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, CHAVES COUNTY, NEW MEXICO	)	CASE NO. 13,296

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

July 8th, 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, July 8th, 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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July 8th, 2004
Examiner Hearing
CASE NO. 13,296

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

WHEREUPON, the following proceedings were had at 8:51 a.m.:

EXAMINER JONES: And at this time let's call Case 13,296, Application of Yates Petroleum Corporation for approval of a unit agreement, Chaves County, New Mexico. Call for appearances.

MR. CARR: May it please the Examiner, my name is William F. Carr with the Santa Fe office of Holland and Hart, L.L.P. I represent Yates Petroleum Corporation in this matter, and I have two witnesses.

EXAMINER JONES: Any other appearances? Will the witnesses please stand to be sworn?

(Thereupon, the witnesses were sworn.)

EXAMINER JONES: I notice you brought the usual suspects, Mr. Carr.

MR. CARR: Culprits.

CHARLES E. MORAN,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Could you state your name for the record, please?

A. My name is Charles Moran.

Q. Mr. Moran, where do you reside?

A. In Artesia, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation as a landman.

Q. And have you previously testified before the Oil Conservation Division and had your credentials as an expert in petroleum land matters accepted and made a matter of record?

A. Yes, I have.

Q. Are you familiar with the Application filed in this case?

A. Yes, I am.

Q. Are you familiar with the proposed Stingray Exploratory Unit and the status of the lands in the proposed unit area?

A. Yes, I am.

MR. CARR: Are the witness's qualifications acceptable?

EXAMINER JONES: They are acceptable.

Q. (By Mr. Carr) Mr. Moran, would you briefly summarize for the Examiner what it is that Yates seeks in this case?

A. Yates Petroleum Corporation seeks approval of the Stingray State Unit agreement in Chaves County, New Mexico.

Q. This is a voluntary exploratory unit?

A. Correct.

Q. How many acres are in the unit area?

A. The unit is composed of 1913.22 acres, composed of four tracts, being state acreage, totaling 1716.09 and one tract of fee composed of 197.13 acres.

Q. Under this unit plan, does Yates propose to test all formations from the surface to the base of the Silurian-Devonian?

A. Yes.

Q. Have you prepared exhibits for presentation here today?

A. Yes, I have.

Q. Would you refer to what has been marked for identification as Yates Exhibit Number 1?

A. Yates Exhibit Number 1 is the standard state/fee exploratory unit agreement.

Q. This is on a state form?

A. Yes, it is.

Q. Let's go to Yates Exhibit Number 2. What is this?

A. Yates Exhibit Number 2 is the Exhibit to A attach to the unit agreement, identifying the lands in Chaves County, New Mexico, being Township 10 South, Range 26 East and 27 East. Shaded in gray are the leasehold to be included within the unit boundaries.

Q. And this shows the four state leases and the one fee lease?

A. Correct.

Q. What percentage of the working interest ownership has been voluntarily committed to the unit plan?

A. 100 percent of the working interest unit has been voluntarily committed.

Q. What is Exhibit 3?

A. Exhibit 3 is a list of the leasehold and the ownership thereof for the lands committed to the unit.

Q. It shows the working interest ownership throughout the unit area?

A. Yes.

Q. That's all Yates or Yates-related entities?

A. Correct.

Q. The only non -- or the only different interest is the Malcom C. Harral and Loretta Fay Harral royalty ownership in Tract 5; is that correct?

A. Correct, that lease is represented by one lease with various royalty owners through inheritance and conveyances of the property.

Q. Has that royalty interest also been committed to the unit plan?

A. The working interest owners under the oil and gas lease have the right to commit the interest to an exploratory unit, and so yes, it is committed.

Q. So we have 100-percent working interest and 100-

percent royalty interest committed?

A. Yes.

Q. Would you identify what has been marked Yates Exhibit Number 4?

A. Yates Exhibit Number 4 is a letter received from the Commissioner of Public Lands granting preliminary approval of the Stingray Unit.

Q. Does Yates Petroleum Corporation seek to be designated operator of the unit?

A. Yes, we do.

Q. And how soon do you plan to commence the drilling of the initial unit well?

A. We need to commence drilling of the initial unit well as soon as possible. We have a lease expiring on 8-1-2004.

Q. Does the unit agreement provide for the periodic filing of plans of development?

A. Yes, it provides for an initial plan of development to be filed six months after completion of the well and then on an annual basis thereafter.

Q. Will these plans be filed with the Oil Conservation Division at the same time they're filed with the Commissioner of Public Lands?

A. Yes, they will.

Q. What horizons are being unitized in the Stingray

exploratory unit?

