

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4  
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6

7 EXAMINER HEARING  
8

9 IN THE MATTER OF:  
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12 Application of Yates Drilling Case 9810  
13 Company for a waterflood project,  
14 Chaves County, New Mexico.  
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19 TRANSCRIPT OF PROCEEDINGS  
20

21 BEFORE: VICTOR T. LYON, EXAMINER  
22

23 STATE LAND OFFICE BUILDING

24 SANTA FE, NEW MEXICO

25 November 1, 1989

CUMBRE COURT REPORTING  
(505) 984-2244

11/2/89 11:48

1 HEARING EXAMINER: Next called case, 9810.

2 MR. STOVALL: Application of Yates Drilling  
3 Company for a waterflood project, Chavez County,  
4 New Mexico.

5 Applicant requests this case be continued  
6 to November 15, 1989.

7 HEARING EXAMINER: Case 9810 is hereby  
8 continued to the Examiner Hearing to be held  
9 November 15, 1989.

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15  
16 I do hereby certify that the foregoing is  
17 a complete record of the proceedings in  
18 the Examiner hearing of Case No. 9810,  
19 heard by me on November 1989.

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25  
W. F. Ryan, Examiner  
Oil Conservation Division

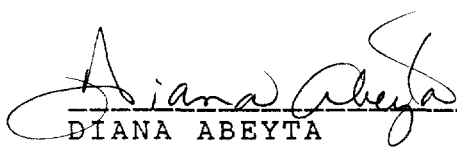
## 1 CERTIFICATE OF REPORTER

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

6 I, Diana Abeyta, Certified Shorthand  
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 caused my notes to be transcribed under my personal  
11 supervision; and that the foregoing is a true and  
12 accurate record of the proceedings.

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

17  
18 WITNESS MY HAND AND SEAL January 3, 1990.  
19

20  
21   
22 DIANA ABEYTA  
CSR No. 267

23 My commission expires: May 7, 1993  
24  
25

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
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7 EXAMINER HEARING  
8

9 IN THE MATTER OF:  
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11 Application of Yates Drilling Case 9810  
12 Company for a waterflood project,  
13 Chaves County, New Mexico  
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17 TRANSCRIPT OF PROCEEDINGS  
18

19 BEFORE: DAVID R. CATANACH, EXAMINER  
20

21 STATE LAND OFFICE BUILDING

22 SANTA FE, NEW MEXICO

23 November 15, 1989  
24

25 **ORIGINAL**

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

FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Divison  
State Land Office Building  
Santa Fe, New Mexico

1 HEARING EXAMINER: Call Case 9810.

2 MR. STOVALL: Application of Yates Drilling  
3 Company for a waterflood project, Chaves County, New  
4 Mexico.

5 Applicant requests this case be continued  
6 to November 29, 1989.

7 HEARING EXAMINER: Case 9810 is hereby  
8 continued to November 29.

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO )  
 ) ss.  
 COUNTY OF SANTA FE )

I, Deborah O'Bine, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL November 25, 1989.

*Deborah O'Bine*  
 DEBORAH O'BINE  
 CSR No. 127

My commission expires: August 10, 1990

I do hereby certify that this transcript is a complete and correct transcript of the Examiner hearing of November 15, 1989, heard by me on November 15, 1989.  
*David R. Catamb*, Examiner  
 Oil Conservation Division

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4 CASES 9809, 9810, 9823

5  
6 EXAMINER HEARING

7  
8 IN THE MATTER OF:

9  
10 Application of Yates Drilling  
11 Company for Statutory Unitization,  
12 Chaves County, New Mexico.  
13 Application of Yates Drilling  
14 Company for a Waterflood Project,  
15 Chaves County, New Mexico.  
16 Application of Yates Drilling  
17 Company for a Unit Agreement,  
18 Chaves County, New Mexico

19  
20 TRANSCRIPT OF PROCEEDINGS

21  
22 BEFORE: MICHAEL E. STOGNER, EXAMINER

23 STATE LAND OFFICE BUILDING

24 SANTA FE, NEW MEXICO

25 November 29, 1989

**ORIGINAL**



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

FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Divison  
State Land Office Building  
Santa Fe, New Mexico

FOR THE APPLICANT:

WILLIAM F. CARR, ESQ.  
Campbell & Black, P.A.  
Post Office Box 2208  
Santa Fe, N.M. 87504-2208

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# I N D E X

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# E X H I B I T S

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1                   HEARING EXAMINER: I'll call the next case,  
2   Number 9809, which is the application of Yates  
3   Drilling Company for statutory unitization, Chaves  
4   County, New Mexico. Call for appearances.

5                   MR. CARR: May it please the Examiner, my  
6   name is William F. Carr with the law firm of Campbell  
7   & Black, P.A., of Santa Fe. I represent Yates  
8   Drilling Company, and I will call two witnesses.

9                   At this time, Mr. Examiner, I would request  
10   that this case be consolidated with Case 9810, which  
11   is the application for Yates Drilling Company for a  
12   waterflood project, and Case 9823, which is the  
13   application of Yates Drilling Company for a voluntary  
14   unit agreement.

15                  HEARING EXAMINER: Are there any  
16   objections? At this time I'll call Case No. 9810,  
17   which is the application for Yates Drilling Company  
18   for a waterflood project, Chaves County, New Mexico,  
19   and Case No. 9823, which is also the application of  
20   Yates Drilling Company, for a unit agreement, Chaves  
21   County, New Mexico.

22                  I'll call for appearances in any of these  
23   three cases at this time, other than Mr. Carr.

24                  There being none, Mr. Carr, you may  
25   proceed.

1           MR. CARR: Mr. Stogner, initially I would  
2 like to point out that in Case 9823, the acreage set  
3 out in the ad, or at least on the docket, is 560  
4 acres. This includes not only the acreage that we  
5 proposed to include in the voluntary unit but the  
6 Doyal lease and additional tracts which we would  
7 exclude if we're forced to go the voluntary unit  
8 route.

9           If the matter has to be readvertised, we  
10 would request that that be done and that it be  
11 readvertised for the December 27 hearing. We are  
12 prepared to go forward with testimony.

13           Furthermore, we have also filed  
14 applications for additional waterflood authority, if  
15 we have to go with the voluntary unit. They were not  
16 included in the legal ad for this hearing and we would  
17 request that those also be included on the docket for  
18 the 27th of December. The testimony will not change.  
19 All we're seeking is the waterflood authority in the  
20 units and offsetting lease, if, in fact, we're unable  
21 to get the necessary ratifications to go forward with  
22 our plans to statutorily unitize.

23           HEARING EXAMINER: Okay. Now, which one's  
24 the problem, 9823?

25           MR. CARR: Yes, sir. It's just that the

1 total acreage in that is incorrect. It includes all  
2 the lands in the statutory unit.

3 And the other case was just waterflood  
4 applications, and I'm sure they were not put on the  
5 docket because it was assumed that this case that is  
6 advertised would include authority for the whole  
7 project, since it includes all the acreage.

8 HEARING EXAMINER: Okay. How many acres  
9 should have been included in Case 9823?

10 MR. CARR: 320 in the voluntary unit.

11 HEARING EXAMINER: Oh, well, it's always  
12 better to have more than not enough, so as far as the  
13 unit agreement there shouldn't be any problem.

14 MR. CARR: All right. Then, the only thing  
15 we would ask is that we be permitted to go ahead and  
16 cover the entire waterflood application in this  
17 hearing today.

18 HEARING EXAMINER: All right. How about  
19 Case 9809 or Case 9823? Are you going to proceed with  
20 the unit agreement at this point?

21 MR. CARR: Our case will cover the request  
22 for a statutory unit, in the alternative for a  
23 voluntary unit, and for waterflooding authority. So  
24 it will include everything in those three cases. All  
25 right?

1 HEARING EXAMINER: I don't understand, but  
2 okay.

3 MR. STOVALL: It will all become clear in  
4 the testimony, won't it?

5 MR. CARR: I believe it will, yes. At this  
6 time we would call Cy Cowan.

7 HEARING EXAMINER: First we need to swear  
8 the witnesses in. Will the witnesses please stand.

9 (Thereupon, the witnesses were sworn.)

10 CY COWAN

11 Called as a witness herein, after having been first  
12 duly sworn upon his oath, testified as follows:

13 EXAMINATION

14 BY MR. CARR:

15 Q. Will you state your full name for the  
16 record, please.

17 A. My name is Cy Cowan.

18 Q. By whom are you employed and in what  
19 capacity?

20 A. I'm employed by the Yateses as a landman in  
21 Artesia, New Mexico.

22 Q. Have you previously testified before the  
23 Oil Conservation Division?

24 A. Yes, I have.

25 Q. At the time you previously testified, were

1 your credentials as a landman accepted and made a  
2 matter of record?

3 A. Yes, they were.

4 Q. Are you familiar with the application filed  
5 in each of these consolidated cases?

6 A. Yes.

7 Q. Are you familiar with the status of the  
8 lands involved in each of these cases?

9 A. Yes, I am.

10 MR. CARR: Are the witness's qualifications  
11 acceptable?

12 HEARING EXAMINER: They are.

13 Q. Will you briefly state what Yates Drilling  
14 Company seeks in these consolidated cases?

15 A. Yates Drilling Company is seeking a  
16 statutory unitization for the proposed Cactus Queen  
17 Unit which consists of 560 acres and, in the  
18 alternative, approval of a voluntary unit agreement  
19 consisting of 320 acres; and also approval of a  
20 waterflood project in this unit and waterflood project  
21 on the adjoining Doyal lease.

22 These acreages are found in Sections 26,  
23 27, 34, 35, in Township 12 South, Range 31 East,  
24 Chaves County, New Mexico.

25 Q. Why is Yates Drilling seeking alternative

1 relief?

2 A. Yates Drilling believes that secondary  
3 recovery efforts are necessary in this portion of the  
4 Southeast Chaves Queen Pool to avoid the waste of  
5 oil. And also, if we're not able to obtain  
6 significant ratifications to make a statutory unit, we  
7 would want to be able to go forward as soon as  
8 possible with the voluntary unit and the waterflooding  
9 program.

