



PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 216

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

(505) 988-7577

October 30, 1990

HAND-DELIVERED

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case No. 9998

Dear Mr. Stogner:

Enclosed please find Yates Energy Corporation's Pre-Hearing Statement in the above-referenced case scheduled for hearing on Wednesday, October 31, 1990.

Very truly yours,

Ernest L. Padilla

ELP:pmc

Enclosure as stated

cc w/encl): W. Thomas Kellahin, Esq. (Hand-Delivered)

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998

APPLICATION OF

Yates Energy Corporation

PRE-HEARING STATEMENT

This prehearing statement is submitted by Ernest L. Padilla, Esq.
as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Yates Energy Corporation
Post Office Box 2323
Sunwest Centre, Suite 1010
Roswell, New Mexico 88202
(505) 623-4935

name, address, phone and
contact person

ATTORNEY

Ernest L. Padilla
Padilla & Snyder
Post Office Box 2523
Santa Fe, New Mexico 87504
(505) 988-7577

OPPOSITION OR OTHER PARTY

name, address, phone and
contact person

ATTORNEY

STATEMENT OF CASE

APPLICANT

(Please make a concise statement of what is being sought with this application and the reasons therefore.)

Case No. 9998, Division Order No. R-9093-B is being reopened.

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

PROPOSED EVIDENCE

APPLICANT

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

Sharon Hamilton,
Landman

30 Minutes

Yates Energy Corporation will present evidence and testimony relative to Yates Energy Corporation's attempts to secure voluntary joinder from Chevron USA, Inc.

OPPOSITION

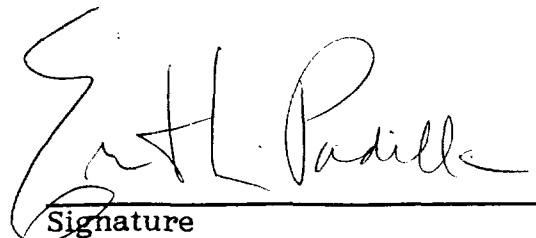
WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

PROCEDURAL MATTERS

(Please identify any procedural matters which
need to be resolved prior to the hearing)


Signature

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

IN THE MATTER OF CASE NO. 9998 BEING
REOPENED PURSUANT TO THE PROVISIONS
OF ORDER R-9093-B

CASE NO. 9998
REOPENED

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by ~~CHEVRON~~
~~U.S.A., Inc.~~ as required by the Oil Conservation Division.

APPEARANCE OF PARTIES

APPLICANT

(name, address, phone
and contact person)

Yates Energy Corporation

ATTORNEY

Ernest L. Padilla, Esq.
PADILLA & SNYDER
P.O. Box 2523
Santa Fe, New Mexico 87504
(505) 988-7577

OPPOSITION OR OTHER PARTY

(name, address, phone
and contact person)

Chevron U.S.A., Inc.
15 Smith Road
Midland, TX 79705
Attn: Mr. Al Bohling
(915) 713-754-2681

ATTORNEY

W. Thomas Kellahin
KELLAHIN, KELLAHIN & AUBREY
P.O. Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

100-1000000000

OCT 26

OIL CONSERVATION DIV
SANTA FE

Pre-hearing Statement
NMOCD Case No. 9998 Reopened
Page 2

STATEMENT OF CASE

APPLICANT

(please make a concise statement of what is being sought with this application and the reasons therefore.)

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement)

Chevron intends to present evidence concerning conductance of negotiations, the proportionate share of well costs which are allocated to the San Andres completion, and the assignment of a risk penalty which is fair to both parties.

Pre-hearing Statement
NMOCD Case No. 9998 Reopened
Page 3

PROPOSED EVIDENCE

APPLICANT

WITNESSES (name and expertise)	EST. TIME	EXHIBITS
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OPPOSITION

WITNESSES (name and expertise)	EST. TIME	EXHIBITS
James Baca (landman)	15 min	Negotiations concerning participation and penalty
Michael Akins (drilling engineer)	30-45 min	Allocation of costs and penalty

PROCEDURAL MATTERS

(Please identify any procedural matters which need to be resolved prior to the hearing)

KELLAHIN, KELLAHIN & AUBREY

By: 

W. Thomas Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
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REOPENED PURSUANT TO THE PROVISIONS
OF ORDER R-9093-B

CASE NO. 9998
REOPENED

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APPLICANT
(name, address, phone
and contact person)

Yates Energy Corporation

ATTORNEY

Ernest L. Padilla, Esq.
PADILLA & SNYDER
P.O. Box 2523
Santa Fe, New Mexico 87504
(505) 988-7577

OPPOSITION OR OTHER PARTY
(name, address, phone
and contact person)

Chevron U.S.A., Inc.
15 Smith Road
Midland, TX 79705
Attn: Mr. Al Bohling
(915) 713-754-2681

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OIL CONSERVATION DIVISION
SANTA FE

Pre-hearing Statement
NMOCD Case No. 9998 Reopened
Page 2

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NMOCD Case No. 9998 Reopened
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APPLICANT

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PROCEDURAL MATTERS

(Please identify any procedural matters which need to be resolved prior to the hearing)

KELLAHIN, KELLAHIN & AUBREY

By: 

W. Thomas Kellahin
Post Office Box 2265
Santa Fe, New Mexico 87504
(505) 982-4285

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998

APPLICATION OF

Yates Energy Corporation

RECEIVED

JUL 20 1990

OIL CONSERVATION DIV.
SANTA FE

PRE-HEARING STATEMENT

This prehearing statement is submitted by Ernest L. Padilla
as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Yates Energy Corporation
Post Office Box 2323
Roswell, New Mexico 88202
(505) 623-4935

name, address, phone and
contact person

OPPOSITION OR OTHER PARTY

name, address, phone and
contact person

ATTORNEY

Ernest L. Padilla
Post Office Box 2523
Santa Fe, New Mexico 87504
(505) 988-7577

ATTORNEY

STATEMENT OF CASE .

APPLICANT

(Please make a concise statement of what is being sought with this application and the reasons therefore.)

Application to amend Division Order No. R-9093.

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

Although not confirmed, possibly Chevron will oppose the application.

PROPOSED EVIDENCE

APPLICANT


WITNESSES (Name and expertise)	EST. TIME	EXHIBITS
Landman		2 or 3
Geologist		3
Drilling Engineer		1
(Possibly Management)		-0-

OPPOSITION

WITNESSES (Name and expertise)	EST. TIME	EXHIBITS
-----------------------------------	-----------	----------

PROCEDURAL MATTERS

(Please identify any procedural matters which
need to be resolved prior to the hearing)



Signature

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998

APPLICATION OF

YATES ENERGY CORPORATION
for amendment to Order R-9093
Compulsory Pooling, Eddy
County, New Mexico

RECEIVED

JUL 20 1990

OIL CONSERVATION DIV.
SANTA FE

PRE-HEARING STATEMENT

This prehearing statement is submitted by Chevron USA Inc
as required by the Oil Conservation Division.

