

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:)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR APPROVAL OF A UNIT)
AGREEMENT, LEA COUNTY, NEW MEXICO)

CASE NO. 12,549

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

December 7th, 2000

Santa Fe, New Mexico

00 DEC 21 PM 10:20

OIL CONSERVATION DIV.

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, December 7th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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December 7th, 2000
Examiner Hearing
CASE NO. 12,549

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* * *

A P P E A R A N C E S

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 By: MICHAEL H. FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 9:05 a.m.:

3 EXAMINER CATANACH: Okay, at this time we'll call
4 Case 12,549, the Application of Yates Petroleum Corporation
5 for approval of a unit agreement, Lea County, New Mexico.

6 Call for appearances in this case.

7 MR. FELDEWERT: May it please the Examiner, my
8 name is Michael Feldewert with the law firm of Campbell,
9 Carr, Berge and Sheridan. I'm appearing on behalf of the
10 Applicant in this case, Yates Petroleum Corporation. I
11 have two witnesses, one of which has already been sworn
12 today.

13 EXAMINER CATANACH: Any additional appearances?
14 Will the other witness please stand to be sworn
15 in?

16 (Thereupon, the witness was sworn.)

17 ROBERT BULLOCK,
18 the witness herein, after having been first duly sworn upon
19 his oath, was examined and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. FELDEWERT:

22 Q. Mr. Bullock, would you please state your full
23 name and place of residence for the record?

24 A. Robert Bullock, Hope, New Mexico.

25 Q. And by whom are you employed and in what

1 capacity?

2 A. Yates Petroleum as a landman.

3 Q. And have you previously testified before this
4 Division and had your credentials as a landman accepted and
5 made a matter of record?

6 A. Yes.

7 Q. And are you familiar with the Application that's
8 been filed by Yates in this case?

9 A. Yes, I am.

10 Q. And are you familiar with the proposed North
11 Papalotes State Exploratory Unit?

12 A. Yes, sir.

13 Q. Okay, why don't you briefly state what Yates
14 Petroleum Corporation seeks with this application?

15 A. We're seeking approval of the North Papalotes
16 State Exploratory Unit. This area comprises 1600 acres of
17 100-percent state lands comprising sections in 25, 26 and
18 36 of Township 14 South, Range 34 East, in Lea County, New
19 Mexico.

20 MR. FELDEWERT: Mr. Examiner, are the witness's
21 qualifications acceptable?

22 EXAMINER CATANACH: They are.

23 Q. (By Mr. Feldewert) Have you prepared exhibits
24 for the introduction in this case, Mr. Bullock?

25 A. Yes.

1 Q. Okay, why don't you turn to Yates Exhibit Number
2 1, identify and review that for the Examiner?

3 A. Exhibit 1 is the unit agreement which is for the
4 development and operation of this unit. It's unitizing all
5 formations on the standard state-approved unit form.

6 And Exhibit A to that unit is the outline of the
7 boundaries. It includes all of Section 25, all of Section
8 26 and the north half of Section 36, in 14-34.

9 And Exhibit B to the unit agreement sets out the
10 leases that are involved. We have five State of New Mexico
11 leases. We show the description of each lease and the
12 acres, the expiration date, the lessee of record, and the
13 working interest owners in those leases.

14 Q. What is the status -- This is all state land?

15 A. Correct.

16 Q. And how many acres?

17 A. 1600 acres.

18 Q. What percentage of the acreage has been committed
19 to this unit?

20 A. At this point in time we do not have a commitment
21 from Ocean Energy, and they have a 35-percent ownership in
22 four of the tracts. At this point in time, their interest
23 is not committed.

24 Q. Does Yates have effective control of unit
25 operations with the percentage that has been committed to

1 this unit agreement?

2 A. At this point in time, I don't think it does.
3 However, if Ocean Energy elects not to participate, we have
4 a joint operating agreement whereby they forfeit their
5 interest to Yates. So at that point in time, Yates would
6 have 100 percent of the acreage.

