

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. 13,434

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

March 3rd, 2005

Santa Fe, New Mexico

2005 MAR 17 AM 8 48

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, March 3rd, 2005, 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 3rd, 2005
Examiner Hearing
CASE NO. 13,434

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<u>JOHN AMIET</u> (Geologist)	
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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: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 9:19 a.m.:

3 EXAMINER EZEANYIM: At this time I call Case
4 13,434, which is the Application of Yates Petroleum
5 Corporation for approval of a unit agreement, Lea County,
6 New Mexico.

7 Call for appearances.

8 MS. MUNDS-DRY: Mr. Hearing Examiner, Ocean
9 Munds-Dry with Holland and Hart, appearing on behalf of
10 Yates Petroleum Corporation, and I have one witness.

11 EXAMINER EZEANYIM: Any other appearances?

12 May the witness stand up to be sworn.

13 (Thereupon, the witness was sworn.)

14 JOHN AMIET,

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

17 DIRECT EXAMINATION

18 BY MS. MUNDS-DRY:

19 Q. Will you please state your name for the record?

20 A. John Amiet.

21 Q. where do you reside?

22 A. Artesia, New Mexico.

23 Q. By whom are you employed?

24 A. Yates Petroleum.

25 Q. What is your position with Yates?

1 A. I'm a geologist with Yates.

2 Q. Have you previously testified before the Oil
3 Conservation Division?

4 A. Yes, I have.

5 Q. Were your educational background and your
6 credentials previously made a matter of record before the
7 Division?

8 A. Yes.

9 Q. And they were accepted by the Division?

10 A. Yes.

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

13 A. Yes, I am.

14 Q. Are you familiar with the proposed Chesney State
15 Exploratory Unit, including the status of the lands in the
16 proposed unit area?

17 A. Yes.

18 Q. Have you made a geologic study of the area which
19 is the subject of this Application?

20 A. Yes, I have.

21 Q. Mr. Amiet, are you prepared to share the results
22 of this study with the Examiner?

23 A. Yes.

24 MS. MUNDS-DRY: We'd ask that Mr. Amiet be
25 tendered as an expert in petroleum geology.

1 EXAMINER EZEANYIM: Mr. Amiet is so qualified.

2 Q. (by Ms. Munds-Dry) Mr. Amiet, if you could
3 briefly state for the Examiner what Yates Petroleum seeks
4 with this Application.

5 A. Yates is seeking approval of the Chesney State
6 Exploratory Unit agreement. This is a voluntary
7 exploratory unit located in Lea County, New Mexico. It
8 contains approximately 5899 acres of both state and fee
9 lands.

10 Q. And have you prepared certain exhibits for
11 introduction into this case?

12 A. Yes, I have.

13 Q. Would you identify and review for the Examiner
14 what's been marked as Yates Exhibit Number 1 and explain
15 what it is?

16 A. This is my affidavit and attachments. It
17 summarizes my geologic testimony. Originally we planned to
18 submit this unit by affidavit, but we decided to testify at
19 the last minute.

20 Q. And could you review for the Examiner what's been
21 marked Yates Attachment A?

22 A. This is the unit agreement. It's based on the
23 state/fee form for an exploratory unit.

24 Q. And if you could review also for the Examiner
25 what's been marked Yates Attachment B.

1 A. This is the plat map, it's Exhibit A to the unit
2 agreement. It shows that there are State of New Mexico
3 lands, 5739 acres. There's also 160 acres of fee lands
4 located in Sections 1 and 2. Six of these fee lands remain
5 unleased, either due to people not deciding what they want
6 to do yet, or Yates was unable to contact them.

7 Q. Mr. Amiet, if you could identify for the Examiner
8 what's been marked Yates Attachment C.

9 A. This is the ownership breakdown. It's Exhibit B
10 in the unit agreement.

11 Q. How many State of New Mexico leases are there?

12 A. There are 18 State of New Mexico leases, totaling
13 5739 acres. There are 12 fee leases, totaling 160 acres.
14 And as I've mentioned, six of these fee acres are
15 uncommitted at this point.

16 Q. And this means how much acreage, approximately,
17 has been committed to the unit?

18 A. Ninety-seven percent of the acreage is state
19 land, and of course that's leased 100 percent by Yates.
20 There's -- About 3 percent of that land is fee. There's
21 about .1 percent of this unit outline that remains
22 unleased.

23 Q. But this would give Yates effective control of
24 unit operations?

25 A. That's correct.

1 Q. If you could identify and review for the Examiner
2 Exhibit 3. We're just going to come back to the end here a
3 little bit, we're going to jump around.

