

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

Cases: 9870, 9863, 9864, 9873, 9819,  
9875, 9876, 9877, 9878, 9827

CONTINUATIONS AND DISMISSALS  
FROM THE EXAMINER HEARING

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

February 21, 1990

## 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: This hearing will come  
2 to order for Docket No. 6-90. I'm Michael E. Stogner,  
3 today's hearing officer, February 21, 1990. I'll  
4 start out first by calling the continued and dismissed  
5 cases.

6                   Page 1, I'll start with Case 9870.

7                   MR. STOVALL: Application of Siete Oil &  
8 Gas Corporation for special pool rules, Eddy County,  
9 New Mexico.

10                  Applicant requests this case be continued  
11 to March 7, 1990.

12                  HEARING EXAMINER: Case No. 9870 will be so  
13 continued.

14                                 \* \* \* \* \*

15                  HEARING EXAMINER: I'll call next case, No.  
16 9873.

17                  MR. STOVALL: Application of Hixon  
18 Development Company for compulsory pooling, San Juan  
19 County, New Mexico.

20                  Applicant requests this case be continued  
21 to March 21, 1990.

22                  HEARING OFFICER: Case No. 9863 will be so  
23 continued.

24                                 \* \* \* \* \*

25                  HEARING EXAMINER: Call next case, No.

1 9864.

2 MR. STOVALL: Application of Hixon  
3 Development Company for compulsory pooling and an  
4 unorthodox gas well location, San Juan County, New  
5 Mexico.

6 Applicant requests this case be dismissed.

7 HEARING OFFICER: Case No. 9864 is hereby  
8 dismissed.

9 \* \* \* \* \*

10 HEARING EXAMINER: Call next case, No.  
11 9873.

12 MR. STOVALL: Application of Tahoe Energy,  
13 Inc., for an unorthodox gas well location, nonstandard  
14 gas proration unit and simultaneous dedication, Lea  
15 County, New Mexico.

16 Applicant requests this case be continued  
17 to March 7, 1990.

18 HEARING OFFICER: Case No. 9873 will be so  
19 continued.

20 \* \* \* \* \*

21 HEARING EXAMINER: On the second page, I'll  
22 call next case, No. 9819.

23 MR. STOVALL: The application of Blackwood  
24 & Nichols Company, Ltd., for compulsory pooling and an  
25 unorthodox gas well location, San Juan and Rio Arriba

1 Counties, New Mexico.

2 Applicant requests this case be continued  
3 to March 7, 1990.

4 HEARING OFFICER: Case No. 9819 will be so  
5 continued.

6 \* \* \* \* \*

7 HEARING EXAMINER: I'll call next case, No.  
8 9875.

9 MR. STOVALL: Application of Explorers  
10 Petroleum Corporation for compulsory pooling, Eddy  
11 County, New Mexico.

12 Applicant requests this case be dismissed.

13 HEARING OFFICER: Case 9875 is hereby  
14 dismissed.

15 \* \* \* \* \*

16 HEARING EXAMINER: Call next case, No.  
17 9876.

18 MR. STOVALL: Application of Explorers  
19 Petroleum Corporation for compulsory pooling, Eddy  
20 County, New Mexico.

21 Applicant requests this case be dismissed.

22 HEARING OFFICER: Case No. 9876 is hereby  
23 dismissed.

24 \* \* \* \* \*

25 HEARING EXAMINER: Call next case, No.

1 9877.

2 MR. STOVALL: Application of Explorers  
3 Petroleum Corporation for compulsory pooling, Eddy  
4 County, New Mexico.

5 Applicant requests this case be dismissed.

6 HEARING OFFICER: Case No. 9877 is hereby  
7 dismissed.

8 \* \* \* \* \*

9 HEARING EXAMINER: Call next case, No.  
10 9878.

11 MR. STOVALL: Application of Chevron USA  
12 Inc. for a nonstandard gas proration unit and  
13 simultaneous dedication, Lea County, New Mexico.

14 This case needs to be continued and  
15 readvertised for March 7, 1990.

16 HEARING EXAMINER: Case No. 9878 will be  
17 continued and readvertised for the Examiner's Hearing  
18 scheduled for March 7, 1990.

19 \* \* \* \* \*

20 HEARING EXAMINER: On the third page, I'll  
21 call Case No. 9827.

22 MR. STOVALL: Application of Exxon  
23 Corporation for special casinghead gas allowable, Lea  
24 County, New Mexico.

25 Applicant requests this case be dismissed.

## 1 CERTIFICATE OF REPORTER

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

6 I, Deborah O'Bine, 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 WITNESS MY HAND AND SEAL February 21, 1989.

18 *Deborah O'Bine*

19 DEBORAH O'BINE  
20 CSR No. 127

21 My commission expires: August 10, 1990  
22

23 I do hereby certify that the foregoing is  
24 a true and accurate record of the proceedings in  
25 the business hearing of Case No. 9878,  
heard by me on 21 February 1990.

*Michael J. Blaney*  
Examiner  
Oil Conservation Division

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

CASE 9878

EXAMINER HEARING

IN THE MATTER OF:

Application of Chevron USA, Inc., for a  
nonstandard gas proration unit and simultaneous  
dedication, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

April 4, 1990

**ORIGINAL**



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

FOR CHEVRON:

CAMPBELL & BLACK, P.A.  
Attorneys at Law  
By: WILLIAM F. CARR  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico  
87504-2208

\* \* \*

## I N D E X

	Page Number
Appearances	2
Proceedings	3
Certificate of Reporter	5

\* \* \*

1           WHEREUPON, the following proceedings were had  
2     at 3:07 p.m.:

3           EXAMINER CATANACH: At this time we'll call  
4     Case 9878.

5           MR. STOVALL: Let's see, that's the  
6     Application of Chevron USA, Inc., for a nonstandard gas  
7     proration unit and simultaneous dedication, Lea County,  
8     New Mexico.

9           EXAMINER CATANACH: Appearances in this case?

10          MR. CARR: May it please the Examiner, my  
11     name is William F. Carr with the law firm Campbell and  
12     Black, P.A., of Santa Fe. I represent Chevron.

13                 The case was heard a month ago and continued  
14     to permit Doyle Hartman, the operator of an offsetting  
15     tract, to conclude a purchase of some interest that  
16     would, if he was able to close the sale, satisfy  
17     certain objections he was raising at that time.

18                 Mr. Hartman has advised me and the Division  
19     that the sale has closed and that he no longer objects  
20     to Chevron's Application.

21                 So we request that the case be taken under  
22     advisement and an order entered.

23           EXAMINER CATANACH: All right. There being  
24     nothing further in this case, Case 9878 will be taken  
25     under advisement.

1 (Thereupon, these proceedings were concluded  
2 at 3:09 p.m.)  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13

14 I do hereby certify that the foregoing is  
15 a complete record of the proceedings in  
16 the Examiner hearing of Case No. 9878,  
heard by me on April 4 1990.

17 David R. Catamich, Examiner  
18 Oil Conservation Division  
19  
20  
21  
22  
23  
24  
25

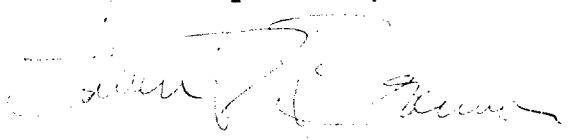
## 1 CERTIFICATE OF REPORTER

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

5  
6 I, Steven T. Brenner, 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 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 April 19, 1990.

17   
18 STEVEN T. BRENNER  
19 CSR No. 106

20 My commission expires: October 14, 1990  
21  
22  
23  
24  
25

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 9878

EXAMINER HEARING

IN THE MATTER OF:

Application of Chevron USA, Inc., for a  
Nonstandard Gas Proration Unit and Simultaneous  
Dedication, Lea County, New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

March 7, 1990

**ORIGINAL**

CUMBRE COURT REPORTING  
(505) 984-2244

## 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, New Mexico 87504

FOR DOYLE HARTMAN:

J. E. GALLEGOS, ESQ.  
300 Paseo de Peralta, #100  
Santa Fe, New Mexico 87501

## I N D E X

## Page Number

## Appearances

2

## ALAN BOHLING

Examination by Mr. Carr	10
Examination by Mr. Gallegos	20
Examination by Examiner Catanach	28

## DANIEL NUTTER

Examination by Mr. Gallegos	30
Examination by Mr. Carr	34

Certificate of Reporter	37
-------------------------	----

## E X H I B I T S

## CHEVRON'S EXHIBITS:

Exhibit 1	12
Exhibit 2	12
Exhibit 3	12
Exhibit 4	15
Exhibit 5	17
Exhibit 6	19

## DOYLE HARTMAN EXHIBITS:

Exhibit A	35
-----------	----

1 EXAMINER CATANACH: At this time we'll call  
2 Case 9878.

3 MR. STOVALL: Application of Chevron USA,  
4 Inc., for a nonstandard gas proration unit and  
5 simultaneous dedication, Lea County, New Mexico.

6 EXAMINER CATANACH: Are there appearances  
7 in this case?

8 MR. CARR: May it please the Examiner, my  
9 name is William F. Carr with the law firm Campbell &  
10 Black, P.A., of Santa Fe. We represent Chevron USA,  
11 Inc., and I have one witness.

12 MR. GALLEGOS: I'm J. E. Gallegos, Santa  
13 Fe, New Mexico, attorney for Doyle Hartman, and we  
14 will have one witness.

15 EXAMINER CATANACH: Can I get the witnesses  
16 to please stand and be sworn in.

17 (Thereupon, the witnesses were sworn.)

18 MR. GALLEGOS: We have asked the Division  
19 for a continuance of this case until the March 21st  
20 docket, Mr. Examiner, and we would like to renew that  
21 motion based on what we stated in our letter. I won't  
22 take time on the record, but there are really three  
23 other related applications now pending. Those are  
24 Cases 9884, 9885 and recently filed 9898, that all  
25 involve the same areas and the same issues, and we



1 suggest it would be more orderly if they were all  
2 heard on that March 21st docket.

