

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

ORIGINAL

A P P E A R A N C E S

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HEYCO EMPLOYEES, LTD.; AND W.T. WYNN:

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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 undesignated 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.)
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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. 9978, heard by me on June 27 1990.


_____, Examiner
Oil Conservation Division