

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

3 June 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com-	CASE
pany for revocation of Division Or-	9144
ders Nos. R-7240 and R-8190 and for	
compulsory pooling, Lea County, New	
Mexico.	

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Legal Counsel for the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For HEYCO:

Robert H. Strand
Attorney at Law
ATWOOD, MALONE, MANN & TURNER
P. O. Drawer 700
Roswell, New Mexico 88201

I N D E X

ROBERT H. BELL

Direct Examination by Mr. Strand	4
Cross Examination by Mr. Taylor	19
Cross Examination by Mr. Catanach	23

GORDAN K. YAHNEY

Direct Examination by Mr. Strand	24
Cross Examination by Mr. Catanach	29

E X H I B I T S

Heyco Exhibit One, Land Plat	5
Heyco Exhibit Two, List	9
Heyco Exhibit Three, Letter	11
Heyco Exhibit Four, AFE	16
Heyco Exhibit Five, Operating Agreement	17
Heyco Exhibit Six, Structure Map	26
Heyco Exhibit Seven, Isopach	27
Heyco Exhibit Eight, Isopach	27

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

MR. CATANACH: Call next Case
9144.

MR. TAYLOR: The application of
Harvey E. Yates, Company for revocation of Division Orders
Nos. R-7240 and R-8190, and for compulsory pooling, Lea
County, New Mexico.

MR. CATANACH: Are there
appearances in this case?

MR. STRAND: Mr. Examiner, my
name is Robert H. Strand of the law firm of Atwood, Malone,
Mann, and Turner in Roswell, representing the applicant and
I have two witnesses to be sworn.

MR. CATANACH: Are there any
other appearances in this case?

Will the two witnesses please
stand and be sworn in?

(Witnesses sworn.)

ROBERT H. BELL,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. STRAND:

Q Please state your full name and where you reside, and by whom you're employed.

A My name is Robert H. Bell. I'm employed with Harvey E. Yates Company, and reside in Roswell, New Mexico.

Q And what is your position with Harvey E. Yates Company?

A Petroleum landman.

Q Mr. Bell, have you previously testified before the Division in your capacity as a landman?

A Yes, sir, I have.

Q And have your qualifications been accepted?

A Yes, sir, they have.

MR. STRAND: Mr. Examiner, is Mr. Bell considered a qualified landman?

MR. CATANACH: He is so qualified.

Q Would you please state the purpose of the application in Case Number 9144?

A The applicant in Case 9144 seeks an order revoking the provisions of Division Order No. R-7240, relat-

1 ing to the compulsory pooling of the south half of southeast
2 quarter of Section 8, Township 16 South, Range 37 East, and
3 revoking Division Order No. R-8190 in its entirety.

4 Applicant now seeks to pool all mineral
5 interest in the Northeast Lovington Pennsylvanian Pool un-
6 derlying the east half of the southeast quarter of said Sec-
7 tion 8, forming a standard 80-acre oil spacing and proration
8 unit to be dedicated to its existing East Lovington 8 No. 2,
9 located 1874 feet from the south line and 554 feet from the
10 east line, being Unit letter I of said Section 8, and fur-
11 ther pooling all mineral interest in the Northeast Lovington
12 Pennsylvanian Pool underlying the west half southeast quar-
13 ter of said Section 8, to be dedicated to a well to be dril-
14 led at a standard location thereon.

15 Q Have you prepared certain exhibits for
16 presentation at this hearing?

17 A Yes, sir, I have.

18 Q I refer you to what we've designated as
19 Exhibit Number One. Would you please describe this exhibit?

20 A Exhibit Number One is a land plat of
21 Township 16 South, Range 37 East, designating -- or showing
22 our two existing wells in the southeast quarter of Section
23 8.

24 The Lovington 8-1 Well is located in the
25 southeast southeast quarter of Section 8.

1 The Lovington 8-2, in the northeast of
2 the southeast of Section 8.

3 It also shows the proposed location for
4 the Lovington 8-3 Well, being the northwest of the southeast
5 quarter of Section 8.

6 Q Mr. Bell, does this exhibit also show the
7 prior pooled proration units as established by the two Divi-
8 sion orders that you've testified to?

9 A Yes, sir, it does.

10 Q Order No. R-7240 was a forced pool order
11 for the Lovington 8-1, which dedicates the south half of
12 the southeast quarter to that forced pool order and Order
13 No. R-8190 was for the Lovington 8-2, which dedicates the
14 north half of the southeast quarter for that forced pool.

15 Q Now with reference -- have you examined
16 these prior orders?

17 A Yes, sir, I have.

18 Q With reference to prior Order No. R-7240,
19 which was entered on March 29th, 1983, does this order have
20 the effect of pooling all mineral interests in the Pennsyl-
21 vanian formation underlying the south half of the southeast
22 quarter of Section 8?

23 A That's correct.

24 Q And was this 80-acre unit then dedicated
25 to your No. 8-1 Well?

1 A Yes, sir.

2 Q And that well was completed in the Penn-
3 sylvanian formation?

4 A Yes, sir.

5 Q As an oil producer?

6 A Oil producer.

7 Q What is the current status of that well?

8 A That well is currently scheduled to be
9 plugged and abandoned. It's making, oh, on an average about
10 4 to 5 barrels of oil a day. It's noneconomical to produce
11 at that rate.

12 Q When do you intend to plug it?

13 A Well, we're -- in the very near future.
14 We're trying to use it right now as a vertical storage
15 facility for the pipe. Hopefully, we can use this pipe for
16 a Lovington 8-3 Well.

17 Q Referring back to the order entered by
18 the Division, R-7240, did that order contain provisions
19 relating to recovery of cost and risk penalty attributable
20 to nonparticipating mineral interest owners?

21 A Yes, sir, it did. It contained a 200
22 percent penalty, risk penalty.

23 Q Have the costs attributable to those
24 interests and the risk penalty been recovered?

25 A This is on the Lovington 8-1?

1 Q Yes.

2 A No, sir, they have not.

3 Q And since you're plugging, of course,
4 they will never be recovered.

5 A That's correct.

6 Q Now, with reference to prior Order No.
7 8190, entered on March 31st, 1986, did this order pool all
8 mineral interest -- uncommitted mineral interests in the
9 Northeast Lovington Penn Pool underlying the north half of
10 the southeast quarter in Section 8?

11 A Yes, sir, it did.

12 Q And was that pooled unit dedicated to
13 your No. 8-2 Well, as shown on your plat?

14 A That's correct. Yes, sir.

15 Q Was that well drilled and completed as an
16 oil producer in the East Lovington Penn Pool?

17 A Yes, it was.

18 Q What is the current status of that well?

19 A That well is currently producing, holding
20 up pretty well. I'm not sure of the current rate. Gordan,
21 do you --

22 MR. YAHNEY: 280.

23 A About 280 barrels of oil a day.

24 Q Did Order No. 8190, R-8190, I'm sorry,
25 also include the same cost recovery and risk penalty provi-

1 sions that you've testified to as to the first order?

2 A Yes, sir, it did, a 200 percent penalty.

3 Q What is the status of payout of the re-
4 covery of drilling costs and risk penalty?

5 A Based on an approximated monthly expendi-
6 tures and monthly revenues, we anticipate this well to pay
7 out on or around June the 9th, 1987.

8 Q Just within a matter of days.

9 A Days, yes, sir.

10 Q I refer you to what we've designated as
11 Exhibit Number Two. Would you please describe that exhibit?

12 A Exhibit Number Two is a list of the force
13 pooled mineral owners under the Lovington 8-2 Well that we
14 also would like to pool under the proposed Lovington 8-3
15 Well.

16 There are ten mineral owners with a total
17 net acres of 8.49. We've made various attempts to contact
18 these people with -- and we've been unsuccessful in all of
19 our attempts.