3 Another reason for urging such continuance  
4 is that because of negotiations that are at this point  
5 progressing satisfactorily between OXY and Doyle  
6 Hartman, if those negotiations come to fruition with  
7 the acquisition that's contemplated, then there will  
8 be no opposition, and I think the task will be easy  
9 for the Division come March 21st.

10 EXAMINER CATANACH: Mr. Carr? Would you  
11 like to respond?

12 MR. CARR: As I'm sure you're aware, this  
13 case was originally filed by Chevron early in January  
14 seeking administrative approval of this particular  
15 nonstandard Eumont unit and simultaneous dedication.

16 At the time we filed for administrative  
17 approval, we sought waivers from offsetting operators  
18 including Mr. Hartman, and received a conditional  
19 waiver. The condition was not acceptable, so the  
20 matter was set for hearing.

21 It was continued once and because of  
22 negotiations between the parties--and Mr. Gallegos is  
23 right, there are a number of other cases that relate  
24 to this particular matter--but because of negotiations  
25 between the parties and what appears to be and I have

1 no reason to doubt an acquisition by Mr. Hartman of  
2 other interests in the area, Mr. Hartman withdrew his  
3 objection.

4           We responded by requesting, last week, that  
5 since at that point in time we had waivers from all  
6 offsetting operators, we requested administrative  
7 approval of the application. We were advised on  
8 Monday that we would have to go to hearing and because  
9 of Mr. Hartman's concern that something might slip in  
10 this--although I don't think anyone here would suggest  
11 we foresee anything like that happening--Mr. Hartman  
12 temporarily reasserted his objection. I learned about  
13 that yesterday afternoon after Mr. Alan Bohling was  
14 here already and was prepared to go forward with the  
15 hearing.

16           We request that the case not be continued,  
17 that we be permitted to put on testimony at this  
18 time. I want it understood and I want it on the  
19 record that Chevron isn't trying to jump out ahead of  
20 Mr. Hartman in this regard. If the application could  
21 have been approved administratively, it would have  
22 been agreeable to us to let the matter simply sit in  
23 that posture, and we anticipate in the next couple of  
24 weeks the arrangement between OXY and Hartman will be  
25 concluded and then it could be approved.

1           We were advised by the Division, however,  
2   that due to the fact there had been objections from  
3   certain royalty owners in the area, that it would be  
4   adviseable to bring the matter on to hearing. Since  
5   we're here, we would like to do that and get it out of  
6   the way. We are certainly agreeable to no order being  
7   entered on this matter until the 21st or an earlier  
8   date when you're advised by Mr. Hartman that he's  
9   concluded his sale with OXY. Since we're here and  
10   ready to go forward, we would like to be in a  
11   position, once Mr. Hartman concludes his deal, for an  
12   order to be entered on this case.

13           MR. STOVALL: Mr. Examiner, I've read Mr.  
14   Gallegos' letter regarding this matter, and it  
15   appears, as counsel have said, that the basis for  
16   their objection here is that OXY, I believe, several  
17   parties in here--and if I get the names wrong, please  
18   excuse me, the letters will reflect the accurate  
19   names--OXY's application in Case 9884 will probably be  
20   dismissed if the Hartman deal is concluded that they  
21   referred to?

22           MR. CARR: No, it will be dismissed.

23           MR. STOVALL: It will be dismissed, but  
24   that OXY does not wish to dismiss that application at  
25   this time until the deal is actually closed. Is that

1 a correct understanding?

2 MR. CARR: I guess it sits almost in the  
3 posture of Mr. Hartman's application on the docket. I  
4 can speak for OXY and tell you that I'm unaware--and  
5 have talked to the parties--of anything that will  
6 preclude closing. As soon as that happens they're  
7 prepared to have me write you and dismiss the case.

8 MR. STOVALL: I understand that, and I  
9 think it makes practical sense to keep the  
10 applications pending until the check is given and the  
11 deeds are signed, so to speak. And I understand also  
12 that, in effect, what Mr. Hartman is trying to do in  
13 this case is preserve his options as well just in case  
14 the absolutely unforeseen should occur.

15 I will also state for the record that with  
16 regard to Chevron converting this back to an  
17 administrative application, I would advise the  
18 Division even if there were not the objections from  
19 the royalty owners, that once it had been moved to the  
20 hearing docket, in order to become administrative you  
21 would have to refile and renotify people that it was,  
22 once again, an administrative application; and  
23 therefore I would have recommended, in any event, that  
24 this case go forward for hearing.

25 It appears to me and I think Mr. Carr makes

1 sense, that since he has his witness in town that  
2 there's no reason why he shouldn't be allowed to put  
3 on his case and then we can keep the record open and  
4 continue the case to the 21st docket.

5 Mr. Gallegos, I understand you have a  
6 witness who hopefully is prepared to testify today,  
7 but should something happen between now and the 21st,  
8 if the case is open and recalled at that time, you  
9 certainly would have the opportunity then, if  
10 necessary, and I assume you both know the thing had  
11 fallen apart and you would have to come back in if you  
12 needed to.

13 So I would recommend, Mr. Examiner, that we  
14 proceed with the hearing today and allow Chevron to  
15 put on their case and Mr. Hartman to put on any  
16 opposition that he might have, and then continue the  
17 case until the 21st.

18 MR. CARR: I'll tell you, we have no  
19 objection to letting the record stay open, because we,  
20 frankly, believe this will all be moot within two  
21 weeks. Since we have to go to hearing and we're here,  
22 we'd prefer to do that than have to come back from  
23 Hobbs two weeks from now and put on, in essence, the  
24 very same information.

25 EXAMINER CATANACH: Okay. Why don't we go

1 ahead and do that. We'll hear the case today and  
2 we'll, in fact, continue the case until the 21st.

3 MR. CARR: And at that time Mr. Gallegos  
4 and I feel confident we'll be able to advise you that  
5 on the record you can take it under advisement.  
6 Okay?

7 EXAMINER CATANACH: Very good. You may  
8 proceed, Mr. Carr.

9 ALAN BOHLING

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

12 EXAMINATION

13 BY MR. CARR:

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

16 A. Alan Ward Bohling.

17 Q. Mr. Bohling, where do you reside?

18 A. I reside in Hobbs, New Mexico.

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

21 A. I'm employed by Chevron USA, and I'm a  
22 petroleum engineer assigned to the special projects  
23 group.

24 Q. Have you previously testified before this  
25 Division?

1           A.       Yes, sir, I have.

2           Q.       Were your credentials as a petroleum  
3 engineer accepted and made a matter of record at that  
4 time?

5           A.       Yes, sir, they were.

6           Q.       Are you familiar with the application filed  
7 in this case on behalf of Chevron?

8           A.       Yes, I am.

9           Q.       Are you familiar with the subject  
10 nonstandard 160-acre Eumont proration unit and the  
11 wells that are to be simultaneously dedicated thereon?

12          A.       Yes, I am.

13                 MR. CARR: Are the witness's qualifications  
14 acceptable?

15                 EXAMINER CATANACH: They are.

16          Q.       Mr. Bohling, will you briefly state what  
17 Chevron seeks in this matter?

18          A.       Chevron is here today seeking approval for  
19 a nonstandard gas proration unit in the Eumont gas  
20 pool of 160 acres and to simultaneously dedicate that  
21 acreage to two wells, our Bertie Whitmire Well #1 and  
22 our Bertie Whitmire Well #2.

23                 This 160 acres will include the west half  
24 of the northeast quarter, the southeast quarter of the  
25 northeast quarter, and the southeast quarter of the

1 northwest quarter of Section 8, Township 20 South,  
2 Range 37 East, Lea County, New Mexico.

3 Q. What are the spacing requirements for the  
4 Eumont gas pool?

5 A. Currently they're 640-acre spacing units.  
6 The allowable factor for a full allowable is based on  
7 160 acres.

8 Q. Would you identify what has been marked as  
9 Chevron Exhibit 1, please?

10 A. Exhibit No. 1 is our administrative  
11 application dated January 3, 1990, for this  
12 nonstandard gas proration unit in the Eumont gas pool  
13 and simultaneous dedication of acreage to our Bertie  
14 Whitmire Wells #1 and #2.

15 As indicated by attachments to this  
16 application, a copy of this application was sent to  
17 each offset operator by certified mail, along with  
18 requests for waivers to objection. Also attached to  
19 this exhibit are copies of the return receipt mail  
20 cards.

21 Q. Would you identify Exhibit No. 2, please.

22 A. Except for Doyle Hartman's waiver, Exhibit  
23 No. 2 contains copies of all signed waivers to  
24 objection received from the offset operators.

25 Q. Let's go to Exhibit 3. I would ask you to



1 identify that, please.

2 A. Exhibit No. 3 is a plat which illustrates  
3 the 160-acre nonstandard proration unit we are seeking  
4 approval for today. It is highlighted in yellow.  
5 Highlighted in pink are the two wells, the Bertie  
6 Whitmire Well #1 and the Bertie Whitmire Well #2,  
7 which we propose to dedicate to this 160 acres. Also  
8 shown on this plat are the offset operators.

9 As indicated by the title of this plat, it  
10 also shows the structure through the area as mapped  
11 off the top of the Queen formation. This structure is  
12 gradual and uniform throughout the area and  
13 encompasses the entire 160 acres we're proposing here  
14 today.

15 Q. Would you just briefly review for Mr.  
16 Catanach the history of the development of the Bertie  
17 Whitmire lease?

18 A. The Bertie Whitmire Well #2 was originally  
19 completed in the Monument oil pool in January of  
20 1937. It was later dually completed with the Eumont  
21 gas pool under Order DC-251 effective January 1956.  
22 Initially the #2 had 160 acres assigned to it in the  
23 Eumont gas pool as indicated in yellow on this plat,  
24 by NSP Order 240 which was granted March 3, 1956.