APPEARANCES OF PARTIES

APPLICANT

Yates Energy Corporation

P. O. Box 2323

Roswell, N.M. 88202

(505) 623-4935

Attn: Sharon R. Hamilton

name, address, phone and
contact person

ATTORNEY

Ernest L. Padilla

P. O. Box 2523

Santa Fe, New Mexico 87504

(505) 988-7577

OPPOSITION OR OTHER PARTY

Chevron USA Inc

P. O. Box 1150

Midland, Texas 79702

Attn: Mr. Mickey Cohlma

(915) 687-7158

name, address, phone and
contact person

ATTORNEY

W. Thomas Kellahin

P. O. Box 2265

Santa Fe, New Mexico 87504

(505) 982-4285

RECEIVED

Pre-hearing Statement
NMOCD Case No. 9998
Page 2

JUL 20 1990

OIL CONSERVATION DIV.
SANTA FE

STATEMENT OF CASE

APPLICANT

(Please make a concise statement of what is being sought with this application and the reasons therefore.)

OPPOSITION OR OTHER PARTY

(Please make a concise statement of the basis for opposing this application or otherwise state the position of the party filing this statement.)

Yates Energy Corporation on January 8, 1990 obtained Division Order R-9093 (Case 9845) which was limited to compulsory pooling of Chevron's interest (and others) in the undesignated Tamano-Bone Springs Pool. Chevron elected not to participate in the Bone Springs.

Without providing Chevron an opportunity to participate in the undesignated Tamano-San Andres Pool, and in the absence of a compulsory pooling order, Yates recompleted the well in the San Andres formation.

Yates now seeks a retroactive modification to Order R-9093 to have Chevron's interest in the San Andres pooled without affording Chevron the opportunity to participate.

Chevron wants to voluntarily participate and is willing to pay its share of the costs of recompletion attributable to the San Andres.

RECEIVED

JUL 20 1990

OIL CONSERVATION DIV.
SANTA FE

PROPOSED EVIDENCE

APPLICANT

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

OPPOSITION

WITNESSES
(Name and expertise)

EST. TIME

EXHIBITS

Mickey Cohlma (landman)

30 min.

ownership records
correspondence
notice

Lofty Quinn (geologist)

20 Min

geologic risk

Al Bohling (P. E.)

30 Min.

cost allocation
split risk

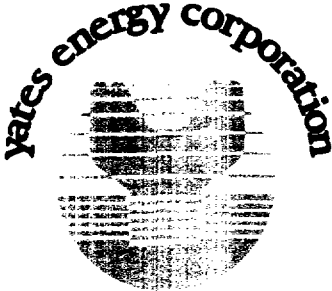
PROCEDURAL MATTERS

(Please identify any procedural matters which
need to be resolved prior to the hearing)

- 1 Motion to dismiss application for failure to
provide Chevron with an opportunity to participate
in the San Andres recompletion.


Signature

'91 JAN 24 PM 8 54



January 22, 1991

State of New Mexico
Oil Conservation Division
P. O. Box 2068
Santa Fe, New Mexico 87504

Attention: Michael E. Stogner

Re: Case No. 9998
Order No. R-9093-C
Thornbush Federal #1
Eddy County, NM

Gentlemen:

Enclosed please find a copy of the "certified" letter sent to Chevron U.S.A., Inc., pursuant to the requirements of the captioned order. Said letter provided actual well costs and requested payment of their proportionate share of said costs within 30 days of receipt of notice.

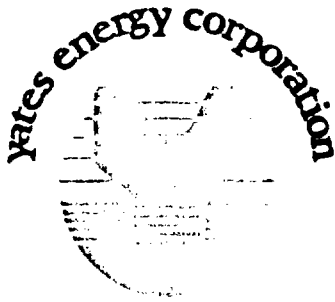
Please be advised that Chevron did not respond within said time period, and therefore is a non-consent owner pursuant to the terms of Order No. R-9093-C.

Yours very truly,

YATES ENERGY CORPORATION

Sharon R. Hamilton
Landman

SRH/jj
Enclosure



December 20, 1990

VIA FAX (915)687-7666

Chevron U.S.A., Inc.
P. O. Box 1150
Midland, Texas 79702

Attention: James E. Baca

Re: Thornbush Federal #1
SE/4SW/4 Section 1-18S-31E
Eddy Co., NM
OCD Order No. 9093-C

Gentlemen:

Pursuant to the captioned OCD Order, enclosed please find the itemized schedule of actual well costs which have been allocated to the Bone Springs and San Andres formations.

Under the terms of said Order, Chevron has 30 days from receipt of this letter to pay its 25% working interest in said well costs in the amount of \$82,340 and participate in said well.

Should you require any further information, please advise.

Yours very truly,

YATES ENERGY CORPORATION

Sharon R. Hamilton
Landman

SRH/jj

Enclosure

CERTIFIED MAIL
RETURN RECEIPT REQUESTED

ALLOCATION
THORNEUS
ERRY

TRANSMISSION-REPORT

TIME : DEC 20 '90 17:44
TEL NUMBER : +15056234947
NAME : YATES ENERGY CORP.

NBR	DATE	TIME	DURATION	PGS	TO	DEPT. CODE	MODE	STATUS
263	DEC. 20	17:42	01/22	03	915 687 7666		G3	OK

P 299 868 377
RECEIPT FOR CERTIFIED MAIL

NO POSTAGE
NECESSARY
IF MAILED
IN THE
UNITED STATES

See Reverse

Sender: Chevron
James E. Baca U.S.A., Inc.
P.O. Box 1150
Midland, Texas 79702

Postage	\$.25
Registration Fee	.85
Restricted Delivery Fee	
Return Receipt showing to whom and Date Delivered	.90
Return Receipt showing to whom Date and Address of delivery	
TOTAL charge and fees	2.00

Postage Due

12-20-90

SENDER: Complete items 1 and 2 when app. 3 and 4.

Put your address in the "RETURN TO" Space on the reverse to this will prevent this card from being returned to you. The return receipt fee will provide the name of the person delivered to and the date of delivery. For additional fees the following services are available. Consult postmaster for fees and check box(es) for additional service(s) requested.