10 Q. Would you refer to what has been marked for  
11 identification as Yates Exhibit No. 1 and explain to  
12 the Examiner what it is and what it shows.

13 A. Exhibit No. 1 is an area plat of the  
14 Southeast Chaves Queen area. And Sections 12 South,  
15 Range 31 East, outlined in yellow, is the proposed  
16 Cactus Queen Unit consisting of 560 acres.

17 Q. What is the second page on this exhibit?

18 A. Excuse me, that was a plat of the statutory  
19 unit. The second plat outlined in blue is a plat for  
20 the proposed voluntary unit, which is found in  
21 portions of Sections 27 and 34.

22 Q. Would you now go to the third page of this  
23 exhibit.

24 A. The third page in this exhibit outlines the  
25 lease owned by the--the Doyal lease, and it is in



1 portions of Sections 26, 27 and 34, also.

2 Q. Now, Mr. Cowan, Yates seeks authority to  
3 statutorily unitize the area outlined in yellow on  
4 page 1 of this exhibit, is that correct?

5 A. Yes, sir.

6 Q. If you're unable to obtain ratifications  
7 necessary for statutory unitization, it is then Yates  
8 Drilling Company's proposal to unitize the acreage on  
9 a voluntary basis, that is shown on the second page of  
10 this exhibit, is that right?

11 A. That is correct.

12 Q. Yates is also seeking authority to  
13 institute waterflooding in the statutory unit if that  
14 is approved?

15 A. That is correct.

16 Q. If you're unable to statutorily unitize,  
17 Yates is also seeking authority to implement  
18 waterflood projects in both the voluntary unit and on  
19 the Doyal lease, is that right?

20 A. Yes, sir.

21 Q. Would you now go to what has been marked as  
22 Yates Drilling Exhibit No. 2, identify that and review  
23 it for Mr. Stogner.

24 A. Yes, sir. Exhibit No. 2 is an ownership  
25 plat showing the proposed Cactus Queen Unit in 12

1 South, 31 East. This unit is made up of federal,  
2 state and fee land. These lands are coded as the  
3 clear portions are federal lands, the cross-hatched  
4 portions are state lands, and the darkened portions  
5 are fee lands.

6 Q. Does Yates Drilling Company operate all the  
7 lands within the outer boundary of the area that is  
8 proposed for statutory unitization?

9 A. Yes, sir.

10 Q. And the reason we are here is that the  
11 Doyal lease does not contain a provision which permits  
12 the operator to unitize these lands?

13 A. That's correct.

14 Q. Let's go now to Exhibits 3-A and 3-B, and I  
15 would ask you to identify these, please.

16 A. Exhibit 3-A is a Unit Agreement for the  
17 statutory Cactus Queen Unit. This Unit Agreement is  
18 dated November 1, 1989, and it covers portions of  
19 Sections 26, 27, 34 and 35 of Township 12 South, Range  
20 31 East, Chaves County, New Mexico.

21 And Exhibit 3-B is a Unit Agreement for the  
22 voluntary unit for the Cactus Queen Unit, dated  
23 November 1, 1989, also, and it is made up of portions  
24 of land in Sections 27 and 34 in Township 12 South,  
25 Range 31 East, Chaves County, New Mexico.

1 Q. Are these Unit Agreements standard forms  
2 that have been utilized by Yates Drilling for the  
3 development of other lands in southeastern New Mexico  
4 on a unitized basis?

5 A. Yes, sir, these are on your standard state  
6 form and federal form.

7 Q. Do these agreements show the character of  
8 the lands involved in the unit?

9 A. Yes, they do.

10 Q. Do they provide for the institution of  
11 waterflood operations?

12 A. Yes, they do.

13 Q. Do they set out the basis for participation  
14 for the interest owners in the unit?

15 A. Yes, sir.

16 Q. Do they provide for periodic filings of  
17 plans of development?

18 A. Yes, sir.

19 Q. Please identify what have been marked as  
20 Yates Drilling Exhibits 4-A and 4-B.

21 A. Exhibit 4-A is a Unit Operating Agreement  
22 made up by Yates Drilling Company dated November 1,  
23 1989, for the Cactus Queen Unit. The Unit Operating  
24 Agreement covers portions of Sections 26, 27, 34 and  
25 35, Township 12 South, Range 31 East.

1                   And Exhibit 4-B is also a Unit Operating  
2 Agreement covering the Cactus Queen Unit, and it  
3 covers portions of Sections 27 and 34, Township 12  
4 South, Range 31 East, Chaves County, New Mexico.

5           Q.       Are these operating agreements also  
6 standard forms utilized for other projects in  
7 southeastern New Mexico?

8           A.       Yes, sir, they are.

9           Q.       Do these define the rights and duties of  
10 the parties to the unit agreement and unit operating  
11 agreement?

12          A.       Yes, sir.

13          Q.       Do these agreements provide for the sharing  
14 of costs and investments in the unit?

15          A.       Yes, they do.

16          Q.       And they set forth voting procedures?

17          A.       Yes, sir.

18          Q.       What are those voting procedures?

19          A.       The voting procedures are based on  
20 equal--they're based on equal to each working interest  
21 owner's participation in the unit.

22          Q.       Do they set forth the accounting procedures  
23 to be followed in accounting to the interest owners in  
24 the unit area?

25          A.       Yes, sir.

1 Q. If either statutory unitization or  
2 voluntary unitization results from the efforts of  
3 Yates Drilling in the Cactus Queen Unit area, will the  
4 unit be operated under basically the same Unit  
5 Agreement and the same Operating Agreement?

6 A. Yes, sir, they will.

7 Q. So no matter which way you go, the  
8 underlying agreements are basically the same?

9 A. That is correct.

10 Q. Could you refer to what has been marked for  
11 identification as Yates Drilling Exhibit No. 5 and  
12 review that for Mr. Stogner.

13 A. Yes, sir. Exhibit No. 5 is for the Cactus  
14 Queen Unit. It's a list of the working interest  
15 owners for the statutory unit. It names out the  
16 working interest owners, and to the right it  
17 designates the percentage of the unit.

18 Q. Could you identify those interest owners  
19 who at this time remain unsigned?

20 A. A hundred percent of the working interest  
21 owners have agreed to participate.

22 Q. All right. Would you go to the next page  
23 which is 5-A, and review that for Mr. Stogner.

24 A. Yes, sir. Exhibit 5-A is working interest  
25 owners for the voluntary unit, for the Cactus Queen

1 Unit, and, once again, it designates the working  
2 interest owner and to the right it designates their  
3 percentage of interest in the unit.

4 Q. So in the voluntary unit, of course, 100  
5 percent would be in?

6 A. Yes, sir.

7 Q. Let's go to Exhibit No. 6 and I would ask  
8 you to just identify that for the Examiner.

9 A. Exhibit No. 6 is a list of the basic  
10 royalty owners in the Cactus Queen Unit.

11 Q. Does it show their participation in the  
12 unit?

13 A. Yes, it does. It includes the federal  
14 government and the State of New Mexico on the others.

15 Q. Has Yates reviewed this proposal with the  
16 Bureau of Land Management?

17 A. Yes, we have.

18 Q. What response has been received?

19 A. We visited with Armando Lopez in Roswell,  
20 New Mexico, and they were in favor of the  
21 waterflooding project.

22 Q. Have you reviewed this application with the  
23 State Land Office?

24 A. Yes, sir.

25 Q. And are they now processing that

1 application?

2 A. That is correct.

3 Q. Could you identify what has been marked as  
4 Exhibit No. 7, please.

5 A. Yes, sir. Exhibit No. 7 is a letter from  
6 the Bureau of Land Management in Roswell, New Mexico,  
7 from Armando Lopez, and it is just going on record  
8 that they agree with the waterflooding project of the  
9 Cactus Queen area. They believe it's the best for the  
10 unit.

11 Q. Mr. Cowan, would you now identify what has  
12 been marked as Yates Drilling Exhibit No. 8?

13 A. Yes. Exhibit No. 8 are affidavits from  
14 Campbell & Black confirming notice of this hearing, as  
15 required by OCD rules.

16 MR. CARR: Mr. Stogner, I have not attached  
17 to each of the affidavits a copy of all the notice  
18 letters and return receipts. I do have the original  
19 set here, and with your permission I would tender that  
20 as part of Exhibit 8 for the Commission.

21 I do have additional copies of it but it's  
22 voluminous, and I didn't see that anything would be  
23 accomplished by making and circulating numerous  
24 copies. There are two sets of return receipts in  
25 there. One addresses the unitization question and the

1 other addresses unitization and waterflood. They were  
2 all sent together. The original letters are there and  
3 the return receipts are also enclosed.

4 Q. Mr. Cowan, were Exhibits 1 through 8  
5 prepared by you or compiled at your direction and  
6 under your supervision?

7 A. Yes, sir.

8 MR. CARR: At this time, Mr. Stogner, we  
9 would move the admission of Yates Exhibits 1 through  
10 8.

11 HEARING EXAMINER: Exhibits 1 through 8  
12 will be admitted into evidence.

13 Q. [BY MR. CARR] Mr. Cowan, will Yates also  
14 call an engineering witness to explain the technical  
15 aspects of this case?

16 A. Yes, they will.

17 Q. And also to review the efforts that have  
18 been made to reach agreement with the Doyal interest?

19 A. Yes, sir.

20 MR. CARR: I have nothing further.

21 HEARING EXAMINER: Thank you, Mr. Carr.

22 EXAMINATION

23 BY MR. STOGNER:

24 Q. Mr. Cowan, in Exhibit No. 6, explain it in  
25 a little more detail for me here. This is the basic



1 royalty owners through overall voluntary unit, or the  
2 statutory unit?

3 A. Mr. Examiner, I would really like, at this  
4 time, to possibly let someone with Yates Drilling,  
5 other than me, go over this with you, as far as how  
6 they came to these percentages on their participation  
7 formula.

8 Q. Okay. I just had some basic questions  
9 there. None of it adds up to 100 percent. That's  
10 what's kind of confusing to me. If I go down a  
11 column, say under Apache 27 State #1, it comes out to  
12 0.01164. And then if you take all of these columns  
13 over to the total, it's .125. Nothing adds up to a  
14 hundred. Am I reading this wrong?