7 Q. Has the Commissioner of Public Lands given his
8 preliminary approval to the proposed unit agreement?

9 A. Yes, Exhibit 2, I believe, indicates this.

10 Q. That's the letter dated December 6th, 2000?

11 A. Yes.

12 Q. Okay. Does Yates Petroleum Corporation desire to
13 be the designated unit operator?

14 A. Yes.

15 Q. Does this unit agreement that has been marked as
16 Exhibit Number 1, does it provide for periodic filing of
17 plans of development?

18 A. Yes, sir, it does.

19 Q. Would these be filed with the OCD as well as
20 other agencies?

21 A. Yes.

22 Q. And how often will these plans be filed, do you
23 know?

24 A. Yearly, every 12 months.

25 Q. Does Yates intend to call a geological witness

1 here today?

2 A. Yes, sir.

3 Q. Okay. Were Exhibits 1 and 2 either prepared or
4 obtained by you or compiled under your direction?

5 A. Yes.

6 MR. FELDEWERT: At this point, Mr. Examiner, I
7 would move into evidence Yates Exhibits 1 and 2, as well as
8 the attachments to 2.

9 EXAMINER CATANACH: Exhibits 1 and 2 and the
10 attachments will be admitted as evidence.

11 MR. FELDEWERT: That concludes my examination of
12 this witness.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Bullock, have you been involved in the
16 attempt to unitize this acreage?

17 A. Yes.

18 Q. So you've had discussions with Ocean Energy?

19 A. They have been advised what we're doing, and I've
20 made an oral presentation to them through the land
21 department. They are aware of what we're doing here. And
22 they have not been submitted an AFE as of this date. But
23 that's being worked on. But they are aware of this
24 proposal.

25 Q. Have they conveyed the reason why they have not

1 committed to the unit yet?

2 A. Well, basically, a formal presentation hasn't
3 been made with the AFE.

4 Q. The formal presentation -- What formal
5 presentation?

6 A. Being an AFE setting out the exact location, the
7 formation that we -- the depth we propose to drill to, the
8 costs and so forth. There is a JOA that covers this
9 contractual area right now. We just have not submitted the
10 AFE to them with the formal proposal.

11 Q. Well, what proposal have you made to them?

12 A. Just the verbal accounting that we were going to
13 be here today to put this unit on, and the unitized area.

14 Q. Well, Mr. Bullock, do you think Ocean has enough
15 information at this point to make an election?

16 A. No, I don't think they do without an AFE.

17 Q. Well, is it your opinion that that should have
18 been done before you actually came to hearing in this
19 matter?

20 A. It was ordered, and the AFE never got to my desk.

21 Q. I see.

22 A. Another reason is, we're on a short time frame
23 here. The first lease expires on this unit 2-1. So with
24 the holiday period, we felt it was prudent for us to get up
25 here and put this hearing on, regardless of whether the

1 formal presentation had been made to them or not. But they
2 were made aware of what we were doing.

3 Q. Do you know when that formal presentation is
4 going to be made, Mr. Bullock?

5 A. As soon as that AFE crosses my desk, it will be
6 made.

7 Q. You don't know when?

8 A. I don't know when. I would assume a couple weeks
9 or less.

10 Q. And you've got a lease expiring on --

11 A. 2-1 is the first expiration. We've got several,
12 three leases, with the 2-1.

13 Q. Do you know where the first well is going to be
14 located?

15 A. It's going to be located --

16 MR. FELDEWERT: Mr. Examiner, our geologist is
17 going to cover that. It's going to be located in the north
18 half of Section 36, it would be the northeast quarter.

19 Q. (By Examiner Catanach) Mr. Bullock, you
20 testified something about there is a JOA in effect for
21 this --

22 A. Yes.

23 Q. -- covering all these leases?

24 A. Yes, the leases that Ocean owns.

25 Q. The four leases that they --

1 A. The four leases that they have an interest in are
2 subject to a JOA.

3 Q. And they have signed the JOA?

4 A. Yes, they have.

5 Q. Now, you said something about if they did not
6 commit to the unit?

7 A. If they choose not to drill with Yates, we have a
8 clause in our unit that -- It's an in-or-out provision,
9 that if they choose not to participate with us, they're out
10 of it, they forfeit their interest through that forfeiture
11 clause.

