continued to the February 10th docket.

18 * * *

19 CHAIRMAN LEMAY: And we will now call Cases
20 10,823, 10,788 and 10,790.

21 MR. STOVALL: Mr. Chairman, I think there's a --

22 CHAIRMAN LEMAY: I'm sorry.

23 MR. STOVALL: -- different procedural matter on
24 -- We can do them, but I think we need to --

25 CHAIRMAN LEMAY: Separate them.

1 MR. STOVALL: -- do them individually, yeah.

2 CHAIRMAN LEMAY: Yeah, okay.

3 MR. STOVALL: 10,823 is the Application of
4 Nearburg Producing Company for compulsory pooling, Eddy
5 County, New Mexico.

6 Applicant Nearburg Producing has requested this
7 case be continued to the February 10th, 1994, docket.

8 CHAIRMAN LEMAY: Is there any objection to that?
9 If not, Case 10,823 will be continued to the February 10th
10 docket.

11 * * *

12 CHAIRMAN LEMAY: And we will call Cases 10,788
13 and 10,790.

14 MR. STOVALL: 10,788 is the Application of
15 Nearburg Producing Company for compulsory pooling, Eddy
16 County, New Mexico.

17 Case 10,790 is the Application of Yates Petroleum
18 Corporation for compulsory pooling, Eddy County, New
19 Mexico.

20 These are competing force-pooling applications,
21 and I understand there's been an agreement reached.

22 MR. CARROLL: That's correct. Mr. Chairman, with
23 respect to Yates's Case 10,790 --

24 MR. STOVALL: Excuse me, Mr. Carroll, do you want
25 to go ahead and enter your appearance for the record?

1 MR. CARROLL: I'm sorry, I'm Ernest Carroll of
2 the Losey law firm of Artesia, New Mexico, appearing on
3 behalf of Yates Petroleum, the Applicant in Case 10,790.

4 MR. BRUCE: And Jim Bruce from the Hinkle law
5 firm in Santa Fe, representing Nearburg Producing Company,
6 the Applicant in Case 10,788.

7 CHAIRMAN LEMAY: Thank you. Are there additional
8 appearances in these cases?

9 Okay, Mr. Carroll?

10 MR. CARROLL: Mr. LeMay, Yates Petroleum, with
11 respect to the case in which it is the Applicant, 10,790,
12 at this time would move to dismiss its Application, or its
13 Application for a *de novo* hearing with respect to that
14 Application filed, and would further advise that with
15 respect -- in conjunction -- both cases, Yates Petroleum
16 and Nearburg Producing Company have reached an agreement
17 whereby Yates has elected to participate in the drilling of
18 the Nearburg well in Section 2.

19 We have signed an AFE and returned it, and it is
20 my understanding Nearburg will agree and stipulate on the
21 record that such AFE was timely submitted with respect to
22 the Order.

23 And furthermore, the only other thing that Yates
24 would like to note, at this point in time the well, by
25 order of the Commission, is scheduled to be drilled by

1 February 1.

2 Yates would like to put a record. We don't know
3 if there's going to be a problem, but we want to put a
4 record that we expect a well to be spudded on or before
5 February 1 and would oppose any further extension.

6 CHAIRMAN LEMAY: Mr. Bruce?

7 MR. BRUCE: Mr. Chairman, on behalf of Nearburg,
8 we stipulate that Yates has timely elected to join in
9 Nearburg's proposed well, in other words, without a risk
10 penalty.

11 We would request that an order be entered in this
12 case, reflecting this stipulation, because no operating
13 agreement has yet been signed by the parties. So we want
14 that to protect Yates and to protect Nearburg.

15 There is currently a February 1, 1994,
16 commencement deadline. Yates does oppose any extension of
17 that.

18 Nearburg is in the process of obtaining a
19 contract on a drilling rig. It would like a two- to four-
20 week extension of that. It does plan to commence its dirt
21 work this month.

22 We hope to spud it by the end of the month, but
23 to be safe we would like to have an extension of two to
24 four weeks. But Nearburg does commit that it will take the
25 steps necessary to preserve Yates' lease, which is -- If

1 drilling is not commenced, obviously, it will expire.

2 CHAIRMAN LEMAY: Let me ask you, does Yates have
3 a spudder on that state lease to spud it?

4 MR. CARROLL: Yes. Yes, sir, we do. We've had
5 it out there for quite some time now, and that's the main
6 reason we have an objection.

7 I would suggest that the proper thing is that a
8 formal application be made. I don't know if our clients
9 can work this matter out. And there may not be a problem,
10 because there's not much activity going on down there, and
11 I think there are some rigs available. And we do have more
12 than two weeks, you know, available to get a well spudded.

13 So I would think the proper way would be to make
14 a formal application, and let's see what happens, and we'll
15 determine --

16 CHAIRMAN LEMAY: How much is your spudder costing
17 you? Do you know?

18 MR. CARROLL: What's the spudder run, Randy? I'm
19 not sure?

20 FROM THE FLOOR: I really don't recall. I
21 just --

22 MR. CARROLL: I'm sorry, Mr. LeMay, I don't have
23 that.

24 CHAIRMAN LEMAY: That's all right. Would it be
25 appropriate to have that part of the cost of the total

1 well, do you think, in the event that Nearburg couldn't get
2 a rig on location by February 1?

3 MR. CARROLL: I think that that might be a very
4 appropriate remedy, or some extension that Nearburg would
5 have to reimburse any costs that were out.

6 CHAIRMAN LEMAY: Maybe not reimburse, but that's
7 just the cost of doing the well and share in proportion
8 your interest in the proration unit.

9 MR. CARROLL: That's correct, that could be a
10 solution, yes, sir.

11 CHAIRMAN LEMAY: I mean, I realize that rigs, you
12 just always can't get them when you want them, but I
13 understand if you're going to do the dirt work that
14 Nearburg -- Does he have a contractor, do you know?

15 MR. BRUCE: I'm not certain, Mr. Chairman. They
16 did indicate to me on the phone yesterday that they would
17 be starting the dirt work by the end of the month, but they
18 are in the process -- What he indicated was that he did not
19 have a drilling rig under contract yet.

20 CHAIRMAN LEMAY: You might check on that as a
21 possible stipulation in the event the well is not started
22 by February 1 and there needs to be additional extension to
23 any cost of that cable tool to save that lease will be part
24 of the bill of the well you're going to drill.

25 MR. BRUCE: Total well costs.

1 CHAIRMAN LEMAY: Total well costs.

2 MR. BRUCE: Thank you, Mr. Examiner.

3 CHAIRMAN LEMAY: Thank you, gentlemen. Anything
4 else in this case?

5 MR. STOVALL: Clarify one thing just to make
6 sure.

7 This well -- Is your position and part of the
8 stipulation, this well is being drilled under the force-
9 pooling order, not in lieu of the force- -- not -- based on
10 agreement which voids the force-pooling order?

11 MR. BRUCE: It's being drilled under the force-
12 pooling order as of this -- And if they do sign an
13 operating agreement, we will let the Commission know
14 immediately.

15 MR. CARROLL: That's all I have.

16 CHAIRMAN LEMAY: Thank you, Mr. Carroll. Thank
17 you, Mr. Bruce.

18 * * *

19 (Thereupon, these proceedings were concluded at
20 9:12 a.m.)

21 * * *

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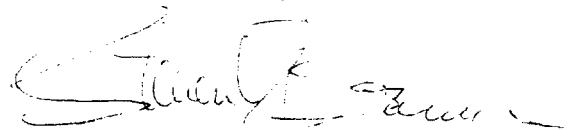
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Steven T. Brenner, Certified Court Reporter
7 and Notary Public, HEREBY CERTIFY that the foregoing
8 transcript of proceedings before the Oil Conservation
9 Commission was reported by me; that I transcribed my notes;
10 and that the foregoing is a true and accurate record of the
11 proceedings.

12 I FURTHER CERTIFY that I am not a relative or
13 employee of any of the parties or attorneys involved in
14 this matter and that I have no personal interest in the
15 final disposition of this matter.

16 WITNESS MY HAND AND SEAL January 18, 1994.

17
18 

19 STEVEN T. BRÉNNER
CCR No. 7

20
21 My commission expires: October 14, 1994
22
23
24
25

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,788, 10,790

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Producing Company for
compulsory pooling, Eddy County, New Mexico

Application of Yates Petroleum Corporation for
compulsory pooling, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

17 1993

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

August 12, 1993

A P P E A R A N C E S

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* * *

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* * *

1 WHEREUPON, the following proceedings were had
2 at 4:05 p.m.:

3 EXAMINER CATANACH: Call the hearing back to
4 order at this time and call Case 10,788.

5 MR. STOVALL: Application of Nearburg
6 Producing Company for compulsory pooling, Eddy County,
7 New Mexico.

8 Mr. Examiner, it appears that we may have a
9 couple of applications for a similar area, and we might
10 call Case 10,790 as well. The parties have also
11 requested these be consolidated.

12 EXAMINER CATANACH: Mr. Stovall, would you
13 please call Case 10,790?

14 MR. STOVALL: Application of Yates Petroleum
15 Corporation for compulsory pooling, Eddy County, New
16 Mexico.

17 EXAMINER CATANACH: Are there appearances in
18 these cases?

19 MR. BRUCE: Mr. Examiner, Jim Bruce with the
20 Hinkle law firm in Santa Fe, representing Nearburg
21 Producing Company, and I have three witnesses to be
22 sworn.

23 EXAMINER CATANACH: Additional appearances?

24 MR. CARROLL: Mr. Examiner, I'm Ernest
25 Carroll of the Artesia law firm of Losee, Carson, Haas

1 & Carroll, and we'll be representing Yates Petroleum in
2 both cases that are called.

3 We have three witnesses.

4 MR. STOVALL: Mr. Examiner, before we
5 actually start with the presentation of evidence in
6 this case, I think procedurally for the record, these
7 are effectively competing force-pooling applications,
8 if I understand from reading pre-hearing statements and
9 the Applications. Yates has sought an application to
10 pool to the base of the Morrow, the south half of
11 Section 2 in Township 22 South, Range 24 East.

12 Nearburg seeks to pool to the base of the
13 Cisco/Canyon, underlying the east half of Section 2, 22
14 South, 24 East.

15 Is it correct to say that both proposed well
16 locations are on a Yates-owned lease? Is that --

17 MR. CARROLL: That's correct. This section,
18 only the southeast quarter of the section is owned by
19 Yates. The other remaining three quarters of the
20 section are owned by Nearburg.

21 I would also like, with respect to the
22 Application of Yates Petroleum, which is 10,790, to
23 amend our location.

24 Apparently there was a miscommunication
25 between myself and my client. The location that is in

1 the Application, which is 1990 from the east and south
2 lines, sits right on a gorge, almost. It's a
3 topographical. And our actual -- the Application that
4 we have submitted to the OCD reflects a location of
5 1980 from the south line and 2130 feet from the east
6 line, and I'd like our --

7 MR. STOVALL: That's orthodox?

8 MR. CARROLL: That is orthodox, I think, yes,
9 sir. It is.

10 MR. STOVALL: Okay.

11 MR. CARROLL: But it was moved solely to make
12 accommodations for this canyon that exists out there.

13 MR. STOVALL: As long as it's orthodox, I
14 don't think that's a -- unless that's a material issue
15 in the --

16 MR. CARROLL: I don't think so. But both
17 Applications are for locations on the southeast
18 quarter.

19 MR. STOVALL: Mr. Examiner, I think also in a
20 discussion with the attorneys prior to the hearing it
21 is my understanding that the only party each seeks to
22 pool is the other. There are no other parties to be
23 pooled in this hearing, and therefore I have advised
24 them that I think it is not necessary -- that they can
25 stipulate to the fact that they have had good faith

1 negotiations, have been able to reach an agreement,
2 that each party is represented by counsel at the
3 hearing, and we don't need extensive land testimony on
4 the nature of negotiations; is that correct, gentlemen?

5 MR. BRUCE: That's correct, Mr. Stovall.

6 MR. CARROLL: Yes, that's correct.

7 MR. STOVALL: I also understand that --

8 MR. BRUCE: Mr. Stovall, if I could make one
9 correction, Yates does seek to pool Nearburg Producing
10 Company; Nearburg seeks to pool Yates Petroleum
11 Corporation, Yates Drilling Company, Myco Industries,
12 Inc., and Abo Petroleum Corporation.

13 MR. STOVALL: Mr. Carroll, are you
14 representing all of those entities?

15 MR. CARROLL: Yes, sir. That's --

16 MR. STOVALL: Okay.

17 MR. CARROLL: As I think the Examiner is well
18 aware, that's the sister companies of the Yates family.

19 MR. STOVALL: Well, I understand that they
20 are, but we need to make sure that -- It doesn't change
21 the procedural requirements.

22 MR. CARROLL: No.

23 MR. STOVALL: You will represent them all?

24 MR. CARROLL: That's correct, that's correct.

25 MR. STOVALL: Okay, I understand you also

1 have agreed on overhead rates for both drilling and
2 producing rates. You're seeking the same rate, so
3 that's not an issue.

4 MR. CARROLL: Both companies are seeking the
5 same rates and also seeking the same penalty.

6 MR. STOVALL: Both are seeking a 200-percent
7 penalty.

8 So the real focus of the testimony is going
9 to be who is going to operate. I guess --

10 MR. BRUCE: Who will operate Cisco/Canyon.

11 MR. STOVALL: -- it's a geological question
12 of who's going to go to -- Who operates is going to
13 result in a question of what depth do you go to; is
14 that correct? Nearburg doesn't want to go down to the
15 Morrow?

16 MR. CARROLL: That's correct.

17 MR. STOVALL: And Yates wants to go through
18 the Cisco but include the Cisco in the pooling --

19 MR. CARROLL: That's correct.

20 MR. STOVALL: -- Application; is that
21 correct?

22 MR. BRUCE: Yes.

23 MR. STOVALL: And I assume that affects --
24 Other than that, are there any AFE costs, and have you
25 compared AFEs to see if you are substantially similar

1 on AFE costs?