20 Q Mr. Bell, are these mineral owners also
21 pooled under the initial Order No. 7240?

22 A Yes, sir, they are.

23 Q And this will be the third hearing that
24 the Applicant has requested concerning pooling of these par-
25 ties?

1 A That's correct.

2 Q And to this date you have not been able
3 to locate --

4 A That's also correct.

5 Q -- these people? Was notice of this
6 hearing sent to all of such parties at their last known
7 address?

8 A Yes, sir. We've -- we sent letters
9 offering to lease their minerals and also letters of
10 notification of hearing.

11 Q And was that notice sent so that if they
12 would have received it, they would have received it at least
13 20 days prior to this hearing?

14 A That's correct, and all notices were --
15 were sent certified, return receipt, mail.

16 Q Now, as to the entire southeast quarter,
17 is this mineral interest common to all of the southeast
18 quarter of these uncommitted owners?

19 A Yes, sir, it's a common interest under
20 the southeast quarter.

21 Q Now, as to the other mineral interests
22 under the southeast quarter, are they either all leased or
23 are they otherwise committed to an operating agreement?

24 A Yes, sir.

25 Q Are all working interest owners, be they

1 uncommitted mineral owners or parties who own leases from
2 mineral owners committed under that same operating agree-
3 ment?

4 A That's correct.

5 Q I refer you to Exhibit Number Three.
6 Would you please describe that?

7 A Exhibit Number Three is a copy of a let-
8 ter that we sent to the ten parties that we were unable to
9 locate, giving notice of the hearing.

10 Q And does that exhibit consist of a packet
11 of notification letters?

12 A Yes, sir, they're notification letters to
13 all ten as well as one copy of the application which was
14 sent along with each one.

15 Q Now, Mr. Bell, the applicant has reques-
16 ted that prior Orders No. 7240 and No. R-8190 be revoked, at
17 least as to the pooling provisions in those orders.

18 Am I correct?

19 A That's correct.

20 Q Am I further correct that the applicant
21 is requesting that the uncommitted mineral interests in the
22 Northeast Lovington Penn Pool underlying the east half of the
23 southeast quarter be pooled to form a standard oil proration
24 unit to be dedicated to your existing East Lovington 8-2
25 Well?

1 A Yes, sir, that's correct.

2 Q And that well is located in the northeast
3 quarter of the northeast quarter of Section 8.

4 A No, sir, that well is located in the
5 northeast quarter of the southeast quarter.

6 Q I'm sorry, southeast quarter.

7 A You just wanted to see if I was paying
8 attention.

9 Q And this is the currently producing well
10 which you've testified to as to the payout or imminent
11 payout of the drilling costs and risk penalty provisions.

12 A That's correct.

13 Q And then the appliant is also requesting
14 that the uncomitted mineral owners in the Northeast
15 Lovington Penn Pool underlying the west half of the
16 southeast quarter be pooled as to that acreage.

17 A Yes, sir.

18 Q And is it your intent to dedicate such
19 lands, then, to a new oil well to be drilled and potentially
20 completed in the Northeast Lovington Penn Pool?

21 A That's correct.

22 Q And will that well be at a standard
23 location?

24 A Yes, sir; be located 1980 from the south
25 and east lines of Section 8.

1 Q So am I correct that in essence you're
2 requesting that we do away with the two laydown proration
3 units and replace them with two 80-acre standup proration
4 units?

5 A Yes, sir, that's correct.

6 Q And I believe you have testified that the
7 mineral interests of the uncommitted mineral owners will not
8 change as a result of this change or proration units in that
9 they have a common interest under the entire southeast
10 quarter.

11 A That's correct.

12 Q Now, with regard to the proposed pooling
13 of the east half of the southeast quarter of Section 8 to be
14 dedicated to the existing well, do you request that if an
15 order is entered granting this application, that there be no
16 further cost recovery, drilling cost recovery and risk
17 penalty provisions in that the well has already paid that
18 penalty under the prior order?

19 A Yes, sir.

20 Q However, then, as to the west half of the
21 southeast quarter, which will be dedicated to your proposed
22 new well, do you request that risk penalty and drilling cost
23 recovery provisions be included in that order?

24 A Yes, sir.

25 Q Now, as you've testified, all of the

1 other mineral interests under the southeast quarter are com-
2 mitted to leases or the mineral owners have agreed to parti-
3 cipate under the operating agreement, is that correct?

4 A That's correct.

5 Q Now, will this change in proration units
6 have any affect on those parties' interests?

7 A Well, slightly. There are two mineral
8 owners that do not have equal interests.

9 We have one -- one interest is different
10 as to the east half of the southeast quarter, and the west
11 half of the southeast quarter, and the other individual only
12 owns the minerals in the east half of the southeast quarter.

13 Q And these are mineral owners that are
14 either committed under the operating agreement or who --

15 A Yes, sir.

16 Q -- have leased to parties who are
17 committed.

18 A That's correct.

19 Q What is the extent of this interest
20 difference?

21 A It's very small. The one mineral owner
22 has a 1/256 mineral interest, which is .3125 net acres in
23 the east half of the southeast quarter.

24 The other is divided. They have a 90/768
25 in the east half of the southeast quarter, being 9.375 net

1 acres, and a 93/768 in the west half of the southeast quar-
2 ter, being 9.6875 net acres.

3 Q Would you state for the record which par-
4 ties own those mineral interests?

5 A All right. The Lucky Wright Royalty Syn-
6 dicate, a common law trust out of Farmington, New Mexico,
7 owns the 90/768 in the east half of the southeast quarter,
8 as well as the 93/768 in the west half of the southeast
9 quarter.

10 And Rebel Oil Company, Hobbs, New Mexico,
11 owns the 1/256 in the east half of the southeast quarter.

12 Q Have you contacted these interest owners
13 and inquired of them if they had any objection to this
14 change in proration units?

15 A Yes, sir, I have. I talked to Mildred
16 Wright and Twyla Gooding, who is the trustee for the syndi-
17 cate. They have indicated their approval of the change in
18 proration units and they -- I also sent them a letter which
19 they have signed indicating their acceptance to this propo-
20 sal.

21 I also have an approval from Rebel Oil
22 Company. Of course their interest would only increase; it
23 wouldn't be adversely affected by this change.

24 Q And has a representative of Rebel Oil
25 Company authorized you to state at this hearing that they do

1 not object to this change?

2 A That's correct. Ellie Spear, Mrs. Ellie
3 Spear gave her acceptance.

4 Q And in summary on this point, then, am I
5 correct that these two mineral interests are the only ones
6 which would differ as between the existing proration units
7 and the two new proposed proration units?

8 A That's correct.

9 Q I refer you to what we've designated as
10 Exhibit Number Four. Would you please describe that?

11 A Exhibit Number Four is an AFE prepared
12 for the Lovington 8-3 Well.

13 Q You've already stated the location of
14 this proposed well. What is the total estimated cost of the
15 well?

16 A Total dry hole estimated costs are
17 \$337,281 and a completed cost of \$595,423.

18 Q And what is the proposed total depth of
19 the well?

20 A 11,750 feet.

21 Q Mr. Bell, based on other estimates of
22 drilling costs and completion costs for wells, similar wells
23 in the area, do you feel that this AFE represents a reason-
24 able cost estimate for the proposed well?

25 A Yes, sir, I do?

1 Q I refer you to Exhibit Number Five.
2 Would you please describe that exhibit?

3 A Exhibit Number Five is a joint operating
4 agreement that was prepared covering the southeast quarter
5 of Section 8 and the northeast quarter of Section 17 of 15,
6 37, dated December 1st, 1982.

7 Q And is this the operating agreement
8 you've testified to previously and were the No. 8-1 and 8-2
9 Wells drilled subject to this agreement?

10 A That's correct.

11 Q I refer you to the COPAS accounting pro-
12 cedure form attached, I believe, as Exhibit D to the oper-
13 ating agreement. Does that portion of the operating agree-
14 ment provide for supervision costs while wells are drilling
15 and supervision costs while operating wells?