1. ☐ Show to whom delivered, date, and addressee's address. (Extra charge)
2. ☐ Restricted Delivery (Extra charge)

3. Article Addressed to:

James E. Baca
Chevron U.S.A., Inc.
P. O. Box 1150
Midland, Texas 79702

4. Article Number

P 299 868 377

Type of Service:

- | | |
|---|---|
| <input type="checkbox"/> Registered | <input type="checkbox"/> Insured |
| <input checked="" type="checkbox"/> Certified | <input type="checkbox"/> COD |
| <input type="checkbox"/> Express Mail | <input type="checkbox"/> Return Receipt for Merchandise |

Always obtain signature of addressee or agent and DATE DELIVERED.

5. Signature -- Address

X

6. Signature -- Agent

X

7. Date of Delivery

DEC 21 1990

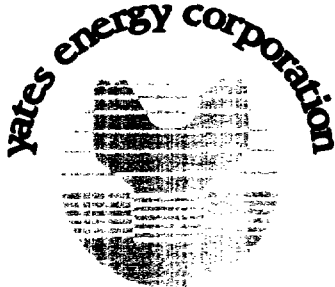
8. Addressee's Address (ONLY if requested and fee paid)

ALLOCATION OF COSTS
THORNEUSH FED #1
EDDY COUNTY, NEW MEXICO

	<u>SAN</u> <u>ANDRES</u>	<u>BONE</u> <u>SPRING</u>	<u>TOTAL</u> <u>COSTS</u>
INTANGIBLE DRILLING COSTS			
Location, roads, survey, damages	8,326.84	11,655.97	19,982.81
Rig move in and move out	0.00	0.00	0.00
Footage or turnkey	51,996.46	72,785.07	124,781.53
Daywork	2,764.04	3,869.12	6,633.16
Fuel, power, water	6,088.88	8,523.26	14,612.14
Mud and additives	3,940.87	5,516.46	9,457.33
Bits and reamers	0.00	0.00	0.00
Rental equipment	0.00	0.00	0.00
Casing crew, tongs, tools	3,187.96	4,460.99	7,647.85
Directional drilling svc.	0.00	0.00	0.00
Fishing tools and svc.	0.00	0.00	0.00
Cement and svc.	17,945.23	25,119.87	43,065.10
Open hole logs, form, testing	8,673.40	12,141.09	20,814.49
DST, coring, analysis	0.00	0.00	0.00
Mud logging	3,433.51	4,806.25	8,239.76
Transportation	82.59	115.62	198.21
Equipment Inspection	0.00	0.00	0.00
Supervision	5,607.39	7,849.28	13,456.67
Drilling O/H	3,067.01	4,293.22	7,360.23
Geologist	1,130.54	1,582.54	2,713.08
Misc and contingency	792.25	1,109.00	1,901.25
Completion and snab unit	18,414.76	25,777.12	44,191.88
Casing crew, prod string	1,883.53	2,636.57	4,520.10
Cased hole logs, perforate	6,412.16	8,975.80	15,387.96
Stimulation svc	21,229.08	29,716.64	50,945.72
Rental equipment	2,070.97	2,829.95	4,900.92
Transportation, compl chems	643.79	901.19	1,544.98
Location restoration	0.00	0.00	0.00
Misc and contingency	8,868.31	12,413.94	21,282.25
Total intangible	176,558.47	247,147.95	423,706.42

ALLOCATION OF COSTS
 THORNBUSH FED #1
 EDDY COUNTY, NEW MEXICO

	<u>SAN ANDRES</u>	<u>BONE SPRING</u>	<u>TOTAL COSTS</u>
TANGIBLE COSTS			
Cond. casing	0.00	0.00	0.00
Surface casing	7,781.57	0.00	7,781.57
Intermediate casing	31,232.71	0.00	31,232.71
Wellhead	7,921.88	0.00	7,921.88
Float, cent, scratchers	0.00	0.00	0.00
Prod. casing (9,200.8')	32,304.00	20,611.05	61,915.05
Tubing (9,141')	10,800.00	9,765.65	20,565.65
Downhole, packers, mandrels	14,094.75	0.00	14,094.75
Wellhead, tree and wing	7,223.77	0.00	7,223.77
Production facilities	40,784.49	0.00	40,784.49
Misc. and contingency	662.75	0.00	662.75
Total tangible	<u>152,805.92</u>	<u>39,376.70</u>	<u>192,182.62</u>
Total well cost	329,364.39	286,524.65	615,889.04



RECEIVED
OIL CONSERVATION
DIVISION
'90 DEC 27 AM 9 19

December 21, 1990

State of New Mexico
Oil Conservation Division
P. O. Box 2088
Santa Fe, New Mexico 87504

Attention: Michael E. Stogner

Re: Case No. 9998
Order No. R-9093-C
Thornbush Federal #1
Eddy County, NM

M.S.

Gentlemen:

Pursuant to the provisions of the captioned order, enclosed please find a copy of the itemized schedule of actual well costs for the captioned well which have been allocated between the Bone Spring and San Andres formations. Said costs will also be provided to all working interest owners.

Should you require additional information, please advise.

Yours very truly,

YATES ENERGY CORPORATION

Sharon R. Hamilton

Sharon R. Hamilton
Landman

SRH/jj
Enclosure

ALLOCATION OF COSTS
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 EDDY COUNTY, NEW MEXICO

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

GARREY CARRUTHERS
GOVERNOR

December 14, 1990

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Ernest L. Padilla
Padilla & Snyder
Attorneys at Law
Post Office Box 2523
Santa Fe, New Mexico

Re: CASE NO. 9998
ORDER NO. R-9093-C

Applicant:

Yates Energy Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD	<u>x</u>
Artesia OCD	<u>x</u>
Aztec OCD	

Other Thomas Kellahin, William F. Carr



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

November 30, 1990

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Ernest L. Padilla
Padilla & Snyder
Attorneys at Law
Post Office Box 2523
Santa Fe, New Mexico

Re: CASE NO. 9998
ORDER NO. R-9093-C

Applicant:

Yates Energy Corporation

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Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Thomas Kellahin, William F. Carr

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 216

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

(505) 988-7577

November 9, 1990

HAND-DELIVERED

Michael E. Stogner
Hearing Examiner
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

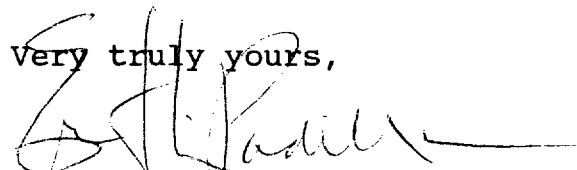
Re: Case No. 9998

Dear Mr. Stogner:

Enclosed please find, pursuant to your request, the proposed order of Yates Energy Corporation in the above-referenced case.