A. We anticipate unitizing all formations from the surface down to the base of the Silurian-Devonian.

Q. Could you identify for the Examiner the location of the initial unit well?

A. The initial unit well will be at a location of -- I believe it's 1980 from the -- or no, 1660 from the north line, 1980 from the east, in Section 18 of Township 10 South, Range 27 East.

Q. Do you know the total depth projected for that well?

A. Approximately 6700 feet.

Q. And that well will be deep enough to test the Silurian-Devonian formation?

A. Yes, we -- the practice in this drilling program out here is drilling everything down to the basement, so we will drill all the way through the Silurian-Devonian formation.

Q. Were Exhibits 1 through 4 prepared by you or compiled under your direction?

A. Yes, they were.

Q. Will Yates call a geological witness to review the technical portion of the case?

A. Yes, we will.

MR. CARR: May it please the Examiner, at this

time we'd move the admission into evidence of Yates Exhibits 1 through 4.

EXAMINER JONES: Exhibits 1 through 4 will be admitted to evidence.

MR. CARR: And that concludes my examination of Mr. Moran.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Moran, when you file those six-month reports, do you also file them with the Harral family or --

A. Typically, you don't --

Q. Okay.

A. -- you're not required to report to the royalty owners. They have no right to that information in their oil and gas lease.

Q. Okay.

A. Their interest is solely non-working, and they have no decision-making authority.

Q. Okay. But you said you do report to the --

A. To the State Land Office.

Q. -- State Land Office.

A. That is a part of the unit agreement that they require, and it is found in the unit agreement. It is a requirement that they impose upon us in order to unitize.

EXAMINER JONES: Okay, thank you very much. I

have no further questions.

MR. CARR: May it please the Examiner, at this --

EXAMINER JONES: Gail?

MS. MacQUESTEN: No questions.

MR. CARR: I'm sorry. Trying to get out of here.

May it please the Examiner, at this time we'd call Tim Miller.

EXAMINER JONES: Okay.

TIM MILLER,

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. My name is Tim Miller.

Q. Where do you reside?

A. I reside in Carlsbad, New Mexico.

Q. By whom are you employed?

A. Yates Petroleum Corporation.

Q. And what is your position with Yates Petroleum Corporation?

A. I'm a petroleum geologist.

Q. Mr. Miller, have you previously testified before this Division and had your credentials as an expert in petroleum geology accepted and made a matter of record?

A. Yes, I have.

Q. Are you familiar with the Application filed in this case on behalf of Yates?

A. Yes, I am.

Q. Have you made a geological study of the area that is the subject of this Application?

A. Yes, I have.

Q. And are you prepared to review the results of this study with the Examiner?

A. Yes, I am.

MR. CARR: Are the witness's qualifications acceptable?

EXAMINER JONES: They are.

Q. (By Mr. Carr) Mr. Miller, what is the primary objective in this well?

A. The primary objective in the Stingray exploratory unit is the Wolfcamp-Spear zone, and it is a wildcat well. And in the unit outline, as you can see, there are no Wolfcamp penetrations in the unit area.

Q. Are there secondary objectives in the unit area?

A. Yes, the secondary objective will be the Silurian-Devonian dolomite.

Q. Let's talk initially about the Wolfcamp-Spear zone, and I'd ask you to refer to what has been marked Yates Exhibit Number 5, identify the exhibit and review the

information on this exhibit for Mr. Jones.

A. Exhibit Number 5 is a geophysical seismic time-structure map on top of the Wolfcamp-Spear zone itself. Now, the Spear zone is a Yates Petroleum in-house term of a local producing limestone in the area, but it's Wolfcamp in age, so that's why we call it the Spear zone, after a former well we drilled many years ago.

Looking at where the proposed location is, down in the northeast quarter of Section 18 in 10 South, 27 East, as Chuck Moran alluded to, 660 from the north, 1980 from the east, the seismic time-structure map shows that -- on the flank of a southeastward-trending nose.

We have found out in our drilling here in the last four to five years that this Wolfcamp-Spear zone has porosity developed on the flanks or on the sides of a structure. It very rarely produces on the top or the crest of a structure. I'm not saying it doesn't, but most of the wells that have been very productive, it produces off the flanks of the structure, and this Exhibit 5, which is the seismic time map on top of the Spear zone illustrates this idea. And that's why we are proposing the location at 660 north, 1980 from the east, in Section 18.

Q. Mr. Miller, let's go to the gross isopach map, Yates Exhibit Number 6. Could you review the information on this exhibit for the Examiner?

