

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

RECEIVED

APR 1 2004

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505
CASE NO. NM 87505

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)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

March 18th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 18th, 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.

* * *

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March 18th, 2004
 Examiner Hearing
 CASE NO. 13,233

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A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS, JR.
Assistant General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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 8:24 a.m.:

3 EXAMINER JONES: Okay, let's call Case 13,233,
4 Application of Yates Petroleum Corporation for approval of
5 a unit agreement, Lea County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: May it please the Examiner, my
8 name is Michael Feldewert. I'm with the Santa Fe office of
9 the law firm of Holland and Hart, appearing on behalf of
10 the Applicant in this case, Yates Petroleum Corporation,
11 and I do not have any witnesses today.

12 EXAMINER JONES: Any other appearances? There
13 being none, go ahead, Mr. Feldewert.

14 MR. FELDEWERT: Mr. Examiner, Yates is here today
15 seeking approval of the Statler State Exploratory Unit by
16 affidavit, pursuant to Division policy. This proposed unit
17 is comprised of 3839 acres of state land. It's an area
18 located approximately eight miles northwest of Tatum, New
19 Mexico. One hundred percent of the working interest is
20 owned by Yates or Marbob Energy Corporation and their
21 affiliated companies, and all of the interests have fully
22 committed to the unit agreement.

23 The area, as I mentioned, is comprised entirely
24 of state lands. Therefore 100 percent of the royalty
25 interest is owned by the State of New Mexico. And Yates

1 proposes to test with this unit area from the surface to
2 the base of the Morrow formation with a well at a standard
3 location.

4 Yates Exhibit Number 1 is the affidavit of John
5 Amiet. He's a petroleum geologist with Yates Petroleum.
6 He identifies in his affidavit and discusses the project.
7 In particular, Exhibit G to the affidavit lays out his -- a
8 brief summary for you of the geologic support for this unit
9 area.

10 What we have attached to Yates Exhibit Number 1
11 as Exhibit A to the affidavit is a fully executed copy of
12 the unit agreement. It conforms to the State of New Mexico
13 Land Office form and, as I mentioned, it has been fully
14 executed by all of the working interests in the unit area.

15 Exhibit B to the affidavit is a plat that
16 identifies for you the unit area. The initial test well
17 will be the Statler State Unit Well Number 1. It will be
18 located at a standard gas well location in Section 34, 660
19 from the south line and 1640 from the west line, which
20 would be Unit N, as in Nancy, of Section 34.

21 Exhibit C to the affidavit is the Schedule "B" to
22 the unit agreement that identifies the working interests in
23 the area. And as I mentioned, all of the working interest
24 has fully committed to the unit agreement.

25 Exhibit D to the affidavit is a letter from the

1 Commissioner of Public Lands granting their preliminary
2 approval to the formation of this unit.

3 And as we move to Exhibit E, that begins the
4 geologic presentation. And you'll see that it is a
5 structure map for the top of the Austin member of the
6 Mississippian formation. The Atoka-Morrow sands are the
7 main producing objective.

8 Mr. Amiet shows on this map in blue his
9 projection of the sand channels. And these projections are
10 based not only on well control but also seismic data that
11 they have in the area. And if you'll see the initial test
12 well up there in Section 34 -- and I'm on Exhibit E to this
13 affidavit --

14 EXAMINER JONES: Okay, Mr. Feldewert, this
15 advertisement here says Sections -- Okay, I'm on the right
16 case here, 13,233, and it's -- the advertisement says
17 Section 33, 34, 35. But this map -- Am I mixed up here?
18 11 and 35 --

19 MR. BROOKS: Well, it appears that the docket
20 correctly reflects but the advertisement does not include
21 the lands in 12 South, 35 East.

22 EXAMINER JONES: But it includes correctly the
23 lands in 11 South, 35 East, but not the lands in 12 South,
24 35 East.

25 MR. BROOKS: That would appear to be --

1 EXAMINER JONES: So it's just a --

2 MR. FELDEWERT: I see on the docket sheet -- I'm
3 looking at the Application. The Application included all
4 of the sections --

5 EXAMINER JONES: The Application included that?

6 MR. FELDEWERT: Yeah.

7 MR. BROOKS: I guess the question is, what's in
8 the advertisement that's published?

9 EXAMINER JONES: Okay, here it is, right here.

10 MR. FELDEWERT: And according to what we said to
11 the Division, it did include those Sections 3, 4, 9 and 10.

12 EXAMINER JONES: I thought I had it here, but --
13 I must have grabbed the wrong one here. This is not -- it
14 was published months ago.