Should you require anything further, please let me know.

Very truly yours,



Ernest L. Padilla

ELP:pmc

Enclosure as stated

cc: W. Thomas Kellahin, Esq. (w/enc.)
William F. Carr, Esq. (w/enc.)
Yates Engery Corporation (w/enc.)

order.1tr

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998
ORDER NO. R-9093-C

APPLICATION OF YATES ENERGY
CORPORATION FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

YATES ENERGY CORPORATION
PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 31, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of _____, 1990, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Yates Energy Corporation, seeks an order to amend Order R-9093, retroactive to the effective date of said order, to pool all mineral interests, whatever they may be, from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool, underlying the SE/4 SW/4 (Unit N) of Section 1, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit for said pool, all to be dedicated to applicant's Thornbush Federal No. 1 well.

(3) By Order R-9093, entered on January 8, 1990, all mineral interests, whatever they may be, in the Undesignated Tamano-Bone Spring Pool, underlying the SE/4 SW/4 (Unit N) of Section 1, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, were pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon.

(4) By Order R-9093-A, entered on February 27, 1990, the Oil Conservation Commission, pursuant to the request of Spiral, Inc., Explorers Petroleum Corporation, and HEYCO Employers, Ltd., as applicants for De Novo hearing, dismissed Case 9845 De Novo and ordered that Order R-9093 continue in full force and effect until further notice.

(5) By Order R-9093-B, entered on September 19, 1990, the Division temporarily denied Applicant's application to amend Order No. R-9093 and, among other things,:

(a) Ordered applicant to "conduct good faith negotiations with Chevron in order to determine a fair and equitable method whereby Chevron's interest as to the San Andres formation may be consolidated."

(b) Ordered that the matter be reopened on October 31, 1990 should the parties fail to reach a voluntary agreement, "at which time the Division shall consider additional evidence regarding conductance of negotiations, the proportionate share of well costs which are allocated to the San Andres completion, and the assignment of a risk penalty which is fair to both parties."

(6) There are interest owners in the unit who have not agreed to pool their interests from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool underlying the SE/4 SW/4 (Unit N) of said Section 1.

(7) Chevron USA, Inc., the only non-consenting interest owner, appeared in opposition to the application of Yates Energy Corporation at the hearings of this matter.

(8) Spiral Inc., Explorers Petroleum Corporation and HEYCO Employers, LTD. appeared at the hearings of this matter but did not oppose the application; these interest owners were non-consenting interest owners under Order R-9093, but subsequently voluntarily joined in drilling the subject well to test the Undesignated Tamano-Bone Spring Pool and ultimate completion in the San Andres formation.

(9) Pursuant to Order R-9093, Yates Energy Corporation drilled a well, the Thornbush Federal No. 1 well, that tested the Undesignated Tamano Bone-Spring Pool; the well was not productive from the Undesignated Tamano-Bone Spring Pool but was productive in the San Andres formation, a shallower formation not within the Tamano-Bone Spring Pool.

(10) The completion of the Thornbush Federal No. 1 well in the San Andres formation was performed by Yates Energy Corporation in a diligent and prudent manner after testing the Undesignated Tamano-Bone Spring Pool without, at any material time, abandoning the borehole.

(11) At all material times from initial proposal of the well to the various working interest owners to the completion of the well for production from the San Andres formation, Yates Energy Corporation intended that Order R-9093 apply to all formations from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool.

(12) Chevron USA, Inc., did not participate in the Bone Spring test well, did not appear in the hearing resulting in Order R-9093, but, through the proposals made by Yates Energy Corporation, each working interest owner in the well, including Chevron, knew, or had reason to know, that Yates Energy Corporation would test other potential productive oil and gas bearing zones and formations overlying the Undesignated Tamano-Bone Spring Pool.

(13) After good faith negotiations, Chevron USA Inc. has failed, or refused to participate, in any reasonable proposal in the drilling of the Thornbush Federal No. 1 well and its completion in the San Andres formation, or any other wells drilled by applicant in offsetting well locations.

* (14) Applicant, at hearings of this matter, has presented evidence of reasonable well costs for testing the Undesignated Tamano-Bone Springs Formation with ultimate completion of a well capable of oil and gas production from the San Andres formation.

* (15) Total well costs for completion of the Thornbush Federal No. 1 well in the San Andres formation should include the cost of drilling and testing the Undesignated Tamano-Bone Spring Pool, including, but not limited to, intermediate casing and any additional reasonable incremental costs and expenses associated with testing the Undesignated Tamano Bone-Spring Pool.

* (16) Evidence presented by applicant relating to the risk associated with drilling of the Thornbush Federal No. 1 well at the hearings of this matter requires the maximum risk penalty factor penalty allowed by law.

(17) Under the circumstances, there is little, if any, difference whether Yates Energy Corporation should have halted its completion operations in the San Andres formation pending a hearing to force pool the San Andres formation and any other formation overlying the Undesignated Tamano-Bone

Spring Pool and the instant application after the well was completed since this appears to be a matter of substance over form inasmuch as Chevron has had ample notice of all of Yates Energy Corporation's drilling and exploration intentions and of the proceedings before the Division.

(18) The application of Yates Energy Corporation should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The application of Yates Energy Corporation is hereby approved and Order R-9093 is hereby amended retroactive to January 8, 1990, to pool all mineral interests, whatever they may be, from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool, underlying the SE/4 SW/4 (Unit N) of Section 1, Township 18 South, Range 31 East NMPM, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit for said pool, all to be dedicated to the Thornbush Federal No. 1 well.

(2) For purposes of determining total well costs for completion of the Thornbush Federal No. 1 well in the San Andres formation, the cost of drilling and testing the Undesignated Tamano-Bone Spring Pool including, but not limited to, intermediate casing and any additional reasonable incremental costs and expenses associated with testing the Undesignated Tamano-Bone Spring Pool, shall be included in such determination.

(3) Except as otherwise amended herein by this order, all other provisions of Order R-9093 shall remain in full force and effect.

(4) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

State of New Mexico
Oil Conservation Division

William J. LeMay
Director

KELLAHIN, KELLAHIN AND AUBREY

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

W. THOMAS KELLAHIN
KAREN AUBREY

CANDACE HAMANN CALLAHAN

JASON KELLAHIN
OF COUNSEL

TELEPHONE (505) 982-4285
TELEFAX (505) 982-2047

November 9, 1990

Mr. Michael E. Stogner
Oil Conservation Division
Post Office Box 2088
Santa Fe, New Mexico 87502

HAND DELIVERED

Re: Application of Yates Energy
Corporation to Amend Division
Order R-9093
NMOCD Case No. 9998 (Reopened)

Dear Mr. Stogner:

In accordance with your direction at the conclusion of the hearing of the referenced case on October 31, 1990, on behalf of Chevron USA, Inc., please find enclosed our proposed order for entry in this case.