A. This is a gross isopach of the Wolfcamp-Spear zone itself. The Wolfcamp-Spear zone is a limestone rock, and as you can see by the unit outline and the various wells in the area with the gross thickness of the Spear zone in red, where we propose the well we are figuring that we would have somewhere in excess of 35-plus gross feet of the limestone while we are drilling through this primary productive horizon.

Q. What porosity cutoff are you using to get that 35 feet?

A. That is just a gross --

Q. Okay.

A. -- just a gross count.

Q. Okay. Let's go, then, to Exhibit Number 7, and that will give us the net feet --

A. Right.

Q. -- is that right?

A. Right. Yeah, in Exhibit Number 7, this is the -- Exhibit Number 7, I think you have -- you should have -- Exhibit Number 7 should be the net porosity isopach greater than -- okay, or 4 percent equal to. That's the cutoff we're using in most carbonates we drill. And as you see where our proposed location is, Yates Petroleum is contemplating we will get somewhere around 8 feet or better of net porosity for the Wolfcamp-Spear zone.

Q. Okay. On this exhibit we have traces for cross-sections A-A' and B-B'. Let's go to Yates Exhibit Number 8, the cross-section A-A', and I'd ask you to review that for the Examiner.

A. And you might also want to -- just having a -- of a reference, Exhibit Number 7, to see where the cross-section is running. I have those cross-sections on both the Wolfcamp gross isopach and net porosity map, so you can use it -- have the gross isopach map or the net porosity map out, just to see where the line of cross-section is running through the different wells.

Basically, the A-A' in -- generally speaking, is a west-to-east cross-section. We start out over in Section 11, is Elk Oil's SK State Number 1. The Wolfcamp-Spear zone on this cross-section, and also on the B cross-section, is highlighted in blue color. Where the productive porosity zone is is colored in red, and these -- all these logs you are seeing are compensated neutron density porosity logs.

As you can see in the Elk Oil, we have the gross thickness of the limestone, but basically there is no porosity development in this interval.

We move over to the East, the Elk Oil Z-28 Number 1. It is completed in the Wolfcamp-Spear zone, it has very good porosity. That far density line goes all the way out

to 16-percent porosity. We have an average porosity in here of around 8 or 9 percent.

As you can see down at the bottom, this well was perforated and they production tested it at a million a day, and right now it is waiting on pipeline, to be hooked up to the pipeline. So that well has yet to be on production.

Moving to the east is Yates Petroleum Sunny Side State Number 2 in Section 10 of 10 South, 26 East. Again, the Spear zone is highlighted in blue with the productive porosity zone in red. Down at the bottom the perfs are noted, and as of May of 1999 when it was put on production, through March of this year, it has made 744 million out of the Spear zone.

And also as we mentioned, our secondary objective in this well also has been productive out of the Siluro-Devonian dolomite further downhole, and it has made 271 million cubic feet of gas from June of 1989 through May of 1999 when we set a plug up above the Siluro-Devonian to recomplete up all of the Wolfcamp-Spear zone.

This well in the area set off our drilling for this Wolfcamp-Spear zone. This basically was the initial well that has started this program out here with all these different wells.

The next well to the east is the Elk Oil

Company's Overeasy State Number 1. Again, you see it's -- Wolfcamp-Spear zone is highlighted in blue with the productive porosity zone in red. Down at the bottom the perfs are noted, and its cumulative production -- it is a fairly new well, went on production last September, and through February it has made 178 million cubic feet of gas.

To the east is where our proposed location is going to be, the Stingray State Unit Number 1, has cross-section running through it.

As you can see, this cross-section is -- I forgot to mention that -- is a structural cross-section, so you can see we are essentially moving downdip. Or if you look basically at the seismic time-structure map, the Stingray unit is down on the flank of that nose, the southern flank, and the structural cross-section depicts it as you are going downdip. Once again, we hope to have 35-plus feet of gross limestone with, hopefully, 8 feet-plus of net porosity.

The last one on the cross-section is Yates Petroleum's Moalbo well, and basically that -- again, it has the limestone gross thickness, but it did not have any net-porosity productive zone.

And then again is -- looking at the time-structure map, which is Exhibit 5, it shows it's sort of close to the crest of the nose, and this kind of enhances

the idea that if you're on the top of the structure, or off close to the top, that the porosity does not develop.

This is an aside. You may wonder what that Moalbo well name -- I thought when our landman proposed it, it would mean something in Africa. It has nothing to the point. It's a stock-market term, it means mother of all buying opportunities, which in this case it didn't work because it's a dryhole. So the gamble didn't pay off.

Q. All right, Mr. Miller, let's go to cross-section B-B'.

A. Once again, if you have one of the gross isopach maps, you'll just have a point of reference to see how the cross-section is running.