25 This NSP 240 was later increased to 200

1 acres to include what is now OXY's 40 acres in the  
2 northeast quarter, northeast quarter of Section 8, and  
3 that was granted in August of 1956 by Order R-858.

4 Our Well #2, which had the dedicated Eumont  
5 acreage to it, ceased to produce in February of 1985.  
6 We essentially started producing an excessive amount  
7 of water and it became uneconomical to continue  
8 producing that well at that time.

9 Q. What did you do to return that well to  
10 production?

11 A. We thought maybe we had a casing leak that  
12 might have been contributing the water and killing the  
13 well, so we tested the casing and found it to be  
14 compatible, in good condition, and we could not swab  
15 the well back into production to get it to flow from  
16 the Eumont gas zone, so we then closed the well in.

17 Q. The well has been shut in since February of  
18 85?

19 A. Yes, sir.

20 Q. What has caused Chevron to decide to  
21 attempt to return this to Eumont production?

22 A. Principally due to increased Eumont gas  
23 play and higher allowables in the Eumont pool, and  
24 better gas prices. Also, this unit has recently been  
25 excluded from a Monument Grayburg unit study area

1 which allowed us to now be able to drill a well or  
2 complete a well in the Eumont gas without fear of  
3 having to possibly contribute that wellbore to a unit,  
4 if a unit were to be formed.

5 Q. Why is the northeast of the northeast of  
6 Section 8 currently excluded from the proposed  
7 nonstandard proration unit?

8 A. In November of 1989, we approached OXY with  
9 our plans to recomplete the Bertie Whitmire Well #1  
10 and reestablish Eumont production. They elected not  
11 to participate in a new 200-acre pooled unit. That,  
12 then, caused us to make the administrative application  
13 dated January 3, 1990, to be able to continue  
14 operations on our own acreage.

15 Due to the fact that the well had not been  
16 producing since 1985, it was agreed upon between OXY  
17 and Chevron that the pooled unit and the operating  
18 agreement were no longer effective and had, indeed,  
19 terminated.

20 Q. Would you now refer to what has been marked  
21 Chevron Exhibit No. 4, identify this and review the  
22 pertinent parts for the Examiner. This is a large  
23 cross-section. Do you think--

24 A. You may want to hang it up. It might make  
25 it easier for viewing.

1 Q. Mr. Bohling, would you identify Exhibit No.  
2 4, please?

3 A. Exhibit No. 4 is a stratigraphic  
4 cross-section, which is indicated in the plat to the  
5 far right of the exhibit.

6 Q. Could you basically just explain, since the  
7 plat is really at the far right, what the line of  
8 cross-section actually is?

9 A. Okay. The line of cross-section runs from,  
10 it's an A to A' line, and it extends from ARCO's  
11 Barber Gas Com Well #1, located in Unit E of Section  
12 8, then goes to our Bertie Whitmire Well #3, extends  
13 up to Hartman's B-8 Com Well #1, and then goes to  
14 OXY's Laughlin B-5 well and down to Chevron's Bertie  
15 Whitmire Well #2, and down to Chevron's Bertie  
16 Whitmire Well #1, and ends at Bertie Whitmire Well #9.

17 Q. What are the portions of the log that  
18 you've shaded in red intended to show?

19 A. The cross-section shows perforated zones,  
20 which are currently producing or have produced from  
21 the Eumont gas zone. Those are shown in red. That  
22 shown in blue is the proposed interval that we plan to  
23 perforate in the Bertie Whitmire Well #1.

24 As indicated, these intervals are  
25 correlative, and we are attempting to complete the

1 Bertie Whitmire Well #1 similar to ARCO's very  
2 successful Barber Gas Com Well #1 which is perforated  
3 over the entire Seven Rivers formation.

4 The cross-section further illustrates that  
5 the Eumont gas section to be potentially productive  
6 throughout the proposed 160-acre nonstandard proration  
7 unit, especially in the Seven Rivers formation.

8 Q. You actually propose to perforate higher in  
9 the section than has typically been perforated in  
10 these Eumont wells?

11 A. Yes. Currently off of that cross-section  
12 there are only two wells that have perforated in the  
13 Seven Rivers formation, and that's Doyle Hartman's  
14 Britt B-8 Well #1 and ARCO's Barber Gas Com Well #1.

15 Q. Mr. Bohling, would you identify Exhibit No.  
16 5 and review this for Mr. Catanach, please?

17 A. Our Exhibit No. 5 is a map which indicates  
18 the initial production rate, the current production  
19 rate or status, and the cumulative production through  
20 1988 of several wells which surround the proposed  
21 nonstandard proration unit.

22 Q. What does this show?

23 A. Principally I conclude from this that there  
24 would appear to be undrained productive acreage around  
25 our Bertie Whitmire Well #1 in that it is an optimum

1 location.

2           Also, from our previous Exhibit No. 4,  
3 there remains potential from Seven Rivers in our  
4 Bertie Whitmire Well #2. And thus we hope to acquire  
5 at least a full 160-acre allowable from Well #1, or  
6 both wells in combination. By being able to develop  
7 our acreage in this prudent manner through utilization  
8 of existing wellbores and simultaneously dedicating  
9 our acreage, we will be preventing waste and  
10 protecting correlative rights.

11           Q.     You propose to simultaneously dedicate the  
12 #1 and the #2?

13           A.     Yes, we do.

14           Q.     Do you have immediate plans? What are your  
15 plans? Which well do you plan to attempt to return to  
16 production first?

17           A.     We initially plan to recomplete Well #1 to  
18 see what kind of Eumont gas production we can achieve  
19 out of that. If that is not, in itself, capable of  
20 making a full 160-acre allowable, then we propose to  
21 recomplete Well #2 higher in the Seven Rivers  
22 formation, hopefully to make up the entire 160-acre  
23 allowable.

24           Q.     Are both of these wells at standard  
25 locations for a 160-acre Eumont unit?

1           A.       Yes, they are.

2           Q.       If simultaneous dedication is approved, how  
3 do you recommend the allowable be allocated between  
4 the wells?

5           A.       We recommend that the allowable be  
6 allocated in any proportion between the two wells.

7           Q.       Is Chevron Exhibit No. 6 an affidavit and  
8 copy of notice letters providing notice of the hearing  
9 in this matter?

10          A.       Yes, it is.

11          Q.       In your opinion, Mr. Bohling, will granting  
12 this application be in the best interest of  
13 conservation, the prevention of waste and the  
14 protection of correlative rights?

15          A.       Yes, it will.

16          Q.       Were Exhibits 1 through 6 either prepared  
17 by you or compiled under your direction and  
18 supervision?

19          A.       Yes, they were.

20                 MR. CARR: At this time, Mr. Catanach, we  
21 move the admission of Chevron Exhibits 1 through 6.

22                 MR. GALLEGOS: No objection.

23                 EXAMINER CATANACH: Exhibits 1 through 6  
24 will be admitted as evidence.

25                 MR. CARR: That concludes my direct

1 examination of Mr. Bohling.

2 EXAMINATION

3 BY MR. GALLEGOS:

4 Q. Mr. Bohling, for purposes of my question,  
5 it would probably help if we look at Exhibit No. 3,  
6 your structure map that outlines in yellow the  
7 proposed proration unit?

8 A. Yes, sir.

9 Q. Now historically, going back to, I think  
10 you said 1956, there was a proration unit established  
11 that would have included the land in yellow and also  
12 included the northeast of the northeast of Section 8,  
13 correct?

14 A. Yes. Order, I believe I said, R-858,  
15 granted a 200-acre proration unit and dedication to  
16 the Bertie Whitmire Well #2.

17 Q. So that proration unit established by that  
18 order in 1956 was for 200 acres as opposed to your  
19 present 160-acre application?

20 A. That is correct.

21 Q. In your opinion, was the old 200-acre  
22 proration unit a proper proration unit in terms of the  
23 efficient withdrawal of the reserves from under that  
24 200 acres?

25 A. Yes, I would say it was.



1           Q.       All right. So you would agree that the 200  
2 acres was contributing reserves for the withdrawal  
3 from the wells that were drilled on the old proration  
4 unit?

5           A.       Yes.

6           Q.       Now, in 1985, do we understand that all gas  
7 production ceased from the existing 200-acre proration  
8 unit?

9           A.       From the Eumont gas zone, yes.

10          Q.       Was there any other gas production in  
11 question?

12          A.       Not related to the 200-acre proration unit.

13          Q.       That was my question. All right. So that  
14 would mean, to your understanding, that it was no  
15 longer dedicated acreage?

16          A.       Yes.

17          Q.       Over that period of time, then, that is  
18 1985 to the present, what, in your opinion, have been  
19 the circumstances concerning the withdrawal of  
20 reserves from under the old 200-acre unit? Has that  
21 or has that not been occurring?

22          A.       From the Eumont gas zone it probably has  
23 not been occurring.

24          Q.       What do you base that on?

25          A.       Principally just due to the fact that our

1 Well #2 ceased producing and was not produced.

2 Q. All right. And you're satisfied that those  
3 reserves have not been withdrawn from offsetting wells  
4 during the time period that I asked you about?

5 A. Well, I've not personally done any drainage  
6 calculations on all the wells that surrounded that 200  
7 acres. However, based on the fact that they were  
8 allocated through proration and based on recent  
9 production completions, I would say that there still  
10 remains reserves that have not been drained from that  
11 200 acres.

12 Q. So the plan of Chevron is to now come in  
13 and, on the 160 acres, first utilize the wellbore from  
14 the #1, which was an oil well, and complete that as a  
15 Eumont gas well?

16 A. Yes. That well is a shut-in unit Monument  
17 oil well, and the best I can determine from our well  
18 file, which is somewhat incomplete, it was shut in  
19 sometime after 1974.