2 MR. CARROLL: We have compared them and
3 they're --

4 MR. STOVALL: Other than depth?

5 MR. CARROLL: Well, according to our
6 comparison, the AFE for Nearburg is about -- it is
7 substantially higher than Yates.

8 MR. STOVALL: To the Cisco?

9 MR. CARROLL: To the Cisco. When you take
10 out the -- There's one element that is not in our AFE
11 that is in the Nearburg, and that is a pumping unit.
12 We don't -- If we're going into the Morrow, we didn't
13 include a pumping unit.

14 But when you take that pumping unit value
15 out, then both AFEs are essentially the same or very
16 close, within a few dollars.

17 But our AFE goes 2000 foot deeper. That's
18 why I say there's a significant difference.

19 MR. STOVALL: Mr. Bruce --

20 MR. BRUCE: We will discuss them somewhat,
21 but we wouldn't --

22 MR. STOVALL: Well, understanding -- In other
23 words, let's throw it out if it's not a big issue. We
24 recognize that AFE is really an estimate of what it's
25 going to cost.

1 Does either party have any major concerns,
2 with the exception of the pumping unit, as Mr. Carroll
3 has pointed out, with the AFE costs? Or can we just
4 enter those AFEs and --

5 MR. BRUCE: Well, we would probably put on
6 some testimony. We think Yates understates their AFE.

7 MR. CARROLL: We intend to -- other than to
8 call that fact to the attention of the Examiner, the
9 discrepancy for the 2000 feet, we did not intend to get
10 into a battle of the AFEs, because they're both here
11 for the Commissioner to look at and examine, and I
12 think -- We've got ours, and I'm sure they're -- I know
13 they're going to put theirs in, and we were just going
14 to leave it up to the Examiner.

15 MR. STOVALL: My inclination is to think --
16 Without speaking for the Examiner since I haven't
17 consulted with him, my inclination is to think that the
18 AFE is not going to be the determinative issue in this
19 case, so I'd recommend that you not spend a lot of
20 time. If you wish to point out a difference, Mr.
21 Bruce, that's --

22 MR. BRUCE: We were going to be very brief.

23 MR. STOVALL: Any other things that you can
24 agree on?

25 MR. CARROLL: I -- we've --

1 MR. BRUCE: I think we've stipulated that
2 both parties have made reasonable efforts to get the
3 other parties to pool.

4 There's no question on the overhead rates.

5 We can stipulate as to land ownership.

6 MR. CARROLL: Do we need to put a land
7 witness on? I'll stipulate -- Your exhibits, put them
8 in, you can say what you want to about them, and I
9 would propose to do the same.

10 MR. BRUCE: I want my land witness to testify
11 on two of the exhibits I was going to have him testify
12 about, as opposed to the six or seven that I was
13 originally going to have him testify.

14 MR. STOVALL: Well, it's -- Your Application
15 is called first. We'll let you go first and --

16 MR. CARROLL: -- we'll see where it goes from
17 there.

18 MR. STOVALL: -- and if you need to
19 supplement that -- I know Ms. Richardson is really
20 waiting to get up here and tell us all she knows about
21 this area. She'll be disappointed if we don't put her
22 on.

23 Why don't we put -- Let's put some numbers
24 in. What's your overhead rates that you're --

25 MR. BRUCE: \$5400 and \$540.

1 MR. CARROLL: Yes, sir.

2 MR. STOVALL: 200-percent penalty?

3 MR. CARROLL: Yes.

4 MR. BRUCE: Yes.

5 MR. STOVALL: AFE is an estimate. That real
6 battle comes after the well is drilled.

7 One thing that I would point out to Nearburg
8 is that historically the Division does not consider a
9 pumping unit to be an element of -- to be included in a
10 penalty charge because a pumping unit is not a risk
11 element. You don't put a pumping unit on until you've
12 got a well. So it's not something against which a risk
13 penalty should be assessed. That and any other surface
14 production equipment. Since that is mentioned as a
15 difference.

16 With that, the witnesses, please stand -- Ms.
17 Richardson, you might as well stand, just in case.

18 (Thereupon, the witnesses were sworn.)

19 MR. BRUCE: Call Mr. Shelton to the stand.

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and city of

1 residence for the record?

2 A. My name is Bob Shelton. I'm a resident of
3 Midland, Texas.

4 Q. And who do you work for and in what capacity?

5 A. Nearburg Producing Company. I'm a landman.

6 Q. Have you previously testified before the
7 Division as a petroleum landman?

8 A. Yes, sir, I have.

9 Q. And were your credentials as an expert
10 petroleum landman accepted as a matter of record?

11 A. Yes, they were.

12 Q. And are you familiar with the land matters
13 involved in both the Nearburg and Yates cases?

14 A. Yes, sir, I am.

15 MR. BRUCE: Mr. Examiner, I tender Mr.
16 Shelton as an expert petroleum landman.

17 EXAMINER CATANACH: Mr. Shelton is so
18 qualified.

19 MR. BRUCE: Briefly, Mr. Shelton, Exhibits 1
20 and 3 and -- I believe the operating agreement is
21 supposed to be attached to 3, and Exhibit 3A are merely
22 copies of correspondence between you and Yates; is that
23 correct?

24 A. Yes, proposing operations or exploratory
25 units in the area concerning the development of these

1 lands and others.

2 Q. Okay. Now, originally Nearburg proposed
3 unitizing this area, didn't it?

4 A. By a letter dated March 24th, 1993, we
5 proposed to the Yates companies the formation of an
6 exploratory state unit that would cover approximately
7 6200 acres, as I remember, for the -- for several
8 tracts of land.

9 Q. Would you please refer to Nearburg Exhibit 2
10 and discuss what this shows for the Examiner?

11 A. This is a lease and well activity map that we
12 prepared for the area representing leasehold acreage
13 that we now own and leasehold acreage that we have
14 owned in the past.

15 It also demonstrates the activity that
16 Nearburg has had in this area. We have some eight to
17 ten wells that we drilled, reworked or are in the
18 process of doing.

19 You see the dates down below. When we have
20 initiated our leasing program in this area was December
21 1st, 1978, was our first involvement in this area.

22 Throughout all of the 1980s and through into
23 the 1990s, we've on a continuous basis operated wells,
24 re-entered wells, tested wells, produced oil and gas
25 wells, made farmouts for oil and gas wells to be

1 drilled, and we've been very active in this area for a
2 long period of time.

3 Q. So for a several-mile radius around Section
4 2, you've been a major player for 15 years?

5 A. That is correct.

6 Q. Okay. Now, would you then refer to Nearburg
7 Exhibit 4, which is the land plat, and just once again
8 very briefly discuss your proposed unit and the
9 ownership of that unit?

10 A. The proposed unit ownership that we have
11 consists of 344.66 acres. It consists of the east half
12 of Section 2, Township 22 South, Range 24 East.

13 Nearburg Exploration Company in the unit owns
14 184.66 acres of land, being more or less the north
15 184.66 acres of that acreage, lots 1 and 2 in the south
16 half, northeast quarter. Ours is the State of New
17 Mexico oil and gas lease.

18 Yates Petroleum, Abo, Myco Industries, Yates
19 Drilling Company, unfortunately, each own the southeast
20 quarter of that tract, consisting of 160 acres.

21 And on Exhibit 4 sets forth the ownership of
22 each of the companies, both by acreage and by
23 percentage.

24 Q. And Nearburg does own a majority interest in
25 your proposed unit?

1 A. Yes, we do. We own a 53.57 percent interest
2 in the east-half unit. Also Nearburg Exploration
3 Company owns the entire west half under the same state
4 oil and gas lease.

5 Q. So all of Section 2 except the southeast
6 quarter is one state lease owned by Nearburg?

7 A. That is correct.

8 Q. Okay. Moving on to Exhibit 5, would you
9 briefly identify those for the Examiner?

10 A. Exhibit 5 is an approved State Oil
11 Conservation Division permit -- Application for Permit
12 to Drill, deepen or plug back a well. It is for the
13 re-entry and completion of the -- what is listed on
14 Exhibit 4 of the Antweil Littlewalt well.

15 We are currently in the process of building
16 the road. A rig will be on that location within just a
17 very few days.

18 That acreage is under the permit already
19 dedicated. It is west-half standup 344.66-acre unit.
20 And that acreage to the base of the Cisco/Canyon,
21 pursuant to this permit, is already dedicated to that
22 well, and operations will be underway immediately.

23 Q. Okay. So that is already an approved west-
24 half unit for that well --

25 A. Yes.

1 Q. -- which will be re-entered shortly?

2 A. And pursuant to that, the acreage in the
3 southwest quarter from the surface to the base of the
4 Cisco/Canyon is not available for -- is not available
5 to Yates.

6 Q. And then the back couple pages of Exhibit 5
7 are your APD for the east-half unit; is that correct?

8 A. Yeah, that is a State Oil Conservation
9 Division approved application also, or permit. That's
10 for Big Walt 2 State Number 2 well, located 1650 feet
11 from the south line, 1980 feet from the east line.
12 It's an approved permit dedicating the east half to a
13 344.66-acre spacing unit.

14 Q. Now, both your well, your proposed well, and
15 Yates's proposed well are in the southeast quarter, and
16 they are on Yates's acreage; is that correct?

17 A. That is correct.

18 Q. Does Nearburg have any objection to a south-
19 half unit for a Morrow test or a Morrow well?

20 A. For the testing of the Morrow formation only
21 below the base of the Cisco/Canyon, we have no
22 objection.

23 In fact, we'd be willing to farm out and make
24 some voluntary agreement if that agreement covers only
25 the Morrow formation and the permit is limited to the

1 Morrow formation.

2 We -- Our geology will show maybe a little
3 different picture, but we certainly do not have any
4 problem with a Morrow well being drilled there, if
5 Yates chooses to do so, if it doesn't conflict with our
6 approved permits and our approved acreage dedications.

7 Q. Okay.

8 A. And we will do our very best to work with
9 Yates in a voluntary manner to see if that could be
10 pursued, if they so choose.

11 Q. All right, thank you, Mr. Shelton.

12 Nearburg does request that it be named
13 operator of the proposed well; is that correct?

14 A. We have approved permits, we'll be the
15 operator of the well, the Littlewalt well, obviously we
16 do, we have the majority interest, we own the majority
17 of the section, we have approved permits.

18 And we also have an approved permit by the
19 OCD for a saltwater disposal well located in the
20 southwest quarter of Section 1, which is immediately
21 adjacent. These wells, everybody will agree, I think,
22 that they produce a lot of water.

23 It's imperative that somebody have a disposal
24 well at or near, very close to this vicinity for the
25 proper and costly [sic] disposal of water.

1 We have that permit, that well will be in
2 place, and the disposal facilities will be in place by
3 the time this well is drilled. And we have the
4 superior method for disposing of salt water, which also
5 will be very important to the operatorship of this
6 tract.

7 Q. Okay. Is Exhibit 7, Mr. Shelton, my
8 affidavit regarding notice given to Yates?

9 A. Yes, It is.

10 MR. BRUCE: Mr. Examiner, I would note for
11 the record that we originally had some photographs
12 which were marked Exhibit 6, which had to do with
13 Yates's well location. But because it was moved, we're
14 not going to submit those. And so for the record,
15 there is no Exhibit 6.

16 EXAMINER CATANACH: Okay.

17 Q. (By Mr. Bruce) Mr. Shelton, in your opinion
18 will the granting of the Nearburg Application and the
19 denial of the Yates Application be in the interests of
20 conservation, the prevention of waste and the
21 protection of correlative rights?

22 A. Yes, sir, it will be.

23 Q. And were Exhibits 1 through 5 prepared by you
24 or compiled from company records?

25 A. They were so.

1 MR. BRUCE: Mr. Examiner, at this time I'd
2 move the admission of Exhibits 1 through 5 and 7.

3 MR. STOVALL: Question, Mr. Bruce. I've got
4 a set of exhibits which were given to the Examiner.
5 They start with Exhibit 4. Exhibit 4 appears to be a
6 land plat. It looks like that.

7 MR. BRUCE: That's correct.

8 MR. STOVALL: Exhibit 3A appears to be a
9 letter to Richardson, and Exhibit 5 is the APDs.

10 MR. BRUCE: That's correct.

11 MR. STOVALL: Now, I've got another set of
12 exhibits here. Exhibit 4 is the letter to Ms.
13 Richardson, Exhibit 5 is the land plat, and Exhibit 5
14 is the APD.

15 MR. BRUCE: Well, sue me. I --

16 MR. STOVALL: Mr. Carroll, are you looking
17 for a client?

18 MR. BRUCE: 4 is supposed to be the land
19 plat, 3A is the letter to Ms. Richardson --

20 MR. STOVALL: Okay.

21 MR. BRUCE: -- and 5 is the --

22 MR. STOVALL: I will re-mark this set. Never
23 pass up an invitation.

24 Okay, now we've got that, then.

25 Go ahead, Mr. Examiner.

1 EXAMINER CATANACH: Now, what numbers are we
2 admitting again?

3 MR. BRUCE: 1 through 5 and 7.

4 EXAMINER CATANACH: 1 through 5 and 7 --

5 MR. STOVALL: -- including a 3A.

6 EXAMINER CATANACH: -- including a 3A, will
7 be admitted as evidence, with no objection from Mr.
8 Carroll.

9 MR. CARROLL: No objection, no objection.

10 CROSS-EXAMINATION

11 BY MR. CARROLL:

12 Q. Just a few short questions.

13 Mr. Shelton, let's -- would you please -- And
14 I just want to ask a few questions relative to some of
15 your exhibits.

16 Would you turn to Exhibit Number 1?

17 A. Yes, I would.

18 Q. This particular proposal letter was written
19 on March 24th, and you asked for an answer by the 26th,
20 two days later; is that correct?