The B-B' cross-section is a north-to-south cross-section. If you start on the left-hand side of the paper, the first well on it is Yates Petroleum's Houston BDH State Number 1 in Section 31 of 9 South, 27 East. Basically, we had net porosity of 9 feet and, as you could see, it's pretty good-looking porosity zone. Again on this cross-section, as on cross-section A-A', the Spear zone is highlighted in blue with the productive porosity zone colored in red.

This well, which is fairly new, pretty new, went on production February of this year, and this is basically just a month's production, and it has made 48 million feet

of gas.

The next well on the cross section to the south of the Yates well number 1 is Elk's Overeasy, which was on the A-A' cross-section. Again, the depiction of the blue carbonate limestone, the Spear zone, the red highlighted for the neutron density productive porosity with the perfs on it, and as mentioned before, it has made 178 million cubic feet of gas from September of last year through February of this year.

This again, this B-B' cross-section, is a structural cross-section, and as we're going to the east we're going downdip. We go through our proposed location, the Stingray State Unit Number 1 in Section 18 of 10 South, 27 East, with a location of 660 north, 1980 east. Once again, as I said on the A-A', we're hoping to encounter 35-feet-plus of gross limestone thickness with hopefully 8 feet or more of 4-percent or better neutron density porosity in it.

The next well to the south of the proposed location would be the Loretta Number 2 that Yates Petroleum drilled. Once again, as you can see, it's highlighted -- the interval is highlighted in blue, with the productive porosity in red. Basically since August of last year through February, it has made 44 million cubic feet of gas. And this well, like we plan on the Stingray Exploratory

Unit well, was drilled down into the Siluro-Devonian. We've tested it on this well, but basically the Siluro-Devonian was tested at 27,000 a day and made three barrels of water, of non-productive Siluro-Devonian dolomite.

The next well, the Loretta 1 to the south of the 2, has the Spear zone in it, as you could see. And down at the bottom, this is one of the better wells out there, production from February of 2003 through March of 2004, it has made 594 million cubic feet of gas.

The last one on the cross-section, the furthest one south, is the Yates Petroleum Corporation's Canner Number 2. Again, the Spear zone is depicted in blue with the neutron density porosity colored in red with the perfs. From January of 2003, when it first went on production, through March of this year, it has produced 333 million cubic feet of gas.

This well is another one of the wells that was tested in some of the deeper formations, basically the Siluro- -- which is called Siluro-Ordovician on here, Siluro-Devonian, similar rock. It had fair to good gas, no measurement, but it was making 15 barrels of water per hour, and we tested some other zones up in the Strawn interval and Cisco interval. They had a fair amount of gas but not enough to be economic.

Q. Mr. Miller, let's now go to the Siluro-Devonian

dolomite. Would you identify Yates Petroleum Corporation Exhibit Number 10, the seismic time-structure map, and review the information on that map?

A. Okay, the -- Exhibit Number 10 is the seismic time-structure map on top of the Siluro-Devonian dolomite, which would be our secondary objective out here, as opposed to the primary one, which is the Wolfcamp-Spear.

As you can see by the seismic time map, we are looking that to be on the top of a structure for the Siluro-Devonian dolomite, and most wells out here in the area that produce out of the dolomite produce better towards the crest of a structure.

Q. The initial well, the proposed location, where does that location lie in respect to other producing Siluro-Devonian fields in the area?

A. Our proposed Stingray unit lies within about three miles southeast of the Foor Ranch field, which is to the northwest of the location about three miles. That field has produced -- we have some wells that have produced over 10 BCF.

There is another field to the southeast, about two and a half miles away, the Diablo-Siluro-Devonian field. Some of the wells have produced over 2 BCF and have made 150,000 barrels of oil.

Q. Is your Exhibit Number 11 a summary of your

geological conclusions?

A. Yes, it is.

Q. Could you explain to the Examiner why it is that Yates is proposing to develop this area under the proposed unit plan?

A. Yates Petroleum is proposing to develop it under the unit plan because we feel we have two potentially productive horizons, and the formation of the unit will result in more reasonable development of these reserves, and a pool can be effectively developed under the unit plan.

Q. In your opinion, will approval of this Application be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, it will.

Q. Were Exhibits 5 through 11 prepared by you?

A. Yes, they were.

MR. CARR: May it please the Examiner, we move the admission of Yates Petroleum Corporation Exhibits 5 through 11.

EXAMINER JONES: Exhibits 5 through 11 will be admitted.