20 Q. And it may be oversimplification to say so,  
21 but you will use that wellbore and perforate in these  
22 Eumont gas intervals?

23 A. Yes.

24 Q. And it's going to be, as you've  
25 demonstrated in Exhibit 4, a much more extensive

1 perforation of formations than has been the practice  
2 in that area?

3 A. Yes. Our initial intent is to perforate  
4 the Penrose to see what it can yield, and based upon  
5 that, then, move up hole to the Seven Rivers and  
6 perforate there.

7 Q. All of that is part of the initial  
8 completion procedure?

9 A. Yes.

10 Q. You didn't mean perforate the Penrose and  
11 produce, and then--

12 A. No.

13 Q. You would simply test and--

14 A. Test and see what it gives us, and then  
15 proceed from there.

16 Q. What are your expectations?

17 A. Hopefully that it will make a 160-acre  
18 allowable, which right now would be--

19 Q. How much?

20 A. Approximately, I believe it's 643 Mcf a day  
21 due to the recent increase in the Eumont gas pool  
22 allowable.

23 Q. Historically, for the years 1985 to the  
24 present, disregarding the recent increase, what would  
25 you say the average allowable had been for a factor of

1 one?

2 A. I believe that would be approximately 288  
3 to 300 Mcf a day. That would be based pretty much on  
4 December's proration schedule.

5 Q. All right. And this higher allowable is,  
6 would you say, the principal reason that Chevron is  
7 now motivated to take the action that it's proposing  
8 here?

9 A. Well, that plus we would like--we see that  
10 there still remains potential recovery of Eumont gas  
11 from our 160 acres, and we don't want to just leave it  
12 there. We want to go after it. Even under the old  
13 allowable, it would be economic to do what we're  
14 doing.

15 Q. Are you saying that the converse of that is  
16 that if Chevron does not take that action, then it  
17 anticipates that it would suffer drainage of those  
18 reserves from offsetting development?

19 A. That is a possibility, yes.

20 Q. You mentioned something about increased gas  
21 play in the Eumont. Would you explain what you had in  
22 mind?

23 A. Oh, I have just, in performing my job with  
24 Chevron, have just recently seen several applications  
25 for various nonstandard proration units and

1 nonstandard locations. There's a lot of fluctuation  
2 going on in both the Eumont and Jalmat gas pools as a  
3 result of current gas supply and demand. And based on  
4 that, Chevron wants to be a part of that.

5 Q. So doesn't it follow, Mr. Bohling, that the  
6 steps you are taking are going to cause some  
7 withdrawal of reserves from under that northeast of  
8 the northeast of 8 that used to be in the proration  
9 unit dedicated to these wells?

10 A. Well, as I previously stated, I have not  
11 performed any drainage calculations on the wells in  
12 the area, and based on that I couldn't answer that we  
13 would be draining.

14 Q. So you don't have an opinion that you will  
15 or you will not?

16 A. Right.

17 Q. What about the Bertie #9? It wasn't shown  
18 on your stratigraphic cross-section. Wasn't there  
19 another well-known as the Bertie #9 on the proration  
20 unit? Oh, it is on the cross-section. I'm sorry, it  
21 is.

22 A. It's the last one on the right.

23 Q. What are the facts concerning that well?

24 A. That is currently an active Eunice Monument  
25 oil well. I do not know at this time what it's

1 producing, but we show it to be an active Eunice  
2 Monument oil well.

3 Q. Would you consider it as a potential for  
4 recompletion in the same manner as the #1?

5 A. It has that potential, yes.

6 Q. And right now the plan is to see what the  
7 recompleted #1 will do, or is it part of your overall  
8 plan that you will proceed with recompletion of the #2  
9 so that you will have two productive Eumont gas wells  
10 on the 160-acre unit?

11 A. Well, if we complete Well #1 and it proves  
12 to meet a 160-acre top allowable, then we would  
13 obviously proceed with producing that well prior to  
14 going to Well #2.

15 Q. Would you still go to Well #2?

16 A. Once that declines down, yes, that still  
17 remains.

18 Q. I'm curious as to why you request a  
19 simultaneous dedication of two wells at this time. I  
20 think I understand you say Chevron's plans and  
21 expectations are that the recompletion of the #1 would  
22 result in enough gas to produce the allowable?

23 A. That is our hope. However, if it is not,  
24 then we still want to be able to go into #2 to make up  
25 the difference.

1           Q.       Do you have an opinion as to whether or not  
2 the #2, if drilled and it became an active Eumont gas  
3 well, would hold out the potential or a greater  
4 potential for drainage of the northeast to the  
5 northeast than the #1?

6           A.       As I stated before, I can't make any  
7 opinions on that because I do not know. I have not  
8 performed drainage calculations in that area.

9           Q.       All right. Well, for what Chevron is  
10 seeking for the time being, if the Division approved  
11 the proration unit but dedication only to the #1, that  
12 would meet Chevron's present needs, would it not?

13          A.       If Well #1 proves to be able to produce the  
14 top 160-acre allowable, yes.

15          Q.       Well, if it does not, then, you certainly  
16 could come back before the Commission for a request  
17 for a dedication of an additional well. That is your  
18 understanding, is it not?

19          A.       We could. However, it's kind of like  
20 killing two birds with one stone right now. That  
21 could delay operations considerably and I do not know  
22 what #1 is proposed to yield as a result of  
23 recompleting in that well, and I would hate to think  
24 we would have to come back and do this all over again  
25 just to be able to do more activity in Well #2.

1           Q.       How is ARCO's Barber Gas Com #1 doing as  
2 far as producing allowable?

3           A.       It has an acreage factor of two assigned to  
4 it, 320 acres, and based on February's proration  
5 schedule, I do not know. It is in an overproduced  
6 status, so it may be having its sales curtailed and  
7 production curtailed, but it only produced 9,000,  
8 whereas its allowable for February is 36,000.

9           Q.       Well, it's overproduced; that tells you  
10 that in some past period it was certainly producing  
11 its allowable and then some, is that right?

12          A.       Yes. It's definitely a capable well.

13                   MR. GALLEGOS: Thank you, Mr. Bohling. I  
14 have no further questions.

15                               EXAMINATION

16 BY EXAMINER CATANACH:

17          Q.       Mr. Bohling, is it my understanding that  
18 when Chevron decided to reenter the Well #1 and #2,  
19 they approached OXY and tried to get them to  
20 participate in the proration unit?

21          A.       Yes. We approached them with an AFE to  
22 participate in recompleting our Well #1, and gave them  
23 the option of either participating in that well and  
24 forming a new 200-acre unit or withdrawing and not  
25 participating in the 200-acre unit.



1 Q. And they chose not to participate?

2 A. That is correct.

3 Q. Do you know what the intention of OXY, what  
4 they're going to do with the northeast quarter?

5 MR. CARR: I can speak to that as their  
6 attorney. They have an agreement to sell it to Mr.  
7 Hartman, if that agreement closes. And the letters  
8 concerning the communications between Chevron and OXY  
9 are contained in Exhibit 1.

10 EXAMINER CATANACH: For the record, I would  
11 like to state that we have received several letters  
12 from royalty interest owners underlying the northeast  
13 quarter, northeast quarter, objecting to Chevron's  
14 proposal inasmuch as they would not be included in  
15 their proposed proration units.

16 Q. Mr. Bowling, is it your opinion that these  
17 interest owners will, in fact, be protected if they're  
18 in another proration unit?

19 A. Yes.

20 Q. Mr. Bohling, is it your opinion that the  
21 Well #1 and maybe both Well #1 and #2 can drain  
22 efficiently and effectively the 160-acre unit as  
23 proposed?

24 A. That would be my opinion at this time,  
25 yes.

1 EXAMINER CATANACH: I have no further  
2 questions of this witness. You may be excused.

3 MR. GALLEGOS: We would like to call Daniel  
4 Nutter. You didn't have anything further?

5 MR. CARR: Nothing further.

6 DANIEL NUTTER

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

9 EXAMINATION

10 BY MR. GALLEGOS:

11 Q. Would you state your name, please.

12 A. My name is Dan Nutter.

13 Q. Where do you live?

14 A. I live in Santa Fe, New Mexico.

15 Q. What is your occupation?

16 A. I'm a consulting petroleum engineer.

17 Q. What was your occupation before you became  
18 a consulting petroleum engineer?

19 A. I was a petroleum engineer for the State of  
20 New Mexico.

21 Q. Have you previously qualified before the  
22 OCD as an expert witness on issues such as those that  
23 are being taken up in this case?

24 A. I have.

25 MR. GALLEGOS: We offer Mr. Nutter's

1 qualifications as an expert.

2 EXAMINER CATANACH: He is so qualified.

3 Q. Let me ask you kind of a sweeping question,  
4 Mr. Nutter. Are you familiar with all of the related  
5 applications, that is, Chevron's application 9878  
6 that's being heard now, and also OXY's application No.  
7 9884, and the two Hartman applications, 9885 and 9898?

8 A. I am familiar with all of those, yes.

9 Q. Can you capsulize for the Examiner the  
10 objectives of the Hartman applications?

11 A. The Hartman applications--we actually have  
12 two applications pending at this time. One is for  
13 either one of two proration units, the first being an  
14 L-shaped unit comprising the southeast quarter of the  
15 southwest quarter of Section 5, the northeast quarter  
16 of the northwest quarter of Section 8, and the north  
17 half of the northeast quarter of Section 8, as a  
18 160-acre unit; or, in the alternative, a 200-acre unit  
19 comprising the southeast quarter of the southwest  
20 quarter of Section 5, and the east half of the west  
21 half of Section 8.