Very truly yours,



W. Thomas Kellahin

WTK/tic
Enclosure

cc: Mr. Alan Bohling
Ernest L. Padilla, Esq.
William F. Carr, Esq.
Robert G. Stovall, Esq.

Tom + Christine

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION DIVISION
FOR THE PURPOSE OF CONSIDERING;

CASE NO. 9998 (Reopened)
ORDER NO. R-9093-C

APPLICATION OF YATES ENERGY
CORPORATION TO AMEND DIVISION
ORDER NO R-9093, AS AMENDED,
EDDY COUNTY, NEW MEXICO.

CHEVRON'S PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on October 31, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this ____ day of November, 1990, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner, and being fully advised in the premises,

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE TWO

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) By Division Order No R-9093-B, dated September 19, 1990, the Division ordered that Yates Energy Corporation shall conduct good faith negotiations with Chevron in order to determine a fair and equitable method whereby Chevron's interest as to the San Andres formation may be consolidated.

(3) Yates conducted negotiations with Chevron on the basis that Yates demands that it be allowed to recover the total costs of the well, including those costs attributable to the unsuccessful Bone Springs attempt, to the San Andres production and that Chevron should pay for 25% of the total well costs regardless of how or where those funds were spent.

(4) Chevron has refused to participate on the terms proposed by Yates and while an issue remains as to whether Yates' negotiations have been in good faith, it is apparent

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE THREE

that the parties are not going to be able to agree until the Division determines the proper allocation of well costs between the San Andres pool and the Bone Springs pool.

(5) Yates' proposed allocation of costs to the San Andres formation is not fair and reasonable and would violate the correlative rights of Chevron.

✓ (6) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owners of each interest in said unit the opportunity to recover or receive without unnecessary expense its just and fair share of the oil and gas in said pool, the Division should adopt the allocation method for the subject well in accordance with the Council of Petroleum Accountants Societies Bulletin No 2 dated September, 1965, entitled Determination of Values for Well Costs Adjustments Joint Operations.

* (7) Cost of drilling and completing the Thornbush Federal No. 1 well should be allocated between the San Andres Pool and the Bone Springs Pool in accordance with the

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE FOUR

Council of Petroleum Accountants Societies Bulletin No. 2,
dated September, 1965, entitled, Determination of Values for
Well Cost Adjustments Joint Operations, as follows:

Section B. ALLOCATION OF INTANGIBLE DRILLING
COSTS

Sub-Sections 1 (a), and 2

Section B. ALLOCATION OF TANGIBLE COST

Sub-sections 1, 2, and 3

and further provided that for this well the drilling footage
ratio shall be ten days to 4800 feet divided by 24 days to
9060 feet or a 41.67% for the intangible allocation
calculation and the tangible costs attributable to the San
Andres pool be limited to the following:

- (1) Well head A + B + Tbg Head
- (2) 13 3/8" Surf Csg
- (3) 5 1/2" Prod. Csg 4800'
- (4) 2-3/8" Prod. Tbg 4800'
- (5) Prod facilities

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE FIVE

✱ (8) Chevron USA should not be required to pay any costs of this well attributable to depths below the base of the San Andres Pool which is found to be located at 4810 feet in this well nor to the costs attributable to the setting of intermediate 8-5/8" casing because that is not a common practice for a San Andres well.

✱ (9) By Division Order R-9093-B in the event the parties failed to reach an agreement, the Division, among other things, would also determine the assignment of a risk penalty which is fair to both parties.

✱ (10) While the pre-drilling geologic evidence presented at the July 25, 1990 hearing of this case might justify a 200% risk penalty; however, the fact that Yates had sufficient opportunity to obtain a force pooling order covering the San Andres pool and establish a risk penalty prior to completing in the said pool, and the fact that Yates sold the Chevron share of the costs of the well to third parties so that Yates would not have to carry any of the costs attributable to the Chevron interest, and that fact that Yates never provided Chevron with the opportunity

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE SIX

to participate in the San Andres completion before Yates unilaterally completed the well, all indicate that the risk penalty is not appropriate in this case.

(11) Yates assumed all the risk at the time the well was completed in the San Andres.

(12) Yates having failed to provide Chevron with an opportunity to participate in the San Andres completion, now should afford Chevron the opportunity to participate in the subject well based upon the allocation formula set forth in Finding (7) above.

(13) The applicant should continue to be designated the operator of the subject well and unit.

(14) Chevron as the only non-consenting working interest owner should be afforded the opportunity to pay its share of actual San Andres well costs to the operator in lieu of paying its proportionate share of reasonable well costs attributed to the San Andres out of production.

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE SEVEN

(15) The applicant has proposed a 200 percent risk penalty to be assessed against Chevron as the only working interest owner subject to the force-pooling provisions of this order but said percentage is excessive and unreasonable in this case.

(16) Chevron should be afforded the opportunity to object to the actual well costs, but actual well costs not in excess of \$300,000.00 should be adopted as the reasonable well costs in the absence of such objection.

(17) Following determination of reasonable actual well costs, Chevron should receive from the operator any amount that it paid or was charged which was in excess of reasonable actual well costs.

(18) Because Order R-9998 establishes as overhead charges for a Bone Springs well and not a San Andres well, those charges previously approved should be reduced to reflect the overhead rates established by Ernst and Young which are \$3200.00 per month while drilling and \$320.00 per month while producing which should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE EIGHT

proportionate share of such supervision charges attributable to Chevron if it becomes a non-consenting working interest owner, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well not in excess of what are reasonable, attributable to Chevron as a non-consenting working interest owner.

(19) Should all parties to this forced pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(20) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) Within 30 days after the effective date of this order, the operator shall furnish the Division, and Chevron and all other working interest owners in the subject unit an itemized schedule of actual well costs using the allocation procedures set forth in Findings (7) and (8) above.

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE NINE

(2) Within 30 days from the date the schedule of actual well costs is furnished to Chevron and any other working interest owner, Chevron shall have the right to pay its share of actual well costs to the operator in lieu of paying its share of reasonable well costs out of production.

(3) If no objection to the actual well costs is received by the Division from Chevron within 45 days following Chevron's receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(4) The operator is hereby authorized to withhold the following costs and charges from production:
the pro rata share of reasonable well costs attributable to Chevron's interest if it becomes a non-consenting working interest owner who has not paid its share of actual well costs within 30 days from the date the schedule of actual well costs is furnished to it.