4 A. This is the notice letters that were sent out to
5 the unleased mineral interest owners, or trying to find
6 them and trying to get either a lease from them or get
7 their -- either to lease or sign a waiver.

8 Q. And if you could also identify for the Examiner
9 what's been marked Tab A to Exhibit 3?

10 A. This is a copy of the lease that was also sent
11 out to these parties that have not leased.

12 Q. And if you could also identify Tab B to Exhibit
13 3.

14 A. This is just a copy of a typical waiver that was
15 also sent out to the unleased interest owners.

16 Q. Thank you. Has the Commissioner of Public Lands
17 given his preliminary approval to the proposed unit
18 agreement?

19 A. Yes, this is Yates Attachment D. It's a
20 preliminary approval letter from the Commissioner of Public
21 Lands. He has given his preliminary approval.

22 MS. MUNDS-DRY: And Mr. Hearing Examiner, we're
23 hopping around a little bit. It's --

24 EXAMINER EZEANYIM: Yeah --

25 MS. MUNDS-DRY: -- Attachment D to Exhibit 1 --

1 EXAMINER EZEANYIM: Yeah --

2 MS. MUNDS-DRY: -- so if you'll go back up just a
3 little bit.

4 EXAMINER EZEANYIM: Okay, that's Attachment D; is
5 that what you said?

6 THE WITNESS: Attachment D to Exhibit 1.

7 EXAMINER EZEANYIM: Okay, I don't see that.

8 MS. MUNDS-DRY: If you can't locate your copy, I
9 can certainly --

10 EXAMINER EZEANYIM: Do I have it? Attachment D?

11 THE WITNESS: Here's one if you need it.

12 EXAMINER EZEANYIM: No, that's okay. Okay, here
13 we go.

14 THE WITNESS: This is the preliminary approval
15 from the Commissioner of Public Lands.

16 Q. (by Ms. Munds-Dry) Does Yates Petroleum
17 Corporation desire to be the designated unit operator?

18 A. Yes.

19 Q. And again, if we could skip around a little bit,
20 if you could identify and review for the Examiner Yates
21 Exhibit Number 2.

22 A. This is the AFE. It's for the initial test well.
23 It states that the dryhole cost is \$1,649,000, a completed
24 well cost is \$2,354,000. Yates plans to spud this well
25 before April 1st, since two leases expire on that date if

1 the unit is not approved and drilling has not commenced.
2 These two expiring leases are located in the north part of
3 the unit, in Sections 1 and 2.

4 Q. Turning back to the unit agreement, Mr. Amiet,
5 does the agreement provide for periodic filing of plans of
6 development?

7 A. Yes.

8 Q. Will the plans be filed with the OCD as well as
9 the State Land Office?

10 A. Yes, they will.

11 Q. How often are these plans to be filed?

12 A. This is covered in Article 9 of the unit
13 agreement. Initial plan is six months after completion of
14 the first unit well, the subsequent plans are every 12
15 months thereafter.

16 Q. What horizons are being unitized in the proposed
17 Chesney Exploratory Unit?

18 A. All horizons from the surface to the base of the
19 Mississippian formation.

20 Q. And can you tell the Examiner where the test well
21 will be drilled?

22 A. The initial well will be 1650 feet from the north
23 line and 990 feet from the west line of Section 26,
24 Township 11 South, Range 35 East.

25 EXAMINER EZEANYIM: Please, can you repeat that

1 location?

2 THE WITNESS: 1650 feet from the north line, 990
3 feet from the west line of Section 26, Township 11 South,
4 Range 35 East.

5 Q. (by Ms. Munds-Dry) Do you know the total depth
6 planned to be drilled to?

7 A. We have a tentative TD of 13,100 feet down into
8 the Mississippian.

9 Q. What is the primary objective in this well?

10 A. It would be Atoka-Morrow formation.

11 Q. Are there any secondary objectives?

12 A. We've had some luck with the upper Mississippian
13 or Austin formation, so we -- that's why we're drilling
14 down as deep as we are.

15 Q. If you could now identify for the Examiner Yates
16 Attachment E to Exhibit 1 and review that for the Examiner.

17 A. This is what I'm calling the Atoka red sand
18 isopach map. This is probably the best sand in this area,
19 or most consistent sand in this area. This is the map --

20 EXAMINER EZEANYIM: Attachment E, now --

21 THE WITNESS: This is Attachment E to Exhibit 1.

22 EXAMINER EZEANYIM: Okay, go ahead.

23 Q. (by Ms. Munds-Dry) Are the producing wells shown
24 on this map, the Atoka-Morrow wells?

25 A. Yes, they are. Again, this is a net sand

1 thickness map of this red sand isopach. It's showing kind
2 of a distributary channel coming from north down to the
3 southeast. The unit outline is shown in red. The
4 productive Atoka-Morrow wells are shown with the bright red
5 or purple or maybe pink, solid circles.