22 We also have an application--now, that  
23 application that I just mentioned and described, that  
24 is Case No. 9885. Subsequent the filing of this  
25 application, Mr. Hartman has made a deal with, which

1 has not been completely consummated, he's made a deal  
2 with OXY to purchase the southeast quarter of Section  
3 5 and the northeast quarter of the northeast quarter  
4 of Section 8, and he filed another application for a  
5 280-acre unit which is described as the southeast  
6 quarter of Section 5, the southeast quarter of the  
7 southwest quarter of Section 5, the northeast quarter  
8 of the northeast quarter of Section 8, and the  
9 northeast quarter of the northwest quarter of Section  
10 8. This would be a 280-acre unit.

11 He would propose to dedicate that to the  
12 Britt B-8 Well #1 which is located in the  
13 northeast/northwest of 8, to the Laughlin well,  
14 presently the OXY Laughlin well, which is in the  
15 southwest quarter of the southeast quarter of Section  
16 5, and to a third well, an in-fill well, which would  
17 be drilled somewhere in the approximate center of the  
18 southeast quarter of Section 5.

19 Now, you asked me what was the purpose of  
20 the applications. The purpose of the applications is  
21 to provide Mr. Hartman with a means by which he could  
22 dedicate lands that he presently owns or which he  
23 intends to own under arrangements that have been made  
24 with other companies.

25 Q. On your Exhibit 8, is the northeast of the

1 northeast of Section 8 shown in cross-hatching?

2 A. Yes, sir, that is the 40-acre tract that  
3 was formerly dedicated to the Chevron proposed unit  
4 but which has been left out of the current Chevron  
5 proposed unit.

6 Q. As matters stand today, that 40 acres is an  
7 undedicated tract?

8 A. That has been undedicated since  
9 approximately 1985. That is correct.

10 Q. And is it the concern of Doyle Hartman  
11 that, in effect, with the action of Chevron, that can  
12 become a stranded 40-acre tract?

13 A. That could easily become a stranded 40-acre  
14 tract because of that. At present, the proration unit  
15 in the southeast quarter of Section 5, which OXY owns,  
16 does not include the 40-acre tract in the  
17 northeast/northeast of Section 8.

18 Q. In your opinion, do the economics, which I  
19 guess include the size of the allowables, justify the  
20 development of that 40 acres for dedication to a well  
21 in and of itself?

22 A. For only a 40-acre allowable?

23 Q. Yes.

24 A. No, I doubt very seriously if that would be  
25 economic to develop a 40-acre tract with another well.

1 Q. Do you, in your opinion, believe that  
2 there's any problem or defect in Chevron's application  
3 in regard to the requisite standards of the avoidance  
4 of waste and protection of correlative rights, given  
5 the circumstances of that 40 acres?

6 A. There would be if that 40 remained  
7 isolated. If the deal which Hartman presently has  
8 with OXY is finally consummated and that 40 can be  
9 tied to the southeast quarter of Section 5 in a  
10 proration unit and to possible other acreage as well,  
11 as in our application which has been designated Case  
12 9898 and advertised for March the 21st, that 40 would  
13 be taken care of without having to drill a well on the  
14 40.

15 MR. GALLEGOS: I pass the witness.

16 MR. CARR: Just a couple of questions.

17 EXAMINATION

18 BY MR. CARR:

19 Q. If I understand your testimony, Mr. Nutter,  
20 if Hartman's application in 9898 is granted, that 40  
21 would not be stranded?

22 A. No, that 40 would be dedicated to--that  
23 would be part of the 280-acre unit which we proposed.

24 Q. If the application of Hartman in 9895 which  
25 created sort of an L-shaped unit that ran across the

1 top of Section 8 and extended into the southeast of  
2 the southwest of 5, if that alternative should come to  
3 pass, which I'm not suggesting is particularly likely,  
4 that would have also relieved that?

5 A. That would have dedicated that 40, yes.

6 Q. If OXY had not sold but gone forward with  
7 Case 9884 and dedicated the southeast quarter of 5 and  
8 the northeast/northeast of 8, that would have also  
9 prevented that?

10 A. That would have protected that 40.

11 Q. And if the sale closes, as everyone here  
12 suspects, you don't really anticipate that that  
13 40-acre tract, the northeast of the northeast, is  
14 going to remain stranded?

15 A. I'm hopeful that that 40 will become  
16 dedicated, but as a precaution we're here today to try  
17 to protect that 40-acre tract.

18 MR. CARR: I have nothing further.

19 MR. GALLEGOS: Move the admission of  
20 Exhibit A.

21 EXAMINER CATANACH: Exhibit A will be  
22 admitted as evidence in this case. I have no question  
23 of this witness. Is there anything further in this  
24 case at this time?

25 MR. CARR: Not at this time.

1 MR. GALLEGOS: Not at this time.

2 EXAMINER CATANACH: If not, Case 9878 will  
3 be continued to the March 21, 1990, docket.

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25



## 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.

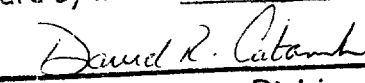
I FURTHER CERTIFY that I am not a relative  
or employee of any of the parties or attorneys  
involved in this matter and that I have no personal  
interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL March 15, 1990.

  
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's hearing of Case No. 9878,  
heard by me on March 7 1990.

, Examiner  
Oil Conservation Division

CUMBRE COURT REPORTING  
(505) 984-2244

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

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

CASE 9978

EXAMINER HEARING

IN THE MATTER OF:

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

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1990

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

FOR THE APPLICANT:

PADILLA & SNYDER  
Attorneys at Law  
By: ERNEST L. PADILLA  
200 West Marcy, Suite 216  
P.O. Box 2523  
Santa Fe, New Mexico 87504-2523

FOR EXPLORERS PETROLEUM CORPORATION; SPIRAL, INC.;  
HEYCO EMPLOYEES, LTD.; AND W.T. WYNN:

CAMPBELL & BLACK, P.A.  
Attorneys at Law  
By: WILLIAM F. CARR  
Suite 1 - 110 N. Guadalupe  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208

\* \* \*

## I N D E X

## Page Number

Appearances	2
Exhibits	3
SHARON R. HAMILTON	
Direct Examination by Mr. Padilla	6
Examination by Examiner Catanach	16
BILL D. BAKER, JR.	
Direct Examination by Mr. Padilla	18
Cross-Examination by Mr. Carr	27
Examination by Examiner Catanach	30
Further Examination by Mr. Carr	33
Further Examination by Mr. Padilla	33
Further Examination by Mr. Carr	35
Certificate of Reporter	36

\* \* \*

## E X H I B I T S

## APPLICANT'S EXHIBITS:

Exhibit 1	7
Exhibit 2	23
Exhibit 3	16
Exhibit 4	8
Exhibit 5	11
Exhibit 6	13
Exhibit 7	13
Exhibit 8	14

\* \* \*

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

3           EXAMINER CATANACH: Call the hearing back to  
4   order, and at this time we'll Case 9978, the  
5   Application of Yates Energy Corporation for Compulsory  
6   Pooling, Eddy County, New Mexico.

7           Are there appearances in this case?

8           MR. PADILLA: Mr. Examiner, Ernest L.  
9   Padilla, Santa Fe, New Mexico, for the Applicant, Yates  
10   Energy Corporation.

11          I have two witnesses to be sworn.

12          EXAMINER CATANACH: Any other appearances?

13          MR. CARR: May it please the Examiner, my  
14   name is William F. Carr with the law firm Campbell and  
15   Black, P.A., of Santa Fe.

16          We represent Explorers Petroleum Corporation;  
17   Spiral, Inc.; Heyco Employees, Ltd.; and W.T. Wynn.

18          I do not intend to call a witness.

19          EXAMINER CATANACH: Explorers Petroleum;  
20   Spiral, Inc. --

21          MR. CARR: -- Heyco --

22          EXAMINER CATANACH: -- Heyco --

23          MR. CARR: -- Employees, Ltd.; W.T. Wynn,  
24   W-y-n-n.

25          EXAMINER CATANACH: Okay, will the witnesses

1 please stand to be sworn in?

2 (Thereupon, the witnesses were sworn.)

3 MR. PADILLA: Mr. Examiner, we'll call Sherry  
4 Hamilton at this time.

5 And before I start, I have handed you a copy  
6 of our Application, together with the notice and the  
7 list of people who were sent the notice of the  
8 Application by my office, as well as the return receipt  
9 certificates, copies of which are also attached to this  
10 sheet of paper.

11 I also intend to call -- or use Exhibits that  
12 we have marked 3 through 8 first since they're the land  
13 exhibits, and then take Exhibits 1 and 2 last, through  
14 -- and introduce those through our geologist.

15 SHARON R. HAMILTON,  
16 the witness herein, after having been first duly sworn  
17 upon her oath, was examined and testified as follows:

18 EXAMINATION

19 BY MR. PADILLA:

20 Q. Miss Hamilton, for the record, would you  
21 please state your name?

22 A. Sharon R. Hamilton.

23 Q. Where do you live?

24 A. Roswell, New Mexico.

25 Q. And do you work for Harvey -- I mean,

1 correction, Yates Energy Corporation?

2 A. Yes, I'm a landman for Yates Energy.

3 Q. And how long have you been a landman?

4 A. I've been with Yates Energy for a year. I've  
5 been a landman previously for about eight years.

6 Q. Have you previously testified before the Oil  
7 Conservation Division and had your credentials accepted  
8 as a matter of record as a petroleum landman?

9 A. Yes, I have.

10 Q. Are you familiar with the compulsory pooling  
11 Application and the various efforts that Yates Energy  
12 has made in order to obtain voluntary joinder for  
13 drilling of the prospective well?

14 A. Yes.

15 MR. PADILLA: We tender Miss Hamilton as a  
16 petroleum landman, Mr. Examiner.

17 EXAMINER CATANACH: She is so qualified.

18 Q. (By Mr. Padilla) Miss Hamilton, would you  
19 briefly tell us what the Application is about?

20 A. We have proposed drilling a 5000-foot San  
21 Andres test in the northeast quarter of the northwest  
22 quarter of Section 12, 18 South, 31 East.