21 A. Well, we've been in a lot of discussions over
22 the phone and everything about the subject matter, long
23 before the letter was actually received.

24 Yes, it shows a timetable on the second page
25 of March 28th for receive communications from Yates and

1 Santa Fe.

2 Q. All right. Now, Mr. Shelton, you made some
3 comment that this involves something like 6200 acres,
4 but the third page of your exhibit actually shows that
5 some 12,965 acres were involved?

6 A. That is correct. I apologize. What is on
7 our Exhibit 1 is correct.

8 Q. Now, Mr. Shelton, would you turn to the last
9 page of this exhibit, which is a map, I believe?

10 A. Uh-huh.

11 Q. There is a hatched line that goes around, I
12 guess, these 12,000 acres; is that correct?

13 A. That is correct.

14 Q. Now, you will agree with me that the well
15 that has caused all the interest in this area was the
16 Hickory well, which is a well that Yates Petroleum
17 operates in Section 17. That's right down in this part
18 of your exhibit? Do you agree with me?

19 A. There's a lot of wells of interest to
20 Nearburg Exploration, many of which we have caused to
21 be drilled, many of which are shown on our exhibit.
22 Yes, there's a lot of wells of interest to Nearburg.

23 Q. All of the -- That gets to the next question.
24 All of the wells that are depicted on your Exhibit 2
25 that Nearburg is involved in are all P-and-A'd wells,

1 aren't they?

2 A. They are, yes, sir, except for -- No, they're
3 not. The Chama Federal well that's in there in Section
4 11 is not a P-and-A'd well.

5 Q. Well, you -- Okay.

6 A. It's P-and-A'd in the Morrow, because it was
7 an uneconomic well in the Morrow.

8 But it's not P-and-A'd, no.

9 Q. All right. Now, your Exhibit Number 5 where
10 you talk about the Antweil Littlewalt well, and you've
11 talked about a drilling permit that has been issued by
12 the OCD --

13 A. Yes, sir.

14 Q. -- wasn't the original permit that was
15 requested from the OCD for a north-half proration unit
16 rather than a west-half proration unit?

17 A. Well, our people in Hobbs filed the permits,
18 and they were requested to file a permit without
19 instruction as to what proration unit was to be formed.
20 They inadvertently filed the north half.

21 And you'll notice within three days that was
22 corrected. It was never intended to be a north-half;
23 it was always a west-half unit.

24 Q. But it was filed as a north-half, wasn't it,
25 Mr. Shelton?

1 A. Inadvertently, yes.

2 Q. Well, that's fine. It was filed.

3 Now, that location, the Littlewalt, is an
4 unorthodox location for the west half, isn't it?

5 A. No, it is not.

6 Q. It is not unorthodox? Is it because it was
7 drilled prior and was grandfathered in?

8 A. Well, my understanding of the field rules are
9 that 660-660 is an appropriate location.

10 Q. Now, as for the west half it would be
11 unorthodox, correct?

12 A. No, it is 660 from the north line.

13 Q. You're saying, Mr. Shelton, that for a west-
14 half proration unit, that that well would be, if it
15 were to be drilled today, spudded, would be an orthodox
16 location?

17 A. I believe that's correct. My understanding
18 of the field rules that Yates got approved at the
19 last -- one of the recent hearings was that it was 660-
20 660 --

21 Q. That's fine, Mr. Shelton.

22 A. -- or it is grandfathered in, either way,
23 yes. They're 320-acre units.

24 MR. CARROLL: That's all I have, Mr.

25 Examiner.

EXAMINATION

BY MR. STOVALL:

Q. Just a real quick question, Mr. Shelton.

We're talking about the Walt Number 2; is that the correct --

MR. CARROLL: Yes, we are talking about --

MR. STOVALL: Walt 2 State Well Number 1?

MR. CARROLL: That would be the Antweil.

THE WITNESS: That's the re-entry of the Antweil, that's correct.

Q. (By Mr. Stovall) Is that the one Mr. Carroll was asking you about?

A. Uh-huh, that's correct.

Q. Is it 660-660?

A. No, it is 2130 from the west line and 660 from the north line.

Q. So it's not orthodox; is that correct?

MR. CARROLL: We disagree with Mr. Shelton, and I'm just going to put my own witness on as to --

THE WITNESS: It's an existing wellbore for re-entry.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Shelton, do you know how deep that was originally drilled to?

1 A. It was originally drilled, I believe, to
2 7975.

3 Q. Which is -- Is that below the Cisco/Canyon?

4 A. That is sufficient to test the Cisco/Canyon.
5 I'd have to defer that to our geologist to tell you
6 whether or not it's actually below the depth of that
7 formation.

8 EXAMINER CATANACH: Okay. I have no
9 questions of the witness.

10 MR. BRUCE: I have no further questions of
11 this witness.

12 EXAMINER CATANACH: Okay.

13 MR. BRUCE: Call Mr. Elger to the stand.

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

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city of
20 residence for the record?

21 A. Jerry Elger, Midland, Texas.

22 Q. And who do you work for and in what capacity?

23 A. For Nearburg Producing Company as exploration
24 geologist.

25 Q. Have you previously testified before the

1 Division and had your credentials accepted as a matter
2 of record?

3 A. Yes, I have.

4 Q. And are you familiar with the geology
5 involved in both your Application, Nearburg's
6 Application, and similarly the geology involved in the
7 Yates Application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender Mr. Elger
10 as an expert petroleum geologist.

11 EXAMINER CATANACH: He is so qualified.

12 Q. (By Mr. Bruce) Mr. Elger, if you would,
13 refer to your Exhibit 8 and briefly for the Examiner
14 discuss the Cisco/Canyon in the area of interest.

15 A. Exhibit 8 is a structure map generated on the
16 top of the Cisco/Canyon Dolomite section in the subject
17 area. As a matter of fact, it's more of a regional
18 setting for where this subject acreage is located.

19 The color symbolism on the map, the green
20 indicates Indian Basin gas field or gas production, is
21 attributed to the Cisco/Canyon.

22 The orange represents that area where there
23 appears to be a downdip oil leg to the gas cap for the
24 Indian Basin.

25 And then as you progress to the east,

1 downdip, eventually the Cisco/Canyon dolomite contains
2 only water.

3 The brown areas to the north and south
4 represent areas where the Cisco/Canyon dolomite section
5 is absent, grades into a basinal shale facies to the
6 south, and a platform limestone to the north.

7 Also noted on this map is Exhibit Number 9,
8 which will be cross-section A-A' of the Cisco/Canyon.

9 Q. Okay. Just looking at Section 2, Mr. Elger,
10 you basically show -- or you hope Section 2 is
11 productive of oil; is that correct?

12 A. That's correct.

13 Q. Because of structure, et cetera, it would --
14 in your opinion, is the west half better geologically
15 than, say, the east half?

16 A. Yes, it is.

17 Q. Thank you.

18 A. I would also point out on this map, in
19 conjunction with this map, that there are three
20 completions out here that have been completed by Yates
21 Petroleum as oil-producing wells.

22 Of course, the Hickory well in Section 17 of
23 22 South, 24 East, the Walt Canyon well in Section 3,
24 and the Pardue Farms well in Section 27, 21-24.

25 So there are three current producers or

1 completed wells from the oil leg of the Cisco/Canyon
2 dolomite.

3 Q. And as yet, you have very little information
4 on the well in Section 3?

5 A. That's correct.

6 Q. Okay.

7 A. Other than perforations.

8 Q. Would you then move on to your Exhibit 9?

9 A. Exhibit 9 is a structural cross-section of
10 the Cisco/Canyon in the wells immediately --

11 EXAMINER CATANACH: Hang on a second.

12 THE WITNESS: -- immediate vicinity of the
13 subject acreage.

14 We include the Curtis Inman Walt Canyon Unit
15 Number 1 in Section 3, which was re-entered by Yates
16 Petroleum as the Number 1 Walt Canyon "AMA" Federal.

17 Production testing for that particular
18 wellbore is indicated in the depth column in the red,
19 completed interval.

20 The cross-section then goes to the Antweil
21 Littlewalt well in the north half of Section 2, which
22 is the well that Nearburg Producing Company will be re-
23 entering and testing in the Cisco/Canyon dolomite
24 reservoir.

25 To answer the land question that developed

1 earlier, that well did not drill all of the dolomite
2 section within the Cisco/Canyon, but basically top-set
3 the dolomite interval, ran several drill stem tests
4 which had hydrocarbon shows.

5 The cross-section then goes to the north to
6 the -- a plugged well drilled by Harvey Yates, Anadarko
7 Federal 1 Y, Section 35, and again that shows the
8 relationship, structural relationship on the top of the
9 Cisco, as relative to the offsets to the west and to
10 the north.

11 I would point out that an oil-water contact
12 for the reservoir has been determined and put --
13 displayed on this cross-section in the bright green
14 line.

15 That oil-water contact has been roughly
16 estimated at subsea of minus 4050. And that's based on
17 the three completions within the oil leg that I
18 mentioned earlier, where the bottom perforations range
19 from a subsea of minus 4063 to a minus 4042, the
20 average being roughly around 4050.

21 And that same oil-water contact has been
22 displayed back on section -- on Exhibit Number 8, on
23 the Cisco/Canyon structure map, and that's where the
24 dividing line between the orange and blue occurs. It's
25 been dashed in on that display as the oil-water

1 contact.

2 Q. Mr. Elger, are you aware that Yates has
3 proposed drilling to the Morrow?

4 A. Yes, I am.

5 Q. And have you prepared some exhibits on the
6 Morrow geology in this area?

7 A. Yes, I have.

8 Q. Would you move on first to your Exhibit 10,
9 identify it for the Examiner, and briefly discuss the
10 Morrow prospects in this immediate area?

11 A. Exhibit 10 is a structure map on the top of
12 the lower Morrow, and incorporated with this map are
13 some production statistics within the area in question.

14 You'll see a number of orange dots that
15 represent Morrow dry -- Morrow penetrations which were
16 dry holes.

17 You see a number of green dots also, which
18 are also Morrow penetrations which were Morrow
19 producing wells.

20 There's a regional fault system out here
21 that's pretty well documented.

22 One that's developed off to the east side of
23 the prospect or to the -- subject acreage, and that's a
24 major north-south -- or northeast-southwest oriented
25 fault that I've named the Rock Tank Catclaw Draw fault,

1 and the name derives from the fact that the major
2 portion of the Rock Tank Morrow gas field sits on the
3 upthrown side of that block, fault block, on the south
4 side of this map.

5 The Catclaw Draw Morrow gas field sits up in
6 the upper right-hand corner of this map, and it is also
7 a prolific Morrow gas producing field.

8 What is very dramatic about this fault system
9 is the fact that once you move to the west side,
10 downthrown side of that fault, basically you're in a
11 regime of primarily dry holes in the Morrow.

12 Catclaw Draw field has produced roughly over
13 100 BCF of gas in the Morrow. The Rock Tank field has
14 produced in excess of 50 BCF in the Morrow.

15 On the other side of the subject acreage, to
16 the west, you'll see another fault that's downthrown to
17 the east.

18 That fault I've titled the Indian
19 Basin/Cemetery fault system. The Indian Basin Morrow
20 gas field is situated primarily on the upthrown side of
21 that fault. That field has accumulated roughly 38 BCF
22 of gas in the Morrow.

23 And just to the north, in the upper left-hand
24 corner of the map is the prolific Cemetery field, which
25 has produced roughly 87, 88 BCF of gas from the Morrow.

1 Immediately when you cross into the east on
2 the downthrown side of that fault, you pass again into
3 this regime of dry holes in the Morrow.

4 The statistics for this area between the two
5 fault systems are addressed on the top of this display.
6 There's been 31 Morrow tests drilled to date between
7 the two faults: 26 of those wells have been dry; four
8 wells have produced from the Morrow.

9 All four combined, cumulative production of
10 slightly over half a BCF with a 130-million-cubic-foot
11 gas per well average.

12 There is one completion in progress, the
13 Santa Fe well in the west half of Section 34 of 21-24,
14 and verbal communication with Santa Fe, the operator of
15 that well, indicates that it's probably a dryhole also
16 in the Morrow.

17 Q. And you have an east-west cross-section on
18 this map, B-B'. Would you move on to Exhibit 11 and
19 just briefly touch on the high points of that cross-
20 section?

21 A. It's an east-west cross-section.

22 It goes across this area of poor production
23 within the Morrow. Across the right-hand side you can
24 see I've displayed the Rock Tank fault, on the left-
25 hand side the Indian Basin/Cemetery fault.

1 It is a stratigraphic cross-section that's
2 hung on the datum of the Top and Lower Morrow.

3 Basically, it shows the nature of the sands
4 within the Morrow clastic system and above the Morrow
5 clastic system throughout the subject acreage.

6 Also included are drill stem tests and
7 perforations or production tests for the various wells.
8 And one of the major features it shows is that the --
9 displays, is that the Morrow sands are primarily fairly
10 low porosity, but typically when they do develop
11 porosity they have a tendency to be water-bearing.

12 This is probably attributable to the fact
13 that the major fault system out here is not a sealing
14 fault, so that when sand reservoirs are in
15 communication with that fault the gas probably leaked
16 to the upthrown sides.

17 Also on the display, on the far left-hand
18 side, is the Yates re-entry of the old Pan Am well or
19 Hickory well and the Upper Morrow sand that was
20 production-tested in that well.

21 It's my understanding of testimony from
22 previous hearings that that well may not be a
23 commercial Morrow gas producer, even though it's on the
24 upthrown side of the Indian Basin field fault system.

25 Q. Have you isopached any of these sands?

1 A. I've isopached three different units, and
2 I've labeled what those units are on the cross-section.

3 I've generated an isopach map of just the
4 Hickory sand by itself, which is an Upper Morrow sand.

5 I've isopached the total gross sand developed
6 within the Middle Morrow system.

7 And then another isopach of total gross sand
8 within the Lower Morrow system.

9 Those three isopach maps have been overlaid
10 on the same structure map, top of the Lower Morrow that
11 you saw on the Exhibit 10.