16 A Yes, sir, it does. It provides for a
17 \$4000 drilling well rate and \$400 producing well rate.

18 Q Were those same rates incorporated in the
19 prior Orders No. R-7240 and R-8190?

20 A Yes, sir, they were.

21 Q And does the applicant request that these
22 same rates be included in the order to be entered in this
23 application?

24 A Yes, sir, we do.

25 Q And would you request that those super-

1 vision rates be applicable to all proration units?

2 A Yes, sir, that's correct.

3 Q Does Harvey E. Yates Company as applicant
4 request that it be designated operator of the two proposed
5 pooled units?

6 A That's correct.

7 Q In your opinion will granting of this
8 application promote conservation, prevent waste, and protect
9 correlative rights?

10 A Very much so.

11 Q Were Exhibits Number One through Five
12 prepared by you or under your supervision or do they repre-
13 sent documents from the applicant's files?

14 A Yes, sir, they were; they do.

15 MR. STRAND: I have nothing
16 further of Mr. Bell.

17 MR. CATANCH: Are you going to
18 admit the exhibits, Mr. Strand?

19 MR. STRAND: Want to do them
20 now or all at the end?

21 MR. CATANACH: Oh, it doesn't matter.
22 I guess. I guess at the end.

23

24

25

CROSS EXAMINATION

BY MR. TAYLOR:

Q Mr. Bell, I don't know if you and I have talked about this but I know I've talked with several people from Yates about this.

Our theory is that a forced pooling expires when the well is either a dry hole or plugged, so obviously, I don't think every problem with the No. 1 Well, I think the south half proration unit there, that forced pooling would expire at the time that well was plugged.

On the No. 2, and I -- the reason I'm trying to figure this out is because I wasn't sure as to who owns what and who's left over, but on the No. 2 I'm not sure legally that we can rescind that unless the interest owners that would be, you know, paid for that well, and obviously, being such a productive well they'd be interested in that, unless they -- anybody who would have their interest decreased by that would be agreeable, are -- did you say that the people that you've either contacted or that you can't contact, either would not have their ownership interest decreased in that proration unit by the change or that they're agreeable to this?

A That's correct. What we did, we contacted all of the working interest owners. All of the working interest owners were agreeable to the change.

1 There were only two mineral owners who
2 were affected by the change. One was Rebel Oil, whose
3 interest is not adversely affected. Their interest will ac-
4 tually increase by the change.

5 And the only one whose interest is adver-
6 sely affected is the Lucky Wright Royalty Syndicate inter-
7 est. The change, what they would give up under the Loving-
8 ton 8-2, a .00036621 interest under the Lovington 8-2, and
9 their interest under the Lovington 8-3 would be increased by
10 that amount.

11 Now I have talked to Mrs. Wright and
12 Twyla Gooding. They are agreeable to giving up that inter-
13 est under the 8-2 in order to change the proration unit.

14 The interest is very, very minimal. I
15 think we calculated this based on \$1,000,000 after taxes.
16 this would be a decrease of \$360, approximately \$360.

17 Q Okay. Could you or have you already sup-
18 plied us with documents to indicate that they're in agree-
19 ment with this --

20 A I have them here and I will submit those.

21 Q Okay, would you do that, and the other
22 kind of legal question I have was on the question of whether
23 we should actually rescind that. Maybe Bob needs to think
24 about this. I haven't actually researched it, but whether
25 we actually want to rescind that or just amend that to

1 change the acreage, and I'm not sure.

2 With No. 1, obviously, I don't think
3 there's any problem because under our theories of how forced
4 pooling works, we would just assume that has expired and of
5 no effect once you plug that well.

6 MR. STRAND: And, really, as to
7 the existing well, the No. 2 Well, I think you may be right
8 just to amend the order to change the proration unit.

9 We would like to have the pro-
10 visions of the order basically remain in effect except, of
11 course, the penalty provisions, which will no longer be ap-
12 plicable, (unclear) paid out.

13 And then I guess the order
14 would create the new proration unit or the pooled unit for
15 the west half. Yeah, that's the way I would see it.

16 MR. TAYLOR: Why don't we as-
17 sume -- since there's no opposition here, why don't we, be-
18 fore any order is entered, discuss these legal issues.

19 MR. STRAND: Okay, certainly.
20 Certainly.

21 MR. TAYLOR: Of how we ought to
22 go about it and I think we -- it might be best just to have
23 you go ahead and plug that one well and we'll consider that
24 expired and when do you plan to plug that?

25 A Well, I would say next couple of weeks.

1 Q If you don't, see, then we would need to
2 also amend or rescind that first order, --

3 A Okay.

4 Q -- probably amend it, so we'd probably
5 need to know before we actually issue an order what's going
6 to happen.

7 A Okay.

8 Q Then we could just -- I guess we could
9 amend both of them and change the proration units in them.

10 A I might mention that I did also send out
11 AFE's for the plugging of the Lovington 8-1 and I have re-
12 ceived all fo those back with everyone's concurrence.

13 Q So you definitely decided to go ahead and
14 plug that? There's no question as to whether you are?

15 A That's correct.

16 Q Okay. Well, then, for purosos of the or-
17 der we'll just assume that to be plugged and we will say
18 that that's going to -- that forced pooling will then be ex-
19 pired, of no force and effect after that.

20 MR. STRAND: That would be
21 satisfactory with us.

22 MR. TAYLOR: And then we'll --
23 we'll just have to work with this other case.

24

25

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

CROSS EXAMINATION

BY MR. CATANACH:

Q Mr. Bell, the parties that you're force pooling or that you have in the No. 2 Well and the No. 3 Well, their interest is all the same in the 160-acre units, is that correct?

The interest owners who have already paid out their share in the No. 2 Well, the switching of that proration unit won't -- they'll -- they'll still be paid out?

A That's correct.

Q In the No. 2 Well.

A No adverse --

Q They won't be adversely affected by that.

A Not at all.

Q How much did that No. 1 Well actually produce, do you know?

A Cumulative for the well was somewhere between 45-to-50,000 barrels.

Q Do you have any idea what percentage of payout that well incurred before it had to be abandoned, and how much cost you recovered out of that well?

A No, sir, I don't. A rough estimate is that well has paid out one time.

1 Q So the penalty --

2 MR. YAHNEY: The penalty is not
3 paid out at all but the original costs were all paid out.

4 Q I see. Okay, in pooling the west half of
5 that southeast quarter you've requested they start over
6 again recovering the costs.

7 A For the new well, yes, sir.

8 Q For No. 3.

9 A Yes, sir.

10 MR. STRAND: We'll have some
11 further testimony on risk involved.

12 MR. CATANACH: Okay, I don't
13 have any further questions at this time.

14

15 GORDON K. YAHNEY,
16 being called as a witness and being duly sworn upon his
17 oath, testified as follows, to-wit:

18

19 DIRECT EXAMINATION

20 BY MR. STRAND:

21 Q Please state your full name, place of
22 residence, and by whom you're employed.

23 A My name is Gordon K. Yahney. I'm cur-
24 rently living at Roswell and I work for Harvey E. Yates Com-
25 pany.

1 Q And in what capacity are you employed by
2 Harvey E. Yates Company?

3 A I'm employed as a geologist.

4 Q Mr. Yahney, have you previously testified
5 before the Division?

6 A No, I have not.

7 Q Would you then state for the record a
8 brief summary of your education, work experience, and any
9 professional societies that you have memberships in?

10 A Yes. I am a Bachelor -- have a Bachelor
11 of Science degree from Defiance College, Master of Science
12 in geology from Bowling Green State University, Bowling
13 Green, Ohio.

14 I have been in the oil industry about
15 nine and a half years, seven and a half with Texaco, em-
16 ployed as a geologist in Midland and Denver; and the past
17 two years as a geologist for Harvey E. Yates Company.

18 I'm currently a member of AAPG, Rocky
19 Mountain Association of Geologists, and the West Texas Geo-
20 logical Society.