15 A. The royalty interests that are involved in  
16 this is a one-eighth royalty that was kept out by the  
17 Doyal family. That's where your .125 comes in.

18 MR. STOVALL: Perhaps, Mr. Examiner, I can  
19 ask a couple of additional questions that might  
20 approach this.

21 EXAMINATION

22 BY MR. STOVALL:

23 Q. If I understand what this printout shows,  
24 it is the percentage of the net revenue interest  
25 attributable to each royalty owner under the

1 production from each well, according to the  
2 participation formula in the unit agreement, is that  
3 correct?

4 A. That is correct.

5 Q. So the total royalty burden is 12.5 percent  
6 or .125 decimal interest, is that correct?

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

8 Q. So you read across--let me just take this a  
9 little further and make sure that we've got it  
10 clarified on the record--let's start with the U.S.A.  
11 on the top. They have the U.S.A. federal lease will  
12 receive a royalty based on participation from the  
13 Burkitt Federal #3, the DeLuna Federal #3, the Garner  
14 Federal #7, the Garner Federal #9, and  
15 Southeast/Northeast of 34, and the Northwest/Northwest  
16 of 34, identified as Garner and Burkitt in  
17 parentheses?

18 A. Yes, sir.

19 Q. And the total royalty interest to be  
20 received by the U.S.A. out of the unit--and this is  
21 the statutory unit, is this correct?

22 A. Yes, it is.

23 Q. The total net revenue interest of the  
24 U.S.A. as a royalty is 4.5554 percent, is that  
25 correct?

1           A.       Yes, sir.

2                   MR. STOVALL:   Okay.

3                   HEARING EXAMINER:   All right.

4                               FURTHER EXAMINATION

5   BY MR. STOGNER:

6           Q.       Well, when I look at this Exhibit No.  
7   6--and correct me if I'm wrong and this is not the  
8   correct exhibit to look at--but who all has agreed to  
9   join and who hasn't?

10          A.       The way it reads right now is that the  
11   federal government has agreed to join and the state is  
12   considering. They will be one of the royalty owners.  
13   We just wanted to go on record right now, today, that  
14   we have had problems contacting and visiting with the  
15   Doyal family concerning their royalty interests  
16   participating in this unit.

17          Q.       Now, which--okay, I see several Doyals. I  
18   also see a Williamson, a Penka, P E N K A and a  
19   Vargus. How do they come into this? Have they  
20   joined? Have they not?

21                 MR. CARR:   Mr. Examiner, these are all part  
22   of the Doyal interests and they have not joined. When  
23   we go out to seek ratifications, we anticipate being  
24   able to obtain ratifications of the statutory unit  
25   from the BLM and from the State. The Doyal interest

1 owners are the group that remain in question, and that  
2 includes everyone else on that list.

3 Q. Okay. So, of the interests--let's cut this  
4 interest down, this one-eighth royalty, because 100  
5 percent of the working interest in both units have  
6 agreed, right?

7 A. Yes.

8 Q. All right. What percentage of the  
9 statutory unitization request have not agreed to put  
10 their royalty interest in this unit?

11 MR. STOVALL: Mr. Cowan, I see you are  
12 looking at somebody else.

13 THE WITNESS: I'm looking at someone else,  
14 yes.

15 MR. STOVALL: Is somebody else prepared to  
16 testify to this, Mr. Carr?

17 MR. CARR: I think most of these questions  
18 can be deferred, if the Examiner please, to Toby  
19 Rhodes, who has been on this project from Day One and  
20 has been the person involved in the negotiations with  
21 the Doyals, instead of Mr. Cowan. Mr. Cowan has  
22 reviewed the land end of it, but he has only looked at  
23 that portion of it, not in the context of what exists.

24 HEARING EXAMINER: Well, that's what my  
25 question is.

1                   MR. CARR: It appears those questions can  
2 be easily answered, if we can defer them to Mr.  
3 Rhodes.

4           Q.       Well, before we do that, if you can give  
5 me-- All I'm asking for are two figures. You're a  
6 landman, you said you looked at the overalls, so what  
7 are these two figures I'm looking for? Surely you can  
8 give that to me.

9           A.       Okay. Would you repeat the question,  
10 please.

11          Q.       All right. What is the percentage of the  
12 royalty interest in the statutory unit that have  
13 agreed to pool their interest and those that have not  
14 agreed to pool their interest? I'm looking for two  
15 numbers out of this one-eighth royalty, who have  
16 agreed or what is the total number?

17          A.       Okay. I think what I can tell you is that  
18 the Doyals' royalty interest is 42.2272.

19          Q.       Percent?

20          A.       Yes, sir. The difference between that and  
21 100 percent of the 12 and a half percent, I don't have  
22 it in my mind, but that is the difference of the  
23 people who will ratify, or that is the difference in  
24 the royalty interest.

25          Q.       So, you're seeking to statutorily unitize

1 42.2272 percent?

2 A. Yes, sir.

3 HEARING EXAMINER: Oh, well, Mr. Carr?

4 MR. CARR: Those are the ones that have not  
5 ratified at this time. When we get the order we  
6 intend to go back to them and seek their  
7 ratification. And that will be the procedure.

8 We will come to you, get an order, and  
9 following the order we have a six-month period of time  
10 to go and seek ratification. If we do not get  
11 ratification the order, then, becomes null and void  
12 and we would be forced to go on a voluntary basis.

13 We are hopeful that if we can obtain an  
14 order from the Division, that we can then go back to  
15 the Doyals and show the evidence that was presented,  
16 the benefits that will be derived, and that some, if  
17 not all of the Doyal interest owners, will at that  
18 time be willing to join with Yates and go forward with  
19 the statutory unit. Then we can get the full benefit  
20 of the waterflood.

21 HEARING EXAMINER: Okay. We're going to  
22 take a five-minute recess.

23 MR. CARR: That would be fine.

24 [Thereupon, a recess was taken.]

25 HEARING EXAMINER: We'll go back on the

1 record. I have no further questions of this witness.

2 Are there any other questions?

3 MR. STOVALL: I do have a question. And,  
4 Mr. Cowan, maybe you can answer it.

5 FURTHER EXAMINATION

6 BY MR. STOVALL:

7 Q. I missed some of the initial discussion on  
8 the variety of cases, but if I look at your Exhibit 1  
9 and there are three pages to it, am I correct, your  
10 three plats?

11 A. Yes, sir.

12 Q. I'm a little bit confused because it  
13 appears that what you've identified as the waterflood  
14 project area is outside of the voluntary unit area but  
15 within the statutory unit area, is that correct?

16 A. That is correct.

17 Q. Can you explain to me what the relationship  
18 is there and why that is happening?

19 A. We're trying to get a statutory unit  
20 together including all of the Doyal leases, which  
21 include the waterflood area that you're looking at in  
22 this third page. We wanted to get a statutory unit  
23 including that area. We're seeking that.

24 Q. But you're only seeking to waterflood that  
25 area that's on the third page?

1           MR. CARR: No, that's incorrect. What  
2 we're seeking is a statutory unit including all the  
3 lands on page 1, and a waterflood project in that  
4 acreage.

5           MR. STOVALL: Oh, okay.

6           MR. CARR: Then, if we cannot get that  
7 because after we go back with the order to the Doyals,  
8 there's a chance we can get ratification, but if we  
9 can't, we would like to be able to immediately go  
10 forward with a voluntary unit, waterflood that. And  
11 also, because of potential adverse consequences on the  
12 individual Doyal lease, we have an obligation to also  
13 waterflood that tract, too.

14          MR. STOVALL: On a non-unitized basis?

15          MR. CARR: Yes. So we have two waterfloods  
16 on the two offsetting pieces of this. So that's why  
17 this is complicated.

18          MR. STOVALL: Okay. I have no further  
19 questions.

20          HEARING EXAMINER: Before we get off the  
21 subject, I do want one clarification.

22                   FURTHER EXAMINATION

23 BY MR. STOGNER:

24       Q.       I'm looking at my three maps in Exhibit 1,  
25 okay? The first one ends in yellow is the statutory



1 unit, right?

2 A. Yes, sir.

3 Q. The second one is your voluntary unit  
4 you're seeking in 9823, right?

5 A. Yes.

6 Q. Now, the third one would be a second  
7 waterflood project attached to the voluntary unit  
8 agreement, is that correct? What is this little one?

9 MR. CARR: That would be simply a  
10 waterflood on a lease basis.

11 HEARING EXAMINER: Okay.

12 MR. CARR: The reason would be, the  
13 waterflood on the voluntary unit would tend to impact  
14 the interest owners in the lease unless we also  
15 implemented a lease waterflood project and worked out  
16 so that there would be equity across the boundary  
17 between the two, and that's why we have to have this  
18 last part on it.

19 Q. Now that third map, is that one lease or is  
20 it several leases?

21 MR. CARR: It's one lease.

22 A. Those are the Doyal leases.

23 HEARING EXAMINER: Okay, that is the Doyal  
24 lease. Therefore, that's the reason you left out, it  
25 looked like some Yates properties, Phillips properties

1 and Gallagher properties.

2 MR. CARR: Because they were contiguous,  
3 only corner to corner, and when we tried to include  
4 those it was impossible to add that, because they were  
5 not contiguous except corner to corner.

6 MR. STOVALL: Mr. Carr, let me go a little  
7 further with this, and I apologize if this is an  
8 ignorance on my part as I read this thing, but what  
9 you really need is approval for the waterflood either  
10 within the statutory unit area, which then it just  
11 becomes a single unit with a single waterflood  
12 project--

13 MR. CARR: Right.

14 MR. STOVALL: --or you need approval for a  
15 waterflood within the voluntary unit area and also  
16 within the lease area?

17 MR. CARR: That is correct.

18 MR. STOVALL: You're calling it a single  
19 waterflood project in your waterflood Case 9810, which  
20 is a single case approving a waterflood through the  
21 entire area, it's the operation and management of  
22 those from the standpoint of a leasehold situation and  
23 not a flooding, technical situation?

24 MR. CARR: That's correct. And Mr. Stovall  
25 we filed, at the time we filed the overall waterflood,

1 right after that, two separate 108's for two separate  
2 additional waterflood projects. It was my  
3 understanding that the larger was considered to  
4 include the two parts, and so it was advertised in  
5 this fashion.