6 We'll start with that well in the far east side
7 in Section 30. That well has only made about 29 million
8 cubic feet of gas, so it's obviously not an economic well.

9 The next red well in Section 25 is the Ray well.
10 Yates re-entered this well, and for a re-entry it was a
11 successful well. It's had a cumulative production of about
12 290 million cubic feet of gas. It's currently making about
13 half a million cubic feet a day. So this was a successful
14 re-entry, but it probably would not be economic as a new
15 drill.

16 The only really economic well on this map would
17 be over in Section 29 on the west-end side; it's that pink
18 dot. It's made about 211 million cubic feet of gas in
19 about five months, and it's making about -- over 800
20 million cubic feet a day, so that probably will be an
21 economic well. But there are probably no other economic
22 wells on this map, and this is one of the reasons that
23 we're trying to form a unit. It's a high-risk project.

24 These well locations, we have 3-D seismic over
25 this area, and so we're using 3-D seismic log correlations

1 and regional mapping to try to define these sands in this
2 kind of untested area.

3 Q. Thank you. If you could identify and review
4 Yates Attachment F to Exhibit 1 for the Examiner.

5 A. This is a cross-section, A-A'. Again, the
6 location shown on the map is kind of going in the southern
7 part of the unit from -- it's a structural cross-section,
8 going from northwest to southeast.

9 The well on the far right side is the Dempster
10 Number 2, and I've shown the red sand is the lowermost,
11 colored in yellow. There's a green sand above it, and also
12 a blue sand above it. But the red sand is really the one
13 that's more continuous and the one we're trying to find.

14 On that Dempster Number -- State Unit Number 2,
15 the well in the far right-hand side, is wet in the target
16 horizon. This well has not produced at all.

17 Coming to the west is the Ray well that we've
18 talked about, that's made about 290 million cubic feet of
19 gas from this target interval, the same interval we're
20 trying to chase.

21 We're trying to structurally high and hopefully
22 get a thicker sand as we go to the proposed Chesney Unit
23 Number 1 well. That would be the second well from the
24 left.

25 And then the Roger is the well farthest to the

1 left, and it tested about 78 MCF a day from a sand above
2 the red sand horizon. These sands are discontinuous, but
3 like I said, the red sand is probably the most continuous
4 and most prospective that we're looking for here.

5 Again, water is a problem out here, so we're
6 trying to stay high and trying to use the seismic to get
7 into some of these channel systems, but it is a very risky
8 well.

9 Q. Thank you. If you could refer generally to your
10 Exhibit 1, which is your affidavit, and please explain to
11 the Examiner why Yates is proposing to attempt to develop
12 this area under the proposed unit plan.

13 A. Once again, these wells cost almost \$2.4 million
14 to drill. It's a risky area. There's really only one
15 economic well on this map, so it's kind of a wildcat.

16 The formation of a unit will let us develop this
17 acreage in a more reasonable manner where we can follow the
18 channel systems, and we think a pool can effectively be
19 developed under a unit plan.

20 Q. Mr. Amiet, what does your geologic study tell you
21 about the subject formation in this area?

22 A. That this area or sand can best be produced under
23 a unit plan.

24 Q. And is Exhibit 4 an affidavit of publication
25 showing notice was published in the local newspaper?

1 A. -- they don't seem to continue for very long. So
2 we're -- the red sand we can see in a number of wells in
3 the area.

4 Water is a problem, so we're trying to stay
5 high --

6 Q. Yeah.

7 A. -- and use the 3-D seismic to find prospective
8 locations.

9 Q. Is that in the Morrow?

10 A. This will be in the Atoka, middle Atoka.

11 Q. The Atoka, yeah. Okay.

12 A. We haven't found the Morrow to be productive over
13 in this area, this far east.

14 Q. And you're asking to have this unit from the
15 surface to the base of the Mississippian; is that --

16 A. That's correct. This is a structural cross-
17 section, so you're going updip as you go to the northwest.

18 Q. Let's go to the lands, the state and the fee
19 land. Is that Exhibit 2, those lands?

20 A. Excuse me, Examiner?

21 Q. Exhibit 2, is that where you have these land
22 descriptions for this unit? Let me see, that --

23 MS. MUNDS-DRY: The plat?

24 EXAMINER EZEANYIM: -- Exhibit 2, is that where
25 you have that? I have a question on that.

1 THE WITNESS: Exhibit 2. Let me see what Exhibit
2 2 was.

3 MS. MUNDS-DRY: Are you referring to Attachment
4 C, Mr. Examiner, that lists the ownership?

5 EXAMINER EZEANYIM: No. You know, the lands,
6 both state and fee, and there's an exhibit that shows which
7 one is state land and which one is fee land --