12 Q. If they don't participate, they forfeit their
13 interest?

14 A. That's -- Exactly.

15 Q. I mean, they're not -- It's just that you don't
16 carry them, they're just -- they forfeit their interest?

17 A. They forfeit their interest.

18 EXAMINER CATANACH: No further questions.

19 FURTHER EXAMINATION

20 BY MR. FELDEWERT:

21 Q. Mr. Bullock, I just have two. I think you
22 indicated that you have presented to Ocean Energy a copy of
23 this unit agreement that's been marked as Exhibit 1?

24 A. No.

25 Q. You have not?

1 A. No, I have not.

2 MR. FELDEWERT: Okay, all right. Okay, I have no
3 further questions.

4 ERIC CUMMINS,

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

7 DIRECT EXAMINATION

8 BY MR. FELDEWERT:

9 Q. Would you please state your name and place of
10 residence?

11 A. Eric Cummins, Artesia, New Mexico.

12 Q. And by whom are you employed, Mr. Cummins?

13 A. By Yates Petroleum Corporation.

14 Q. And in what capacity?

15 A. As a geologist.

16 Q. Have you previously testified before this
17 Division or one of its Examiners and had your credentials
18 as a geologist accepted and made a matter of record?

19 A. Yes, they have.

20 Q. And are you familiar with the Application that
21 has been filed by Yates in this case?

22 A. Yes, I am.

23 Q. Have you made a geologic study of the area
24 surrounding the proposed North Papalotes State Exploratory
25 Unit?

1 A. Yes, I have.

2 MR. FELDEWERT: Mr. Examiner, are the witness's
3 qualifications acceptable?

4 EXAMINER CATANACH: They are.

5 Q. (By Mr. Feldewert) What horizons are being
6 unitized in the North Papalotes State Exploratory Unit?

7 A. All horizons.

8 Q. And what is the primary objective of this unit?

9 A. The Morrow formation.

10 Q. And have you prepared exhibits for this
11 Application?

12 A. Yes, I have.

13 Q. Why don't you turn to what has been marked as
14 Yates Exhibit Number 3, identify it and review it for the
15 Examiner, please?

16 A. Exhibit Number 3 is a structure map on top of the
17 Morrow limestone formation. Basically what this map shows
18 is a structural low in the center portion of the map.
19 Structurally, the lowest portion is in the center; that
20 generally coincides with the green outline, which is the
21 proposed unit boundary.

22 I'd also like to point out that on this map, as
23 well as on my following exhibit, to reduce the clutter I
24 only posted wells that have a TD of 11,000 feet or greater.
25 There are some shallower wells in the area.

1 Q. Okay. Would you turn to Yates Exhibit Number 4,
2 identify that and review that for the Examiner, please?

3 A. Exhibit Number 4 is a net sand map on the Mesa
4 sand. The Mesa sand is a Morrow-age sand. This map shows
5 the sand thick in the center portion of the mapped area,
6 which generally coincides with the structural low on the
7 previous exhibit.

8 I'd also like to point out on this map, there are
9 a couple of key wells that I'll refer to in following
10 exhibits, the first being in the southeast portion of the
11 map in Section 5, -- that would be 15 South, 35 East -- and
12 the north half of Section 5 is the Yates Petroleum Morton
13 State Unit Number 1 well; it's a well that has a Morrow
14 lime elevation of minus 8944.

15 Another key well in the area is in the southern
16 mapped area in Section 11 -- that would be in 15 South, 34
17 East -- in the southeast quarter of Section 11. That is
18 the Adobe Resources Scott Number 1Y. It has the Morrow
19 lime elevation of minus 8565. And again, this just shows a
20 sand thick that coincides with the structural low.

21 Q. Have you prepared any cross-sections using any of
22 the wells that are located on Exhibit Number 4?

23 A. Yes, I have.

24 Q. Before we get to those cross-sections, why don't
25 you identify those for the Examiner?

1 A. The first cross-section I'll show is A-A', and it
2 is a northwest-to-southeast cross-section, and the first
3 well will be the well that's in the extreme northwest
4 corner of the map, in Section 16 of 14-34. The cross-
5 section will extend southeast through the proposed location
6 and further southeast through the Morton State Unit Number
7 1 well that I just mentioned earlier.