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE TEN

(5) \$3200.00 per month while drilling and \$320.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to Chevron's interest in the event it becomes a non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to Chevron's interest in the event it becomes a non-consenting working interest.

(6) Any well costs or charges which are to be paid out of production pursuant to this order shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(7) All proceeds from unit production which are not disbursed for any reason shall immediately be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the

CASE NO. 9998 (Reopened)
ORDER NO. R-
PAGE ELEVEN

operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(8) Should all parties to this forced pooling order reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

(9) The operator of the well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(10) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
Director

SEAL



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

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2088
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

October 3, 1990

Case 9998

Yates Energy Corporation
P. O. Box 2323
Roswell, New Mexico 88201

ATTN: FRED G. YATES

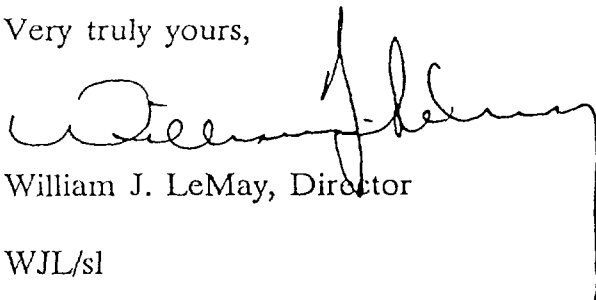
RE: Thornbush Federal #1, SE/4 SW/4, Sec. 1, T18S, R31E, Eddy County, New Mexico

Gentlemen:

Division Order R-9093-B, ordering paragraph (5) directed that the above well remain shut-in until all interests in the proration unit have been consolidated. The Division has received a letter agreement dated October 2, 1990, accepted by Yates on October 3, 1990, providing an appropriate method for suspending and holding payments on Chevron's interest until the interests have been consolidated, subject to all of the terms contained in the letter, including provisions for payment of royalties.

On the basis of this agreement, the Division hereby suspends ordering paragraph (5) of Order R-9093-B. You are hereby authorized effective 12:01 AM on October 3, 1990 to produce the captioned well subject to the terms and conditions of the agreement between Yates Energy and Chevron, copy of which is in Oil Conservation Division records. As provided in agreement, Chevron's interest will be kept separate in an interest bearing account until either Yates Energy Corporation and Chevron, USA reach a voluntary settlement or 30 days after the OCD issues an order pertaining to ownership issues in the captioned well. Your oil allowable is 80 barrels of oil per day effective at 12:01 AM October 3, 1990.

Very truly yours,



William J. LeMay, Director

WJL/sl

cc: Chevron, Inc.



Chevron U.S.A. Inc.
P.O. Box 1150, Midland, TX 79702

Land Department
Interior Division

October 2, 1990

RE: THORNBUSH FEDERAL
#1 SE/4 SW/4 OF SECTION
1,18-S, 31-E, EDDY COUNTY,
NEW MEXICO

Yates Energy Corporation
P.O. Box 2323
Roswell, New Mexico 88202

Gentlemen:

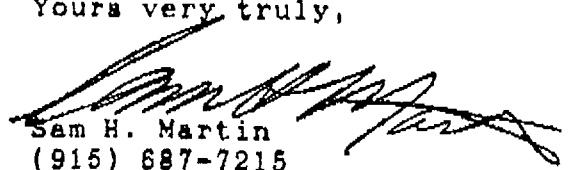
In reference to your letter of September 27, 1990, Chevron has no objection to producing the captioned well, subject to the following conditions:

1. OCD Approval
2. The proceeds attributable to Chevron's interest, 25% G.W.I. and 21.875% Net W.I. will be suspended and held by Koch Oil Company, escrow agent, or other purchaser acceptable to Chevron, in an interest bearing account, until Yates Energy Company, et al and Chevron reach a voluntary settlement regarding the captioned well or 30 days after the OCD issues a subsequent order, whichever occurs first.
3. Royalty payments due on Chevron's leasehold will be properly paid to the USA in accordance with lease provisions of NM-2538 or any renewal thereof and Yates Energy agrees to assume responsibility for payment of such royalty.
4. Federal lease NM-2538 expired 10-1-90. Our records indicate a renewal lease was executed in accordance with federal regulations. Inasmuch as Chevron is not subject to the JOA or any of its terms and conditions, including, but not limited to title curative matters, Yates Energy agrees to satisfy itself regarding title to the lease and assume any liability as to Chevron's leasehold that results from producing the captioned well until a voluntary settlement is reached between the partners or by 30 days after the OCD issues a subsequent order, whichever occurs first.

Page 2

Upon your acceptance of the above conditions and our receipt of a properly executed copy of this letter, this letter shall serve as our conditional approval to produce the captioned well.

Yours very truly,


Sam H. Martin
(915) 687-7215

Agreed and Accepted:

YATES-ENERGY CORPORATION

BY 

DATE 10-3-90

SHM/dh



STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

GARREY CARRUTHERS
GOVERNOR

September 20, 1990

POST OFFICE BOX 2098
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

Mr. Ernest L. Padilla
Padilla & Snyder
Attorneys at Law
Post Office Box 2523
Santa Fe, New Mexico

Re: CASE NO. 9998
ORDER NO. R-9093-B

Applicant:

Yates Energy Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced
Division order recently entered in the subject case.

Sincerely,

Florene Davidson

FLORENE DAVIDSON
OC Staff Specialist

Copy of order also sent to:

Hobbs OCD x
Artesia OCD x
Aztec OCD

Other Thomas Kellahin, William F. Carr

PADILLA & SNYDER

ATTORNEYS AT LAW

200 W. MARCY, SUITE 216

P.O. BOX 2523

SANTA FE, NEW MEXICO 87504-2523

(505) 988-7577

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

August 28, 1990

RECEIVED

AUG 28 1990

HAND-DELIVERED

OIL CONSERVATION DIVISION

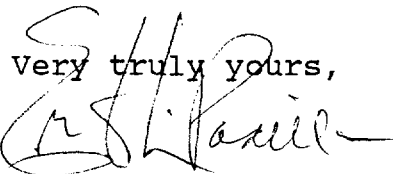
David R. Catanach
Hearing Examiner
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico 87501

Re: Case 9998

Dear Mr. Catanach:

Enclosed is the Proposed Order of the Division of Yates Energy Corporation in the above-referenced case.

Thank you for your consideration in this matter and for the opportunity to submit the proposed order for your consideration.