12 Q. And those are marked Exhibits 12, 13 and 14?

13 A. Yes.

14 Q. Would you move to all the exhibits and just
15 run through them briefly, Mr. Elger?

16 A. Just briefly, what they show, the Hickory
17 sand, which was perforated in the well in Section 17,
18 is a sand that is present across the subject acreage
19 but for the most part is either production tested or
20 drill stem tested to be water-bearing.

21 And again I think there's probably a lack of
22 a seal due to the fault, the Indian Basin/Cemetery
23 fault system being a leaking fault system.

24 The Middle Morrow sand --

25 Q. Exhibit 13?

1 A. -- Exhibit 13 isopach, shows that again there
2 are sands that do have a tendency to develop through
3 this area.

4 It's not -- The 30 to 26 dry holes that have
5 been displayed on the previous exhibit are not totally
6 due to lack of sands, but again have a tendency to be
7 water-bearing where they are encountered with porosity.

8 And then finally the Lower Morrow sand
9 isopach shows that there are again some sands that
10 develop in the Lower Morrow system, none in particular
11 in across Section 2, but there are some Morrow -- it is
12 developed across here, and they tend to be water-
13 bearing when they have porosity.

14 Q. From a geological perspective, in your
15 opinion, should Nearburg participate in a Morrow test?

16 A. Not at this time.

17 Q. In the future, assuming the well is only
18 drilled to the Cisco/Canyon, could the well be deepened
19 to the Morrow?

20 A. Yes, there is potential for the well at some
21 future time to be deepened.

22 It's my understanding that Nearburg intends
23 to run seven-inch casing production in their wellbore
24 to production test the Cisco/Canyon interval.

25 Should that be a failure or should that at

1 some future time period be depleted, then there would
2 be the capability of deepening this well the additional
3 footage to test the Morrow.

4 Q. In your opinion, is the Cisco/Canyon the
5 primary target in this area?

6 A. Yes, it certainly is.

7 It's Nearburg's view that by drilling a
8 Morrow test at the proposed location would definitely
9 result in economic waste and an actual delay of
10 production from the Cisco/Canyon, which is really the
11 true commercial zone of interest out here.

12 Q. Were Exhibits 8 through 14 prepared by you or
13 under your direction?

14 A. Yes, they were.

15 Q. And in your opinion, is the granting of
16 Nearburg's Application and the denial of Yates's
17 Application, at least with respect to the Cisco/Canyon,
18 in the interests of conservation and the prevention of
19 waste?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I move the
22 admission of Nearburg Exhibits 8 through 14.

23 EXAMINER CATANACH: Exhibits 8 through 14
24 will be admitted as evidence.

25 MR. CARROLL: No questions.

1 EXAMINER CATANACH: Do you have any, Mr.
2 Stovall?

3 MR. STOVALL: No.

4 EXAMINATION

5 BY EXAMINER CATANACH:

6 Q. Mr. Elger, on your Exhibit 10 in Section 11
7 you show a Morrow gas producer, a Morrow sand producer.
8 Whose well is that? Do you know?

9 A. That well was originally drilled by Florida
10 Exploration Company, which was subsequently, I think --
11 believe, bought out by Enron Oil and Gas.

12 And it is currently operated by Enron Oil and
13 Gas, but it is currently not capable of commercial
14 production from the Morrow, although I don't believe
15 it's been totally plugged in the Morrow. It may have
16 been plugged back, but...

17 Q. The number that you have listed, that's
18 cumulative gas production?

19 A. Yes, it is.

20 Q. Do you know what interval it produced out of?

21 A. That well is on the cross-section, B-B', and
22 again, the perforations are indicated in the depth
23 column in red on that cross-section, which is Exhibit
24 11.

25 Q. Which well is it?

1 A. It's called the Florida Exploration well.
2 It's the third from the left side, Morrow completion
3 with a slash through it.

4 Q. Okay.

5 A. And it was completed from two different sands
6 within the Middle Morrow, two different sands within
7 the Lower Morrow.

8 Q. Okay. Do you know why that well has been
9 abandoned?

10 A. It's no longer capable of commercial
11 production.

12 Q. Did it water out?

13 A. That I could not answer. I don't know the
14 answer.

15 Q. On your Morrow isopach maps, you do show
16 Middle and Upper sand, Morrow sand, present in Section
17 2; is that correct?

18 A. On the Middle isopach map, there are sands
19 present in Section 2, that's correct.

20 On the Lower Morrow Isopach map, the sands
21 are extremely poorly developed, if they're even
22 present.

23 Q. The Upper? How about the Upper?

24 A. The Hickory sand is definitely present, yes.

25 Q. The sands being present, why is it your

1 opinion -- or is it your opinion, that the Morrow would
2 be non-productive in Section 2?

3 A. Because it would probably be water-bearing.

4 That seems to be the typical -- Typically out
5 in this area, between these two major fault systems,
6 once you develop reservoir-quality rock capable of
7 containing hydrocarbons or water, in general, they
8 contain water.

9 The same sands that exist that produce on the
10 Rock Tank field, for example, are present on the
11 downthrown side of the Rock Tank fault but are
12 typically water-bearing, very suggestive of the fact
13 that the faults themselves have been leaking-type
14 faults where the reservoir is in communication with
15 those fault systems, the gas migrated up into the
16 upthrown side of the fault, to the reservoir on the
17 upthrown side.

18 EXAMINER CATANACH: I have nothing further.
19 The witness may be excused.

20 MR. STOVALL: One question for Mr. Shelton
21 while we're waiting to get the next witness up.

22 MR. BRUCE: Sure.

23 MR. STOVALL: Is the ownership interest on
24 the Nearburg acreage in Section 2 uniform throughout
25 the north half and the west half?

1 MR. SHELTON: Yes, it is, sir.

2 TIM MacDONALD,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

9 A. My name is Tim McDonald.

10 Q. Where do you reside?

11 A. In Dallas, Texas.

12 MR. STOVALL: Would you spell that?

13 THE WITNESS: MacDonald, M-a-c-D-o-n-a-l-d.

14 Q. (By Mr. Bruce) What is your occupation and
15 who are you employed by, Mr. MacDonald?

16 A. I'm a petroleum engineer with Nearburg
17 Producing Company.

18 Q. Have you previously testified before the
19 Division as a petroleum engineer?

20 A. Yes, I have.

21 Q. And your credentials were accepted as a
22 matter of record?

23 A. Yes, they were.

24 Q. And are you familiar with the matters
25 involved in the drilling of your proposed well?

1 A. Yes, I am.

2 MR. BRUCE: Mr. Examiner, I would tender Mr.
3 MacDonald as an expert engineer.

4 EXAMINER CATANACH: He is so qualified.

5 Q. (By Mr. Bruce) Mr. MacDonald, very briefly
6 on the AFE that was attached to Exhibit 3, was that
7 prepared by you or under your direction?

8 A. Yes, it was.

9 Q. Okay. And I think you were here when Mr.
10 Carroll stated that Nearburg's costs seemed a little
11 higher than Yates's.

12 If you could, just briefly, state what you
13 think the costs are involved here.

14 A. Well, the one point I wanted to make was, it
15 was not just the addition of the submersible pump.

16 When you have a Cisco/Canyon oil well, you
17 need a tank bed or you need heater treater or a
18 separator if it's -- It's a lot more surface
19 facilities, and I believe the big difference is in the
20 after casing points.

21 Q. Okay. And we'll get back to that in a
22 minute, but have you studied the economics of this
23 area?

24 A. Yes, we -- I've run economic case -- shown on
25 Exhibit 15, that shows a Cisco/Canyon test and a Morrow

1 test.

2 Q. Okay. Would you briefly go down those items?

3 A. The Cisco/Canyon test, we used assumptions
4 for reserves, production rates and declines, based on
5 our experience in the Dagger Draw field.

6 And at current pricing with our AFEs we show
7 that to be a very economic venture.

8 Q. What about the Morrow?

9 A. The Morrow, the first case that's shown is
10 the reserves based on an average for the area, taken
11 from Mr. Elger's map where they had the one good
12 producing well, and I think there were three or four,
13 maybe five, very marginal wells.

14 And we just took that average of 130,700 and
15 ran with my AFE again, which was slightly higher than
16 Yates's. But using those numbers it showed that that
17 well would never pay out.

18 And in fact, we farmed out interest acreage
19 into the Chama Federal well that's operated by Enron,
20 and their accountings to us show that it's not nearly
21 paid out, and it's been plugged from the Morrow.

22 Q. So from an engineering standpoint you don't
23 recommend drilling to the Morrow either?

24 A. No.

25 Q. Do you have anything further you'd like to

1 say on Exhibit 15?

2 A. No.

3 Q. And on the AFEs, would you briefly go over
4 what item 16 shows?

5 A. Exhibit 16 is just -- Based on our recent
6 experience with Yates over in Dagger Draw, we found
7 that their AFEs were typically, on an average, about 30
8 percent -- their costs were actually about 30 percent
9 over what the AFE was.

10 My AFE in the Morrow is about 17 percent
11 higher than theirs, and I feel like, you know, based on
12 our experience that, you know, that may account for why
13 I'm higher.

14 Q. Okay. Would you -- Are there potential
15 problems in drilling through the Cisco/Canyon to the
16 Morrow?

17 A. There are. We re-entered both the McKittrick
18 Federal Com. in Section 11, the section south of us,
19 and the M-H Federal Com. in Section 1, the section the
20 east, and we had substantial lost-circulation problems,
21 we had -- we had the -- I think we lost -- we had
22 cement and a string of pipe in the hole, drill pipe in
23 the hole. We just had numerous problems.

24 We did get both the wells down to the Morrow.
25 I'm not saying it can't be done.

1 But with the amounts of fluid we were losing
2 and the problems we had, you could definitely damage or
3 harm your evaluation techniques that you could use in
4 the Cisco/Canyon at a later date.

5 Q. I need to ask you a couple of questions. Do
6 you have Nearburg's Exhibit 5 in front of you?

7 A. I believe I do. Which one is it?

8 Q. It's the APD.

9 A. Right.

10 Q. In Nearburg's plans for re-entering this
11 well, are you planning on deepening the well?

12 A. No, we're just going to clean it out to the
13 original TD and run pipe.

14 Q. Okay. Now, this well is 2130 feet from the
15 west line; is that correct?

16 A. That's right.

17 Q. Now, when this APD was approved, what was the
18 spacing in this area?

19 A. Forty acres.

20 Q. Forty acres. So at the time when this APD was
21 approved, certainly under the 40-acre spacing rules,
22 this location was standard; is that correct?

23 A. That's correct.

24 Q. Were Exhibits 15 through 17 prepared by you
25 or under your direction?

1 A. Yes, they were.

2 Q. And in your opinion, is the granting of the
3 Nearburg Application in the interests of conservation
4 and the prevention of waste?

5 A. I believe so.

6 MR. BRUCE: Mr. Examiner, I move the
7 admission of Nearburg Exhibits 15 through 17.

8 EXAMINER CATANACH: Exhibits 15 through 17
9 will be admitted as evidence.

10 Mr. Carroll?

11 CROSS-EXAMINATION

12 BY MR. CARROLL:

13 Q. Just a couple of questions.

14 Mr. MacDonald, have you performed any
15 drainage studies with respect to this proposed re-entry
16 of the Antweil Littlewell -- Littlewail, Littlewall,
17 I'm not sure what that is -- well?

18 A. No, I don't know of any data, really. No, we
19 haven't. There's never been production from it.

20 Q. Well, do you have -- In your professional
21 experience as a petroleum engineer, can you represent
22 to this Commission that that well in that unorthodox
23 location up in the very northeast part of that west
24 half is going to drain the entire west-half proration
25 unit?

1 A. I can't until I see some production figures,
2 production history.

3 Q. So at this point in time you don't even want
4 to hazard a guess; is that correct?

5 A. No, I wouldn't

6 Q. Turning to Exhibit 16, are these the only
7 four wells that Nearburg has participated in with
8 Yates, or were there other wells?

9 A. They're the majority of them. They're all
10 the ones in the Dagger Draw area, and I can't think of
11 any -- There may be a couple others, but they're the
12 only ones I could recall that I found in our records.

13 Q. All right. You are aware that Yates operates
14 138 wells out in the Dagger Draw area?

15 A. Yes, I am.

16 Q. Did you perform any study with respect to the
17 138 to see what the true representative figure is for
18 Yates being over AFEs when it's drilling wells in the
19 Dagger Draw area?

20 A. I don't have access to any of those numbers.

21 MR. CARROLL: That's all I have.

22 EXAMINER CATANACH: I don't have anything of
23 the witness.

24 MR. BRUCE: I have no further witnesses, Mr.
25 Examiner.

1 MR. CARROLL: Mr. Examiner, I do not propose
2 to put on Ms. --

3 EXAMINER CATANACH: Long day, huh?

4 MR. CARROLL: Gosh, my mind is gone.

5 What I would do is, if we did -- The four
6 exhibits that she was going to testify to were Exhibits
7 1 through 4. I think we've stipulated to most of the
8 things already, and if there's no objection from
9 Counsel I would just move their admission as evidence
10 and part of the record.

11 MR. BRUCE: No objection.

12 EXAMINER CATANACH: Okay, Exhibits 1 through
13 4 will be admitted as evidence, Mr. Carroll.

14 MR. CARROLL: All right. Then we would at
15 this time Call Brent May as a witness.

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

19 DIRECT EXAMINATION

20 BY MR. CARROLL:

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

23 A. Brent May.

24 Q. By whom are you employed?

25 A. Yates Petroleum.

1 Q. And in what capacity?

2 A. Petroleum geologist.

3 Q. Mr. May, have you had occasion to testify
4 before the New Mexico Oil Conservation Division and had
5 your credentials accepted as a petroleum engineer?