8 Q. That's in Section 5?

9 A. In Section 5, that's correct.

10 And the second cross-section that I'll show is a
11 southwest-to-northeast cross-section, and the first well is
12 the aforementioned Scott Number 1Y in Section 11 to the
13 south. It extends north-northeast through the proposed
14 location and further north-northeast into Section 19 of 14
15 South, 35 East, up in the northeast portion of the mapped
16 area with the Morrow lime elevation of minus 8988.

17 Q. Okay, and why don't you turn to your first cross-
18 section, which has been marked as Yates Exhibit Number 5,
19 and explain that to the Examiner?

20 A. Exhibit Number 5 is a structural cross-section
21 that, as I mentioned earlier, is turning from the northwest
22 to the southeast. The well on the left is the TMBR/Sharp
23 TMBR State 16 Number 1 up in Section 16 of 14-3, the center
24 well is the proposed location, and the well on the right is
25 the Morton State Unit Number 1 well.

1 And at this time I'd like to point out a few
2 things about the Morton State Unit Number 1 well. First of
3 all, you see the Mesa sand is highlighted in yellow on the
4 cross-section. It was not present in the well to the
5 northwest, the TMBR/Sharp well. It is, however, present in
6 the Morton well, and you'll see a red box there around
7 13,200 feet. Those are the perforations in that well.

8 And annotated on that cross-section the
9 perforated interval, and note the fact that it flowed at
10 the rate initially of 9.5 million cubic feet a day. That
11 rate was not sustained, however, because it appeared to be
12 a very limited reservoir. In fact, so limited that we
13 abandoned this zone and went uphole and completed in the
14 Atoka.

15 And this cross-section just basically shows the
16 interpreted structural low between the two wells and
17 potential for a thicker sand being present in that
18 structural low.

19 Q. So your goal is to try to get downdip of the
20 Section 5 well; is that right?

21 A. That's correct, we prefer to go downdip of the
22 existing wells.

23 Q. Why don't you then turn to your second cross-
24 section, which has been marked as Yates Exhibit Number 6?

25 A. Exhibit 6 is again a structural cross-section,

1 southwest-to-northeast orientation, that goes from the
2 Adobe well in Section 11. You also see an index map on the
3 lower right-hand portion of this cross-section, as well as
4 the previous one. It gives you an idea of how they're
5 oriented.

6 The first well, Section 11, the Scott 1Y drilled
7 by Adobe Resources. And again it goes north northeast
8 through the proposed location and further north northeast
9 through the well in Section 19, the Amerada State H Com A
10 Number 1 well.

11 And again, the Mesa sand highlighted in yellow,
12 and you'll notice that the sand is not present in the
13 Amerada well, the right-hand well to the northeast portion
14 of the mapped area. It was seen, however, in the Adobe
15 Resources Scott Number 1Y well, and on that cross-section
16 you'll see some annotation up at the top part of that log,
17 as well as a blue triangle shape on that depth track, which
18 is the DST interval for that particular sand when they
19 drilled the well.

20 The key information on this well, you'll note
21 that the initial flowing pressure was 1203 pounds, final
22 flowing pressure was 116 pounds. Initial shut-in pressure
23 was 5573, and the final shut-in pressure was 637 pounds.
24 In both cases, that just indicates a severely limited
25 reservoir.

1 And as we saw in the Morton well, we believe this
2 well was not drilled in the ideal location to test this
3 particular sand. And we would like to be downdip in a
4 structural low, as indicated by the proposed location on
5 this cross-section. We think we get lower, we have a
6 better chance of a thicker, more continuous sand being
7 deposited there.

8 And my basic geologic interpretation is that
9 there were structural lows that existed prior to and
10 extending through Morrow time, and that these structural
11 lows acted as a conduit, if you will, for subsequent
12 clastic deposition, and that if we get in a structural low
13 we have a better chance of finding a thicker and a more
14 continuous sand.

