

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. 13,209

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner FEB 19 2004

February 5th, 2004  
Santa Fe, New Mexico

Oil Conservation Division  
1220 S. St. Francis Drive  
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, February 5th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

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 CASE NO. 13,209

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\* \* \*

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

## FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
 110 N. Guadalupe, Suite 1  
 P.O. Box 2208  
 Santa Fe, New Mexico 87504-2208  
 By: MICHAEL H. FELDEWERT

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:17 a.m.:

3           EXAMINER JONES: Call Case 13,209, Application of  
4 Yates Petroleum Corporation for approval of a unit  
5 agreement, Lea County, New Mexico.

6           Call for appearances.

7           MR. FELDEWERT: May it please the Examiner,  
8 Michael Feldewert with the Santa Fe office of the law firm  
9 of Holland and Hart. I'm appearing on behalf of Yates  
10 Petroleum Corporation.

11           EXAMINER JONES: Any other appearances?

12           There being none, go ahead.

13           MR. FELDEWERT: Mr. Examiner, you and I have been  
14 through this before. In this Application Yates is seeking  
15 approval of the Tubb State Exploratory Unit. It's a two-  
16 section unit comprised of 1280 acres of State of New Mexico  
17 lands. It's located approximately 10 miles southwest of  
18 Crossroads. 100 percent of the working interest in these  
19 lands is owned by Yates or its affiliated companies.

20           And what they're trying to do with this project  
21 is test all formations from the surface to the top of the  
22 lower Mississippian by re-entering an existing dry hole in  
23 the Pennsylvania formation and deepening it to  
24 approximately 12,500 feet.

25           We're here today seeking approval of this project

1 pursuant to Division policy by affidavit, and Yates Exhibit  
2 Number 1 is the affidavit of John Amiet. He's a petroleum  
3 geologist with Yates. Throughout this affidavit he  
4 identifies the geology and the project.

5 And what you'll see under Tab A is a fully  
6 executed copy of the unit agreement that conforms to the  
7 State Land Office standard form.

8 Tab B to the unit agreement is the Exhibit A to  
9 the unit agreement that identifies the unit boundary. And  
10 you'll see the well that they propose to re-enter in the  
11 southwest quarter of the northwest quarter. It's at a  
12 standard location, 1780 feet from the north line and 1980  
13 feet from the west line.

14 Tab C to this unit agreement is the ownership.  
15 You'll see that all the working interest is owned by Yates  
16 or its affiliated companies and royalties owned by the  
17 State of New Mexico.

18 Tab D to this affidavit is the letter from the  
19 Commissioner of Public Lands giving preliminary approval to  
20 the formation of this unit.

21 And then Tab E is probably the first exhibit  
22 you're interested in, and that is the Austin Limestone  
23 structure map for this unit area. They have what Yates  
24 projects as the Atoka-Morrow sands, which are the main  
25 producing objective for this unit. They have shown that

1 with the blue lines, and they've developed this mapping  
2 using 3-D seismic, log correlation and regional mapping.

3 You'll see that they hope to encounter one of  
4 these sand channels by deepening an existing dry hole out  
5 there in the northwest quarter of Section 16.

6 You'll notice that there is a cross-section A-A'  
7 that we'll get to here in a minute, but what I wanted to  
8 point out is that the only Atoka-Morrow producer in this  
9 entire area is shown on this map up in the upper right-hand  
10 corner in purple. It's offset by -- or it's immediately  
11 offset by a dry hole in the Atoka-Morrow sand, and indeed  
12 throughout the area depicted on this map there are at least  
13 six Atoka-Morrow dry holes. So this is a fairly risky  
14 project.

15 Tab F to this affidavit is the cross-section  
16 A-A'. You should be able to pull it out if you want to and  
17 take a quick look, but it shows in yellow the two potential  
18 sand channels that they project in this unit area. Both of  
19 the logs on this cross-section show a poor sand development  
20 in the wells that were used to develop this cross-section,  
21 section, again emphasizing the risk that's involved in this  
22 project. But they're hopeful, using their 3-D seismic and  
23 regional mapping, that they can encounter a productive sand  
24 channel with that existing wellbore in this unit area.

25 Tab G is the last attachment to this unit

1 affidavit. It notes that the cost of this project, if  
2 they're successful, is approximately \$878,000.

3 Now in his affidavit, Mr. Amiet goes into more  
4 detail, the geology surrounding this project, and he notes  
5 that it is a costly and risky project for them, given that  
6 there's only one Atoka-Morrow well in this area and six dry  
7 holes. Essentially what they're trying to do is develop  
8 production on acreage in which there has been no deep  
9 production.

10 And finally Mr. Amiet testifies that given the  
11 cost and risk that is involved with this project,  
12 development of this area pursuant to a unit plan is in the  
13 best interests of conservation, the prevention of waste and  
14 the protection of correlative rights.

15 So I would ask that Exhibit 1 be admitted into  
16 evidence.

17 And then finally, Mr. Examiner, we have been  
18 informed that some of the leases in this proposed unit area  
19 are due to expire on March the 1st, so we ask that Exhibit  
20 1 be admitted into evidence and that this matter be taken  
21 under advisement and respectfully request that the Division  
22 expedite the entry of an order in this matter to avoid  
23 lease expiration.

24 EXAMINER JONES: Okay, Exhibit Number 1 will be  
25 admitted into evidence.

1           If they drill a first well and it's unsuccessful,  
2 he says that they will not drill any -- He says if it is  
3 successful they will drill more wells, but he doesn't say  
4 if it's a teaser well he'll drill any more, does he?

5           MR. FELDEWERT: He doesn't, yeah. I mean, I  
6 think it's going to depend upon what they get off that  
7 first well and where they think they're at with the  
8 information from that first well. I don't know whether  
9 they would try to target that second channel if they're  
10 unsuccessful with the first one or not.

11           EXAMINER JONES: Okay, the unit would be held as  
12 long as they keep drilling; is that correct?

13           MR. FELDEWERT: Or with a producing well, yeah.

14           EXAMINER JONES: With a producing well?

15           MR. FELDEWERT: Yeah. Well, let me back up. As  
16 long as they spud -- if they spud the well, they save their  
17 leases --

18           EXAMINER JONES: Yeah.

19           MR. FELDEWERT: -- and the unit would be held, I  
20 believe, so long a they have a producing well, within --  
21 what's the period of time here?

22           EXAMINER JONES: Okay, so it's specified in  
23 the --

24           MR. FELDEWERT: Yeah.

25           EXAMINER JONES: -- the agreement, the standard

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Land Office agreement?

MR. FELDEWERT: Correct.

EXAMINER JONES: Okay, we'll try to get out an expedited order in this case. I think this is everything I need right here --

MR. FELDEWERT: Should be.

EXAMINER JONES: -- so thanks very much. With that, we'll take Case 13,209 under advisement.

MR. FELDEWERT: Thank you, Mr. Examiner.

EXAMINER JONES: Thank you.

(Thereupon, these proceedings were concluded at 8:28 a.m.)

\* \* \*

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 211104, heard by me on 2/11/64.

WJD, Examiner  
Oil Conservation Division

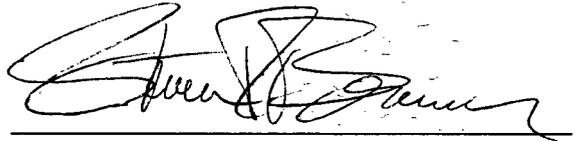
CERTIFICATE OF REPORTER

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 February 5th, 2004.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006