6 We did, however, provide individual notice  
7 and individual copies of three C-108's to each  
8 interest owner.

9 MR. STOVALL: So if we--and I'm trying to  
10 structure this so that as we approach this thing we  
11 can approach an order in a sensible fashion.

12 MR. CARR: And I will admit to you that I  
13 have some concern that at the end of this we may need  
14 to readvertise the waterflood aspect of this, Mr.  
15 Stovall.

16 MR. STOVALL: I think we can issue one  
17 order which would approve the statutory unit, create  
18 the statutory unit, and a companion order-- Well, let  
19 me back up and do this more logically, I think.

20 We get issue the statutory unit order or we  
21 can issue an alternative order in Case 9823, approving  
22 the voluntary unit?

23 MR. CARR: Yes, sir.

24 MR. STOVALL: One or the other will go into  
25 effect, but not both?

1 MR. CARR: Yes.

2 MR. STOVALL: And the language in the two  
3 orders will have to tie them together in that manner,  
4 and we may even find it's easier to do it as a single  
5 order in both cases.

6 MR. CARR: That's correct.

7 MR. STOVALL: Now, in Case 9810, we would  
8 issue an order approving a waterflood in the area  
9 described by the same boundaries as the statutory  
10 unit; however, if the statutory unit order becomes  
11 void, then that waterflood order would need to provide  
12 for approval of the waterflood within the voluntary  
13 unit area and within the Doyal lease area; and those  
14 two areas, combined, do not equal the entire statutory  
15 unit area?

16 MR. CARR: And that is correct because of  
17 this non-contiguous problem when that lease comes  
18 out. And we can't waterflood the voluntary unit  
19 without also simultaneously instituting waterflood  
20 operations on the lease, because we feel we breach our  
21 obligations to the interest owners on a lease basis  
22 unless we do it that way.

23 MR. STOVALL: You're saying what appears to  
24 me to be the Northwest/Northwest of 35, which is,  
25 looking at the exhibits, the Gallagher will be in the

1 waterflood if it's in the statutory unit, but it will  
2 not be in the waterflood if it's in the voluntary unit  
3 and lease basis?

4 MR. CARR: That's correct.

5 HEARING EXAMINER: Is somebody prepared to  
6 address the impacts of that?

7 MR. CARR: Yes, we can.

8 MR. STOVALL: I'm a little bit concerned  
9 that you've got a waterflood which is one area on one  
10 case and it's a smaller area on another case, and I  
11 would like you to address that.

12 MR. CARR: And our next witnesses can cover  
13 that.

14 MR. STOVALL: And as you approach your  
15 witnesses, I'm sure you'll do so with the thought in  
16 mind that you may be the one writing the draft order  
17 for us, too, is that correct?

18 MR. CARR: I will be very careful as I go  
19 forward.

20 MR. STOVALL: I'm not saying that's the  
21 case, Mr. Carr. It's just a thought that you might  
22 keep in mind. I think I understand what you're trying  
23 to do.

24 HEARING EXAMINER: I think I understand,  
25 too; a statutory project with a corresponding

1 waterflood project, or a voluntary project with a  
2 corresponding waterflood and, in addition, a separate  
3 waterflood just on the Doyal lease?

4 MR. CARR: That's correct. And I think  
5 just by way of further explanation, we determined it  
6 was important to do this at one time because we would  
7 like to present to you evidence which compares what we  
8 have now, what we would be able to obtain under  
9 statutory, and what we would been able to do if we had  
10 to go with a voluntary unit; because we would like to  
11 take all of this information that has been presented  
12 back to the royalty interest owners, and we're hopeful  
13 that when they see what the difference is, that, in  
14 fact, we may be able to obtain ratifications, put a  
15 statutory unit in place, and do what we believe will  
16 really ultimately recover the reserves in the most  
17 efficient way. And that's the reason we put it all  
18 in. We think we can lay a better picture out by doing  
19 it one time than by doing it piecemeal, and coming  
20 back, trying one, and then trying another and trying  
21 another.

22 MR. STOVALL: I understand that, and  
23 hopefully the evidence will enable us to make some  
24 findings which would show the advantages of a unitized  
25 operation.

1 MR. CARR: And we're ready to present that,  
2 I think.

3 HEARING EXAMINER: I have no further  
4 questions of this witness. Are there any questions of  
5 Mr. Cowan? All right, you may be excused.

6 Mr. Carr?

7 MR. CARR: At this time I would call Mr.  
8 Rhodes.

9 TOBIN L. RHODES

10 Called as a witness herein, after having been first  
11 duly sworn upon his oath, testified as follows:

12 EXAMINATION

13 BY MR. CARR:

14 Q. Would you state your full name for the  
15 record, please?

16 A. My name is Tobin L. Rhodes.

17 Q. Mr. Rhodes, by whom are you employed?

18 A. I'm employed by Yates Drilling Company.

19 Q. In what capacity are you employed?

20 A. My job responsibilities include those of an  
21 engineer.

22 Q. Have you previously testified before the  
23 Oil Conservation Division and had your credentials as  
24 a petroleum engineer accepted and made a matter of  
25 record?

1 A. Yes, I have.

2 Q. Are you familiar with each of the  
3 applications filed in each of the cases that are now  
4 on for hearing?

5 A. Yes, I am.

6 Q. Have you made a study of the portion of the  
7 Southeast Chaves Queen Pool that is involved in each  
8 of these cases?

9 A. Yes, I have.

10 MR. CARR: Are the witness's qualifications  
11 acceptable?

12 MR. STOVALL: Mr. Examiner, before we do  
13 that, I would like to ask one question. Based on the  
14 previous testimony of Mr. Cowan, you've indicated that  
15 Mr. Rhodes will also address some of these ownership  
16 issues?

17 MR. CARR: Yes, he's available to do that.

18 MR. STOVALL: As long as we're on the  
19 qualification side, can you go into that a little  
20 bit?

21 Q. [BY MR. CARR] Mr. Rhodes, are you familiar  
22 with prior efforts to obtain voluntary agreement among  
23 the interest owners in this area to develop this  
24 portion of the Southeast Chaves Queen Pool on a  
25 unitized basis?



1 A. Yes, I am.

2 Q. Were you involved in prior negotiations  
3 with the Doyal interest owners?

4 A. Yes, I was.

5 Q. Were you involved in the previous Oil  
6 Conservation Division cases that addressed this  
7 problem?

8 A. Yes.

9 Q. Will you be able to testify as to the  
10 efforts made by Yates and the status of the  
11 relationship between the Yates Drilling Company  
12 representatives and the Doyal interest owners at this  
13 time?

14 A. Yes.

15 MR. CARR: Are the witness's qualifications  
16 acceptable?

17 HEARING EXAMINER: Are there any  
18 objections?

19 MR. STOVALL: No objections.

20 Q. Mr. Rhodes, are you familiar with the New  
21 Mexico Statutory Unitization Act?

22 A. Yes, I am.

23 Q. In preparation for this hearing, have you  
24 prepared exhibits in support of the application for  
25 statutory unitization and also for voluntary

1 unitization?

2 A. Yes, I have. I've prepared Exhibits 9  
3 through 13.

4 Q. Could you identify the formation that is  
5 the subject of these unitization hearings?

6 A. The formation being unitized is the Queen  
7 Formation.

8 Q. How is that interval defined?

9 A. The interval to be unitized is defined as  
10 all strata between a point 50 feet above the top of  
11 the Queen Formation to the base of the Queen  
12 Formation; this interval occurring from 2,930 feet to  
13 3,100 feet respectively, in the Doyal No. 1 Well  
14 located 660 feet from the north line, 990 feet from  
15 the east line of Section 34, Township 12 South, Range  
16 31 East, Chaves County, New Mexico.

17 Q. Has the portion of the reservoir which you  
18 propose to unitize been reasonably defined by  
19 developers?

20 A. Yes, it has.

21 Q. Are there windows in the unit?

22 A. No. No, there are no undrilled tracts  
23 which are surrounded by drill tracts in the unit.  
24 There are three undrilled tracts inside the statutory  
25 unit boundary, but they are along the outside boundary

1 of the unit.

2 Q. Would you refer to what has been marked for  
3 identification as Yates Drilling Exhibit 9, identify  
4 this exhibit and review it for Mr. Stogner?

5 A. Exhibit 9 is a well status map showing  
6 wells within the proposed statutory unit boundary.  
7 The statutory unit boundary is the line or the  
8 cross-hatched line surrounding these wells.

9 Injection wells for all of the waterflood  
10 projects are shown as triangles. Producing wells are  
11 shown as closed circles. You can see there are no  
12 proposed wells shown on the map, but there may be one  
13 to two additional wells drilled inside the unit  
14 boundary at a later date.

15 Q. Will those wells be drilled if statutory  
16 unitization is obtained in this case?

17 A. Yes, they will, most likely.

18 Q. Would they be drilled if we go to a  
19 voluntary unitization plan?

20 A. In that case there's a good chance that the  
21 wells will not be drilled, at least the one in the  
22 southeast of the northeast in Section 34. The reason  
23 for that is, the reservoir comes down across the  
24 northern portion of that tract, and if that tract is  
25 not included in a unit, we will not be able to get

1 close enough to the boundary line of that tract to get  
2 into the reservoir--to get into the better part of the  
3 reservoir. For that reason, we might not drill that  
4 well if it's not included in the statutory unit.

5 Q. Do you have subsequent exhibits which will  
6 show the boundary of the reservoir?

7 A. Yes, I do.

8 Q. Please refer to Yates Drilling Company  
9 Exhibit No. 10, identify that and review it, please.

10 A. Exhibit No. 10 is a comparative production  
11 schedule comparing predicted secondary recoveries from  
12 the proposed statutory unit to that of a voluntary  
13 unit and an offsetting waterflood lease project.

14 As you can see from the totals at the  
15 bottom of this page, an additional 25,000 barrels of  
16 oil will be recovered from this area under statutory  
17 unit as opposed to voluntary unit and an offsetting  
18 waterflood.