Very truly yours,


Ernest. L. Padilla

ELP/mg

Enclosure as stated

cc: W. Thomas Kellahin, Esq. (w/enc.)
William F. Carr, Esq. (w/enc.)
Yates Energy Corporation (w/enc.)

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

IN THE MATTER OF THE HEARING
CALLED BY THE OIL CONSERVATION
DIVISION FOR THE PURPOSE OF
CONSIDERING:

CASE NO. 9998
ORDER NO. R-9093-B

APPLICATION OF YATES ENERGY
CORPORATION FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.

YATES ENERGY CORPORATION
PROPOSED ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on December 27, 1989, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of _____, 1990, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

(2) The applicant, Yates Energy Corporation, seeks an order to amend Order R-9093, retroactive to the effective date of said order, to pool all mineral interests, whatever they may be, from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool, underlying the SE/4 SW/4 (Unit N) of Section 1, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit for said pool, all to be dedicated to applicant's Thornbush Federal No. 1 well.

(3) By Order R-9093, entered on January 8, 1990, all mineral interests, whatever they may be, in the Undesignated Tamano-Bone Spring Pool, underlying the SE/4 SW/4 (Unit N) of Section 1, Township 18 South, Range 31 East, NMPM, Eddy County, New Mexico, were pooled to form a standard 40-acre oil spacing and proration unit to be dedicated to a well to be drilled at a standard oil well location thereon.

(4) By Order R-9093-A, entered on February 27, 1990, the Oil Conservation Commission, pursuant to the request of Spiral, Inc., Explorers Petroleum Corporation, and HEYCO Employers, Ltd as applicants for De Novo hearing, dismissed Case 9845 De Novo and ordered that Order R-9093 continue in full force and effect until further notice.

(5) There are interest owners in the unit who have not agreed to pool their interests from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool underlying the SE/4 SW/4 (Unit N) of said Section 1.

(6) Chevron USA, Inc., the only non-consenting interest owner, appeared in opposition to the application of Yates Energy Corporation at the hearing.

(7) Spiral Inc., Explorers Petroleum Corporation and HEYCO Employers, LTD., appeared at the hearing but did not oppose the application; these interest owners were non-consenting interest owners under Order R-9093, but subsequently voluntarily joined in drilling the subject well.

(8) Pursuant to Order R-9093, Yates Energy Corporation drilled a well, the Thornbush Federal No. 1 well, that tested the Undesignated Tamano Bone-Spring Pool; the well was not productive from the Undesignated Tamano-Bone Spring Pool but was productive in the San Andres Formation, a shallower formation not within the Tamano-Bone Spring Pool.

(9) The completion of the Thornbush Federal No. 1 well in the San Andres Formation was performed by Yates Energy Corporation in a diligent and prudent manner after testing the Undesignated Tamano-Bone Spring Pool without, at any material time, abandoning the borehole.

(10) At all material times from initial proposal of the well to the various working interest owners to the completion of the well for production from the San Andres Formation, Yates Energy Corporation intended that Order

R-9093 apply to all formations from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool.

(11) Chevron USA, Inc., did not participate in the Bone Spring test well, did not appear in the hearing resulting in Order R-9093, but through the proposals made by Yates Energy Corporation, each working interest owner in the well, including Chevron, knew or had reason to know that Yates Energy Corporation would test other potential productive oil and gas hearing zones and formations overlying the Undesignated Tamano-Bone Spring Pool.

(12) The interest of Chevron USA Inc., was compulsorily pooled by Order R-9214, a south offset San Andres formation drilling prospect to the Thornbush Federal No. 1 well.

(13) Chevron USA Inc., has failed or refused to participate in any reasonable proposal in the drilling of the Thornbush Federal No. 1 well.

(14) Chevron USA, Inc., elected not to present any testimony or evidence at the hearing, but by motion moved for dismissal of the application on the basis that Order R-9093 had expired by operation of law since the San Andres Formation was not included in Order R-9093.

(15) Dismissal or denial of the application under consideration in this case would cause an unjust and unreasonable result because reasonable well costs, under the

circumstances, include the cost of testing the Undesignated Tamano-Bone Spring Pool; such result would create an unnecessary expense to the parties who have agreed to pay their proportionate share of total well costs and expenses which include the cost and expense of testing the undesignated Tamano-Bone Spring Pool thus denying them their fair and equitable share of oil and gas production; and such result would unfairly reward Chevron USA, Inc., a non-consenting interest owner who has assumed no risk whatsoever but its non-consenting status.

(16) Under the circumstances, there is little, if any difference, whether Yates Energy Corporation should have halted its completion operations in the San Andres formation pending a hearing to force pool the San Andres formation and any other formation overlying the Undesignated Tamano-Bone Spring Pool and the instant application after the well was completed since this appears to be a matter of substance over form inasmuch as Chevron has had ample notice of all of Yates Energy Corporation's drilling and exploration intentions and of the proceedings before the Division.

(17) The motion of Chevron USA, Inc. should be denied.

(18) The application of Yates Energy Corporation should be approved.

IT IS THEREFORE ORDERED THAT:

(1) The motion of Chevron USA, Inc. to dismiss the application is hereby denied.

(2) The application of Yates Energy Corporation is hereby approved and Order R-9093 is hereby amended retroactive to January 8, 1990, to pool all mineral interests, whatever they may be, from the surface of the earth to the base of the Undesignated Tamano-Bone Spring Pool, underlying the SE/4 SW/4 (Unit N) of Section 1, Township 18 South, Range 31 East NMPM, Eddy County, New Mexico, forming a standard 40-acre oil spacing and proration unit for said pool, all to be dedicated to the Thornbush Federal No. 1 well.

(3) Except as otherwise amended herein by this order, all other provisions of Order R-9093 shall remain in full force and effect.

(4) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

State of New Mexico
Oil Conservation Division

William J. LeMay
Director

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

APPLICATION OF YATES ENERGY
CORPORATION TO AMEND DIVISION
ORDER NO. R-9093, EDDY COUNTY,
NEW MEXICO.

CASE 9998
ORDER NO. R-

CHEVRON'S PROPOSED
ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on July 25, 1990, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this ____ day of September, 1990, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

(1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.

CASE NO. 9998
ORDER NO. R-
PAGE 2

(2) The Division by Order R-9093 entered in Case No. 9845, effective January 8, 1990, granted the application of Yates Energy Corporation ("Yates") for an order pooling all minerals interest including that of Chevron USA, Inc. ("Chevron") only in the Undesignated Tamano-Bone Springs Pool underlying the SE/4SW/4 of Section 1, T18S, R31E, N.M.P.M., Eddy County, New Mexico forming a standard 40-acre oil spacing and proration unit for its Thornbush Federal Com No. 1 well.