15 And the evidence we have from a couple of key
16 existing wells in the area is that it could be a good
17 reservoir, we just need to find it a little bit thicker and
18 more continuous, which we feel we can do in the lows.

19 Q. What does your geologic study tell you, then,
20 about your proposed location of your initial test well?

21 A. If you would please refer again to Exhibit Number
22 4 -- that's the Mesa net sand map -- we prefer to drill the
23 initial test well where we have it located, which is 990
24 from the north line, 660 from the east line, Section 36 of
25 14 South, 34 East.

1 The reasons for that are twofold. First, we'd
2 like to be in the southern portion of the proposed unit,
3 because that's where we see the sand, is in the southern
4 area of this map. If you'll note that in the two wells
5 that did not have sand in it, that I showed on the cross-
6 sections, they have zero feet of sand as indicated by the
7 red zero that's annotated there by that wellspot. The only
8 place we see sand so far is in the southern portion of the
9 mapped area. We're trying to project this trend to the
10 north. We'd like to be as close to existing sand as we can
11 be with the initial well.

12 I'd like to be as far east as possible, because
13 that is where we had a real good production test in the
14 Morton well. I want to be to the south, because that's
15 where the sand is. I'd like to be to the east, because
16 that's where the thickest sand has been penetrated to date.

17 Q. Is this an area of sand that can best be produced
18 under a unit plan?

19 A. Yes, I believe it is, because I have interpreted
20 an equivalent sand thickness beneath the proposed unit
21 area.

22 Q. Will a unit plan allow Yates to locate the wells
23 in the most efficient fashion in order to test and drain
24 the sands in this area?

25 A. Yes, I believe so.

1 Q. Do you request that the order in this case be
2 expedited, and if so, why?

3 A. Yes, we do, because as the previous witness
4 testified, Mr. Bullock stated that we have some lease-
5 expiration considerations in the area, February 1st date,
6 and we would commence operations and spud the well prior to
7 February 1st, 2001.

8 Q. In your opinion, will approval of this
9 Application be in the best interests of conservation, the
10 prevention of waste and the protection of correlative
11 rights?

12 A. Yes, I do.

13 Q. Why don't you turn to Yates Exhibit Number 7 and
14 just identify it for the Examiner?

15 A. Exhibit 7 is a geological justification and
16 description of the unitized area, and this is basically a
17 summarized writeup of the presentation that I have just
18 made.

19 This was also presented to the State Land Office
20 a couple weeks ago when I met with them for preliminary
21 approval.

22 Q. Were Exhibits 3 through 7 prepared by you?

23 A. Yes, they were.

24 MR. FELDEWERT: Mr. Examiner, I would then move
25 admission into evidence of Yates Exhibits 3 through 7.

1 EXAMINER CATANACH: Exhibits 3 through 7 will be
2 admitted as evidence.

3 MR. FELDEWERT: And that's all the questions I
4 have of this witness.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Cummins, this presentation was made to the
8 Land Office when, did you say?

9 A. Two weeks ago. It was actually on Monday, week
10 before last. I don't recall the specific day.

11 Q. So the location has already been determined, you
12 know where you're going to drill, you've got all the
13 geologic information you need; is that correct?

14 A. That's correct. I have submitted my geologic
15 prognosis to our land and engineering departments, and
16 we're prepared to drill the well.

17 Q. It's not your responsibility to make this
18 geologic presentation to, say, Ocean Energy?

19 A. If one was requested by them I would, but no,
20 it's not up to me to come to them and say, Hey, I want to
21 show you what I've got.

22 Q. On the sand thickness in the structure maps,
23 you've just used well control for these maps; is that
24 correct?

25 A. That's correct.

1 Q. And really, you've only got about five data
2 points that you're using?

3 A. Five data points with actual sand, but I do have
4 the data points to the north that shows there is no sand in
5 the northern area.