23 Q. Okay, let's have you look at Exhibit Number 1  
24 and have you identify that for the record, please.

25 A. That is the land plat of the location,



1 indicating in yellow the northeast quarter of the  
2 northwest quarter of Section 12.

3 Q. And is that a 40-acre tract?

4 A. Yes, sir, it is.

5 Q. Do you propose to drill the well at a  
6 standard location?

7 A. Yes, within that 40 acres.

8 Q. Okay. Let me hand you what we have marked as  
9 Exhibit Number 4 and have you identify that for the  
10 record, please.

11 A. It is an ownership and participation summary  
12 for this location.

13 Q. Okay. Does that exhibit identify the  
14 interest owners who have not agreed to participate in  
15 drilling this well?

16 A. Yes, sir, it does.

17 Q. Can you please tell the Examiner where that  
18 -- where those interest owners are identified?

19 A. There is a listing of Heyco Employees, Ltd.;  
20 Explorers Petroleum Corporation; Spiral, Inc.; Chevron,  
21 USA, Inc.; and W.T. Wynn, and it shows the total of  
22 their uncommitted interest.

23 Q. And is that a little over 39 percent?

24 A. Yes, sir, it is.

25 Q. Let's go down that list of working-interest

1 owners, and tell us what efforts you have made to try  
2 and obtain their joinder.

3 A. We have submitted a drilling proposal and  
4 AFE, operating agreements. We met with some of the  
5 individuals and discussed by telephone and through  
6 letter in an attempt to acquire their response.

7 Q. Now, what relationship do these companies  
8 have, if any, to Heyco Development Corporation?

9 A. Heyco Employees, Ltd., is a limited  
10 partnership, I believe, that is an employee benefit for  
11 the employees of Harvey E. Yates Company. And Harvey  
12 E. Yates Company; Heyco Employees, Ltd.; Explorers and  
13 Spiral all have common management and office in the  
14 same location.

15 Q. Okay, what efforts have you made with regard  
16 to Chevron?

17 A. We've made numerous phone calls in an attempt  
18 to discuss with them and show them our geology.

19 Q. How about W.T. Wynn?

20 A. We've also discussed with Mr. Wynn his  
21 participation.

22 Q. Okay. Miss Hamilton, did you send a notice  
23 to all of these working-interest owners who had not  
24 committed their interests?

25 A. Yes, sir.

1 Q. How about with Heyco Employees, Ltd., at the  
2 time you made your Application?

3 A. At the time we made our Application, their  
4 interest was not reflected in title, and they were  
5 notified when title verified their ownership.

6 Q. When did you -- When did title verify their  
7 interest?

8 A. It was June 18th.

9 Q. And was that after your Application or before  
10 your Application?

11 A. It was after.

12 Q. Who runs Heyco Employees, Ltd.?

13 A. George Yates, as president of Harvey E. Yates  
14 Company, is the general partner of the limited  
15 partnership.

16 Q. How about -- Have you had any communications  
17 with any landpersons associated with Heyco or Heyco  
18 Petroleum Companies?

19 A. Yes, I've spoken both with Shari Darr and Bob  
20 Bell, who are both landmen in the Heyco organization.

21 Q. Has there been any indication to you that  
22 Heyco Employees, Ltd., has not received notice of this  
23 Application in any of the communications that you have  
24 had with anyone associated with Heyco or any of these  
25 companies controlled or operated by someone within

1 Heyco?

2 A. No.

3 Q. Let's go on to what we have marked as Exhibit  
4 Number 5, and tell us what that is, Miss Hamilton.

5 A. Exhibit 5 is the summary of the dates of the  
6 correspondence, the phone calls, and any meetings that  
7 we had with the interest owners, and it's grouped by  
8 the owners.

9 Q. Now, I've noticed that you have some  
10 handwritten information at the bottom of that. Can you  
11 tell us why you did that?

12 A. They were updated conversations that were  
13 held after the information was printed.

14 Q. Let me go back to Exhibit Number 4, and I  
15 think that you have also some handwritten information  
16 on top of that, right at the top. What does that --

17 A. It indicates that there's common ownership in  
18 the north half of Section 12 from the surface to the  
19 base of the Delaware Formation.

20 Q. And you've added that writing since --

21 A. -- this form was printed.

22 Q. Since the form was printed, okay.

23 Did you have anything further concerning  
24 Exhibit Number 5?

25 A. No, sir.

1 Q. Let me ask you one question. Why did you  
2 start communicating with Harvey E. Yates Company  
3 earlier than, say, Chevron or W.T. Wynn?

4 A. We have a special contractual agreement  
5 between Yates Energy and Harvey E. Yates Company that  
6 has a special election period that requires additional  
7 time, and we were not prepared to make a full well  
8 proposal to outside owners until we had their election  
9 period made.

10 Q. Okay. What results have you obtained from  
11 Chevron and Mr. Wynn?

12 A. They are watching a well that is being  
13 drilled as an offset to our proposal, and they aren't  
14 in a position to make a decision right now.

15 Q. What does that offset?

16 A. It is a well being drilled by Harvey E. Yates  
17 Company in the northwest quarter of the northwest  
18 quarter of Section 12, as a Bone Springs test.

19 Q. And that's to the southwest of -- Refer to  
20 Exhibit Number 1, if you would, please --

21 A. Okay.

22 Q. -- and tell the Examiner where that well is.

23 A. Our well is in the northeast of the northwest  
24 quarter.

25 Q. Okay.

1           A.    And the current well that's being drilled to  
2   the Bone Springs is in the northwest of the northwest  
3   quarter.

4           Q.    Okay.  Let's go on to Exhibit Number 6 and  
5   have you identify that for the Examiner, please.

6           A.    These are copies of all the letters that have  
7   been sent to the various working-interest owners.

8           Q.    And what do those letters constitute?

9           A.    The initial letters were to propose the well,  
10   submitting the AFE and the operating agreement and  
11   geologic information, and then there's various  
12   additional letters trying to obtain agreement with the  
13   owners.

14          Q.    So you've supplied to them -- With your  
15   proposal, you've supplied an AFE, an operating  
16   agreement and geologic information?

17          A.    Yes, we did.

18          Q.    Who -- As a result of that proposal, who has  
19   participated, other than yourselves?

20          A.    Harvey E. Yates Company has signed an AFE to  
21   participate in the well.

22          Q.    Let me refer you to what we've marked as  
23   Exhibit Number 7 and ask you if that is a copy of the  
24   AFE which you've sent to the interest owners?

25          A.    Yes, sir.

1 Q. Have you received any objection regarding the  
2 well costs as reflected in that AFE?

3 A. No, sir, we've had no comment on the AFE at  
4 all.

5 Q. In your opinion, is that a reasonable AFE for  
6 the development of the San Andres test?

7 A. Yes, sir.

8 Q. To your knowledge and information?

9 A. As to my knowledge, it is.

10 Q. Let's go on to Exhibit Number 8 now, Miss  
11 Hamilton, and please tell us what that is.

12 A. It's the Ernst and Young survey results for  
13 the 1989 overhead rate for eastern New Mexico.

14 Q. And how is that relevant to this hearing?

15 A. We used these figures to establish our  
16 overhead rates in the operating agreement we submitted.

17 Q. And what are you proposing?

18 A. We're proposing \$3200 for drilling overhead  
19 and \$320 a month overhead rates.

20 Q. For a producer well?

21 A. For a producing well, uh-huh.

22 Q. Do you have -- Does Yates Energy wish to be  
23 named the operator in an Order issued by the Oil  
24 Conservation Division?

25 A. Yes, we do.

1 Q. How does -- Let me track back slightly.

2 In your operating agreement, what kind of  
3 overhead rates do you have?

4 A. We --

5 Q. I'm sorry, you've already answered that.

6 What type of penalty factor have you used in  
7 the overhead --

8 A. There's a 300-percent nonconsent penalty.

9 Q. Okay. Miss Hamilton, would approval of the  
10 Application be in the best interests of conservation,  
11 in your opinion?

12 A. Yes, sir, in my opinion.

13 Q. Would approval of this Application be in the  
14 best interests of the correlative rights of all other  
15 interest owners?

16 A. Yes, sir.

17 MR. PADILLA: Mr. Examiner, we'll tender at  
18 this time Exhibits 3 to 8, and we'll pass the witness.

19 EXAMINER CATANACH: Exhibits 3 through 8 will  
20 be admitted as evidence.

21 Mr. Carr?

22 MR. CARR: I have no questions of the  
23 witness.

24

25



## EXAMINATION

BY EXAMINER CATANACH:

Q. Miss Hamilton, you first started attempting to negotiate a voluntary agreement in March, approximately?

A. With Harvey E. Yates Company, yes, sir.

Q. And as of today you don't have any kind of agreement from Heyco Employees, Ltd.; Explorers Petroleum; Spiral, Inc.; Chevron U.S.A. and W.T. Wynn?

A. No, sir, they've made no response.

Q. Okay. Do you have any indication of whether or not any of these parties will subsequently join, or do you know what the status of their --

A. I really don't have an opinion on that, sir.

Q. Has Yates Energy drilled similar San Andres wells in this area?

A. No, sir, we drilled a north offset, if you'll refer to Exhibit 3. We drilled a well in the southeast quarter of the southwest quarter. It was originally drilled as a Bone Springs test, but it's been completed now as a San Andres.

Q. Uh-huh.

A. But the wells drilled in this area have not been San Andres production.

Q. Now, the well that you propose to drill is a

1 San Andres test, isn't it?

2 A. Yes.

3 Q. Okay. Is -- Well, are the drilling costs  
4 that you proposed on your AFE, are those in line with  
5 other operators in this area, as far as you know?

6 A. As far as I know, but in this particular  
7 vicinity there haven't been very many San Andres wells  
8 drilled, but it is in line with costs that we've had in  
9 other areas for San Andres wells.