6 A. As a petroleum geologist, yes, I have.

7 MR. CARROLL: Excuse me, petroleum geologist.
8 My mind is racing ahead.

9 Mr. Examiner, I would tender Mr. May as an
10 expert in the field of petroleum geology.

11 EXAMINER CATANACH: Mr. May is so qualified.

12 MR. CARROLL: Thank you.

13 Q. (By Mr. Carroll) Mr. May, you are familiar
14 with Yates Petroleum's Application for force pooling,
15 and also that of Nearburg Producing Company?

16 A. Yes, I am.

17 Q. Have you prepared certain exhibits for
18 presentation here before the Commission today?

19 A. Yes, I have.

20 Q. Why don't we turn to Exhibit Number 5, the
21 first -- your first exhibit.

22 Would you please describe what that exhibit
23 is and discuss the significance?

24 A. This is a stratigraphic cross-section, A-A',
25 of the Upper Penn or what I term the Canyon.

1 You might note in the lower right-hand corner
2 is showing the location of the cross-section.

3 Starting on the left side in -- with the
4 Yates Petroleum Walt Canyon "AMA" Federal Number 1 in
5 Section 3 of 22 South, 24 East, I'm showing the top of
6 the Canyon dolomite, which is also the stratigraphic
7 datum on this cross-section, and the base of the
8 dolomite.

9 There were -- Originally, this well was
10 drilled by, I believe, Curtis Inman back in the
11 Sixties, and they ran several DSTs at the very top of
12 the Canyon dolomite and did have reported oil shows
13 from those DSTs.

14 The well was -- They did run pipe, I believe,
15 into the very top of the Canyon and attempted
16 completions and perforated and did have some small
17 shows, but also had large amounts of water, so they
18 eventually abandoned the well.

19 Yates Petroleum re-entered the well in
20 approximately April of 1993. We attempted at first an
21 open-hole completion below the old casing hole shoe,
22 which was from 7942 to -64. We treated that, swabbed
23 138 barrels of water, and then squeezed. We then --
24 Excuse me, that was not the open-hole completion; we
25 did perforate.

1 Then we attempted the open-hole completion
2 below the casing shoe with a packer set at 7955, we
3 swabbed 377 barrels of water, and pumped 88 barrels of
4 oil plus 2027 barrels of water and 72,000 cubic feet of
5 gas.

6 We then ran a 3-1/2-inch liner, because the
7 old facing was 4-1/2-inch. We perforated from 7995 to
8 8008, acidized, swabbed water, put it on a pump, and it
9 IP'd on the pump for 110 barrels of oil, 65,000 cubic
10 feet of gas per day, and 2370 barrels of water per day.

11 The next well in the cross-section is the
12 Enron Chama Federal Com. Number 1 in Section 11 of 22
13 South, 24 East.

14 The well was drilled to the Morrow and was
15 completed in the Morrow, and at that time -- that well
16 was produced out of the Morrow and then recompleted in
17 8 of 1992.

18 Enron perforated from 8104 to 8114 and from
19 8143 to 8152. They put it on pump, and I have shown no
20 records that they have treated the zone. Pumped six
21 barrels of oil and 93 barrels of water per day. And as
22 far as I know, as the Nearburg geologist stated, I
23 don't think it's been plugged as of yet. But there's
24 no current production from it.

25 In my opinion, this well has been properly

1 tested and could make a Canyon completion.

2 The next well in the cross-section, on the
3 far right, is the Southern Union Shelby Federal Number
4 4 in Section 12 of 22 South, 24 East.

5 This well had a DST at the top of the Canyon
6 dolomite and recovered 200 feet of water-cut drilling
7 mud and 5700 feet of I believe sulfur water.

8 There was another DST lower down into the
9 dolomite at 8315, at 8346. They did get gas to the
10 surface after 15 minutes, but it was too small to
11 measure, recovered 185 feet of drilling mud and 6140
12 feet of sulfur water.

13 They then attempted a completion and
14 basically swabbed water, and then the well. And I
15 believe later on -- or temporarily abandoned the well.

16 And later on, which I'll show on another
17 cross-section, I believe Nearburg re-entered and
18 deepened to the Morrow.

19 Q. Do you have anything further you'd like to
20 discuss with the Examiner with respect to that exhibit?

21 A. No, I don't.

22 Q. All right. Turn to your Exhibit 6. Would
23 you explain what that is for the record and discuss its
24 significance?

25 A. Okay, this is a structure map with the top of

1 the Canyon dolomite as a datum. It shows a structural
2 nose plunging to the southeast.

3 The proposed location is shown near the apex
4 of the nose and updip of the wells to the southwest,
5 and it is shown in green.

6 The proposed location is structurally similar
7 to the Yates Petroleum Hickory ALV Federal Number 1 in
8 Section 17 of 22 South, 24 East, which has been
9 mentioned before.

10 The Hickory well, again, is the discovery
11 well of the Indian Basin-Upper Penn Pool Associated,
12 which produces oil from the Canyon dolomite and is
13 geologically similar to the Dagger Draw-Upper Penn
14 Pools.

15 The Walt Canyon "AMA" Federal Number 1 shown
16 in Section 3 -- and it is currently shown on this as a
17 dry hole, but it has been IP'd as I showed on the
18 cross-section -- it also produces oil from the Canyon
19 dolomite.

20 It appears that the proposed location should
21 be structurally high enough to produce oil from the
22 Canyon dolomite.

23 In fact, in my opinion it appears that all of
24 Section 2 should be capable of producing, which is
25 fairly similar, I think, to what the Nearburg geologist

1 said.

2 Q. With respect to that statement, I believe Mr.
3 Elger stated that the west half had a better chance
4 than the east half of producing from the Canyon.

5 Do you agree with that, or do you see any
6 significant difference between east half as opposed to
7 the west half?

8 A. You can get a little bit higher structurally,
9 but in my opinion you're going to have four good wells
10 in Section 2.

11 Q. All right. In your opinion, Mr. May, is
12 there any advantage or any requirement that the
13 proration units be made east-half, as opposed -- I
14 mean, standups as opposed to laydowns?

15 A. Not in the Canyon, no.

16 Q. Okay. Any -- And I'm asking with respect --
17 any geological reasons that you're aware of?

18 A. Not in the Canyon.

19 Now, there are some that I -- When I get to
20 the Morrow I can further expand upon.

21 Q. All right. Would you turn, then, to -- Is
22 there anything further you'd like to discuss with
23 respect to Exhibit 6?

24 A. No.

25 Q. Would you turn to Exhibit 7 and again

1 identify what it is for the record and then discuss its
2 significance?

3 A. This is an isolith map which represents the
4 Canyon dolomite and shows its limits.

5 I might point out that the values beside the
6 wells with the plus sign indicate that the dolomite was
7 not fully penetrated, and the true thickness is
8 unknown.

9 Dolomite thicks occur in the northwest and
10 southeast corners of the map, and the proposed location
11 should have over 500 feet of dolomite, which is easily
12 a sufficient amount of dolomite to be productive.

13 So again this reiterates that I believe that
14 Section 2 should be productive for the Canyon.

15 Q. Anything further that you would like to
16 discuss with respect to Exhibit 7?

17 A. No, there is not.

18 Q. Would you then turn to Exhibit Number 8?

19 A. This is basically the same -- Well, it is the
20 same stratigraphic cross-section, A-A', except that
21 it's in the Morrow section instead of the Canyon
22 section.

23 Again, the reference map is shown in the
24 lower right-hand corner.

25 The Morrow clastics, top of the Morrow

1 clastics, what I call the Morrow clastics, top of the
2 Lower Morrow, which is also the datum and the base,
3 loosely termed, that I call the base of the Morrow
4 sands, are shown on this cross-section.

5 Again, starting from the left-hand side with
6 the Yates Petroleum Walt Canyon Federal Number 1, you
7 can show basically the lack of sand in this well.

8 There were a few DSTs, but they basically
9 just recovered drilling mud.

10 And this well, again, is currently producing
11 -- has been IP'd in the Canyon and is producing --
12 capable of producing oil.

13 The next well is again the Enron Chama
14 Federal Com. Number 1 in Section 11.

15 This well had a DST in the upper part of what
16 I call the Morrow clastics. It had a flow of gas to
17 the surface in 45 minutes, flowed at a rate of 100,000
18 cubic feet of gas a day, recovered 1000 feet of water
19 cushion and 210 feet drilling mud.

20 And then there was another DST in the bottom
21 part of the Morrow clastics and the upper part of the
22 Lower Morrow, and it recovered 1000 feet of water
23 cushion and 1848 feet of slightly gas-cut muds,
24 basically tight.

25 Now, Enron, I don't think, originally

1 completed this in the Morrow. I think it was the
2 Florida Exploration, and they perf'd from 10,282 to
3 10,520, and that is the zone that did do approximately
4 400 cubic feet of gas and 1500 barrels of condensate
5 and 29,000 barrels of water, and then was, as I stated
6 earlier, just recently attempted for completion in the
7 Canyon.

8 The next well was the Southern Union
9 Production Shelby Federal Number 4. And like I say, I
10 can be corrected, but I believe this well was re-
11 entered by Nearburg and deepened to the Morrow, and it
12 again shows a lack of sand.

13 And compared to the other two wells, the
14 Enron well in the center has more sand, compared to the
15 two wells on each side of the cross-section.

16 Q. All right. Would you turn next to your
17 Exhibit Number 9 and again describe it for the record
18 and explain its significance?

19 A. This is a structure map on top of the Lower
20 Morrow.

21 It shows a structural nose plunging to the
22 southeast which is similar to the Canyon structure map.

23 The proposed location, again, is near the
24 apex of the nose and, I might point out, updip of
25 several of the wells to the southeast which did produce

1 water.

2 And that's about all I had to show on this,
3 is that it was -- The proposed location should be updip
4 of many of the wells on the map.

5 Q. All right. If you'd turn to Exhibit Number
6 10, then.

7 A. This is an isolith map which represents the
8 sands of the Morrow clastics section and shows the
9 limits of the sand deposition. This isolith map is a
10 clean sand map with a gamma-ray cutoff of 50 API units
11 or less.

12 The map shows a sand thick trending through
13 the east half of Section 2. I believe that these
14 systems are fluvial channel-type systems.

15 The thickest section of the sand should yield
16 the best chance to encounter reservoir-quality porosity
17 or permeability.

18 Because the east half has a higher chance of
19 being productive in the Morrow than the west half, a
20 laydown spacing unit makes more sense.

21 The laydown would allow two wells to be
22 drilled within the east half, plus more effective
23 drainage would occur, whereas if you had a standup,
24 this would allow only one well in the sand thick, and
25 the drainage would be less effective.

1 Q. All right. Mr. May, you've now had a chance
2 to review the Nearburg geological presentation with
3 respect to the Morrow formation.

4 Did you discern, first of all, discern any
5 significant differences between your geological
6 presentation and Nearburg's presentation with respect
7 to the existence or non-existence of the sand of the
8 formation itself?

9 A. Of course, they did show the sand veering up
10 a little bit further to the east and more in Section 1
11 than what I have, where mine was going in the east half
12 of Section 2, and I see that as just an interpretation
13 difference.

14 Also on Exhibit 10, I believe, where they
15 were showing the various Morrow dry holes and
16 producers, you might note that --

17 Q. You are referring, just for the record, to
18 Nearburg's Exhibit Number 10; is that correct?

19 A. Yes, that is correct.

20 Q. All right.

21 A. You might note in Section 2 and due north of
22 Section 2, there is very little Morrow control. And in
23 my opinion, I feel like that gives us a chance to hit
24 some more production.

25 The well in Section 11 did produce from the

1 Morrow.

2 Also, recently in Section 27, the Yates
3 Petroleum Pan Am Pardue, we did deepen that well to the
4 Morrow, encountered a Morrow sand, we tested it, it
5 tested approximately a half a million a day.

6 We left that to go up to the Canyon, because
7 the Canyon is much better production, but we left it
8 behind pipe so we could later go back down and produce
9 from the Morrow.

10 Also, we are currently completing a re-entry
11 in Section 22 in the Morrow, and it so far, I believe,
12 is -- has made around a half a million a day. But we
13 are still currently working on that well.

14 Q. Mr. May, the purpose and, I think, the intent
15 of this exhibit was to show that there were many more
16 dry holes in the Morrow when you look at this very
17 broad and large expanse of area.

18 Do you feel that this exhibit really has any
19 significance with respect to what's happening
20 geologically down in Section 2, the subject of both of
21 these Applications?

22 A. Well, as I stated before, there's a big area
23 right north of Section 2 for several miles that there's
24 no control. And yes, if you bring in a large map and -
25 - You can show a lot of dry holes in the area, and it

1 makes it look much more pessimistically than what could
2 possibly be.

3 You also might note that the Nearburg
4 geologist also mapped the structure on this, and he has
5 shown the proposed location updip of several of the wet
6 wells to the southeast.

7 Q. With respect to that issue about -- I think
8 if you'll recall, Mr. Elger stated that in his opinion,
9 the reason that this was not a good prospect in the
10 Morrow was that he thought it would be water-bearing.

11 Do you agree with that opinion with respect
12 to this proposed location?

13 A. I think we've got a good chance of getting
14 updip and getting above the water.

15 Q. In your opinion, is this a reasonable risk
16 that one normally takes with respect to this kind of
17 well in this area?

18 A. Sure, and since we're definitely going --
19 Everybody wants to go to the Canyon. It's only maybe a
20 couple thousand more feet to the Morrow and, in our
21 opinion, that's not that big of a problem.

22 Q. Mr. May, do you have an opinion with respect
23 to the issue of -- relating that opinion to geological
24 concepts or concerns, to help the Commission, guidance
25 of whether or not the proration unit should be standup

1 or laydown with relation to the evidence that you have
2 in studying the Morrow formation?