21 MR. STRAND: Mr. Examiner, is
22 Mr. Yahney considered qualified as an expert in the area of
23 geology?

24 MR. CATANACH: He is so quali-
25 fied.

1 Could I have the witness spell
2 his name for me, please?

3 | A Y-A-H-N-E-Y.

4 MR. CATANACH: And what was
5 your first name?

6 A Gordon.

7 | MR. CATANACH: Thank you.

8 Q Mr. Yahney, are you familiar with the
9 application in Case 9144 and have you heard Mr. Bell's
10 testimony here today?

11 A Yes, I have.

12 Q In preparation for this hearing have you
13 prepared certain geological exhibits?

14 A Yes, I have.

15 Q I refer you to Exhibit Number Six. Would
16 you please describe this exhibit?

17 A Exhibit Number Six is a structure map
18 drawn on the top of the Strawn B carbonate. It is the
19 producing formation in the -- over most of the Northeast
20 Lovington Penn Pool. The proposed location for the East
21 Lovington 8-3 Well is noted with the red arrow in the center
22 of the map.

23 Q Does that well also show the 8-1 and 8-2?

24 A Yes, it does.

25 Q And they are indicated by blue dots, is

1 that correct?

2 A Yes, they are.

3 Q I refer you to Exhibit Number Seven.
4 Will you please describe that exhibit?

5 A Exhibit Number Seven is an Isopach map
6 drawn on the interval between the top of the Strawn B Bank
7 and its base. The Strawn B Bank again is the producing for-
8 mation in the Northeast Lovington Penn Pool and this gives
9 you a rough idea of the interval, the overall interval pro-
10 ductive in this area.

11 Q I refer you to Exhibit Number Eight.
12 Will you please describe that exhibit?

13 A Exhibit Number Eight is also an Isopach
14 map. It's a porosity Isopach Map taken from electric logs
15 in the area. A porosity greater than 6 percent is generally
16 proven to be productive when it is -- has suitable oil satu-
17 rations.

18 Q Mr. Yahney, in your opinion is the loca-
19 tion of the proposed new well situated at an optimum point
20 in the East Lovington Penn Pool?

21 A Yes. The reason for drilling the East
22 Lovington 8-3 Well is to try to establish additional produc-
23 tion from an area which we think the porosity is developed
24 within the Strawn B Bank and that this location will be
25 structurally favorable and additional reserves which would

1 not be economically achievable from the 8-2 Well could be
2 established.

3 Q Mr. Yahney, based on your analysis of
4 this area do you feel there is substantial risk involved in
5 the drilling of the proposed 8-3 Well?

6 A Yes, I do. The East Lovington Penn Pool
7 was made up of isolated algal mound banks which generally
8 have developed porosity in them. The porosity, however, is
9 very discontinuous and there is significant risk that you
10 will find the bank but have a tight section that has been
11 encountered in a number of places. In the immediate area
12 there is at least five or six, maybe even seven, dry holes
13 in the immediate area within a couple miles.

14 Q Are there also mechanical risks inherent
15 in the drilling of any well of this depth?

16 A Yes, there is.

17 Q Now, based on that opinion as to risk, as
18 to the west half of the southeast quarter of Section 8,
19 which we propose to dedicate to the new 8-3 Well, does the
20 applicant request that any order entered in this case pro-
21 vide for the maximum risk penalty of recovery of drilling
22 costs plus 200 percent?

23 A Yes.

24 Q Mr. Yahney, in your opinion will the
25 granting of this application promote conservation, prevent

1 waste, and protect correlative rights?

2 A Yes, it will.

3 Q Were Exhibits Number Six through Eight
4 prepared by you or under your supervision?

5 A Yes, they were.

6 MR. STRAND: Mr. Examiner, I
7 move admission of Exhibits Number One through Eight.

8 MR. CATANACH: Exhibits Number
9 One through Eight will be admitted into evidence.

10 MR. STRAND: I have nothing
11 further of Mr. Yahney.

12

13 CROSS EXAMINATION

14 BY MR. CATANACH:

15 Q Mr. Yahney, according to the geology in
16 the area would it be -- would it not be feasible to drill in
17 the southwest quarter of the southeast quarter?

18 A Southwest quarter of the southeast quar-
19 ter, it would be -- it would be possible to drill in that
20 location. I think the -- from our subsurface information
21 and from our geophysical information, that the location for
22 the 8-3 Well as noted would be a far superior location both
23 from a standpoint of where we expect the porosity to be de-
24 veloped and from a structural standpoint.

25 Q Is the Well No. 2, I believe, the one in

1 the northeast quarter, is the Well No. 2 located within one
2 of these algal mounds?

3 A Yes, it is.

4 Q It is. And you think this algal mound
5 extends over to the proposed location?

6 A The deposition involved here is generally
7 a complex of these things that are overlapping. I wouldn't
8 say that it's going to be the same one for sure that's
9 developed at the 8-3 location, but there's a probability
10 that that will occur.

11 MR. CATANCH: Okay, I don't
12 have any more questions of the witness at this time.

13 MR. STRAND: We have nothing
14 further, Mr. Examiner.

15 MR. CATANACH: I have one more
16 question of Mr. Bell, if I may.

17 Mr. Bell, the AFE you gave for
18 the drilling of the well, are those in line with the costs
19 that you've recently incurred in the drilling of the No. 1
20 and No. 2 Wells?

21 MR. BELL: Very much so.

22 MR. CATANACH: Have they --
23 have they increased any or gone down any or do you know?

24 MR. BELL: I, well, I would
25 assume that they have decreased. I'd have to check. I'm

1 not sure if I have a copy of the -- of the Number -- okay,
2 on the No. 2 Well, we had a dry hole cost of \$432,950 and
3 producing well costs of \$868,700.

4 MR. CATANACH: So they've sub-
5 stantially gone down.

6 MR. BELL: Yes, sir.

7 MR. CATANACH: That's all I
8 have, Mr. Bell.

9 MR. TAYLOR: Mr. Bell, just to
10 clarify on the record, I've been going through your applica-
11 tion and everyone today that you're force pooling owns --
12 the people listed in paragraph seven, nonconsenting working
13 interest owners, and I guess there were also some, I don't
14 know, are there some royalty interest owners, but other than
15 the ones you referred to specifically earlier, they all own
16 a common interest in the whole southeast section, south
17 southeast quarter.

18 MR. BELL: That's correct.

19 MR. TAYLOR: So the changing of
20 the locations of the wells in the proration units will not
21 affect any payments to them.

22 MR. BELL: That's correct.

23 MR. TAYLOR: Also, when you re-
24 constitute the proration units to be standup, and so you
25 make the No. 2 Well apply to a different one, I assume you

1 aren't requesting any new penalty, you'll just take up from
2 where you are on your charges against those people's inter-
3 ests.

4 MR. BELL: That's -- that's --
5 on the No. 2 Well that's correct, and, of course, payout
6 should occur any day now.

7 MR. TAYLOR: So the penalty
8 against them is not going to start over.

9 MR. BELL: No, sir.

10 MR. TAYLOR: All right. Okay,
11 that's all the questions we have.

12 MR. CATANACH: Mr. Strand, can
13 I get you to write just a rough order on this case?

14 MR. STRAND: Okay, be glad to.

15 MR. CATANACH: Okay, is there
16 anything further in Case Number 9144?

17 MR. BELL: I'd just like to sub-
18 mit this letter to you.

19 MR. CATANACH: All right, we'll
20 just incorporate the letter dated May 13th from or signed by
21 Mildred A. Wright into Exhibit Number Three.

22 There being nothing further in
23 this case, it will be taken under advisement.

24

25 (Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9144 heard by me on June 3, 1987.