10 Q. Do you have a -- Do you have an operating  
11 agreement with Heyco Development Corporation?

12 A. Harvey E. Yates Company and/or their new --  
13 They've assigned their interest into Heyco Development  
14 Corporation, and they have not signed an operating  
15 agreement that we proposed for this particular well to  
16 date.

17 Q. Have -- Would Heyco be subject to the same  
18 overhead rates that you proposed for the other interest  
19 owners?

20 A. Yes, sir.

21 Q. And they've not argued those rates with --

22 A. No, they have not.

23 EXAMINER CATANACH: I have no further  
24 questions of the witness.

25 MR. PADILLA: Mr. Examiner, we'll call Bill

1 Baker at this time.

2 BILL D. BAKER, JR.,

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. PADILLA:

7 Q. Mr. Baker, would you please state your full  
8 name?

9 A. Bill D. Baker, Jr.

10 Q. Do you live in Roswell, Mr. Baker?

11 A. Yes, sir, I do.

12 Q. Do you work for the Applicant in this case?

13 A. Yes, I've been employed by Yates Energy for  
14 approximately four months.

15 Q. Where did you work before that?

16 A. For the previous nine and a half years I've  
17 worked for Texas Oil and Gas.

18 Q. Have you ever testified before, as a  
19 geologist, when you worked for Texaco Oil and Gas?

20 A. Yes, sir, I have.

21 Q. And have you previously testified before the  
22 Oil Conservation Division as a geologist?

23 A. Yes, sir, I have.

24 Q. And have your credentials as a geologist been  
25 accepted as a matter of record?

1           A.    Yes, sir, they were.

2           Q.    Have you made a study of the geology of the  
3   San Andres with regard to the proposed well?

4           A.    Yes, sir, I have.

5           MR. PADILLA:  Mr. Examiner, we tender Mr.  
6   Baker as an expert in geology.

7           EXAMINER CATANACH:  Mr. Baker is so  
8   qualified.

9           Q.    (By Mr. Padilla)  Mr. Baker, can you briefly  
10   tell us, first, what the general nature of the geology  
11   as far as the San Andres is concerned in this area?

12          A.    The San Andres in this particular area is  
13   located right out in front of the Abo Reef complex, and  
14   it's a very stratigraphic, complex series of dolomite  
15   fingered -- interfingered with Delaware sands, since  
16   we're right at the shelf edge.

17                So in drilling in this particular area,  
18   you're liable to encounter a dolomite stringer as well  
19   as a -- or, excuse, me, a Delaware sand as well as a  
20   San Andres porous finger, right at this particular  
21   shelf edge in here.

22                Now, the particular map that I have here,  
23   Exhibit Number 1, is a structure map on the top of the  
24   San Andres Formation.  And this map basically shows all  
25   the penetrations within about a five-mile area right

1 here. All the penetrations that penetrate the San  
2 Andres Formation are circled and give the structural  
3 horizon on the top of the San Andres.

4 Our proposed unit is to be located directly  
5 south of the Thornbush Federal Number 1 Well, which was  
6 originally drilled as a Bone Springs test there in  
7 Section 1.

8 This particular prospect was drilled in  
9 February and March of this year. Testing of the Bone  
10 Springs was unsuccessful, and we subsequently  
11 recompleted in the San Andres Formation for  
12 approximately 126 barrels of oil a day, 15 barrels of  
13 water, and a half a million cubic feet of gas a day.

14 Q. What are the two wells to the north that are  
15 colored in -- or to the northwest, that are colored in  
16 yellow or orange?

17 A. Yes, sir, these are both San Andres producers  
18 as well, although due to the stratigraphic nature and  
19 complexity of the area, these produce from an upper  
20 porosity lobe that I will discuss on cross-section A to  
21 A prime when we get to Exhibit 2.

22 Q. Okay. What -- In relation to the well in  
23 Section 1, what does this structure map show, as far as  
24 the proposed location is concerned?

25 A. It basically shows that the proposed location

1 will be moving in a downdip direction, which is the  
2 main risk involved in this prospect.

3 Q. Will you explain why you're not moving to the  
4 north in your later testimony?

5 A. Well, there's also risk involved in moving to  
6 the north that I will talk about a little bit later  
7 when we get to the cross-section, and that is that as  
8 you move to the north, you run a stratigraphic risk,  
9 and that is the risk of this dolomite pinching out,  
10 which I will show on cross-section A to A prime.

11 In moving directly south, we feel like we'll  
12 have the carbonate section, but then we run a  
13 structural risk here.

14 Q. Mr. Baker, you've testified that the well in  
15 Section 1 was originally a Bone Springs test. Tell us  
16 how it came -- how you came to complete in the San  
17 Andres Formation.

18 A. Well, basically when we proposed this well as  
19 a Bone Springs test, the geologist who worked this  
20 prospect up, prior to me going to work for Yates  
21 Energy, recognized that there are other, shallower  
22 productive formations in the area, namely the Queen,  
23 the Grayburg, and the San Andres production up to the  
24 north of us here.

25 Q. Where is the Queen production that's shown?

1 Does this exhibit show Queen production?

2 A. Yes, sir, it's most of these wells in Section  
3 12, 13 and 14 that are not circled. These particular  
4 wells in here are Queen and Grayburg producers.

5 Q. And have any of these wells to the west and  
6 southwest produced from the San Andres Formation?

7 A. No, sir, not that I'm aware of, no, sir.

8 Q. Mr. Baker, have you proposed to the Oil  
9 Conservation Division to establish this discovery in  
10 Section 1 as a separate reservoir?

11 A. Yes, sir, I have. We have approached the OCD  
12 in Artesia with a new oil pool discovery allowable,  
13 this well.

14 Q. And have you obtained a result from that yet?

15 A. I received a letter from them back the other  
16 day indicating that the new reservoir has been  
17 designated as a new undetermined or unclassified San  
18 Andres pool.

19 They didn't put it into the Tamano-San Andres  
20 Pool, but they are appearing like they're going to give  
21 us an allowable of 80 barrels of oil a day, is what it  
22 looks like.

23 Q. Mr. Baker, at this time can -- Do you have  
24 any idea of what the limits are as far as this new  
25 undesigned pool is concerned?

1           A.    No, sir, we don't have an exact -- We don't  
2   have enough geological information out here to know the  
3   exact limits of the pool. We have a relatively good  
4   idea to the west.

5                   As far as the north and the south and to the  
6   east, there's still too much undrilled territory out  
7   there that has not been explored yet.

8           Q.    Mr. Baker, do you have anything further  
9   concerning this Exhibit Number 1?

10          A.    No, sir.

11          Q.    Are you ready to go to the cross-section now?

12          A.    Yes, sir. Exhibit Number 2 is the cross-  
13   section A to A prime, and just for reference -- it will  
14   probably come up -- This is the cross-section that I  
15   also supplied to the OCD in Artesia to ask for our new  
16   oil pool discovery allowable.

17                   And this cross-section goes from the  
18   Thornbush Well, Thornbush Federal Well, located on the  
19   right side of the cross-section, up through a Hudson  
20   and Lowe well located on the very far left part of the  
21   cross-section.

22          Q.    The well on the right-hand side of the cross-  
23   section is the well that you recently completed?

24          A.    Yes, sir, correct, correct. This is our  
25   Thornbush Federal Well.



1           The structure map that was Exhibit Number 1  
2   is taken from the top of the San Andres, which is  
3   colored in orange, this kind of rabbit-ear effect.  
4   This is a sandstone in here, and these two little  
5   rabbit ears are porosity lobes within the top of the  
6   San Andres Formation.

7           This is a relatively good marker across the  
8   area, and that's what my structure map was derived  
9   from.

10          But as you will look at the cross-section,  
11   you will also notice that you see a very large, thick  
12   carbonate interval that is seen in our Thornbush  
13   Federal Well, and it's also seen in the next well over,  
14   which is the Harvey E. Yates, Mesquite "2"-2 Well. It  
15   is this particular porosity lobe, which I call lower  
16   porosity carbonate lobe, that is productive in our  
17   well.

18          Q.   Now, in terms of this cross-section, where  
19   would your proposed well be shown?

20          A.   Okay, it would be located just to the right  
21   of the Thorbush, slightly off my cross-section right  
22   here.

23          Q.   Immediately -- All the way to the right?

24          A.   Yes, sir, all the way to the right.

25          Q.   Okay, and what do you expect to encounter in

1 the proposed well?

2 A. We basically expect to encounter the same  
3 amount of carbonate porosity, but at a structurally  
4 lower datum.

5 Q. When you say carbonate porosity, or  
6 carbonate, you're looking at the area colored in, in  
7 purple; is that right?

8 A. Yes, sir, that is the porous carbonate  
9 greater than 12 percent.

10 Q. Okay. What happens when you move north from  
11 the proposed location?

12 A. Well, as you move north, and as you can see  
13 on cross-section A to A prime, this lower-porosity unit  
14 stratigraphically pinches out. It goes away. And you  
15 see that in the Mesquite "2"-4 here.

16 And then as you move further to the north,  
17 you run into this Hudson Lowe Well which produced from  
18 the San Andres. But if you'll notice, it's from an  
19 upper porosity lobe; it's from a different lobe that  
20 developed.

21 Now, that well did not penetrate on down  
22 where the lower lobe is located, so at this point you  
23 don't know whether the porosity actually developed up  
24 there or it's still pinched out.

25 Q. Mr. Baker, does this cross-section illustrate

1 the type of fingering that you described for the  
2 general geology in the area?

3 A. Yes, sir, it does, and it's all over the  
4 particular area in here too.

5 Q. Okay. What kind of risk is associated, from  
6 a geologic standpoint, in drilling the proposed well?

7 A. At the proposed location, the primary  
8 geologic risk will be structure.

9 Within our Thornbush Federal Well at this  
10 particular time, we have -- we suspect there might be  
11 an oil/water contact about 45 feet downdip, and we have  
12 not confirmed that, but our well is producing about  
13 eight to ten barrels of water a day.