3 A. As I stated before, on my Morrow iso sand
4 lith, I'm showing a thick running through the east half
5 of Section 2, and if you have standups you're only
6 going to get one location in that thick.

7 If you have laydowns you can get two wells
8 within that thick.

9 Q. Is there an advantage to getting two wells?

10 A. You could definitely -- You should be able to
11 get Morrow production, more effectively drain that.

12 Q. All right. So there would be a concern there
13 with respect to the issues that concern this
14 Commission, and that's dealing with waste and the
15 protection of correlative rights; is that correct?

16 A. That's correct.

17 Q. In your opinion, would the setting of a -- of
18 the proration units on a laydown basis be consistent
19 with the protection of correlative rights and the
20 prevention of waste?

21 A. Yes, I do.

22 Q. Now, in relation to that, do you feel that by
23 the granting of -- If the Commission were to establish
24 laydown, do you feel that that would in any way harm
25 the possibility of the obtaining of effective

1 production from the Canyon?

2 A. No, I sure don't.

3 Q. Do you feel that -- Do you have an opinion as
4 to whether or not establishing laydowns with respect to
5 your proposed well, would that in any way affect
6 correlative rights or cause waste?

7 A. No, not in my opinion.

8 Q. Is there anything further that you would like
9 to discuss with the Commission with respect to your
10 Exhibits 5 through 10, Mr. May?

11 A. No, I think that's all.

12 MR. CARROLL: At this time, Mr. Examiner, I
13 would move admission of Yates Exhibits 5 through 10.

14 EXAMINER CATANACH: Exhibits 5 through 10
15 will be admitted as evidence.

16 MR. CARROLL: And I pass the witness.

17 CROSS-EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. May, I forget which exhibit it was -- It
20 might have been your first Exhibit, 5, where you talked
21 about the Chama Federal Number 1 in the northeast
22 quarter of Section 11.

23 A. The cross-section?

24 Q. Yeah, the cross-section. I don't know if you
25 need the cross-section, but you were talking about

1 production from that well.

2 Are you aware that that well has never been
3 tested with a submersible pump?

4 A. Yes, I'm aware of that, and that's why I
5 believe that that well could possibly be a Canyon
6 producer.

7 Q. So you wouldn't be surprised if Nearburg
8 would try to acquire the well and plan to test it that
9 way?

10 A. It wouldn't surprise me at all.

11 Q. Okay. Do you agree that in this area the
12 Cisco/Canyon is the primary target?

13 A. Yes, it is the primary target, and I also
14 think that the Morrow is a primary target too.

15 Q. But if the well is just drilled down to the
16 Canyon, it could always be deepened later, could it
17 not?

18 A. Yes, it could, but it would be much easier to
19 do it now and much -- probably -- I'm not an expert on
20 engineering costs, but I would guess it would be
21 cheaper.

22 Q. Would you agree that the Morrow wells in this
23 immediate area have had extremely limited success?

24 A. In the immediate area, yes, that's true,
25 especially to the southeast downdip of the proposed

1 location.

2 Q. You have your Exhibit 10 --

3 A. Yes.

4 Q. -- in front of you, Mr. May?

5 A. Yes.

6 Q. I'll hand you what's been marked Nearburg
7 Exhibit 18, and I'd like to compare your Exhibit 10
8 with Nearburg Exhibit 18.

9 First, if I could have you identify it, I
10 believe that has a stamp on it, but it was a Yates
11 Exhibit from Cases 10,628 and 10,629, which I believe
12 had to do with, oh, some counter force pooling
13 applications in Section 27 of 21 South, 24 East.

14 Were you the geologist for Yates in those
15 cases, Mr. May?

16 A. Yes, I am -- Yes, I was.

17 Q. And was this prepared by you or under your
18 direction?

19 A. Yes, it was.

20 Q. Now, in comparing Nearburg Exhibit 18 with
21 your Exhibit 10, Exhibit 18 really shows the west half
22 of 2, the west half of Section 2, to be a lot better
23 than the east half of Section 2?

24 A. Yes, it does, and I can explain that.

25 At the time I made this map, I did not have

1 the deeper section of the log in Section 1, which I
2 believe Nearburg had re-entered the well and deepened
3 it, and I did not have -- I did not have that data at
4 this point.

5 I did get that data later and incorporated it
6 into the map I have now, and that's why it has -- you
7 might note in Section 1 that that well is showing 60
8 feet of sand, and that pulled the thick over to the
9 east.

10 Q. Okay. And that's the sole new data point you
11 used?

12 A. Yes, it is.

13 Q. Okay. There was no other control to the
14 north or to the west?

15 A. That's the one data point that caused me to
16 move that --

17 Q. Okay. Now, looking at either one, there is a
18 well in Section 34 and little circle around it. It has
19 "57" by it. Do you know the status of that well?

20 A. I believe it's temporarily abandoned.

21 Q. In the Morrow?

22 A. I believe so, yes. That's the latest I've
23 heard on it. Now, it may --

24 Q. Do you know if the well was -- if the Morrow
25 in that zone was wet?

1 A. There was an upper sand in that Morrow well
2 that was wet. It was a very nice, clean sand.

3 But there was another sand below it that was
4 not wet, and that's my opinion.

5 Now, the Santa Fe geologist disagreed with me
6 during this hearing, but that's my opinion.

7 Q. Okay. And now the -- I think you said the
8 Nearburg well in the southwest quarter of Section 1,
9 what was -- what happened in that well, do you know?
10 In the Morrow?

11 A. I believe the Nearburg well in Section 1, in
12 the Morrow, I believe that well was wet.

13 Q. Okay, and that was a dry hole?

14 A. Yes, sir.

15 Q. Even though it had 60 feet of --

16 A. Yes.

17 Q. -- of sand?

18 A. But it was wet downdip.

19 Q. Okay. Now, looking at this, you're showing
20 kind of more of a northwest-southeast trend than you
21 originally did.

22 A. Yes, and it's based on the well in Section 1
23 that pulled the thick over further to the east.

24 Q. Okay. Now, regardless, looking at any number
25 of wells in this immediate area, many of the Morrow

1 wells are wet; is that correct?

2 A. The ones to the southeast of the proposed
3 location, I believe, are the ones that are primarily
4 wet.

5 Q. Okay, and I don't know if you were looking at
6 Mr. Elger's Exhibit 10, which was a production map --

7 A. Yes.

8 Q. A lot of those Morrow wells which were
9 further to the west were updip, and those were also
10 wet, were they not?

11 A. Some of them he did show, yes, were wet, and
12 those possibly could be in different sands too.

13 I'd have to -- That's a speculation on my
14 part, and I'd have to go back and look at all the logs
15 that far up, that far to the north.

16 Q. Okay. So there's still a lot of speculation
17 here that the east half would be better than the west
18 half as far as the Morrow goes?

19 A. Oh, sure, it's interpretive.

20 MR. BRUCE: That's all I have, Mr. Examiner.

21 EXAMINATION

22 BY EXAMINER CATANACH:

23 Q. Mr. May, you had mentioned earlier that Yates
24 had completed a Morrow well in a section north of
25 here -- I didn't catch the section -- or had tested a

1 Morrow well at half a million a day?

2 A. Yes, there was the Yates Petroleum Pan Am
3 Pardue in Section 27. I believe it's in the southwest
4 quarter.

5 We re-entered that well for the Canyon,
6 deepened it to the Morrow, perforated the Morrow,
7 tested it, made approximately a half a million a day,
8 then came back up to the Canyon, because the Canyon was
9 the primary target in that well.

10 But we are planning on, after the Canyon
11 plays out, going back down after the Morrow.

12 EXAMINER CATANACH: Okay, I don't have
13 anything else.

14 EXAMINATION

15 BY MR. STOVALL:

16 Q. One question, Mr. May. Who -- What would be
17 Yates's primary objective with this well?

18 A. Both the Morrow and the Canyon.

19 Q. Who was responsible for requesting that Mr.
20 Carroll prepare an application in this case and file
21 it? Were you involved in that discussion at all?

22 A. I was -- I'm not sure I'm understanding your
23 question.

24 Q. Did anybody provide Mr. Carroll with
25 instructions with respect to the filing of this

1 Application?

2 A. Yes, employees of Yates did.

3 Q. Were you involved in that process?

4 A. I applied -- Based off my geology, I picked a
5 location, gave that information to Land, and I assume
6 they contacted Mr. Carroll.

7 Q. Well, my question -- Let me get to the direct
8 question and the important question, is, How come the
9 Application doesn't mention -- The Application comes in
10 and says, We want to drill a Morrow gas well, and as
11 long as we're here, let's pool from the surface to the
12 base of the Morrow.

13 How come somebody didn't tell Mr. Carroll to
14 say, We'd also like to be able to test the Cisco and --

15 A. To tell you the truth, I'm not sure why,
16 because the Canyon is definitely a primary target out
17 here, especially because of the three wells that Yates
18 has production out in the Canyon in this area.

19 Q. Is anybody here from Yates today, do you
20 know, that would have been involved in direct
21 conversation with Mr. Carroll?

22 MR. CARROLL: Janet Richardson was
23 responsible for my direction. She's standing here if
24 you'd -- She's been sworn if you'd like to ask that
25 question.

1 MR. STOVALL: Well, let's finish with Mr.
2 May, then I might.

3 MR. CARROLL: I have no further questions.

4 EXAMINER CATANACH: The witness may be
5 excused.

6 Would you like to recall Ms. Richardson?

7 MR. STOVALL: I was just -- yes, I -- So
8 sorry, I was upstairs.

9 Ms. Richardson, you can stay put if you -- as
10 long as you speak loud enough for the...

11 JANET RICHARDSON,
12 the witness herein, after having been first duly sworn
13 upon her oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. STOVALL:

16 Q. Were you the one that instructed Mr. Carroll?

17 A. Yes.

18 Q. Do you know why he didn't mention the Cisco
19 at the time of the Application?

20 A. No, I just assumed that once you asked for
21 the application, that your Morrow was your primary
22 target, that all the zones between the Morrow and the
23 surface and everything that you drilled would be
24 included.

25 MR. STOVALL: Well, let me tell you what my

1 concern is at the moment, is, why couldn't we grant
2 both of these Applications?

3 Yates says they want a Morrow well, and
4 Nearburg says they want a Cisco well.

5 Based upon the Application, the allegation in
6 the Application that the Applicant has a right to drill
7 a Morrow well, a Morrow gas well, why can't we grant
8 them both?

9 MR. CARROLL: Well, I think that that would
10 be promoting waste. That would indicate -- unless
11 you -- I'm not sure what you're talking about.

12 If you're talking about drilling two wells, I
13 think that would be wasteful, to drill two wells.

14 MR. STOVALL: That might be.

15 MR. CARROLL: Some other -- You know, there's
16 lots of ways to fashion what you may be talking about.
17 I'm not saying that one could not do that.

18 But I can tell you legally why we do -- When
19 we drill a well -- and it's always Yates's policy to
20 test every formation all the way down; we never walk
21 away from that. Their primary was the Morrow.

22 I drafted my petition, and I -- frankly, ever
23 since we've had -- and I think the Commission is well
24 aware of the problems that we've had with Mr. Grynberg
25 over these issues about not pooling all the way from

1 the surface to the -- down.

2 That's just -- It is a policy, we always seek
3 it, if that's what you're wanting to know, what our
4 motivation was behind.

5 MR. STOVALL: I understand that, Mr. Carroll.
6 The part that concerns me is because there were some
7 discussions ahead of time, for myself I would like to
8 have seen an application say, to test the Cisco and the
9 Morrow to indicate -- in the supporting statements, not
10 necessarily in the prayer. I think the prayer covers
11 what you're looking for.

12 When I originally looked at these
13 Applications I said, Oh, we've got a Morrow well and a
14 Cisco well. It didn't even occur to me that there
15 was --

16 MR. CARROLL: Well, all I can say is that in
17 the future we will put the language "to test all
18 formations from the surface to the target location."

19 But I mean, we just assumed that that was
20 understood, because that's what everyone does.

21 EXAMINER CATANACH: Mr. Stovall, that was the
22 first thing that occurred to me. So -- I understood
23 what was going on.

24 MR. STOVALL: Well, I can't say that I didn't
25 understand it, but...

1 MR. CARROLL: Our next witness will be Mr.
2 Boneau.

3 DAVID F. BONEAU,
4 the witness herein, after having been first duly sworn
5 upon his oath, was examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. CARROLL:

8 Q. Would you please state your name, occupation
9 and by whom you're employed, for the record?

10 A. My name is David Francis Boneau. I work as a
11 reservoir engineering supervisor for Yates Petroleum
12 Corporation in Artesia, New Mexico.

13 Q. You have previously testified before the Oil
14 Conservation Division and had your credentials accepted
15 as a reservoir engineer, have you not?

16 A. Yes, sir.

17 MR. CARROLL: Mr. Examiner, I would tender
18 Mr. Boneau as an expert in this field of reservoir
19 engineering.

20 EXAMINER CATANACH: Mr. Boneau is so
21 qualified.

22 Q. (By Mr. Carroll) Mr. Boneau, you have
23 prepared certain exhibits for presentation in support
24 of -- and also in reference to the Nearburg -- the two
25 cases that are presently being heard by the Examiner,

1 have you not?

2 A. Yes, sir, that's correct.

3 Q. Would you please, because of the lateness of
4 the hour, just begin with your Exhibit 11 and, as you
5 go from one exhibit to the next, please identify them
6 for the record.

7 But if you would, and I think it will speed
8 things up, just discuss what they are and their
9 significance with respect to this case.

10 A. Surely. Exhibit 11 is my attempt at a
11 summary of the issues and the arguments in this case.

12 I think it's obvious by now that Yates seeks
13 to operate a 320-acre spacing unit, roughly, and we
14 want that to be the south-half spacing unit.