15 MR. BROOKS: 13,232.

16 EXAMINER JONES: It's just a case of -- so it's
17 in --

18 MR. BROOKS: Is their advertisement in the file?

19 EXAMINER JONES: Yes.

20 MR. BROOKS: The Application...

21 EXAMINER JONES: The Application has it on --

22 MR. BROOKS: Yeah.

23 EXAMINER JONES: There it is, yeah.

24 MR. BROOKS: The advertisement as submitted was
25 correct. I think we probably should check the

1 advertisement -- the affidavit, which we do not have here.
2 If you want to take a brief recess, I'll go upstairs and
3 get that from Florene.

4 EXAMINER JONES: Okay, let's take a ten-minute
5 recess.

6 (Thereupon, a recess was taken at 8:32 a.m.)

7 (The following proceedings had at 8:35 a.m.)

8 EXAMINER JONES: Go back on the record, then.

9 MR. BROOKS: Unfortunately, the published notice
10 is exactly the same as that appearing in the docket sheet.
11 It is obviously the Division's mistake, but I think it's
12 going to have to be re-noticed. It's unfortunate, but...

13 MR. FELDEWERT: So the advertisement that was
14 sent out left off the other sections?

15 MR. BROOKS: Yes.

16 MR. FELDEWERT: Well, I leave it up to you. We
17 can re-present -- We're going to have to continue it to
18 what, April --

19 MR. BROOKS: April 15th, I guess.

20 EXAMINER JONES: April 1st.

21 MR. BROOKS: Let's see, this is --

22 EXAMINER JONES: Oh, yeah, April 15th.

23 MR. BROOKS: Yeah, well, in order to have 20 days
24 to publish --

25 MR. FELDEWERT: Yeah.

1 MR. BROOKS: -- we would have to go to April
2 15th. You don't have to appear again, I don't think,
3 though. Well, just to tell us that --

4 MR. FELDEWERT: Okay. Well, let me continue with
5 the presentation, then, today, and --

6 MR. BROOKS: Okay, I don't see any reason why we
7 shouldn't. Go ahead.

8 MR. FELDEWERT: Mr. Examiner, if we just go back
9 to Exhibit E to this affidavit, this is a structure map for
10 the top of the Austin member of the Mississippi formation.
11 You'll see that they've projected in blue the sand
12 channels, which is the main producing objective, and the --
13 like I indicated before, this was based on well control and
14 seismic data, and the initial test well is shown up there
15 in the southwest quarter of Section 34, which is located to
16 hopefully intersect the sand channel up in that section.
17 That will be at a standard location.

18 Exhibit F to the affidavit, you can pull it out,
19 otherwise it's up to you to look at it later. It's a
20 structure map, cross-section -- structural cross-section,
21 A-A', as shown on Exhibit E to the affidavit, and you'll
22 see that it shows in yellow the projected Morrow sands that
23 are going to be targeted by the initial test well.

24 The final attachment to this affidavit is Exhibit
25 G, which is a geologic write-up for this project. It notes

1 that no wells have tested the Atoka-Morrow sands in this
2 proposed unit area, but Yates believes there is a potential
3 for channel sand development in this area. It further
4 notes that this is a high-risk project with a price tag of
5 \$1.5 million for the initial well. And what Yates is in
6 essence doing here is attempting to economically develop
7 Atoka-Morrow production on acreage where there has been no
8 commercial production from any depth.

9 Mr. Amiet in his affidavit testifies that
10 approval of this unit and the development of this unit area
11 as proposed in their unit plan is in the best interests of
12 conservation, the prevention of waste and the protection of
13 correlative rights.

14 We ask that Exhibit Number 1 with its attachments
15 be admitted into evidence, and we ask that this matter be
16 taken under advisement, recognizing that it appears it's
17 going to have to be readvertised for April 15th.

18 EXAMINER JONES: Okay, let's admit Exhibit 1 into
19 evidence.

20 And the only question I have is, he's going 200
21 feet down below the top of the Austin. If he hits
22 anything, what implication will that have for this unit?

23 MR. FELDEWERT: Well, I think the unitized area
24 is from the surface to the base of the Morrow formation.

25 EXAMINER JONES: So this is the top of the

1 Austin. Okay, that's all he intended to do, but he talked
2 his management into going 200 feet deeper. So with that
3 let's -- Do you have any other questions?

4 MR. BROOKS: No.

5 EXAMINER JONES: Let's go ahead and --

6 MR. BROOKS: What we need to do is, rather than
7 take it under advisement, is continue it to April 15th.

8 EXAMINER JONES: Let's continue this till April
9 15th, and at that time the case can be handled in the
10 absence of objection.

11 MR. FELDEWERT: Okay. That concludes our
12 presentation, Mr. Examiner. Thank you.

13 EXAMINER JONES: Thank you.

14 (Thereupon, these proceedings were concluded at
15 8:40 a.m.)

16 * * *

17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. _____
21 heard by me on _____

22 _____, Examiner
23 Oil Conservation Division
24
25

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 March 19th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006