6 Q. And what wells did you use to determine that?

7 A. The well in Section 19 that was on cross-section
8 B-B'.

9 Q. Right, but that's one of the wells I'm including
10 in the five.

11 A. Okay. Well, there are those two to the north,
12 and there's a well in Section 34 of 14-34, there's the
13 Morton State Unit in Section 5 of 15-35, there are two
14 wells in Section 7 of 15-35, and then the Scott well in
15 Section 11 of 15-34. It looks like a total of seven data
16 points.

17 Q. Seven data points, and really they're on the
18 outer edges of this whole structure, basically?

19 A. All of the data points?

20 Q. Well, I mean generally they're on the outer
21 perimeter of what you've mapped here?

22 A. Okay, sure, yes, they are, aside from the --

23 Q. So you --

24 A. I'm sorry, aside from the well in Section 34.
25 It's a lot closer to the proposed unit. But the other six,

1 yes.

2 Q. You don't have a whole lot of data in the
3 interior portion of the -- where the unit is, actually?

4 A. That's correct, that's an interpretation.

5 Q. Okay, all of that is interpretive.

6 And you believe that in this low that you'll have
7 a thickening of the sand?

8 A. Yes, I do believe that.

9 Q. And that's where you want to drill?

10 A. That's correct.

11 Q. The reason you guys are putting the well in
12 Section 36 is because it's closer to the well in Section 5?
13 Does that make sense?

14 A. Yes, we would like to put it in the southern
15 portion of the proposed unit, because that is closer to
16 where the known sand is. And to the east in the proposed
17 unit, because that's as close as we could get it,
18 generally, to the east where we had the good production
19 test in the Morton well, in the north half of Section 5.
20 And that well has the thickest known sand penetrated to
21 date in the area. I felt by getting downdip to that well,
22 I think I'm going to find thicker sand there, and more
23 continuous sand.

24 And from that point, given an initial success
25 with the first well, we would be allowed the opportunity to

1 go either to the northwest of 36, taking advantage of Rule
2 C-104, having a second well, or to the southeast of Section
3 25, which is -- in my opinion, I think that's what I would
4 rather do if we had an initial success, I'd jump across the
5 section line in Section 25 and drill the well.

6 Q. Are there any other objectives in this area?

7 A. No, sir, not to date.

8 Q. Just Morrow?

9 A. There is some -- As I mentioned earlier, I didn't
10 post all of the wells; these are just TD's with greater
11 than 11,000 feet. There is some Wolfcamp production in the
12 area, but it tends to be more concentrated on the
13 structural highs, so I do not anticipate encountering that.
14 The Morrow is the main objective.

15 Q. The Scott well, was that produced in that
16 interval, Mr. Cummins?

17 A. No, sir, it was not.

18 Q. Was it produced at all in the Morrow or --

19 A. No, it was not. They ran several DST's, you can
20 see by the blue triangles on the depth track on that log.
21 They DST'd some intervals there, and that well was actually
22 plugged and abandoned.

23 EXAMINER CATANACH: Okay. I believe that's all
24 the geologic questions I have. This witness may be
25 excused.

1 MR. FELDEWERT: That concludes our presentation,
2 Mr. Examiner.

3 EXAMINER CATANACH: Can I get Mr. Bullock up
4 there for a couple questions?

5 MR. FELDEWERT: Sure.

6 ROBERT BULLOCK (Recalled),
7 the witness herein, having been previously duly sworn upon
8 his oath, was examined and testified as follows:

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Bullock, do you know if the well that you're
12 proposing to drill has been permitted yet?

13 A. Yes, it has.

14 Q. It has been?

15 A. Yes.

16 Q. Can you tell me why it's essential for this unit
17 to be approved before that well is drilled?

18 A. Well, we could probably do it without the unit
19 being approved now. It would be an inconvenience to do it
20 that way. It would cost more money, and we would just
21 prefer to go ahead and get it unitized and get out and
22 drill our well, put the big rig out and drill it.