(3) Yates sent notice to Chevron for participation in this Bone Springs attempt and Chevron elected to be a non-consenting working interest owner under the compulsory pooling order.

(4) Yates then drilled the Thornbush well to a total depth of 9060 feet, tested the Bone Springs pool for production at a depth of 8,800 feet and was unable to obtain any hydrocarbon production from the Bone Springs Pool.

(5) Then in the absence of either a voluntary agreement with Chevron or a new compulsory pooling order, Yates tested the San Andres formation at approximately 5,000 feet and established production.

CASE NO. 9998
ORDER NO. R-
PAGE 3

(6) Thereafter, by letter dated June 4, 1990, Yates requested that Chevron allow Yates to amend Order R-9093 but refused to allow Chevron to participate in the San Andres production and further refused to furnish Chevron with an AFE showing a reasonable allocation of well costs to the San Andres production.

(7) Yates has refused to provide Chevron with an AFE for the costs of participating in the San Andres formation production and instead demands that it be allowed to recover the total costs of the well including the costs attributable to the Bones Springs out of Chevron's share of San Andres production plus an additional 200% risk factor penalty.

(8) Yates has refused to provide Chevron with any opportunity to participate in the San Andres production.

(9) Yates, through no fault of Chevron or the Division, failed to pool any formation but the Bone Springs.

(10) Yates proceeded with efforts to complete in the San Andres formation without first obtaining an order from the Division or a voluntary agreement with Chevron for a test of the San Andres formation.

(11) Yates assumed the risk of its completion in the San Andres.

CASE NO. 9998
ORDER NO. R-
PAGE 4

(12) Section 70-2-17(c) requires that compulsory pooling be resorted to only after the parties have failed to reach an agreement. In this case, Yates did not give Chevron any opportunity to agree as to the San Andres formation before Yates attempted to pool the San Andres formation.

(13) Yates application for amendment of the pooling order amounts to an effort to circumvent the requirements of Section 70-2-17(c) and fails to afford Chevron with the opportunity to reach any agreement as to the San Andres pool.

(14) Yates contends it should be allowed to amend Order R-9093 and to collect out of Chevron's share of production from the San Andres the Chevron share of the total cost of the well including all costs attributable to the Bone Springs.

(15) Yates' proposed allocation of costs to the San Andres formation is not fair and reasonable and should be rejected.

(16) Without first providing Chevron with a fair and reasonable AFE allocating costs between the Bone Springs attempt and the San Andres completion and an opportunity to pay its share of those costs, Yates seeks to amend the expired pooling order and thereby pool Chevron's interest in a formation not previously pooled.

(17) Chevron's motion to dismiss the Yates case should be granted.

(18) Yates' application is premature because it has failed to comply with the prerequisites for filing a compulsory pooling application as to the San Andres formation.

(19) Yates has assumed the costs of drilling and competing in the San Andres formation and cannot now collect a risk factor penalty out of Chevron's share of that production.

(20) The burden of proof is on Yates to show a prima facie case that its application should be granted.

(21) Yates has failed to sustain its burden of proof.

(22) Order R-9093 expired when Yates abandoned its efforts to obtain hydrocarbon production from the only formation subject to that order.

CASE NO. 9998
ORDER NO. R-
PAGE 6

(23) Yates cannot now amend an expired compulsory pooling order.

IT IS THEREFORE ORDER THAT:

(1) Yates shall shut in the Thornbush well until further order of the Division entered after notice and hearing;

(2) That the Yates application to amend Order R-9093 is DENIED.

(3) That Order R-9093 has expired.

(4) That Yates shall within thirty days of the date of this order provide to the Division and to Chevron a cost allocation for the Thornbush well allocating the drilling costs of a San Andres test excluding that portion of the costs from the San Andres to the Bone Springs and the resulting plugback to the San Andres formation but including the completion costs in the San Andres in accordance with COPAS Bulletin No 2.

(5) That Yates shall provide Chevron an opportunity to participate in the San Andres production from the Thornburg well prior to instituting any further proceedings in this matter.

CASE NO. 9998
ORDER NO. R-
PAGE 7

(6) Jurisdiction of this cause and the parties thereto is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO

OIL CONSERVATION DIVISION

WILLIAM J. LEMAY
DIRECTOR

August 3, 1990

Yates Energy Corporation
Sunwest Centre
Suite 1010
Roswell, New Mexico 88201

Attention: Fred G. Yates

Re: Thornbush Federal Well No. 1
Unit N, Section 1, T-18 South,
R-31 East, NMPM, Eddy County, NM

Dear Mr. Yates:

It has recently come to our attention that the above referenced well is currently being produced from the San Andres formation in violation of Division Rule No. 1104, which requires that all interest owners in the well be consolidated by communitization, forced pooling, etc. prior to the assignment of allowable.

It is my understanding that Chevron USA Inc.'s interest in the subject well has not been consolidated. It is further my understanding that Yates Energy Corporation has attempted to consolidate said interest via Case No. 9998 which was heard on July 25, and has been continued for readvertisement purposes to the hearing to be held on August 22, 1990.

You are hereby directed to shut-in the above referenced well until such time as said interest has been consolidated, either by forced pooling order of the Division, or by voluntary agreement with Chevron USA Inc.

Sincerely,

William J. LeMay
Director

xc: OCD-Artesia
Ernie Padilla

PADILLA & SNYDER
ATTORNEYS AT LAW
200 W. MARCY, SUITE 216
P.O. BOX 2523
SANTA FE, NEW MEXICO 87504-2523
(505) 988-7577

ERNEST L. PADILLA
MARY JO SNYDER

FAX 988-7592
AREA CODE 505

July 9, 1990

HAND-DELIVERED

RECEIVED

JUL 9 1990

CONSERVATION DIVISION

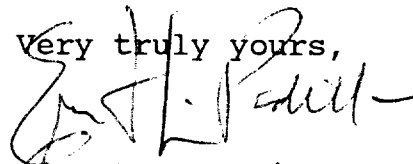
Mr. William J. LeMay, Director
New Mexico Oil Conservation Division
State Land Office Building
310 Old Santa Fe Trail
Santa Fe, New Mexico 87501

Re: Application of Yates Energy Corporation
to Amend Order No. R-9093

Dear Mr. LeMay:

Please accept this letter as our request to continue the hearing in the above-referenced Application from a hearing date of July 11, 1990 to a hearing date of July 25, 1990.

Very truly yours,


Ernest L. Padilla

ELP:pmc
cc: Yates Energy Corporation