19 Q. What is the impact on the economic limit of  
20 this project if you're able to obtain statutory  
21 unitization?

22 A. Statutory unitization will extend the  
23 economic limit of the area simply for the fact that  
24 we'll be able to operate one unit, one project, we'll  
25 have one accounting system, one gathering facility and

1 one injection facility.

2 Under a voluntary unit and an offsetting  
3 waterflood, we'll have two gathering facilities, we  
4 could have two injection facilities and separate  
5 accounting systems and just additional expense  
6 associated with operating two units or two waterflood  
7 projects over one.

8 Q. Mr. Rhodes, would you now identify Yates  
9 Exhibit No. 11 and review the information contained on  
10 that exhibit for Mr. Stogner.

11 HEARING EXAMINER: Excuse me, Mr. Carr.  
12 Let's go back to Exhibit 10, before we get off of it.  
13 I thought I understood it, and now all of a sudden I  
14 see a new secondary recovery project pop up on this  
15 one.

16 Would you explain to me what that Gallagher  
17 State #1 secondary recovery is?

18 THE WITNESS: Okay. Actually, I'm calling  
19 it secondary recovery because it will benefit from the  
20 waterfloods offsetting it, but it's not an actual  
21 secondary recovery project.

22 HEARING EXAMINER: You're just using this  
23 as a name because it would benefit off of any kind of  
24 injection.

25 THE WITNESS: Yes, it would.

1                   HEARING EXAMINER:   Okay.   Now you may  
2 continue.   I'm sorry.

3           Q.       [BY MR. CARR]   And, Mr. Rhodes, this column  
4 addresses the questions raised by Mr. Stovall  
5 concerning the impact on the Gallagher well on that  
6 40-acre tract, is that correct?

7           A.       I believe it does.   It shows the additional  
8 recovery that the Gallagher will gain from offsetting  
9 the waterflood project.

10                   HEARING EXAMINER:   Please continue, Mr.  
11 Carr.

12           Q.       Would you now review Exhibit No. 11 for  
13 Mr. Stogner.

14           A.       Exhibit No. 11 is a table which outlines  
15 the three possible recovery predictions from the  
16 subject area.   In case one, existing wells are allowed  
17 to reach primary depletion with no secondary recovery  
18 of any kind.   Only 5,000 more barrels of oil will be  
19 recovered at a gross value of \$90,000.

20                   In case two, secondary recovery is  
21 conducted under two separate projects, that being the  
22 voluntary unit and an offsetting lease waterflood  
23 project.   Recovery under this method would be  
24 approximately 225,000 barrels, with a gross value of  
25 4,050,000 barrels.

1 Case three shows the predicted result if  
2 secondary recovery is conducted under statutory unit  
3 covering the entire reservoir, with only one project,  
4 and approximately 250,000 barrels of oil are predicted  
5 to be recovered at a gross value of \$4,500,000. This  
6 is an increased recovery of 240,700 barrels, at a  
7 value of over \$4,000,000 over case one, and an  
8 increase over case two of 25,000 barrels and \$500,000.

9 Q. What price did you utilize in computing  
10 these figures?

11 A. I used a flat unescalated price of \$18 per  
12 barrel.

13 Q. Mr. Rhodes, as unitized management,  
14 operation and further development of the portion of  
15 the Southeast Chaves Queen Pool covered by this  
16 application, reasonably necessary to substantially  
17 increase the ultimate recovery of oil from the  
18 unitized portion thereof?

19 A. Yes, it is.

20 Q. Will additional costs, if any, of  
21 conducting unitized operations, exceed the estimated  
22 value of the additional oil recovered from unitized  
23 management, plus a reasonable profit?

24 A. No. The reasonable profit above operating  
25 costs will be realized if the waterflood performance

1 is moderately successful.

2 Q. Would you now identify what has been marked  
3 as Yates Drilling Company Exhibit No. 12 and review  
4 that?

5 A. Exhibit No. 12 is a plot of the predicted  
6 statutory unit performance curve. This exhibit shows  
7 anticipated results of the successful waterflood  
8 project under statutory unitization.

9 Q. Are unitized methods of operation as  
10 applied to the area, covered by this application,  
11 feasible?

12 A. Yes, they are.

13 Q. And you're proposing implementation of a  
14 waterflood project?

15 A. Yes.

16 Q. Will this result in the increased recovery  
17 of substantially more hydrocarbons than will be  
18 recovered without unitization?

19 A. Yes, waterflooding will result in the  
20 recovery of oil that otherwise would not and could not  
21 be recovered.

22 Q. Let's now go to Yates Exhibit No. 13. I  
23 would ask you to identify that and review it for the  
24 Examiner.

25 A. Exhibit No. 13 is a plot similar to Exhibit



1 No. 11, but this plot also includes a prediction curve  
2 for the two separate waterflood scenarios. As you can  
3 see, the lower curve is the two waterflood projects  
4 scenario. There's a slight increase of production  
5 throughout the life of the flood and then, towards the  
6 end of the flood, there's a significant reduction in  
7 production due to the accelerated economic limits  
8 brought on by operating two units or two waterflood  
9 projects.

10 Q. What is the basis for the participation  
11 formula in the unit agreements?

12 A. We feel that primary production is the  
13 parameter which best indicates secondary--what a tract  
14 will do under secondary recovery; therefore, we've  
15 placed 70 percent of our unit participation on primary  
16 production in the statutory unit, and 72 percent in  
17 the voluntary unit.

18 Undrilled tracts have at least a small  
19 portion of the reservoir under them and deserve some  
20 credit in participation formula. For this reason, 25  
21 percent of the unit participation in both units is  
22 based on original oil in place under each tract, and  
23 the remaining five percent in the statutory unit and  
24 three percent in the voluntary unit of the  
25 participation formula is based on made-through-July

1 1988 oil production.

2 Q. 1989?

3 A. 1989, I'm sorry. And this is because there  
4 is a small amount of primary production left in some  
5 of these wells. And the difference between the five  
6 percent and the statutory unit, and the three percent  
7 in the voluntary unit, is that there's a little bit  
8 more primary reserves left, if you include the larger  
9 area, than there is if you have the smaller, voluntary  
10 area.

11 Q. Mr. Rhodes, this difference, the five  
12 percent versus the three percent in remaining primary  
13 reserves, is this the only difference between the unit  
14 agreement for the statutory unit and the unit  
15 agreement for the voluntary unit?

16 A. Yes, it is.

17 Q. In your opinion, do these participation  
18 formulas allocate production to the separately owned  
19 tracts in the unit on a fair, reasonable and equitable  
20 basis?

21 A. Yes, they do.

22 Q. Will unitization and the adoption of the  
23 proposed unitized methods of operation benefit the  
24 owners of all the tracts in the unit, both working  
25 interest owners and royalty interest owners?

1           A.       Yes. This project should provide economic  
2 benefit to all types of interest owners in any tract.

3           Q.       Is unitized management necessary to  
4 effectively carry on secondary recovery operations in  
5 this area?

6           A.       Yes, unitized management of the proposed  
7 statutory unit area is certainly the most effective  
8 way of managing such a secondary recovery project. A  
9 slightly less efficient but favorable alternative  
10 management, would be a voluntary unit of a smaller  
11 area and an offsetting lease waterflood project.

12          Q.       Will the unitized methods of operation  
13 prevent the waste of oil and result, with reasonable  
14 probability, in increased recovery of oil that  
15 otherwise would not be recovered?

16          A.       Yes, it will.

17          Q.       Does Yates Drilling Company seek authority  
18 to commit additional wells to the injection project by  
19 administrative procedures?

20          A.       Yes, we would like to have that option.

21          Q.       Will granting this application for  
22 statutory unitization or, in the alternative, for  
23 voluntary unitization, in your opinion, be in the best  
24 interest of conservation, the prevention of waste and  
25 the protection of correlative rights?

1           A.       Yes     Failure to form a unit of some type  
2 will result in the loss of at least 200,000 or more  
3 barrels of oil, of which all interest owners would  
4 equitably share.

5           Q.       In your opinion, do you believe that Yates  
6 Drilling Company has done all that can be reasonably  
7 done to obtain voluntary joinder of the royalty  
8 interest owners in the unit area?

9           A.       Yes, I believe that we have. We've spoken  
10 both to the BLM and to the State and they have either  
11 agreed or taken it under stand advisement. And the  
12 remaining royalty interest owners are all members of  
13 the Doyal family, and we've been trying to initiate  
14 secondary recovery projects in this area for several  
15 years, and in this time we've talked to the Doyals  
16 numerous times and we've written them several  
17 letters.

18                   At one time Enron had an interest in this  
19 area, an interest that we have since purchased from  
20 them, but Enron offered to release any undrilled  
21 tracts on the Doyal lease, which there are two  
22 undrilled tracts that are outside the unit boundary,  
23 they offered to release those back to the Doyal  
24 family. We've talked to them about buying their  
25 royalty interest, and we have had no success,

1    whatsoever, in negotiating with the Doyal family.

2    They fail to communicate with us whatsoever.

3                   And I am also aware of a letter that was  
4    written from the Doyal family to the Oil Commission,  
5    which Mr. Carr provided me a copy of, making an offer  
6    to sell the royalty interest in this area to Yates.  
7    I've reviewed the offer and find the offer to be  
8    something that we could not consider under any terms.

9                   What they're asking is that we buy their  
10   royalty interest based on production they'll make over  
11   the next 10 years, at full price--that's \$18 to \$19  
12   per barrel, with the oil still in the ground--and we  
13   would essentially farmout their royalty interest or  
14   farm-in on their royalty interest for a period of two  
15   years, and then we would turn around and give their  
16   interest back to them. Over a period of two years,  
17   only a small portion of the secondary recovery would  
18   be recovered, so essentially we would be buying the  
19   royalty interest and then giving it back to them so  
20   they could gain benefit from the unit twice.

21           Q.     If you're able to obtain an order approving  
22   statutory unitization of this area, is Yates Drilling  
23   prepared to again attempt to obtain a voluntary  
24   joinder in the project from the individual interest  
25   owners in the Doyal lease?

1           A.       Yes. We think that an order from the State  
2 would be beneficial in negotiating with the Doyals.  
3 In the past they have shown a tendency to listen more  
4 to things that the State has said than things that we  
5 have said, and we think that an order by the State  
6 would benefit us in our negotiations with the Doyals.