David R. Catamb, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

3 June 1987

EXAMINER HEARING

IN THE MATTER OF:

Application of Harvey E. Yates Com- CASE
pany for revocation of Division Or- 9144
ders Nos. R-7240 and R-8190 and for
compulsory pooling, Lea County, New
Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

Jeff Taylor
Legal Counsel for the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For HEYCO:

Robert H. Strand
Attorney at Law
ATWOOD, MALONE, MANN & TURNER
P. O. Drawer 700
Roswell, New Mexico 88201

I N D E X

ROBERT H. BELL

Direct Examination by Mr. Strand	4
Cross Examination by Mr. Taylor	19
Cross Examination by Mr. Catanach	23

GORDAN K. YAHNEY

Direct Examination by Mr. Strand	24
Cross Examination by Mr. Catanach	29

E X H I B I T S

Heyco Exhibit One, Land Plat	5
Heyco Exhibit Two, List	9
Heyco Exhibit Three, Letter	11
Heyco Exhibit Four, AFE	16
Heyco Exhibit Five, Operating Agreement	17
Heyco Exhibit Six, Structure Map	26
Heyco Exhibit Seven, Isopach	27
Heyco Exhibit Eight, Isopach	27

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

MR. CATANACH: Call next Case
9144.

MR. TAYLOR: The application of
Harvey E. Yates, Company for revocation of Division Orders
Nos. R-7240 and R-8190, and for compulsory pooling, Lea
County, New Mexico.

MR. CATANACH: Are there
appearances in this case?

MR. STRAND: Mr. Examiner, my
name is Robert H. Strand of the law firm of Atwood, Malone,
Mann, and Turner in Roswell, representing the applicant and
I have two witnesses to be sworn.

MR. CATANACH: Are there any
other appearances in this case?

Will the two witnesses please
stand and be sworn in?

(Witnesses sworn.)

ROBERT H. BELL,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

1

2

DIRECT EXAMINATION

3

BY MR. STRAND:

4

Q

Please state your full name and where you reside, and by whom you're employed.

6

A

My name is Robert H. Bell. I'm employed with Harvey E. Yates Company, and reside in Roswell, New Mexico.

9

Q

And what is your position with Harvey E. Yates Company?

11

A

Petroleum landman.

12

Q

Mr. Bell, have you previously testified before the Division in your capacity as a landman?

14

A

Yes, sir, I have.

15

Q

And have your qualifications been accepted?

17

A

Yes, sir, they have.

18

MR. STRAND: Mr. Examiner, is

19

Mr. Bell considered a qualified landman?

20

MR. CATANACH: He is so quali-

21

fied.

22

Q

Would you please state the purpose of the application in Case Number 9144?

23

24

A

The applicant in Case 9144 seeks an order revoking the provisions of Division Order No. R-7240, relat-

25

1 ing to the compulsory pooling of the south half of southeast
2 quarter of Section 8, Township 16 South, Range 37 East, and
3 revoking Division Order No. R-8190 in its entirety.

4 Applicant now seeks to pool all mineral
5 interest in the Northeast Lovington Pennsylvanian Pool un-
6 derlying the east half of the southeast quarter of said Sec-
7 tion 8, forming a standard 80-acre oil spacing and proration
8 unit to be dedicated to its existing East Lovington 8 No. 2,
9 located 1874 feet from the south line and 554 feet from the
10 east line, being Unit letter I of said Section 8, and fur-
11 ther pooling all mineral interest in the Northeast Lovington
12 Pennsylvanian Pool underlying the west half southeast quar-
13 ter of said Section 8, to be dedicated to a well to be drill-
14 led at a standard location thereon.

15 Q Have you prepared certain exhibits for
16 presentation at this hearing?

17 A Yes, sir, I have.

18 Q I refer you to what we've designated as
19 Exhibit Number One. Would you please describe this exhibit?

20 A Exhibit Number One is a land plat of
21 Township 16 South, Range 37 East, designating -- or showing
22 our two existing wells in the southeast quarter of Section
23 8.

24 The Lovington 8-1 Well is located in the
25 southeast southeast quarter of Section 8.

1 The Lovington 8-2, in the northeast of
2 the southeast of Section 8.

3 It also shows the proposed location for
4 the Lovington 8-3 Well, being the northwest of the southeast
5 quarter of Section 8.

6 Q Mr. Bell, does this exhibit also show the
7 prior pooled proration units as established by the two Divi-
8 sion orders that you've testified to?

9 A Yes, sir, it does.

10 Q Order No. R-7240 was a forced pool order
11 for the Lovington 8-1, which dedicates the south half of
12 the southeast quarter to that forced pool order and Order
13 No. R-8190 was for the Lovington 8-2, which dedicates the
14 north half of the southeast quarter for that forced pool.

15 Q Now with reference -- have you examined
16 these prior orders?

17 A Yes, sir, I have.

18 Q With reference to prior Order No. R-7240,
19 which was entered on March 29th, 1983, does this order have
20 the effect of pooling all mineral interests in the Pennsyl-
21 vanian formation underlying the south half of the southeast
22 quarter of Section 8?

23 A That's correct.

24 Q And was this 80-acre unit then dedicated
25 to your No. 8-1 Well?

1 A Yes, sir.

2 Q And that well was completed in the Penn-
3 sylvanian formation?

4 A Yes, sir.

5 Q As an oil producer?

6 A Oil producer.

7 Q What is the current status of that well?

8 A That well is currently scheduled to be
9 plugged and abandoned. It's making, oh, on an average about
10 4 to 5 barrels of oil a day. It's noneconomical to produce
11 at that rate.

12 Q When do you intend to plug it?

13 A Well, we're -- in the very near future.
14 We're trying to use it right now as a vertical storage
15 facility for the pipe. Hopefully, we can use this pipe for
16 a Lovington 8-3 Well.

17 Q Referring back to the order entered by
18 the Division, R-7240, did that order contain provisions
19 relating to recovery of cost and risk penalty attributable
20 to nonparticipating mineral interest owners?

21 A Yes, sir, it did. It contained a 200
22 percent penalty, risk penalty.

23 Q Have the costs attributable to those
24 interests and the risk penalty been recovered?

25 A This is on the Lovington 8-1?

1 Q Yes.

2 A No, sir, they have not.

3 Q And since you're plugging, of course,
4 they will never be recovered.

5 A That's correct.

6 Q Now, with reference to prior Order No.
7 8190, entered on March 31st, 1986, did this order pool all
8 mineral interest -- uncommitted mineral interests in the
9 Northeast Lovington Penn Pool underlying the north half of
10 the southeast quarter in Section 8?

11 A Yes, sir, it did.

12 Q And was that pooled unit dedicated to
13 your No. 8-2 Well, as shown on your plat?

14 A That's correct. Yes, sir.

15 Q Was that well drilled and completed as an
16 oil producer in the East Lovington Penn Pool?

17 A Yes, it was.

18 Q What is the current status of that well?

19 A That well is currently producing, holding
20 up pretty well. I'm not sure of the current rate. Gordan,
21 do you --

22 MR. YAHNEY: 280.

23 A About 280 barrels of oil a day.

24 Q Did Order No. 8190, R-8190, I'm sorry,
25 also include the same cost recovery and risk penalty provi-

1 sions that you've testified to as to the first order?

2 A Yes, sir, it did, a 200 percent penalty.

3 Q What is the status of payout of the re-
4 covery of drilling costs and risk penalty?

5 A Based on an approximated monthly expendi-
6 tures and monthly revenues, we anticipate this well to pay
7 out on or around June the 9th, 1987.

8 Q Just within a matter of days.

9 A Days, yes, sir.

10 Q I refer you to what we've designated as
11 Exhibit Number Two. Would you please describe that exhibit?

12 A Exhibit Number Two is a list of the force
13 pooled mineral owners under the Lovington 8-2 Well that we
14 also would like to pool under the proposed Lovington 8-3
15 Well.

16 There are ten mineral owners with a total
17 net acres of 8.49. We've made various attempts to contact
18 these people with -- and we've been unsuccessful in all of
19 our attempts.