MR. CARR: That concludes my direct examination of Mr. Miller.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Miller, you answered my main question there at the end, but can you put it in your own words one more time, why you want to form a unit to -- It looks to me like you already know all about the Wolfcamp-Spear from the successful wells to the north, and I'm not sure you know -- the Siluro-Devonian seems to be more of a new concept, but maybe not. And so you're basically forming the unit for -- say again what reason?

A. Well, we're basically forming the unit because we basically have leases under the unit which have similar expiration dates. And they're not all the same lease, so you'd have to drill each one -- you know, one well here producing is not going to save the rest. Plus we feel that developing the unit for the Wolfcamp-Spear zone and possibly the Siluro dolomite would help save the acreage, and then we would go out and develop with the proceeding locations.

Q. Okay, Yates seems to be taking this unit concept to better develop a resource, but how long ago did you guys start doing this? Has it been ever since you worked for Yates or --

A. Well, basically. We started a drilling program up in Chaves County, not in this immediate area, for this

regime, going on in November of 1999. But that encompasses 30 miles north of Roswell, 24 miles east. This is closer to Roswell, about 15 miles east of town. And of course it also depends on rig availability and trying to get to them, and if you're delayed on some wells that take longer than others because of technical problems, then you start slowly running out of time.

Q. I've got you.

A. It's not like we're delayed to do this, it's just timing has caught up with us --

Q. Okay.

A. -- and we're trying to save what leases we can with a unit well, and then hopefully if this is successful, we'll go out and drill in the other sections in the unit.

Q. Okay, and the State Land Office obviously agrees with this concept --

A. Yes.

Q. -- from the letter that I saw in one of your exhibits from Mr. Moran.

You can actually see in seismic the top of the Siluro-Devonian?

A. We think we think we can see the top of it. It's -- in some areas, it's a very tricky pick on a seismic map, from what we're seeing. These are 2-D lines out here, they're not 3-D lines. We've had them reprocessed, which

has shed some more light on what we think we're seeing. But really, to be honest, until we drill the well, where we think we've picked the top of the Siluro-Devonian, that is still in question until we only have the -- we log the well after we TD it.

Q. The pipeline is available out here?

A. Yes, all these wells you see with the gas-well symbols out here, the pipeline is right to the north of this.

Q. Okay.

A. So it's fairly close, about two miles away from the nearest pipeline.

Q. Okay, and that Spear porosity development, I think I've asked you this before: Why does it develop on the lower part of the gross interval? It looks like it's developing --

A. I know that is -- we are still puzzled over that. The only thing we think that might help that -- when this was being deposited -- and this is, of course, a geological concept -- that this was on the windward side of little shoals, and you had the wave action and the wind, grainstones deposited here. That went away, then another regime where you had the rest of the limestone on top, was tight as a tombstone.

And we think also that why it's at the bottom of

the interval, this was leached maybe with groundwater, which opened up the porosity and permeability. And on some of the wells it's more like a hot limestone, which is radioactive, you do not have clean gamma-rays on some wells, some you do.

We're still trying to figure it out, we haven't really had a definite answer, but that's one of the ideas that we're working with right now

Q. Okay, and your logs are run on a lime matrix?

A. Right.

Q. You guys always run logs on limes?

A. Yes, basically.

Q. And you've got something shaded in on this Overeasy State Number 2. I guess that's your Atoka, your Strawn or Morrow, Atoka?

A. On the Overeasy Number -- Overeasy State 1?

Q. State 1, I'm sorry.

A. Now, where are you looking at?

Q. Right below the Wolfcamp top.

A. Oh, that is -- right there -- Of course, when you copy logs, pencils come off. That is -- up in the top of the Wolfcamp, that is a dolomite zone that has porosity. That could be a productive interval. If everything down below this well peters out in production, then we would move up and try that.

That is -- That's our way of showing when we're presenting the log to management of a dolomite porosity, and we just cross-hach it there with lines. In-house look.

Q. You seem very convincing. I'm sure you've got your manager convinced.

A. I hope so.

EXAMINER JONES: Okay, I think -- Gail, do you have any more?

MS. MacQUESTEN: No, I have no questions.

EXAMINER JONES: Okay, thanks a lot.

MR. CARR: And that concludes our presentation in this case.

EXAMINER JONES: With that, we'll take Case 13,296 under advisement.

(Thereupon, these proceedings were concluded at 9:24 a.m.)

* * *

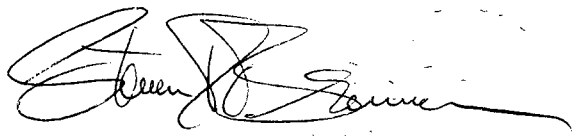
CERTIFICATE OF REPORTER

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 July 10th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006