15 I listed some reasons and -- To be a positive
16 engineer I list them, why you should approve Yates's
17 Application.

18 Number one says that we all agree that the
19 proposed locations are on Yates's lease, and we think
20 that's a small argument why you might let Yates
21 operate.

22 Mr. May, in the geology, has talked about how
23 the Morrow, being on the east side, would best be
24 developed with two laydown spacing units.

25 Item number three talks about AFEs, and

1 that's essentially an insignificant issue, and we're --
2 I welcome the opportunity to ignore that, as we agreed
3 to.

4 I'd like to talk a little more in depth about
5 the last three items.

6 Yates has a great amount of experience in the
7 Dagger Draw-Upper Penn Pools, and we have experience in
8 the Indian Basin-Upper Penn Associated Pool, and I've
9 got an exhibit to talk about that.

10 We have gas, water and electricity systems
11 built, being built and planned to handle a major
12 development in this Indian Basin area.

13 And lastly, there's an issue about whether
14 the proposed re-entry of Nearburg in the north half
15 makes much sense in an orthodox sense.

16 That's supposed to be a preview of what we're
17 talking about. I'm going to talk about, in Exhibit 12,
18 Yates's experience in the Dagger Draw area and Indian
19 Basin area, and there's probably some numbers here that
20 are of interest to people.

21 In Dagger Draw Yates operates 138 wells and
22 Nearburg operates nine wells, and some of those are
23 very good wells. I've listed there the production
24 number, and Yates has roughly ten times the wells and
25 the production that Nearburg has in Indian Basin, in

1 Dagger Draw. Yates has about ten times the wells and
2 the production in Dagger Draw that Nearburg has.

3 In Indian Basin there are three completed
4 producing wells operated by Yates Petroleum, and those
5 are the only wells in the Indian Basin-Upper Penn
6 Associated Pool.

7 The Hickory Number 1 in Section 17 was
8 potentialled for 480 barrels of oil, some gas, and about
9 1200 barrels of water in June.

10 At the bottom of the page it shows that that
11 well has been production-tested for 10 days in June,
12 and it -- during that time it produced an average of
13 452 barrels of oil a day, 456 MCF of gas a day, and 944
14 barrels of water a day.

15 That well will begin sustained production
16 very soon. As you'll see, all the associated things
17 that it needs to produce long-term are now in place.

18 The second well in the Indian Basin-Upper
19 Penn Associated Pool is the Pan Am Pardue well in
20 Section 27 of 21-24, and it was potentialled for 232
21 barrels of oil in June, and it's been sub-pumped for a
22 total of five days over a period in June from June 14
23 to June 25th, and during those five days it produced an
24 average of 392 barrels of oil a day, 1199 MCF of gas a
25 day, and 1460 barrels of water a day. So it, so far,

1 is going better than its potential.

2 Those two are two very good wells in the
3 Indian Basin-Upper Penn Associated Pool, and I think
4 those two wells are the cause of people's excitement
5 about this area.

6 The third well in the Indian Basin-Upper Penn
7 Associated Pool is the Walt Canyon "AMA" Number 1, and
8 it's actually the well closest to the Section 2 that's
9 under discussion here. It was potentialed in June for
10 110 barrels of oil a day, and quite a lot of water,
11 2370 barrels of water a day.

12 And at the bottom of the page it shows that
13 that well was production tested for 17 days in May and
14 June, averaging 190 barrels of oil and 1780 barrels of
15 water a day.

16 Yates then tried to shut off some of that
17 water with a liner, and it didn't really help much.

18 The tests in June are shown there, and there
19 are 112 barrels of oil a day and 2400 barrels of water.

20 The Walt Canyon is maybe in a slightly poorer
21 part of the reservoir, but it's got a sort of
22 unsatisfactory mechanical condition. It's being
23 produced through a 3-1/2-inch liner, and that's a tough
24 way to sub-pump a well.

25 I just thought it was important to summarize

1 Yates's experience in this Indian Basin-Upper Penn
2 area, to develop an area, and up-to-date information
3 just is hard to obtain, and I wanted the Examiner to
4 see what the latest information was.

5 And Exhibit 13 and 14, address the -- how
6 Yates will handle the gas and water from the Indian
7 Basin wells, and specifically from the proposed well in
8 Section 2, and it also addresses the issue of getting
9 electricity to those wells.

10 So Exhibit 13 is a map with some colored
11 lines on it indicating where the gas, water and
12 electricity lines will go.

13 And Exhibit 14 is a description in words of
14 the same thing.

15 So Yates's philosophy behind this whole thing
16 is that this is a very promising area that will
17 eventually have large-scale development.

18 The other part of our philosophy is that we
19 have a huge amount of system installed in Dagger Draw,
20 and we can carry the gas and water, et cetera, back to
21 Dagger Draw and handle it through the gas plant that's
22 been built there, and handle the water through the
23 eight disposal wells that are now active in Dagger
24 Draw.

25 Yates has the capacity to handle about 60,000

1 barrels of water a day in Dagger Draw, and we're
2 currently disposing of about 40,000 barrels a day. So
3 there's excess capacity in Dagger Draw.

4 So our philosophy is to carry the gas and
5 water back to Dagger Draw.

6 The southernmost point of the Dagger Draw
7 system is at the very top-left corner of Exhibit 13.
8 It's a well there called Mojave, and it looks on the
9 picture just a tiny dot, but that's where the Dagger
10 Draw systems end and where the Indian Basin system
11 would tie in.

12 So Yates has -- In the gas area, Yates has
13 constructed a line shown in solid red from the Hickory
14 north to the Gas Company of New Mexico line, and that's
15 where the gas has been going during the part of time
16 when the Hickory was producing Morrow gas and during
17 the testing that I told you about just a few minutes
18 ago.

19 Yates is completing construction of the gas
20 lines north from the Gas Company of New Mexico line to
21 the Mojave, and all that is being built today and will
22 be finished in a matter of days.

23 Our proposal for the rest of the system is
24 shown in the blue hatched lines, and Yates has staked
25 and is seeking right of ways for gas lines, and

1 incidentally water lines, to go from the Hickory to the
2 Walt Canyon "AMA" Number 1 and up to the Pan Am Pardue
3 ALZ Number 1. Those gas lines will be capable of
4 handling 12 million cubic feet of gas a day.

5 The water lines go -- follow the same route,
6 take the same route, and they are in the same stage of
7 completion.

8 The initial line from the Hickory north is
9 completed.

10 The long line up to the Mojave is under
11 construction right now, will be finished in a matter of
12 days.

13 And the laterals off the Walt Canyon and Pan
14 Am Pardue have been staked and right of way is being
15 sought.

16 Yates has also installed its own electrical
17 system. The Central Valley CVE line ends where it says
18 "Start Yates Electrical Line" there at the intersection
19 of Section 24 and 25. And Yates has built an
20 electrical line south from there to the Hickory, about
21 five miles.

22 Again, the plan is to carry this electrical
23 line to the Walt Canyon and Pan Am Pardue and into the
24 northeast part of the developing field via the right of
25 way that's being sought right now.

1 Our operations people plan to have this
2 entire system installed in 60 to 90 days.

3 I think the point of all that is that we have
4 real plans to handle the wells drilled in this, handle
5 gas and water from the wells drilled here. Yates is
6 spending \$1.5 million to install the line shown on
7 Exhibit 13.

8 The last item, moving to Exhibit 15, involves
9 the proposed Nearburg re-entry in the north half of
10 Section 2, and Exhibit 15 is my idea of illustrating
11 orthodox and unorthodox.

12 The well is located 2130 from the west line
13 and 660 from the north line, and it's obviously in the
14 central portion of the north half, and it's very much
15 in the corner of the west half.

16 I'm confused by the talk of 40-acre spacing
17 and 320-acre spacing, but the facts are that it is
18 closer than 660 feet to the east line of the west half,
19 and therefore I call it unorthodox for Indian Basin-
20 Upper Penn Associated.

21 I think Exhibit 16 -- Do you want me to go
22 ahead to Exhibit 16? Is that okay, Counselor?

23 Q. That's fine, go ahead.

24 A. Exhibit 16 is a letter that I wrote to Mike
25 Williams of the Artesia NMOC on July 23rd, 1993, and

1 it tries to address the status of the Walt Canyon 2
2 State Number 1.

3 Basically, it says that Nearburg sought a
4 north-half spacing unit for that well on May 25th and
5 sought a west-half spacing unit on May 28th and that
6 both Yates and Nearburg has scheduled the hearings
7 today.

8 And the words say it all, I think. It says,
9 Please do not assign either a north-half or a west-half
10 spacing unit to that re-entry before the Yates and
11 Nearburg Applications can be heard on August 12th and
12 decided by the NMOCD in Santa Fe.

13 I think that the right way is that the status
14 of the re-entry is kind of in suspense, depending upon
15 the outcome of this hearing, and I thought it was worth
16 trying to call that situation to Mr. Williams'
17 attention, and that was the purpose of that letter.

18 Q. Mr. Boneau, the field rules that have been
19 adopted by the NMOCD for the Indian wells area allow
20 that within each 320-acre proration unit two wells can
21 be drilled; is that correct?

22 A. That's correct, yes.

23 Q. And in your professional opinion, do you feel
24 that with respect to the -- this re-entry and its
25 location relative to a west-half proration unit, will

1 that well drain the west half or have any significant
2 chance of providing adequate drainage for the west
3 half?

4 A. Well, it's obviously not going to drain all
5 the west half, and I don't know that that's the
6 question. But it is going to drain mostly oil and gas
7 from the north half of Section 2.

8 Q. Well, that was my follow-up question, Mr.
9 Boneau, and I think you guessed it, is that -- Relative
10 to the situation already, the location of this one
11 well, does it make more sense to have laydowns or
12 standups?

13 A. I think the location of that re-entry is an
14 argument for laydown 320s.

15 Q. With respect to the Application of Yates
16 Petroleum that it's making before to allow the drilling
17 of its proposed Morrow test in the southeast quarter
18 and with laydown proration units and with Yates being
19 operator, do you have an opinion with respect to
20 whether or not the granting of that Application would
21 promote correlative rights and prevent waste?

22 A. Yes, I have an opinion, and --

23 Q. What --

24 A. -- it is that the thing that you said would
25 prevent waste and promote correlative rights.

1 Q. All right. In your professional opinion, do
2 you feel, based on the experience of Yates Petroleum,
3 that it would be better able to handle the known
4 production problems that you have with this kind of
5 well, and the unknown problems that can be encountered
6 drilling in this part of New Mexico?

7 A. Yes, it's true that Yates has not drilled a
8 Morrow well in this area, and Nearburg has -- maybe not
9 drilled a Morrow well in this area. Yates has
10 completed three re-entries, relatively difficult re-
11 entries, but Yates has completed three re-entries, and
12 I'm confident from that experience that we can drill a
13 Canyon Morrow test.

14 Q. With respect to your review of the AFEs
15 presented by both the companies, it is your -- do you
16 have an opinion with respect to whether or not Yates
17 can drill this well relative to the AFE that it has
18 presented?

19 A. Yes, Yates can drill a well within the
20 parameters of the AFE presented.

21 Q. And the AFE presented by Yates, was it lower
22 than the AFE presented by Nearburg?

23 A. The bottom-line numbers on the -- If you
24 compare the bottom-line numbers on the two AFEs, the
25 Yates number is lower than the Nearburg numbers.

1 Q. All right. With respect to the issue of
2 going ahead and drilling all the way to the Morrow
3 first or drilling to the Canyon, producing it, and then
4 re-entering it and drilling to the Morrow, do you have
5 an opinion or any idea with respect to whether or not
6 one alternative as opposed to the other would be
7 cheaper or more costly or the risk higher or lower?

8 I hope you understood my question.

9 A. I hope you understand my answer.

10 Q. I'll take it for whatever it is.

11 A. You'll take it for whatever it is.

12 MR. STOVALL: Probably understand that better
13 than the question, Mr. Boneau.

14 THE WITNESS: No, I think that the direct and
15 the safer approach is to drill to the lowest target and
16 start from there and complete your well on up from
17 there.

18 Q. (By Mr. Carroll) In your experience, has
19 that been the cheaper of the two methods?

20 A. Yes, that's normally cheaper. And anytime
21 you run a liner, you're going to have a leaky liner and
22 problems.

23 Q. The risks of re-entering the well, are they
24 not also greater than drilling that well to the deeper
25 depth originally?

1 A. Yes.

2 Q. Mr. Boneau, are there any other statements or
3 opinions that you would like to render with respect to
4 the exhibits that you've presented to the Commission?

5 A. No, sir.

6 MR. CARROLL: Mr. Examiner, I'd move the
7 admission of Exhibits 11 through -- I believe it's 16?

8 THE WITNESS: Yes.

9 MR. CARROLL: -- 16.

10 EXAMINER CATANACH: Exhibits 11 through 16
11 will be admitted as evidence.

12 MR. CARROLL: I think I have moved admission
13 of all of my exhibits.

14 I cannot remember if I did Mr. May's. If
15 not, I move them all.

16 EXAMINER CATANACH: We will put them all in.

17 MR. CARROLL: All right.

18 MR. STOVALL: With respect to that, Mr.
19 Bruce, I assume that Mr. Carroll is not moving the
20 admission of your Exhibit 18?

21 MR. BRUCE: No, and --

22 MR. STOVALL: Unless you --

23 MR. CARROLL: No objection, no objection.

24 I'll pass the witness.

25 MR. BRUCE: I'll be pretty brief here.

CROSS-EXAMINATION

BY MR. BRUCE:

Q. As far as the AFE costs, Dr. Boneau, do you have any refutation of Nearburg's Exhibit 16 where it shows the average cost of the wells Nearburg has participated in in the Dagger Draw were over-run by -- any costs by 36 percent?

A. I saw that exhibit briefly. That's as much as I know, as I've seen of it, yes, sir.

Q. So you don't have anything to -- If you want to look at it. I mean, I'm just asking you if you have any evidence to refute the data shown on that exhibit.