20 Q Mr. Bell, are these mineral owners also
21 pooled under the initial Order No. 7240?

22 A Yes, sir, they are.

23 Q And this will be the third hearing that
24 the Applicant has requested concerning pooling of these par-
25 ties?

1 A That's correct.

2 Q And to this date you have not been able
3 to locate --

4 A That's also correct.

5 Q -- these people? Was notice of this
6 hearing sent to all of such parties at their last known
7 address?

8 A Yes, sir. We've -- we sent letters
9 offering to lease their minerals and also letters of
10 notification of hearing.

11 Q And was that notice sent so that if they
12 would have received it, they would have received it at least
13 20 days prior to this hearing?

14 A That's correct, and all notices were --
15 were sent certified, return receipt, mail.

16 Q Now, as to the entire southeast quarter,
17 is this mineral interest common to all of the southeast
18 quarter of these uncommitted owners?

19 A Yes, sir, it's a common interest under
20 the southeast quarter.

21 Q Now, as to the other mineral interests
22 under the southeast quarter, are they either all leased or
23 are they otherwise committed to an operating agreement?

24 A Yes, sir.

25 Q Are all working interest owners, be they

1 uncommitted mineral owners or parties who own leases from
2 mineral owners committed under that same operating agree-
3 ment?

4 A That's correct.

5 Q I refer you to Exhibit Number Three.
6 Would you please describe that?

7 A Exhibit Number Three is a copy of a let-
8 ter that we sent to the ten parties that we were unable to
9 locate, giving notice of the hearing.

10 Q And does that exhibit consist of a packet
11 of notification letters?

12 A Yes, sir, they're notification letters to
13 all ten as well as one copy of the application which was
14 sent along with each one.

15 Q Now, Mr. Bell, the applicant has request-
16 ed that prior Orders No. 7240 and No. R-8190 be revoked, at
17 least as to the pooling provisions in those orders.

18 Am I correct?

19 A That's correct.

20 Q Am I further correct that the applicant
21 is requesting that the uncommitted mineral interests in the
22 Northeast Lovington Penn Pool underlying the east half of the
23 southeast quarter be pooled to form a standard oil proration
24 unit to be dedicated to your existing East Lovington 8-2
25 Well?

1 A Yes, sir, that's correct.

2 Q And that well is located in the northeast
3 quarter of the northeast quarter of Section 8.

4 A No, sir, that well is located in the
5 northeast quarter of the southeast quarter.

6 Q I'm sorry, southeast quarter.

7 A You just wanted to see if I was paying
8 attention.

9 Q And this is the currently producing well
10 which you've testified to as to the payout or imminent
11 payout of the drilling costs and risk penalty provisions.

12 A That's correct.

13 Q And then the appliant is also requesting
14 that the uncomitted mineral owners in the Northeast
15 Lovington Penn Pool underlying the west half of the
16 southeast quarter be pooled as to that acreage.

17 A Yes, sir.

18 Q And is it your intent to dedicate such
19 lands, then, to a new oil well to be drilled and potentially
20 completed in the Northeast Lovington Penn Pool?

21 A That's correct.

22 Q And will that well be at a standard
23 location?

24 A Yes, sir; be located 1980 from the south
25 and east lines of Section 8.

1 Q So am I correct that in essence you're
2 requesting that we do away with the two laydown proration
3 units and replace them with two 80-acre standup proration
4 units?

5 A Yes, sir, that's correct.

6 Q And I believe you have testified that the
7 mineral interests of the uncommitted mineral owners will not
8 change as a result of this change or proration units in that
9 they have a common interest under the entire southeast
10 quarter.

11 A That's correct.

12 Q Now, with regard to the proposed pooling
13 of the east half of the southeast quarter of Section 8 to be
14 dedicated to the existing well, do you request that if an
15 order is entered granting this application, that there be no
16 further cost recovery, drilling cost recovery and risk
17 penalty provisions in that the well has already paid that
18 penalty under the prior order?

19 A Yes, sir.

20 Q However, then, as to the west half of the
21 southeast quarter, which will be dedicated to your proposed
22 new well, do you request that risk penalty and drilling cost
23 recovery provisions be included in that order?

24 A Yes, sir.

25 Q Now, as you've testified, all of the

1 other mineral interests under the southeast quarter are com-
2 mitted to leases or the mineral owners have agreed to parti-
3 cipate under the operating agreement, is that correct?

4 A That's correct.

5 Q Now, will this change in proration units
6 have any affect on those parties' interests?

7 A Well, slightly. There are two mineral
8 owners that do not have equal interests.

9 We have one -- one interest is different
10 as to the east half of the southeast quarter, and the west
11 half of the southeast quarter, and the other individual only
12 owns the minerals in the east half of the southeast quarter.

13 Q And these are mineral owners that are
14 either committed under the operating agreement or who --

15 A Yes, sir.

16 Q -- have leased to parties who are
17 committed.

18 A That's correct.

19 Q What is the extent of this interest
20 difference?

21 A It's very small. The one mineral owner
22 has a 1/256 mineral interest, which is .3125 net acres in
23 the east half of the southeast quarter.

24 The other is divided. They have a 90/768
25 in the east half of the southeast quarter, being 9.375 net

1 acres, and a 93/768 in the west half of the southeast quar-
2 ter, being 9.6875 net acres.

3 Q Would you state for the record which par-
4 ties own those mineral interests?

5 A All right. The Lucky Wright Royalty Syn-
6 dicate, a common law trust out of Farmington, New Mexico,
7 owns the 90/768 in the east half of the southeast quarter,
8 as well as the 93/768 in the west half of the southeast
9 quarter.

10 And Rebel Oil Company, Hobbs, New Mexico,
11 owns the 1/256 in the east half of the southeast quarter.

12 Q Have you contacted these interest owners
13 and inquired of them if they had any objection to this
14 change in proration units?

15 A Yes, sir, I have. I talked to Mildred
16 Wright and Twyla Gooding, who is the trustee for the syndi-
17 cate. They have indicated their approval of the change in
18 proration units and they -- I also sent them a letter which
19 they have signed indicating their acceptance to this propo-
20 sal.

21 I also have an approval from Rebel Oil
22 Company. Of course their interest would only increase; it
23 wouldn't be adversely affected by this change.

24 Q And has a representative of Rebel Oil
25 Company authorized you to state at this hearing that they do

1 not object to this change?

2 A That's correct. Ellie Spear, Mrs. Ellie
3 Spear gave her acceptance.

4 Q And in summary on this point, then, am I
5 correct that these two mineral interests are the only ones
6 which would differ as between the existing proration units
7 and the two new proposed proration units?

8 A That's correct.

9 Q I refer you to what we've designated as
10 Exhibit Number Four. Would you please describe that?

11 A Exhibit Number Four is an AFE prepared
12 for the Lovington 8-3 Well.

13 Q You've already stated the location of
14 this proposed well. What is the total estimated cost of the
15 well?

16 A Total dry hole estimated costs are
17 \$337,281 and a completed cost of \$595,423.

18 Q And what is the proposed total depth of
19 the well?

20 A 11,750 feet.

21 Q Mr. Bell, based on other estimates of
22 drilling costs and completion costs for wells, similar wells
23 in the area, do you feel that this AFE represents a reason-
24 able cost estimate for the proposed well?

25 A Yes, sir, I do?

1 Q I refer you to Exhibit Number Five.
2 Would you please describe that exhibit?

3 A Exhibit Number Five is a joint operating
4 agreement that was prepared covering the southeast quarter
5 of Section 8 and the northeast quarter of Section 17 of 15,
6 37, dated December 1st, 1982.

7 Q And is this the operating agreement
8 you've testified to previously and were the No. 8-1 and 8-2
9 Wells drilled subject to this agreement?

10 A That's correct.

11 Q I refer you to the COPAS accounting pro-
12 cedure form attached, I believe, as Exhibit D to the oper-
13 ating agreement. Does that portion of the operating agree-
14 ment provide for supervision costs while wells are drilling
15 and supervision costs while operating wells?