7           Q.       Do you believe there's a reasonable chance  
8 that you'll been able to obtain ratification from the  
9 Doyal interests that would enable you to put a  
10 statutory unit into effect?

11          A.       Yes, I think so.

12          Q.       I would like to direct your attention for a  
13 few minutes to the waterflood portion of the  
14 application and I would, in this regard, direct your  
15 attention to what has been marked as Yates Exhibit No.  
16 14. Would you identify that, please?

17          A.       This exhibit is a completed C-108 for the  
18 statutory unit area. This C-108 has been filed with  
19 the State. The application requests authorization to  
20 inject water into the Queen Formation underlying the  
21 boundaries of the proposed Cactus Queen statutory  
22 unit. This application contains text which addresses  
23 each of the 14 questions or sections of the C-108  
24 form, along with required maps and schematic  
25 drawings. This project can be classified, as we've

1 discussed earlier, as a secondary recovery project,  
2 with the objective of recovering hydrocarbons that  
3 cannot be recovered under primary means.

4 Q. Would you refer to pages 8 and 9 of Exhibit  
5 14. Identify those and review them for Mr. Stogner.

6 A. The first page, page 8, is a land plat map  
7 which outlines the statutory unit area. It's  
8 identical or very similar to the map that was supplied  
9 by Mr. Cowan earlier as an exhibit. It also  
10 identifies wells within two miles of the proposed  
11 statutory unit.

12 On page 9, this map identifies the area of  
13 review for the statutory unit, an arc, half-mile  
14 radius, has been drawn around each injection well and  
15 connected to encircle the entire unit. This  
16 identifies the area of review for the proposed  
17 statutory unit.

18 Q. Does this exhibit contain tabular data on  
19 all wells within the area of review?

20 A. Yes, it does.

21 Q. On what pages are those located?

22 A. 22 through 39. And these pages are tabular  
23 data on each well within the area of review. The  
24 sheets contain location, casing record, cementing  
25 record, total depth, completion record, spud date,

1 completion date, current status for all of the wells.  
2 And there are currently 17 wells, including the  
3 proposed injection wells, that fall within the  
4 boundaries of the area of review.

5 Two of these wells have been plugged and  
6 abandoned, one well is temporarily abandoned and the  
7 remaining 14 wells are active, pumping oil wells,  
8 producing from the Queen Formation.

9 Q. Would you refer to pages 37 through 40 of  
10 Exhibit 14 and review the information on these pages  
11 for the Examiner.

12 A. In addition to the well data sheets, a  
13 schematic drawing has been drawn depicting any plugged  
14 and abandoned well within the area of review, and  
15 these schematics, one on 38 and one on page 40, shows  
16 the size and amount, location of all plugged and  
17 casing strings in any of these wells that have been  
18 plugged and abandoned.

19 Q. Have you reviewed the plugging detail on  
20 each of these wells?

21 A. Yes, I have.

22 Q. In your opinion, is the plugging of the  
23 wells sufficient to prevent the wells from becoming a  
24 vehicle for the migration of water from an injection  
25 zone into any other interval?



1           A.       I believe they are adequately plugged, yes,  
2 I do.

3           Q.       Would you refer to pages 10 through 21 of  
4 Exhibit 14 and identify the information contained on  
5 these pages?

6           A.       These pages include tabular data and  
7 schematic drawings for each of the proposed injection  
8 wells which are planned to be utilized during the  
9 statutory unitization.

10                   All proposed injection wells will have  
11 plastic-lined tubing, plastic-lined injection packers.  
12 Each injection well will have a casing tubing annulus  
13 filed with corrosion-resistant fluid. This annulus  
14 will be pressure-monitored.

15                   Additionally, injection well data sheets  
16 are included for each one of these wells, that  
17 outlines some of these things, along with the  
18 schematic.

19           Q.       Would you identify what has been marked as  
20 Yates Exhibit No. 15, and review that for Mr. Stogner?

21           A.       Exhibit No. 15 is a collection of maps and  
22 cross-sections showing the geologic characteristics of  
23 the reservoir. The first page--actually, it's the  
24 second one as you turn, the first figure in this  
25 exhibit is a map showing the location of the Cactus

1 Queen Unit in relation to the Caprock-Queen field.

2 And this Caprock-Queen field has had  
3 numerous waterflood projects over a period of many  
4 years, and most of them have been very successful,  
5 with good secondary recovery.

6 Q. And then the next page is a plat of the  
7 statutory unit area?

8 A. Yes. This next page is a plat of the  
9 statutory unit area, identifies each of the wells and  
10 lease numbers and things like that on that one.

11 Q. All right. Anything else in that you want  
12 to particularly review?

13 A. There are structure maps. There's a large  
14 structure map in the envelope on the back. There are  
15 isopachs, hydrocarbon feet, net pay and maps of all  
16 these things included in this package, and I don't  
17 want to go through and address each individual map at  
18 this time unless, after I get through, the Examiner  
19 has questions on any of these things.

20 Q. Was this Exhibit 15 included with the C-108  
21 that was filed with the Oil Conservation Division?

22 A. Yes, it was.

23 Q. Have copies of this been made available to  
24 the other interest owners when the C-108 was filed, as  
25 required by Division rules?

1           A.     Yes.

2           Q.     Into what formation does Yates Drilling  
3 propose to inject?

4           A.     We propose to inject into the upper  
5 sandstone member of the Queen Formation. The average  
6 injection depth is in the areas of approximately 2,989  
7 feet, with an average thickness of 7.4 feet.

8           Q.     This injection interval is consistent with  
9 the area that is to be unitized under the unitization  
10 portion of the case?

11          A.     Yes.

12          Q.     What is the source of the water which you  
13 propose to inject?

14          A.     The source of the injection fluid will be  
15 produced water from the Queen Formation and fresh  
16 water from the Ogallala aquifer.

17          Q.     What volumes do you propose to inject?

18          A.     The proposed daily average water injection  
19 rate is approximately 200 barrels per day for each of  
20 the six proposed injection wells. Total water  
21 injection for the unit would be 1,200 barrels per day.

22          Q.     The 1,200 is the maximum injection rate?

23          A.     Yes.

24          Q.     Is this going to be an open or a closed  
25 system?

1           A.       As I understand it, the definition of an  
2 open system is a system that access can be gained to  
3 the fluid without breaking the seal. I may be  
4 incorrect on my interpretation, but if that is true,  
5 it will be an open system because there will be places  
6 that access could be gained to the fluid.

7           Q.       Other than that, will the fluid be  
8 completely contained; that is, not exposed to the  
9 atmosphere?

10          A.       No. The produced fluid will be in standard  
11 stock tanks, steel, with steel tops.

12          Q.       Do you propose to inject under pressure or  
13 by gravity?

14          A.       Well, initially, we think that the wells  
15 will probably take water on a vacuum, but eventually  
16 we feel that we'll need to inject under pressure.

17          Q.       What is the maximum injection pressure that  
18 you approach to use?

19          A.       The maximum pressure will depend on the  
20 parting pressure of the reservoir, and the parting  
21 pressure of the reservoir will be determined by a  
22 step-rate test once the reservoir requires a positive  
23 surface injection pressure.

24          Q.       Would initially a pressure limitation of  
25 two-tenths pound per foot of depth to the top of the

1 injection interval, be satisfactory for Yates'  
2 purposes?

3 A. Yes. I think that limitation would allow  
4 us to inject in approximately 600 pounds initially.  
5 However, surface pressure greater than 600 pounds  
6 would probably be ultimately required. And at the  
7 time it is required, we would like the authority to  
8 run a step-rate test, to be witnessed by an OCD  
9 representative, so that we could increase our  
10 injection surface pressure.

11 Q. Would you refer to pages 48 through 58 of  
12 Exhibit 14, identify what is on those pages and review  
13 it for the Examiner?

14 A. Each of these pages is a separate water  
15 analysis from either an offsetting fresh water well or  
16 a producing well from a Queen Formation, inside the  
17 statutory unit boundary.

18 Q. Mr. Rhodes, if I understand it, you're  
19 going to be injecting water that is produced from the  
20 same formation into which you're reinjecting it?

21 A. Yes.

22 Q. You're also going to be adding fresh water  
23 to that?

24 A. Yes.

25 Q. Do you anticipate any problems with

1 compatibility in this situation?

2 A. No, we don't. Ogallala water has been  
3 mixed with Queen-produced water in many of the other  
4 waterfloods in the Caprock-Queen Pool. As I said  
5 earlier, those waterfloods have been successful.

6 Q. What are the fresh water zones in the area?

7 A. The primary underground source of fresh  
8 water is the Ogallala formation, the base of which is  
9 estimated to be about 300 feet below the surface. The  
10 Chinle Formation is also a fresh-water aquifer, and it  
11 immediately underlies the Ogallala. The base of the  
12 Chinle is estimated to be approximately 500 feet below  
13 the surface.

14 Q. Are there any fresh water wells within one  
15 mile of a proposed injection well?

16 A. Yes. I contacted the office of the State  
17 Engineer in Roswell, and they have a record of six  
18 water wells that are within one mile of the proposed  
19 unit. On page 47 of Exhibit 14, there is a map which  
20 identifies those wells that are closest to the unit,  
21 and the water samples are from those wells that are  
22 closest to the unit.

23 Q. From what interval are they producing?

24 A. Of the six wells that are within a mile of  
25 the unit, all are thought to be producing from the

1 Ogallala. There are records on all but two of those  
2 wells, and the records show that the four are  
3 producing from the Ogallala. And total depths on the  
4 other two are not known, but they're suspected to be  
5 also Ogallala.

6 Q. Are the logs of the proposed injection  
7 wells on file with the Oil Conservation Division?

8 A. Yes, they are.

9 Q. Could you now identify what has been marked  
10 as Yates Exhibit 16?

11 A. Exhibit 16 is simply a list of production  
12 from each well inside the unit boundary that is  
13 produced from the Queen Formation. Behind the  
14 production table for each well is a decline curve for  
15 each of these wells, and the main reason that we've  
16 presented this as an exhibit is just to show that we  
17 are either below economic or very near economic on  
18 most of these wells.