14 So therein enters the risk. If that  
15 oil/water contact is real and you're moving downdip,  
16 how much commercial hydrocarbons will you get at the  
17 proposed location? Will it be enough to make a  
18 commercial well?

19 Q. And do you have a recommendation to the  
20 Examiner as to what the risk factor for drilling the  
21 proposed well should be?

22 A. Well, due to the fact that it's extremely  
23 risky moving downdip, we'd ask for the maximum.

24 Q. And that's well cost plus 200 percent?

25 A. Plus 200 percent, yes, sir.

1 Q. Do you have anything further concerning this  
2 cross-section, Mr. --

3 A. No, sir.

4 Q. -- Baker?

5 And in your opinion would approval of the  
6 Application be in the best interests of the  
7 conservation of oil and gas?

8 A. Yes, sir, I believe so.

9 Q. Protection of correlative rights?

10 A. Yes sir.

11 MR. PADILLA: Mr. Examiner, we offer Exhibits  
12 1 and 2 and pass the witness for cross.

13 EXAMINER CATANACH: Exhibits 1 and 2 will be  
14 admitted as evidence.

15 CROSS-EXAMINATION

16 BY MR. CARR:

17 Q. Mr. Baker, if we look at your Exhibit Number  
18 1, was this prepared from well-control information?

19 A. Yes, sir.

20 Q. You didn't have seismic or anything like that  
21 to integrate into this?

22 A. No, sir. I could expound a little on that.  
23 Chevron has shot some lines out here, and they have  
24 done some seismic work out in here. We have access to  
25 those lines but they have not been worked by Yates

1 Energy.

2 Q. And so they weren't incorporated --

3 A. No.

4 Q. -- in this interpretation?

5 A. Not at all.

6 Q. I believe you testified the primary risk in  
7 drilling this well is structural risk?

8 A. Yes, sir, it appears that way.

9 Q. What is the status of the well that's  
10 currently drilling in the northwest of the northwest of  
11 12?

12 A. They --

13 Q. Is it drilling at this time?

14 A. Yes, sir, it is.

15 Q. Isn't it possible that you would be able to  
16 obtain information from that well that would bear on  
17 how much risk you're assuming in drilling at the  
18 proposed location?

19 A. Yes, sir, it will -- It will give us some  
20 information.

21 Q. When do you propose to actually spud the  
22 proposed well?

23 A. We've got this set up for the very end of  
24 August, I believe.

25 Q. And by that time do you anticipate that you

1 would have the information available to you from the  
2 well in the northwest of the northwest?

3 A. Yes, sir, we should have that information.

4 Q. Are you seeking to have any interest owner  
5 make an election of whether or not to participate prior  
6 to the time that information is available?

7 A. Yes, sir, we are.

8 Q. And why is that?

9 A. Well, that just basically goes, I believe,  
10 with the time frame involved between Heyco and the  
11 Yates Energy operating agreement, or the agreements  
12 that they had between them, the master operating  
13 agreement.

14 Q. Is there something in those agreements that  
15 requires that you spud this well by a certain time?

16 A. I believe so, sir, but I'm really not that  
17 familiar with the master operating agreement. I'd have  
18 to refer that to Miss Hamilton.

19 Q. So basically what you're attempting to do is  
20 cause other interest owners in the well to make an  
21 election before they will have all the information  
22 available to them that you will have at the time you  
23 spud the well?

24 A. No, sir. I mean, we -- We proposed this a  
25 long time ago in attempts to try to get this thing put

1 together as soon as possible, and they just haven't  
2 responded.

3 Q. But the point of the question is, you will  
4 have data on the new well prior to the time you spud?

5 A. Yes, sir, we will.

6 Q. And you're hoping that Heyco, Ltd., --  
7 Employees, Ltd., and Spiral and Explorers and Mr. Wynn  
8 will have to make their election before they have the  
9 information on that well?

10 A. We're just hoping they'll make a decision,  
11 one way or the other.

12 Q. But you're hoping that the Order, if I  
13 understood your testimony, would require that decision  
14 to be made before the data on that well is available?

15 A. I guess so, yes, sir.

16 MR. CARR: That's all I have.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Baker, what leads you to the conclusion  
20 that there may be an oil/water contact in this  
21 reservoir?

22 A. On our mud log, which was not on this  
23 particular log, we had a very good oil and gas show, in  
24 the top 44 feet of the zone. And then the next  
25 particular 20 feet, the zone got tight and therefore

1 your show dropped out, which is to be expected because  
2 the zone got tight.

3 But then when it regained, getting back into  
4 the porous carbonate again, we had a show there but it  
5 was not near the quality of the show in the upper one.  
6 It was substantially less. It didn't have near the oil  
7 saturations or a staining unit. The gas only went to  
8 about 100, 150 units.

9 It was a lot less quality show than we had in  
10 the upper part, and if you'll look at the porosity log  
11 on the cross-section, it's every bit as good a  
12 porosity, if not better than the upper part.

13 Q. So the risk is, if you drill the well in  
14 Section 12 you may drill into the water instead of into  
15 the upper part?

16 A. Yes, sir. If we drill probably more than 40,  
17 45 feet downdip, then there's a risk that we may go  
18 into what is either a transition zone or water-bearing  
19 carbonate.

20 Q. Well, what is the potential for completion in  
21 the zones above the San Andres in this area?

22 A. There is probably a decent shot at maybe  
23 having some Queen in here.

24 The Queen is basically dependent -- The Queen  
25 is present throughout all of these wells in here, but



1     it's a porosity-dependent type sand, and it's just a  
2     matter of whether or not the sandstone develops enough  
3     at the proposed location.

4             It's in every well out here; it's just  
5     wherever the porosity develops, and you usually have  
6     hydrocarbons trapped.

7             Q.     Would you calculate that risk to be the same  
8     as the San Andres?

9             A.     Yes, sir, but obviously for different  
10    reasons. It's not a structural risk there; it's more  
11    the stratigraphic and porosity risk.

12            You just -- It's very difficult out here in  
13    this particular area to guess exactly where your  
14    porosity is going to develop, limited well control.

15            Q.     Did you say that the Division had not yet  
16    created the new pool?

17            A.     No, sir, they have not. In talking two weeks  
18    ago with Darrell Moore who is, I believe, the staff  
19    geologist with the OCD in Artesia, at that time he told  
20    me it looked like everything was acceptable and he was  
21    going to recommend to the OCD to put it on the  
22    nomenclature hearing for June 19th, to be approved as a  
23    new oil field discovery allowable.

24            And it was after that time that I received a  
25    letter from Mr. Williams indicating that had been

1 designated un- -- or undesignated San Andres Pool, is  
2 what it was.

3 And I had to call in to Mr. Williams to try  
4 to figure out exactly what that meant and what our  
5 allowable out here would be.

6 EXAMINER CATANACH: I see. I have no further  
7 questions of this witness.

8 Anything further?

9 MR. CARR: Could I ask one more question?

10 EXAMINER CATANACH: Yes, sir.

11 FURTHER EXAMINATION

12 BY MR. CARR:

13 Q. Mr. Baker, how long does it take to drill a  
14 well to the Bone Springs out in this area?

15 A. If I'm not mistaken, it's going to take about  
16 20 days.

17 MR. CARR: That's all I have.

18 MR. PADILLA: Mr. Examiner, I have one other  
19 question.

20 EXAMINER CATANACH: Okay.

21 FURTHER EXAMINATION

22 BY MR. PADILLA:

23 Q. Mr. Baker, do you evaluate the risk on any  
24 offset to the well in Section 1 as being the same?

25 A. Yes, sir. I mean, the risk all around this

1 particular well is going to be just as risky, but for  
2 different reasons.

3 Like we discussed, it can move north, and  
4 there you're losing your porosity even though you're  
5 gaining structure. And as the cross-section shows,  
6 this particular dolomite in this porosity lobe can come  
7 and go very quick.

8 So at this time, with the well control we've  
9 got, really any location in the immediate vicinity is  
10 somewhat risky.

11 Q. If the well currently going down in the  
12 northwest quarter of the northwest quarter of Section  
13 12 --

14 A. Uh-huh.

15 Q. -- encounters San Andres production, does  
16 that -- How does that change the risk?

17 A. Well, I mean, for comfort factors it might  
18 make you feel a little bit better.

19 But you could still move over and the  
20 carbonate would be completely gone. And we've seen  
21 that.

22 I mean, even though you can make a well one  
23 location away, you could encounter something completely  
24 different because of this interfingering of the  
25 Delaware and the dolomite facies.

1 MR. PADILLA: I have nothing further, Mr.  
2 Examiner.

3 FURTHER EXAMINATION

4 BY MR. CARR:

5 Q. But that information on the well in the  
6 northwest of the northwest would be something you would  
7 consider in evaluating prospects?

8 A. I think every well that's drilled out here is  
9 information that you take into consideration.

10 MR. CARR: That's all I have.

11 EXAMINER CATANACH: There being nothing  
12 further in this case, Case 9978 will be taken under  
13 advisement.

14 (Thereupon, these proceedings were concluded  
15 at 1:40 p.m.)

16

17

18

19

20

21

22

23

24

25

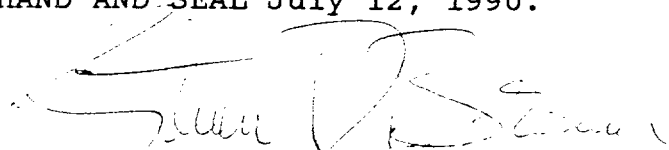
## CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, 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 transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.


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

WITNESS MY HAND AND SEAL July 12, 1990.

  
STEVEN T. BRENNER  
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 9878,  
heard by me on June 27 1990.

  
\_\_\_\_\_, Examiner  
Oil Conservation Division