16 A Yes, sir, it does. It provides for a
17 \$4000 drilling well rate and \$400 producing well rate.

18 Q Were those same rates incorporated in the
19 prior Orders No. R-7240 and R-8190?

20 A Yes, sir, they were.

21 Q And does the applicant request that these
22 same rates be included in the order to be entered in this
23 application?

24 A Yes, sir, we do.

25 Q And would you request that those super-

1 vision rates be applicable to all proration units?

2 A Yes, sir, that's correct.

3 Q Does Harvey E. Yates Company as applicant
4 request that it be designated operator of the two proposed
5 pooled units?

6 A That's correct.

7 Q In your opinion will granting of this
8 application promote conservation, prevent waste, and protect
9 correlative rights?

10 A Very much so.

11 Q Were Exhibits Number One through Five
12 prepared by you or under your supervision or do they repre-
13 sent documents from the applicant's files?

14 A Yes, sir, they were; they do.

15 MR. STRAND: I have nothing
16 further of Mr. Bell.

17 MR. CATANCH: Are you going to
18 admit the exhibits, Mr. Strand?

19 MR. STRAND: Want to do them
20 now or all at the end?

21 MR. CATANACH: Oh, it doesn't matter.
22 I guess. I guess at the end.

23

24

25

CROSS EXAMINATION

BY MR. TAYLOR:

Q Mr. Bell, I don't know if you and I have talked about this but I know I've talked with several people from Yates about this.

Our theory is that a forced pooling expires when the well is either a dry hole or plugged, so obviously, I don't think every problem with the No. 1 Well, I think the south half proration unit there, that forced pooling would expire at the time that well was plugged.

On the No. 2, and I -- the reason I'm trying to figure this out is because I wasn't sure as to who owns what and who's left over, but on the No. 2 I'm not sure legally that we can rescind that unless the interest owners that would be, you know, paid for that well, and obviously, being such a productive well they'd be interested in that, unless they -- anybody who would have their interest decreased by that would be agreeable, are -- did you say that the people that you've either contacted or that you can't contact, either would not have their ownership interest decreased in that proration unit by the change or that they're agreeable to this?

A That's correct. What we did, we contacted all of the working interest owners. All of the working interest owners were agreeable to the change.

1 There were only two mineral owners who
2 were affected by the change. One was Rebel Oil, whose
3 interest is not adversely affected. Their interest will ac-
4 tually increase by the change.

5 And the only one whose interest is adver-
6 sely affected is the Lucky Wright Royalty Syndicate inter-
7 est. The change, what they would give up under the Loving-
8 ton 8-2, a .00036621 interest under the Lovington 8-2, and
9 their interest under the Lovington 8-3 would be increased by
10 that amount.

11 Now I have talked to Mrs. Wright and
12 Twyla Gooding. They are agreeable to giving up that inter-
13 est under the 8-2 in order to change the proration unit.

14 The interest is very, very minimal. I
15 think we calculated this based on \$1,000,000 after taxes.
16 this would be a decrease of \$360, approximately \$360.

17 Q Okay. Could you or have you already sup-
18 plied us with documents to indicate that they're in agree-
19 ment with this --

20 A I have them here and I will submit those.

21 Q Okay, would you do that, and the other
22 kind of legal question I have was on the question of whether
23 we should actually rescind that. Maybe Bob needs to think
24 about this. I haven't actually researched it, but whether
25 we actually want to rescind that or just amend that to

1 change the acreage, and I'm not sure.

2 With No. 1, obviously, I don't think
3 there's any problem because under our theories of how forced
4 pooling works, we would just assume that has expired and of
5 no effect once you plug that well.

6 MR. STRAND: And, really, as to
7 the existing well, the No. 2 Well, I think you may be right
8 just to amend the order to change the proration unit.

9 We would like to have the pro-
10 visions of the order basically remain in effect except, of
11 course, the penalty provisions, which will no longer be ap-
12 plicable, (unclear) paid out.

13 And then I guess the order
14 would create the new proration unit or the pooled unit for
15 the west half. Yeah, that's the way I would see it.

16 MR. TAYLOR: Why don't we as-
17 sume -- since there's no opposition here, why don't we, be-
18 fore any order is entered, discuss these legal issues.

19 MR. STRAND: Okay, certainly.
20 Certainly.

21 MR. TAYLOR: Of how we ought to
22 go about it and I think we -- it might be best just to have
23 you go ahead and plug that one well and we'll consider that
24 expired and when do you plan to plug that?

25 A Well, I would say next couple of weeks.

1 Q If you don't, see, then we would need to
2 also amend or rescind that first order, --

3 A Okay.

4 Q -- probably amend it, so we'd probably
5 need to know before we actually issue an order what's going
6 to happen.

7 A Okay.

8 Q Then we could just -- I guess we could
9 amend both of them and change the proration units in them.

10 A I might mention that I did also send out
11 AFE's for the plugging of the Lovington 8-1 and I have re-
12 ceived all fo those back with everyone's concurrence.

13 Q So you definitely decided to go ahead and
14 plug that? There's no question as to whether you are?

15 A That's correct.

16 Q Okay. Well, then, for purosos of the or-
17 der we'll just assume that to be plugged and we will say
18 that that's going to -- that forced pooling will then be ex-
19 pired, of no force and effect after that.

20 MR. STRAND: That would be
21 satisfactory with us.

22 MR. TAYLOR: And then we'll --
23 we'll just have to work with this other case.

24

25

1

2

CROSS EXAMINATION

3

BY MR. CATANACH:

4

Q

Mr. Bell, the parties that you're force

5

pooling or that you have in the No. 2 Well and the No. 3

6

Well, their interest is all the same in the 160-acre units,

7

is that correct?

8

The interest owners who have already paid

9

out their share in the No. 2 Well, the switching of that

10

proration unit won't -- they'll -- they'll still be paid

11

out?

12

A

That's correct.

13

Q

In the No. 2 Well.

14

A

No adverse --

15

Q

They won't be adversely affected by that.

16

A

Not at all.

17

Q

How much did that No. 1 Well actually

18

produce, do you know?

19

A

Cumulative for the well was somewhere be-

20

tween 45-to-50,000 barrels.

21

Q

Do you have any idea what percentage of

22

payout that well incurred before it had to be abandoned, and

23

how much cost you recovered out of that well?

24

A

No, sir, I don't. A rough estimate is

25

that well has paid out one time.

1 Q So the penalty --

2 MR. YAHNEY: The penalty is not
3 paid out at all but the original costs were all paid out.

4 Q I see. Okay, in pooling the west half of
5 that southeast quarter you've requested they start over
6 again recovering the costs.

7 A For the new well, yes, sir.

8 Q For No. 3.

9 A Yes, sir.

10 MR. STRAND: We'll have some
11 further testimony on risk involved.

12 MR. CATANACH: Okay, I don't
13 have any further questions at this time.

14

15 GORDON K. YAHNEY,
16 being called as a witness and being duly sworn upon his
17 oath, testified as follows, to-wit:

18

19 DIRECT EXAMINATION

20 BY MR. STRAND:

21 Q Please state your full name, place of
22 residence, and by whom you're employed.

23 A My name is Gordon K. Yahney. I'm cur-
24 rently living at Roswell and I work for Harvey E. Yates Com-
25 pany.

1 Q And in what capacity are you employed by
2 Harvey E. Yates Company?

3 A I'm employed as a geologist.

4 Q Mr. Yahney, have you previously testified
5 before the Division?

6 A No, I have not.

7 Q Would you then state for the record a
8 brief summary of your education, work experience, and any
9 professional societies that you have memberships in?

10 A Yes. I am a Bachelor -- have a Bachelor
11 of Science degree from Defiance College, Master of Science
12 in geology from Bowling Green State University, Bowling
13 Green, Ohio.

14 I have been in the oil industry about
15 nine and a half years, seven and a half with Texaco, em-
16 ployed as a geologist in Midland and Denver; and the past
17 two years as a geologist for Harvey E. Yates Company.