19 Q. Was the information contained in Exhibit 16  
20 filed with the Oil Conservation Division when the  
21 C-108 was filed?

22 A. Yes, it was.

23 Q. Was it also made available to the interest  
24 owners in the area to whom notice was required to be  
25 given?

1 A. Yes, it was.

2 Q. Would you just identify what has been  
3 marked as Yates Exhibits 16 and 17.

4 A. 17 and 18?

5 Q. 17 and 18.

6 A. Exhibit 17 is a C-108 form for the  
7 voluntary unit. Everything in this C-108 is also  
8 included in the C-108 for the statutory unit.

9 Q. And what is Exhibit No. 18?

10 A. Exhibit No. 18 is a C-108 for the Doyal  
11 leased waterflood project. All the information  
12 contained in this C-108 is also contained in the  
13 statutory unit C-108.

14 Q. And these are included only in case we have  
15 to go to an alternative approach and implement the two  
16 waterflood projects absent statutory unitization?

17 A. Yes.

18 Q. Are you aware of similar applications which  
19 have been granted for enhanced recovery by  
20 waterflooding in the same area as the subject pool?

21 A. Yes. The Caprock-Queen Pool, again, just  
22 to the east and stretching several miles to the south  
23 of this unit area, there have been numerous successful  
24 waterfloods.

25 Q. Mr. Rhodes, as a result of your examination



1 of the available geologic and engineering data on this  
2 area, have you found any evidence of open faults or  
3 any other hydrologic connections between the injection  
4 zone and any underground source of drinking water?

5 A. No. I've found no reason to believe  
6 there's any connection.

7 Q. In your opinion, will the granting of this  
8 application be in the best interest of conservation,  
9 the prevention of waste and the protection of  
10 correlative rights?

11 A. Yes. All the wells in the unit area are  
12 either primary depleted or very near primary  
13 depletion. Injection of water into selected wells  
14 result in the recovery of oil in economic quantities  
15 not otherwise recoverable.

16 Q. Were Exhibits 9 through 18 prepared by you  
17 or compiled under your direction and supervision?

18 A. Yes, they were.

19 MR. CARR: At this time, Mr. Stogner, we  
20 would move the admission of Yates Drilling Exhibits 9  
21 through 18.

22 HEARING EXAMINER: Exhibits 9 through 18  
23 will be admitted into evidence.

24 MR. CARR: And I have nothing further on  
25 direct of Mr. Rhodes.

## EXAMINATION

1  
2 BY MR. STOGNER:

3 Q. Mr. Rhodes, could you go to Exhibit No.  
4 11. That is your predicted recovery, remaining  
5 primary and/or secondary reserves from whatever  
6 scenario comes out of this.

7 A. Okay.

8 Q. Now, I want to make sure I get this--make  
9 sure I understand it. Now, your case number one is  
10 again if secondary recovery is not performed, is that  
11 correct?

12 A. That's right. That's no type of secondary  
13 recovery whatsoever, either voluntary, statutory or  
14 separate lease waterflood. None.

15 Q. So the amount of oil, according to your  
16 figures lost, would be \$4,410,000?

17 A. Yes. That's the value of the amount of  
18 oil.

19 Q. That would be left in the ground?

20 A. That would be left in the ground.

21 Q. That would otherwise be recovered through  
22 the statutory--all of these figures go back to the  
23 statutory unitization as being the most--

24 A. In case three, yes, that's right.

25 Q. I'm looking at the tax base. The figure I

1 would want is that gross value, is that correct? Or  
2 that I would be mostly interested in? If case one was  
3 a scenario, then \$90,000 would be the only amount that  
4 would be recovered, is that correct?

5 A. Yes. That's just the gross number of  
6 barrels produced times \$18 per barrel.

7 Q. Now, this is rough figures, I understand,  
8 but as far as the tax base goes, this would be  
9 basically what would be taxed?

10 A. Yes. That amount would be split between  
11 the working interest owners and the royalty interest  
12 owners in the unit.

13 MR. STOVALL: Let me clarify that. That is  
14 also the amount upon which severance, conservation and  
15 all those taxes would be levied? I think that's the  
16 question he's addressing.

17 THE WITNESS: Yes.

18 Q. Okay. Exhibit 1 is fairly well  
19 self-explanatory, then. And then you put that in  
20 somewhat of a graphic form on Exhibit 13, showing the  
21 production? This is just the production figures in  
22 barrels, correct?

23 A. Yes. That's exactly what that is.

24 Q. And your Exhibit 12 is a projection, and  
25 this was based on the statutory unit, is that correct?

1           A.       Yes. Yes. The reason I broke those into  
2 two graphs is, I couldn't get them both on this same  
3 larger scale. But it breaks out months, and I thought  
4 that it might be easier to understand if you also had  
5 one that broke out the months on the declined curve  
6 plot.

7           Q.       I want to look at Exhibit No. 10 and make  
8 sure, because now you're comparing the two, the  
9 statutory unit and the voluntary unit, and the two  
10 different waterfloods or two types?

11          A.       Yes.

12          Q.       I'm not too sure I understand this here.  
13 Could you explain it over again, in maybe a little  
14 more detail?

15          A.       Okay. The column you see under statutory  
16 unit secondary recovery are those barrels of oil which  
17 would be recovered under statutory unitization with a  
18 single waterflood project.

19                   The three columns you see immediately to  
20 the right of those are under the scenario that there  
21 would be two waterflood projects. The first of those  
22 columns being the voluntary unit recovery, the second  
23 column being the Doyal lease recovery, and the third  
24 column being the recovery from the Gallagher State #1  
25 Well.

1           The last column to the right side of that  
2 page is just simply a total of those previous three  
3 columns.

4           For comparison purposes, the first column  
5 shows statutory and the last column shows recovery  
6 from the same area under the two-waterflood-project  
7 scenario, and you can see there's a slight reduction  
8 through the early years and then a greater reduction  
9 through the last few years of the project, totaling  
10 approximately 25,000 barrels of total difference.

11         Q.     Why would this difference take place? I'm  
12 sorry. I want to make sure I understand it, because  
13 they're going to be both operated basically the same.  
14 The injection is going to be the same, isn't it?

15         A.     Well, there will be two projects, and we  
16 will have to operate them as two projects. We could  
17 possibly even have two injection facilities. The  
18 expense associated with operating two different  
19 systems will be greater on a monthly basis than the  
20 expenses associated with operating a single system.

21           When you calculate the economic limit based  
22 on a higher monthly cost, the economic limit will be  
23 moved closer to the present day than under a case  
24 where the monthly operating costs are less.

25         Q.     How would that--I mean, we're talking

1 barrels on this Exhibit No. 10, though?

2 MR. STOVALL: Let's look at the comparison  
3 here, if I may, to perhaps again clarify it. Year  
4 1990, total recovery end of the statutory unit during  
5 that year, secondary recovery is going to be 5,700  
6 barrels. Total recovery under the split units, split  
7 projects, is 5,353 barrels. Why the difference, say,  
8 in year 1990 between those two numbers?

9 THE WITNESS: Okay. The statutory unit  
10 will allow for us drilling the well in the southeast  
11 to the northeast of 34. If you'll look on Exhibit  
12 9--let me pull out a map here. We'll go to the  
13 exhibit with the list of maps. If you'll turn to--

14 HEARING EXAMINER: Which exhibit are you  
15 looking at?

16 THE WITNESS: Exhibit No. 15, which is a  
17 group of maps, and if you'll turn to figure 7 in that  
18 exhibit, in the southeast to the northeast of Section  
19 34, there's an undrilled tract that's inside the  
20 statutory unit area. This tract has reservoir  
21 underneath it.

22 To get the most economic recovery possible  
23 from this tract, we would have to crowd that north  
24 line on that tract. And if we waterflood under  
25 statutory unitization, we could get 50 feet off of

1 that line. If this tract is not included in the  
2 waterflood project, we would have to stay 330 feet off  
3 of that line. Therefore, we might not drill that  
4 well.

5 That's the difference in the production  
6 that you see between the first column and the last  
7 column in the early years.

8 Q. [BY MR. STOGNER] So, essentially, the  
9 placement of that well, or if it was going to be  
10 drilled at all, your Exhibit No. 10 is assuming that  
11 the well will not be drilled at all, is that correct?

12 A. Yes. Under the right-hand scenario, the  
13 statutory unit assumes that that well would be  
14 drilled.

15 Q. Now, what would that well's location be if  
16 it was under statutory?

17 A. It would be somewhere 50 feet off of the  
18 north line of that tract.

19 Q. Okay. I'm sorry. Which tract?

20 A. The southeast of the northeast of 34. I  
21 might note, too, that I was rather conservative in the  
22 amount of oil that I credited to production from that  
23 well.

24 Q. "Conservative" meaning, it was on the  
25 fringes of the reservoir?

1           A.       It was on the fringes of the reservoir and  
2 I didn't give it much credit. As you can see, in a  
3 year's time I only gave it a little bit of credit,  
4 although it might be more productive than that. And  
5 that's the reason we are considering drilling. It  
6 would offset the best well in the unit.

7           Q.       If I go ahead and look back at Exhibit No.  
8 10, would that also account for the difference, say,  
9 in 1997, between 2,000 barrels?

10          A.       It would account for a portion of that.  
11 The other portion of that would be that some wells  
12 would have to be shut down prematurely because they've  
13 reached economic limit in some of those other  
14 waterflood projects.

15          Q.       I guess what I need to do is go on a  
16 step-by-step. I'm clear on the 1990.

17          A.       Okay. Well, I misinformed you on that.  
18 Down to 1997, the difference would be, debts would be  
19 due to the drilling of the additional well.

20          Q.       And I'm also assuming or I'm not seeing  
21 this, if statutory unitization was in here and that  
22 was the waterflood, then there would be additional  
23 producing in injection wells that I'm not seeing on  
24 this map at this time?

25          A.       There would be one additional well. The



1 reason it's not spotted there is because we haven't  
2 decided on a location. But we would, most likely,  
3 drill one additional well on that southeast of the  
4 northeast of Section 34.