23 We're going to have a commitment out of Ocean.
24 They still have plenty of time for us to submit our
25 official proposal. They have 30 days to review it and make

1 their decision. If I get the AFE quickly, they will have
2 more than 30 days to do it. We're not trying --

3 Q. Thirty days before the well is drilled?

4 A. Yes.

5 Q. The well that you're proposing to drill, is that
6 located on the lease that's expiring?

7 A. Yes.

8 Q. It is?

9 A. One of the leases.

10 Q. But that's the one that's expiring on February
11 1st?

12 A. That one may have the 3-1. Three of those have a
13 2-1 and -- Let's see. It does have a short expiration.
14 Yeah, it's a 2-1.

15 Q. Okay, it looks like two leases expire on February
16 1st?

17 A. Right.

18 Q. Two of them expire on March 1st.

19 A. Okay, right.

20 Q. Okay.

21 A. So 2-1 is the date we have to -- we'd like to be
22 out with our big rig.

23 Q. Mr. Bullock, couldn't a presentation have been
24 made to Ocean without an AFE?

25 A. It could have been, yes. But we're not -- We

1 told them what we're doing. They know what we're doing.
2 It's not a -- We're not trying to sneak up on them. I had
3 this conversation with their land department prior to Eric
4 coming up and putting on the presentation for the
5 Commissioner of Public Lands. So they know what we're
6 doing.

7 Q. They know that you're putting the unit together
8 and --

9 A. Yes.

10 Q. -- trying to drill a well, but they just haven't
11 seen any --

12 A. They haven't been presented the AFE. They don't
13 know the cost, basically the cost of the well. That's
14 really all they don't know. They were given a location,
15 and they know we're subject to a JOA. They know everything
16 about this except the cost of the well.

17 Q. Is it not customary to discuss, say, the geology
18 with other interest owners?

19 A. You'd like to do that when you have a partner,
20 yeah.

21 Q. But you haven't done that?

22 A. We have not done that.

23 Q. Okay. I assume that you're ready to drill the
24 well. You've got it permitted, so there's not going to be
25 a big delay.

1 My thinking on this is, I would like to see you
2 guys talk to Ocean again and maybe make some kind of
3 presentation to them along with the AFE and some geology.

4 A. Yeah.

5 Q. In that respect, I would like to continue the
6 case for about four weeks, which would put it about January
7 11th, which we would hear it again, or call it again. And
8 at that time I would hope that you would have spoken to
9 Ocean about this whole thing and maybe got it resolved to
10 where they're signed on.

11 But I still think that even if we continue it to
12 January 11th, that would give you enough time to drill the
13 well, because I would assume we would have an order out
14 shortly after that.

15 A. Okay, yeah. You're not asking us to come back up
16 here, though?

17 Q. I am not unless there's some kind of problem.
18 What I would like for you to do on January 11th is just
19 maybe have your attorney present and say that Yates did
20 talk to Ocean, they made the presentation to them, this is
21 where it stands. But I would like to have you guys make
22 that presentation.

23 A. Okay.

24 MR. FELDEWERT: Mr. Examiner, let me ask, if we
25 can get a letter to you before that time indicating that

1 we've made a presentation to Ocean, would you then still
2 feel the need to continue it to January the 11th?

3 EXAMINER CATANACH: If you guys think that you
4 can do that within a two-week period, I would concede to
5 continuing it to the 21st of December, which is the next
6 hearing date. If you feel like you can do it in that time
7 period, I would agree to that.

8 Let's continue it, then, to the 21st, and if we
9 need to we can always continue it to two weeks after that.

10 Gentlemen, we'll continue the case to the
11 December 21st hearing.

12 Take a short break here, ten minutes.

13 (Thereupon, these proceedings were concluded at
14 9:39 a.m.)

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I hereby certify that the foregoing is a true and correct copy of the proceedings of the hearing held on December 7, 1989, at 9:39 a.m., before the Examiner, Conservation Division, at the hearing of the case of the [illegible] 12549.
[Signature] Examiner
Off Conservation Division

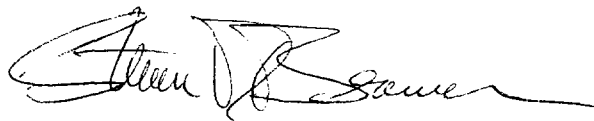
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL December 9th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002