18 I'm currently a member of AAPG, Rocky
19 Mountain Association of Geologists, and the West Texas Geo-
20 logical Society.

21 MR. STRAND: Mr. Examiner, is
22 Mr. Yahney considered qualified as an expert in the area of
23 geology?

24 MR. CATANACH: He is so quali-
25 fied.

1 Could I have the witness spell
2 his name for me, please?

3 A Y-A-H-N-E-Y.

4 MR. CATANACH: And what was
5 your first name?

6 A Gordon.

7 MR. CATANACH: Thank you.

8 Q Mr. Yahney, are you familiar with the
9 application in Case 9144 and have you heard Mr. Bell's
10 testimony here today?

11 A Yes, I have.

12 Q In preparation for this hearing have you
13 prepared certain geological exhibits?

14 A Yes, I have.

15 Q I refer you to Exhibit Number Six. Would
16 you please describe this exhibit?

17 A Exhibit Number Six is a structure map
18 drawn on the top of the Strawn B carbonate. It is the
19 producing formation in the -- over most of the Northeast
20 Lovington Penn Pool. The proposed location for the East
21 Lovington 8-3 Well is noted with the red arrow in the center
22 of the map.

23 Q Does that well also show the 8-1 and 8-2?

24 A Yes, it does.

25 Q And they are indicated by blue dots, is

1 that correct?

2 A Yes, they are.

3 Q I refer you to Exhibit Number Seven.
4 Will you please describe that exhibit?

5 A Exhibit Number Seven is an Isopach map
6 drawn on the interval between the top of the Strawn B Bank
7 and its base. The Strawn B Bank again is the producing for-
8 mation in the Northeast Lovington Penn Pool and this gives
9 you a rough idea of the interval, the overall interval pro-
10 ductive in this area.

11 Q I refer you to Exhibit Number Eight.
12 Will you please describe that exhibit?

13 A Exhibit Number Eight is also an Isopach
14 map. It's a porosity Isopach Map taken from electric logs
15 in the area. A porosity greater than 6 percent is generally
16 proven to be productive when it is -- has suitable oil satu-
17 rations.

18 Q Mr. Yahney, in your opinion is the loca-
19 tion of the proposed new well situated at an optimum point
20 in the East Lovington Penn Pool?

21 A Yes. The reason for drilling the East
22 Lovington 8-3 Well is to try to establish additional produc-
23 tion from an area which we think the porosity is developed
24 within the Strawn B Bank and that this location will be
25 structurally favorable and additional reserves which would

1 not be economically achievable from the 8-2 Well could be
2 established.

3 Q Mr. Yahney, based on your analysis of
4 this area do you feel there is substantial risk involved in
5 the drilling of the proposed 8-3 Well?

6 A Yes, I do. The East Lovington Penn Pool
7 was made up of isolated algal mound banks which generally
8 have developed porosity in them. The porosity, however, is
9 very discontinuous and there is significant risk that you
10 will find the bank but have a tight section that has been
11 encountered in a number of places. In the immediate area
12 there is at least five or six, maybe even seven, dry holes
13 in the immediate area within a couple miles.

14 Q Are there also mechanical risks inherent
15 in the drilling of any well of this depth?

16 A Yes, there is.

17 Q Now, based on that opinion as to risk, as
18 to the west half of the southeast quarter of Section 8,
19 which we propose to dedicate to the new 8-3 Well, does the
20 applicant request that any order entered in this case pro-
21 vide for the maximum risk penalty of recovery of drilling
22 costs plus 200 percent?

23 A Yes.

24 Q Mr. Yahney, in your opinion will the
25 granting of this application promote conservation, prevent

1 waste, and protect correlative rights?

2 A Yes, it will.

3 Q Were Exhibits Number Six through Eight
4 prepared by you or under your supervision?

5 A Yes, they were.

6 MR. STRAND: Mr. Examiner, I
7 move admission of Exhibits Number One through Eight.

8 MR. CATANACH: Exhibits Number
9 One through Eight will be admitted into evidence.

10 MR. STRAND: I have nothing
11 further of Mr. Yahney.

12

13 CROSS EXAMINATION

14 BY MR. CATANACH:

15 Q Mr. Yahney, according to the geology in
16 the area would it be -- would it not be feasible to drill in
17 the southwest quarter of the southeast quarter?

18 A Southwest quarter of the southeast quar-
19 ter, it would be -- it would be possible to drill in that
20 location. I think the -- from our subsurface information
21 and from our geophysical information, that the location for
22 the 8-3 Well as noted would be a far superior location both
23 from a standpoint of where we expect the porosity to be de-
24 veloped and from a structural standpoint.

25 Q Is the Well No. 2, I believe, the one in

1 the northeast quarter, is the Well No. 2 located within one
2 of these algal mounds?

3 A Yes, it is.

4 Q It is. And you think this algal mound
5 extends over to the proposed location?

6 A The deposition involved here is generally
7 a complex of these things that are overlapping. I wouldn't
8 say that it's going to be the same one for sure that's
9 developed at the 8-3 location, but there's a probability
10 that that will occur.

11 MR. CATANCH: Okay, I don't
12 have any more questions of the witness at this time.

13 MR. STRAND: We have nothing
14 further, Mr. Examiner.

15 MR. CATANACH: I have one more
16 question of Mr. Bell, if I may.

17 Mr. Bell, the AFE you gave for
18 the drilling of the well, are those in line with the costs
19 that you've recently incurred in the drilling of the No. 1
20 and No. 2 Wells?

21 MR. BELL: Very much so.

22 MR. CATANACH: Have they --
23 have they increased any or gone down any or do you know?

24 MR. BELL: I, well, I would
25 assume that they have decreased. I'd have to check. I'm

1 not sure if I have a copy of the -- of the Number -- okay,
2 on the No. 2 Well, we had a dry hole cost of \$432,950 and
3 producing well costs of \$868,700.

4 MR. CATANACH: So they've sub-
5 stantially gone down.

6 MR. BELL: Yes, sir.

7 MR. CATANACH: That's all I
8 have, Mr. Bell.

9 MR. TAYLOR: Mr. Bell, just to
10 clarify on the record, I've been going through your applica-
11 tion and everyone today that you're force pooling owns --
12 the people listed in paragraph seven, nonconsenting working
13 interest owners, and I guess there were also some, I don't
14 know, are there some royalty interest owners, but other than
15 the ones you referred to specifically earlier, they all own
16 a common interest in the whole southeast section, south
17 southeast quarter.

18 MR. BELL: That's correct.

19 MR. TAYLOR: So the changing of
20 the locations of the wells in the proration units will not
21 affect any payments to them.

22 MR. BELL: That's correct.

23 MR. TAYLOR: Also, when you re-
24 constitute the proration units to be standup, and so you
25 make the No. 2 Well apply to a different one, I assume you

1 aren't requesting any new penalty, you'll just take up from
2 where you are on your charges against those people's inter-
3 ests.

4 MR. BELL: That's -- that's --
5 on the No. 2 Well that's correct, and, of course, payout
6 should occur any day now.

7 MR. TAYLOR: So the penalty
8 against them is not going to start over.

9 MR. BELL: No, sir.

10 MR. TAYLOR: All right. Okay,
11 that's all the questions we have.

12 MR. CATANACH: Mr. Strand, can
13 I get you to write just a rough order on this case?

14 MR. STRAND: Okay, be glad to.

15 MR. CATANACH: Okay, is there
16 anything further in Case Number 9144?

17 MR. BELL: I'd just like to sub-
18 mit this letter to you.

19 MR. CATANACH: All right, we'll
20 just incorporate the letter dated May 13th from or signed by
21 Mildred A. Wright into Exhibit Number Three.

22 There being nothing further in
23 this case, it will be taken under advisement.

24

25

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true, and correct record prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9144,
heard by me on June 3 1987.
David P. Catanzaro, Examiner
Oil Conservation Division