5           You see, in addition to that there are two  
6 undrilled tracts to the west. We may drill out there,  
7 depending on response in other parts of the flood. We  
8 do believe those tracts have reservoir under them,  
9 though.

10          Q.       How many additional injection wells would  
11 you have other than these six?

12          A.       None.

13               HEARING EXAMINER: Are there any other  
14 questions of this witness?

15               MR. STOVALL: I have a question. It's  
16 almost a matter of interest, as much as anything.

17                               EXAMINATION

18 BY MR. STOVALL:

19          Q.       In your analysis, analyzing the impact on  
20 the Doyals themselves, have you calculated the  
21 difference in revenue to the Doyals under their  
22 participation under the statutory unit recovery,  
23 versus recovery under their leasehold?

24          A.       No, I have not broken that out.

25          Q.       So you can't show that their royalty

1 interest participation in the statutory unit would  
2 receive greater revenue than their revenue in holding  
3 out and making you do two separate projects?

4 A. No, I can't show that to you today. Those  
5 numbers would be relatively easy for me to calculate  
6 and mail to you at a later time, if you would like.

7 Q. I'm not sure they're essential for our  
8 findings. I was asking that for my curiosity, as much  
9 as anything.

10 A. I have not specifically calculated those.

11 HEARING EXAMINER: Okay. I'm going to  
12 throw one more question out here either to you or to  
13 the previous witness.

14 We're talking about a statutory  
15 unitization. What kind of a time period do you  
16 foresee to have these royalty interests joined? What  
17 kind of a time period are you looking at?

18 THE WITNESS: That's a good question. We  
19 would like to do it as soon as possible. As soon as  
20 we could receive some type of order, we will  
21 immediately start on trying to gain ratification.

22 HEARING EXAMINER: What I meant was, what  
23 kind of a time period after the order is written  
24 should the statutory order be in effect?

25 THE WITNESS: I understand what you're

1 saying. In other words, how long should we have to  
2 wait before we go ahead and go to the voluntary unit  
3 instead of the statutory unit?

4 HEARING EXAMINER: Yes.

5 MR. CARR: I believe in the statute there's  
6 a six-month period of time, and I would propose that  
7 that be--whatever that period of time for obtaining  
8 ratifications be followed, on the provision that if it  
9 is clear that ratifications cannot be obtained, that  
10 the Division be advised and at that time the statutory  
11 portion of the order can be rescinded or no longer of  
12 effect.

13 MR. STOVALL: Mr. Carr, I don't immediately  
14 see a time frame in here reading the statute, so--

15 MR. CARR: It's a six-month period of time  
16 and it's in 70-7-8 subpart C, "If persons owning the  
17 required percentage of interest in the unit do not  
18 approve the plan for unit operations within a period  
19 of six months from the date on which the order  
20 providing for unit operations is made, such order  
21 shall cease to be of further force and effect."

22 MR. STOVALL: Okay. I was looking for that  
23 and didn't see it. Thank you.

24 HEARING EXAMINER: Mr. Carr, after hearing  
25 the testimony today I sort of have the feeling that

1 Case Number 9810 is inadequate. Do you feel it should  
2 be readvertised to cover and made clear that any  
3 alternative--

4 MR. CARR: Yes, sir, I do.

5 HEARING EXAMINER: I do, too. Why don't we  
6 readvertise that particular case. I was thinking  
7 about making another case out of it, but I think we  
8 can just reword this one. In the alternative, to have  
9 a voluntary agreement waterflood project and a Doyal  
10 lease, or you come up with a name for it, if you  
11 would.

12 MR. CARR: All right.

13 HEARING EXAMINER: And that will be  
14 readvertised and continued to the December 29th--

15 MR. CARR: 27th.

16 MR. STOVALL: Mr. Carr, did you not say at  
17 the beginning of the hearing, though, that notice had  
18 been given to the appropriate parties under both  
19 scenarios? Your giving of notice was adequate?

20 MR. CARR: Mr. Stovall, we mailed copies of  
21 all three C-108 s with all attachments to all interest  
22 owners in the statutory unit area, which, of course,  
23 includes both of the alternatives, so they have  
24 received all three C-108's.

25 The exhibit that contained the plats and

1 the cross-sections and maps, and also the decline  
2 curve, all that material was provided to each of those  
3 owners. And the letter that transmitted those was  
4 dated either November 7 or 8. It was the 8th.

5 MR. STOVALL: Is a copy of that letter in  
6 your notice exhibit, do you remember? What I'm  
7 wondering, though--

8 MR. CARR: Yes, it will be.

9 MR. STOVALL: What I'm getting at is a  
10 question of whether or not it was made clear at that  
11 time, knowing that there was some confusion on my part  
12 at the beginning of this hearing, whether that notice  
13 made clear that the statutory unit, C-108, was an  
14 alternative to the other two C-108's. They're  
15 alternative applications. That would be my only  
16 question.

17 MR. CARR: I am just certain that that is  
18 what the notice letters provided. The notice letters,  
19 Mr. Stovall, are included in with the original  
20 materials that were mailed.

21 MR. STOVALL: Is that that big packet you  
22 gave us?

23 MR. CARR: Yes, sir.

24 MR. STOVALL: We could talk about that  
25 later, if you want to.

1           MR. CARR: The notice letter provides that,  
2 "This letter is to advise you that Yates Drilling  
3 Company has filed the enclosed applications" plural  
4 "with the New Mexico Oil Conservation Division,  
5 seeking authority to institute waterflood projects by  
6 injection into the Queen Formation in its proposed  
7 Cactus Queen Unit underlying portions of Sections 27  
8 and 34, and on its adjoining Doyal lease in Section  
9 26, 27 and 34, both in Townships 12, 31 East," and  
10 both separate C-108's were enclosed with that notice  
11 letter. And the return receipts are back showing they  
12 went to all interest owners.

13           I'll be happy to work with you afterwards,  
14 and if an additional notice letter is required we can  
15 provide that, too, so that by the 27th--

16           MR. STOVALL: Let's look at that  
17 afterwards. We don't need to do it on the record. I  
18 just had a question on that, in my mind.

19           Mr. Carr, we agree that 9810 needs to be  
20 readvertised; that's the waterflood project?

21           MR. CARR: Yes, sir.

22           MR. STOVALL: 9809 appears to be properly  
23 advertised and there is no reason that the Division  
24 could not issue an order on the statutory  
25 unitization--

1           MR. CARR: That is correct.

2           MR. STOVALL: --prior to that hearing, to  
3 enable you to begin your negotiations?

4           MR. CARR: That is correct.

5           MR. STOVALL: And, likewise, with 9823, the  
6 voluntary unit?

7           MR. CARR: That is right, and then we could  
8 go forward and address the portion that relates to the  
9 waterflood project and get that straightened out,  
10 however the Division feels, to be certain that there  
11 is no confusion as to what notice was provided of this  
12 hearing.

13          MR. STOVALL: Do you feel that a  
14 consolidated order in 9809 and 9823 would be  
15 appropriate, stating the approvals in the  
16 alternative?

17               In other words, the statutory unitization  
18 order would go into effect, would be in effect for the  
19 six months subject to joinder by the requisite number  
20 of royalty interest owners, and that upon expiration  
21 of that order, because of failure of joinder, at that  
22 time the order approving the voluntary unit would go  
23 into effect? Would that make sense to you?

24          THE WITNESS: I think that if we negotiate  
25 with the Doyals for 30 to 60 days, at that time we

1 would know. And our window is so small on our  
2 waterflood project, that I would think we would want  
3 to--

4 MR. STOVALL: You want the voluntary  
5 approved anyway, without any tie conditioned to the  
6 statutory, is that correct?

7 MR. CARR: I think that makes sense because  
8 the statutory unit, under the Act, would expire of its  
9 own terms in six months. The only other suggestion  
10 would be to provide that it would expire in six months  
11 or sooner, if advised by the Applicant that statutory  
12 unitization was not going to be obtained. But it  
13 seems to me the cleanest way to do it is to simply  
14 enter two orders.

15 MR. STOVALL: All right. I have no problem  
16 with that. The one thing I would request, however, is  
17 that if you get approval on the statutory, if you get  
18 your participation, that we come back in and rescind  
19 the voluntary unit order.

20 MR. CARR: We would do that, and we would  
21 file that application and we would fill with you a  
22 certificate confirming that we had obtained sufficient  
23 ratification to put the unit in effect the following  
24 month.

25 MR. STOVALL: Okay. That's why I was tying



1   them together, one or the other type of thing.   Okay.

2   No problem there.   Got it?

3                   HEARING EXAMINER:   Does anybody else have  
4   anything further in any of these three cases?   Then  
5   I'll take Case 9809 and Case 9823 under advisement at  
6   this time.   And Case Number 9810, the record will  
7   remain open pending the December 27, 1989, hearing,  
8   where it will be readvertised to include in the  
9   alternative the two waterflood projects covering the  
10  voluntary unit agreement area and the Doyal lease.

11                   What is that proper Doyal lease, while I'm  
12  at it?   Is that the Doyal lease?

13                   THE WITNESS:   It's a fee lease.   The  
14  minerals are owned by the Doyal family.

15                   HEARING EXAMINER:   What would you call this  
16  waterflood project?

17                   THE WITNESS:   Doyal.

18                   HEARING EXAMINER:   Doyal lease waterflood  
19  project?

20                   MR. CARR:   Yes, sir.

21                   HEARING EXAMINER:   Okay.   Case Number 9810  
22  will be continued and readvertised to the December 27,  
23  1989, hearing.

24                   Let's take about a 10-minute break to  
25  regroup.

CERTIFICATE OF REPORTER


STATE OF NEW MEXICO )  
 ) ss.  
COUNTY OF SANTA FE )

I, Carla Diane Rodriguez Certified

Shorthand Reporter and Notary Public, HEREBY CERTIFY  
that the foregoing transcript of proceedings before  
the Oil Conservation Division was reported by me; that  
I caused my notes to be transcribed under my personal  
supervision; and that the foregoing is a true and  
accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL December 11, 1989.

  
CARLA DIANE RODRIGUEZ  
CSR No. 91

My commission expires: May 25, 1991

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case Nos. 9804, 9810, 9823  
heard by me on 29 November 1989.

, Examiner  
Oil Conservation Division