A. My actual answer would be, I made a conscious decision about two weeks ago when we went over this, not to dig up details of the expenses that you charged us in the wells where you are our partner and -- not to look up this kind of stuff. I just think that you're going to get any answer you want, and I just didn't think it was worth going through that data.

Q. Are you aware that Santa Fe Energy Operating Partners has had an experience similar to Nearburg's in the Dagger Draw area, in Yates-operated wells?

A. I'm very aware that in the Pan Am Pardue hearing Nearburg -- or, I'm sorry, Santa Fe brought up in a little more detail a comparison of AFE and actual

1 costs. And in that time I addressed those issues and,
2 at least in my mind, reconciled the numbers.

3 And the -- You asked this, and so, you know,
4 in some sense you're getting into it. I have no way of
5 saying that what I'm going to say about Santa Fe has
6 any relation to your exhibit, you know.

7 But at that time the facts were that Santa Fe
8 was counting as AFE cost some pump changes that were
9 done three to six months after the well was completed.

10 It was counting some restimulation that was
11 done three to six months after the well was completed.

12 It was counting some costs that were not
13 applicable to the AFEs.

14 And there was some truth to the fact that the
15 AFEs were -- that the costs were over AFEs, and that
16 was mostly attributable to changing a casing program
17 from the time the AFE was made to a more expensive and
18 hopefully safer, environmentally sound, et cetera,
19 casing program that was actually used when the well was
20 drilled. Those kinds of things.

21 There were issues that, like I say, in my
22 mind resolved that discrepancy.

23 I have no idea if any of that is applicable
24 to the Boyd and the Boyd Hooper wells that are in your
25 exhibit.

1 Q. Just like Nearburg and Yates had a difference
2 of opinion, Santa Fe and Yates had a difference of
3 opinion?

4 A. I'll agree to that, yes, sir.

5 Q. Now, as far as operators, even though Yates
6 has re-entered a couple of wells in this immediate
7 area, Yates isn't the only operator, is it? I mean,
8 Nearburg has plans to re-enter, drill a few wells,
9 Santa Fe Energy has similar plans?

10 A. When we had the hearing about the field
11 rules, Nearburg people were here, Santa Fe people were
12 here, some other people were here, and those people
13 have acreage in the area that Brent May colored in
14 green as the target --

15 Q. Okay.

16 A. -- Canyon producing area, yes.

17 And I expect that Nearburg will have some
18 producing oil wells in the Indian Basin-Upper Penn
19 Associated Pool.

20 Q. Now, I had a question on two of your wells.
21 I think your Pardue Farms -- is that the name of it? --
22 ALV --

23 A. I call it Pan Am Pardue.

24 Q. Okay, Pan Am Pardue, fine. And then your
25 Hickory well. On both of those now, they are completed

1 in the Cisco/Canyon, and it's shut in in the Morrow; is
2 that correct?

3 A. The Hickory produced from the Morrow, was
4 taken to the Morrow, it produced from the Morrow, it
5 was shut in from the Morrow.

6 My memory is, it produced 200 million and has
7 reserves of 250 million or something, based on
8 pressures that I used to calculate reserves.

9 Anyway, it was shut in the Morrow.

10 Yates went up to test the Canyon, and all the
11 rest followed.

12 Q. Now, on the Pan Am Pardue -- I want to use
13 your terminology -- that one is producing in the Cisco
14 and not in the Morrow?

15 A. That's correct.

16 Q. Okay.

17 A. It was deepened to the Morrow. The Morrow
18 was tested briefly, and it's --

19 Q. All right, I just wanted to clarify that.

20 My question was, Do you have -- Does Yates
21 have any experience in shutting in the Morrow for long
22 periods of time in these wells and what might happen to
23 the Morrow as a result?

24 A. Well, there are tales, somewhere between
25 scientific fact and old wives' tales, that shutting in

1 the Morrow is dangerous, if that's what you're
2 referring to.

3 Yates has experience where we've shut in the
4 Morrow for extended periods of time and gone back and
5 everything was fine.

6 Q. Did you plan --

7 A. I can't remember a bad experience, but I
8 won't deny that there were bad experiences.

9 Q. Okay. Do you plan on -- Like with the Pan Am
10 Pardue, do you plan on producing the Cisco/Canyon
11 before you go back down to the Morrow?

12 A. Yes, the 400 barrels of oil a day is going to
13 be better than 500 MCF of gas a day, yes, sir.

14 Q. Then one final issue I want to address, Mr.
15 Boneau. On your Exhibit 13 you have the Exhibit with
16 the electric lines and the water lines. And I think
17 it's been mentioned in testimony, and you may be aware,
18 that Nearburg does have a saltwater disposal well in
19 the southwest quarter of Section 1, immediately
20 offsetting the proposed unit. I think they may also
21 have one in the southwest quarter of Section 35,
22 immediately to the north.

23 What would be the comparative cost? I mean,
24 couldn't it be as cheap or cheaper just to use those
25 immediately offsetting saltwater disposal wells, rather

1 than extending these disposal lines?

2 Not only just the cost -- that cost itself,
3 but what is the cost of operating this whole 8-inch
4 gas, 8-inch water line that goes up to Dagger Draw, as
5 opposed to just having a smaller system right in this
6 immediate area?

7 A. I'd like to give you a couple answers.

8 We had a big disagreement in our company
9 whether to oppose that Nearburg saltwater disposal
10 application. And I guess saner has prevailed, but we
11 do question the wisdom of injecting water that close to
12 your producers.

13 As far as the costs go, our estimates are
14 that the costs of handling water and gas are going to
15 be comparable or less than the 40 cents a barrel that
16 one of your papers mentions.

17 But I will admit that if we have three
18 producers in this area, the costs are going to be high.
19 If we have 25 producers in this area, the costs are
20 going to be 20, 25 cents a barrel of water, and they're
21 going to be as cheap or cheaper than Nearburg's.

22 Our plan is obviously for a bigger-scale
23 development than your one SWD well is, and I don't know
24 what the outcome will be, I don't know which of those
25 approaches is right. But they're different approaches.

1 MR. BRUCE: I don't have anything further,
2 Mr. Examiner.

3 EXAMINER CATANACH: I just have one question
4 of Mr. Boneau.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Could you give me an estimate -- and I know
8 it may be rough doing so -- but the incremental cost of
9 drilling to the Morrow as opposed to stopping at the
10 Cisco/Canyon?

11 A. I should know that better than I know. I'd
12 say \$150,000. \$125,000 to \$175,000.

13 Q. \$125,000 to \$175,000, somewhere in that
14 range --

15 A. Somewhere in that range.

16 Q. -- approximately?

17 A. Yes, sir.

18 EXAMINER CATANACH: That's all I have.

19 MR. CARROLL: I have no further witnesses.

20 EXAMINER CATANACH: Nothing further, Mr.
21 Bruce?

22 MR. BRUCE: Nothing further, Mr. Examiner.

23 EXAMINER CATANACH: Would you like to make
24 brief closing statements, Counselors?

25 MR. CARROLL: I don't see any need for that.

1 Do you, Mr. Bruce? Do you want to?

2 If you get to say something, then I'll have
3 to have a response.

4 MR. BRUCE: I would like to, Mr. Examiner.

5 EXAMINER CATANACH: Oh, okay, Jim, you can.

6 MR. BRUCE: I know you're just thrilled to
7 extend the day.

8 EXAMINER CATANACH: Yeah.

9 (Off the record)

10 MR. BRUCE: I think as Mr. Stovall said up
11 front, Mr. Examiner, there's two issues:

12 Are we going to have standup or laydown
13 units?

14 And, who's the operator?

15 Frankly, Nearburg has an approved APD for the
16 west half and will commence the Cisco/Canyon re-entry
17 shortly.

18 Our position is that the southwest quarter is
19 not available in the Cisco/Canyon or Yates --

20 MR. STOVALL: Mr. Bruce, let me ask you one
21 question on that, and it is a legal question so I don't
22 mind interrupting you.

23 MR. BRUCE: Sure.

24 MR. STOVALL: If the Division were to grant
25 Yates's Application -- The land witness has testified

1 the interests are equal; there's no reason that
2 couldn't be changed, is there, legally speaking?

3 MR. BRUCE: As far as an interest ownership
4 standpoint?

5 MR. STOVALL: Correct.

6 MR. BRUCE: That is correct. But I think it
7 goes beyond that.

8 I think Nearburg could form a north-half or
9 west-half unit. That was my next point. It thinks the
10 west half has better geology as far as the Cisco/Canyon
11 goes. That's its basic reason, and I think that's a
12 reasonable justification.

13 Cisco/Canyon is structurally higher, and it
14 would rather do it in that fashion.

15 It seems Yates's primary reason for having
16 south-half/north-half unit is based on the Morrow.

17 I just think that's too risky.

18 You look at the maps, the nearest Morrow well
19 is the -- what is now a saltwater disposal well, the
20 Nearburg MH Federal Number 1 well in the southwest
21 quarter of Section 1. It was non-productive, and it
22 was wet. Why would you want to be drilling two Morrow
23 wells in the east half? We just don't see it.

24 As far as who goes to be the operator, I
25 mean, Yates comes in and every hearing I'm at, it says

1 it operates X wells in the area or X wells in the
2 state.

3 Well, you know, there's plenty of fine
4 operators in the state.

5 The fact of the matter is, in this immediate
6 area Nearburg is the major lessee. It has operations
7 to the north, south, east and west. It owns 80 percent
8 of this section -- it's an oversize section -- and it
9 is by far the major interest owner in this section.

10 It has available saltwater disposal wells
11 which are necessary because of the Cisco/Canyon
12 producing large amounts of water.

13 And all those reasons, we think, militate in
14 favor of naming Nearburg as the operator. We just see
15 no reason to change the units that Nearburg has already
16 gained approval of.

17 Thank you.

18 EXAMINER CATANACH: Mr. Carroll?

19 MR. CARROLL: In response, Mr. Examiner, I
20 think that the issues have been very well delineated.
21 Where do we put our proration units, and who operates?

22 The fact that there is an approved APD, I
23 think, is totally irrelevant to that issue with respect
24 to these two Applications. Just the way it was
25 obtained and the question with respect to this one well

1 being in a very unorthodox position.

2 Nearburg first went after a north-half
3 because that would have put it in an unorthodox
4 location, and it could have had a better change of
5 draining the location, and I think you ought to give
6 some significance to it.

7 What happened is, I think Nearburg realized
8 if he gerrymandered the proration units he could
9 probably make an attempt to operate every swell in that
10 section.

11 When Mr. Bruce draws or tries to call for
12 some significance to the fact that Nearburg is a major
13 lessee in this section, I think that calls for you
14 giving some recognition to the fact that Yates is also
15 a lessee in this section, and it has a right to drill a
16 well on its acreage, and it is apparent that Nearburg
17 is just trying to take that right away so that they
18 can't operate any well on its acreage.

19 So -- And then when you throw in this, I
20 guess, emotional language of Nearburg that it's too
21 risky, what's too risky? There's not a risk one
22 wherever you drill this well to the Morrow, to the
23 Canyon. That is apparently the only considerations of
24 Nearburg.

25 We're not risking anything that belongs to

1 Nearburg; all we're trying to do is ensure that Yates
2 gets to test its mineral rights or its right to explore
3 fully.

4 And with respect to doing the standups, its
5 idea is very reasonable.

6 If that well pans out -- and there's good
7 indication, good geological testimony to indicate that
8 it could very well pan out -- the best way to drain
9 that formation would be to have two wells drilled, one
10 in the north half and one in the south half.

11 And again, the whole reason we're here is the
12 consideration of waste and the protection of
13 correlative rights. And that kind of information goes
14 directly to it, and I think that's what's got to be
15 controlling.

16 There's no doubt, Mr. Examiner, that this is
17 not a case that has a whole bunch of factors that just
18 cry out. It's pretty well evenly divided, and I think
19 you're going to have to split the baby somewhere down
20 the way so that everybody gets a fair chance to do what
21 is reasonable out here and is not just motivated by
22 their own self-aggrandizement or greed.

23 We need to think about the natural resources
24 here, do what's reasonable with respect to the full
25 development of them, and let everybody have a chance to

1 develop its rights.

2 That's the consideration, and that's all
3 you're faced with.

4 Thank you.

5 EXAMINER CATANACH: Thank you, Mr. Carroll.

6 Is there anything further?

7 There being nothing further, Case 10,788 and
8 10,790 will be taken under advisement.

9 (Thereupon, these proceedings were concluded
10 at 6:10 p.m.)

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FILED IN CASE NO. 10788 & 10790
AUGUST 12 1993
DAVID K. CATANACH, Examiner
Oil Conservation Division

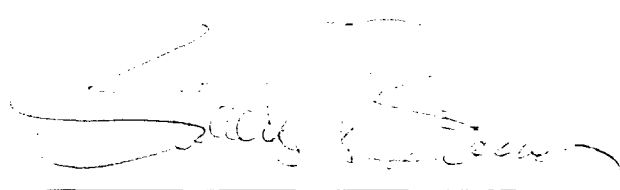
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4) ss.
COUNTY OF SANTA FE)

5
6 I, Steven T. Brenner, Certified Court
7 Reporter and Notary Public, HEREBY CERTIFY that the
8 foregoing transcript of proceedings before the Oil
9 Conservation Division was reported by me; that I
10 transcribed my notes; and that the foregoing is a true
11 and accurate record of the proceedings.

12 I FURTHER CERTIFY that I am not a relative or
13 employee of any of the parties or attorneys involved in
14 this matter and that I have no personal interest in the
15 final disposition of this matter.

16 WITNESS MY HAND AND SEAL September 14th,
17 1993.

18 
19 _____
20 STEVEN T. BRENNER
CCR No. 7

21 My commission expires: October 14, 1994
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23
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25