8 THE WITNESS: Okay.

9 EXAMINER EZEANYIM: I think it's 2, if I'm not
10 mistaken.

11 MS. MUNDS-DRY: Exhibit 2, Mr. Examiner, is the
12 AFE.

13 EXAMINER EZEANYIM: Oh, okay.

14 THE WITNESS: This is maybe Attachment C.

15 EXAMINER EZEANYIM: Attachment C?

16 THE WITNESS: Is that -- Exhibit B to the unit
17 agreement? It shows the State of New Mexico lands and the
18 fee interests.

19 EXAMINER EZEANYIM: Yeah, is that C?

20 THE WITNESS: Yeah, this is Attachment C, Exhibit
21 B to the unit agreement.

22 EXAMINER EZEANYIM: Okay. Attachment A, B, C --
23 It's very confusing.

24 THE WITNESS: There's a lot of exhibits here.

25 Q. (By Examiner Ezeanyim) Yeah. Okay, now, my

1 question on that is that you say it's 99 percent state
2 lands?

3 A. Ninety-seven percent is state land, all leased by
4 Yates, and there's about 160 acres out of the -- almost
5 6000 is fee land, so that's about 3 percent.

6 Q. Okay.

7 A. And of that, there's a total of six acres out of
8 that 160 that we either have not been able to find the
9 parties, or the people are still making up their minds.
10 We're still getting responses from these six acres, but
11 we've made a number of calls to Houston trying to find some
12 of these people, we've checked the records office in
13 Lovington, we've mailed out to the last known address of
14 these people. We just haven't been able to find all the
15 people.

16 Q. Yeah, okay. What percentage of interest owners
17 have approved this unit, do you know?

18 A. It's about ninety- -- over 99 percent. Well,
19 there's -- of the fee lands, one person has decided to
20 participate in the unit. The other -- several -- four or
21 five percent have leased to Yates, but there's six acres
22 that have not leased or joined the unit, or we have not
23 been able to find them. So six acres, that's about .1
24 percent of the total area, is not leased.

25 Q. Okay. One more question, Mr. Amiet, and this is

1 -- Let's go back to the unit composed of -- let's see here,
2 5899 acres of State of New Mexico lands, but here I'm
3 getting about 6400 acres for 10 sections.

4 Could you -- because here you have 10 sections.
5 Is there an irregular --

6 A. Well, Sections 1 and 2 are not full sections.

7 Q. Oh. Okay, Section 1 is how many acres?

8 MS. MUNDS-DRY: Section 1 --

9 THE WITNESS: Do I have that?

10 Q. (By Examiner Ezeanyim) When I see all, I give it
11 at least 640 acres.

12 A. Yeah, that's 80 -- I would say it's about 400
13 acres, just an estimate. It looks like it's about three-
14 quarters of a section. Sections 1 and 2 are short
15 sections.

16 Q. 400?

17 A. I'd estimate about 400 acres.

18 Q. Uh-huh, because your acreage here is shown by
19 about 400 acres, so I need to make sure this is correct.

20 A. So that would be -- that would be 300 acres short
21 of a full 10 sections.

22 Q. 500 acres --

23 A. Yeah, something like that.

24 Q. Yeah, 500 acres.

25 A. Yeah, okay. Yes. Yes, sir.

1 Q. So it's because of -- due to regulating 1 and 2?

2 A. That's correct.

3 Q. Okay. So right now you are exploring the Atoka,
4 no Morrow?

5 A. That's correct. I mean, potentially the Morrow
6 and Austin also, but our target sand is in the middle
7 Atoka.

8 EXAMINER EZEANYIM: Anything further?

9 MS. MUNDS-DRY: Nothing further.

10 EXAMINER EZEANYIM: There being nothing further,
11 then Case Number 13,434 will be taken under advisement.

12 MS. MUNDS-DRY: Thank you, Mr. Hearing Examiner.

13 THE WITNESS: Thank you, Examiner.

14 EXAMINER EZEANYIM: At this point I think we'll
15 take a 10-minute break, and then we can continue.

16 (Thereupon, these proceedings were concluded at
17 9:42 a.m.)

18 * * *

19 I do hereby certify that the foregoing is
20 a complete record of the proceedings in
21 the Examiner hearing of Case No. 13434
22 heard by me on 3/21/05
23 , Examiner
24 Oil Conservation Division
25

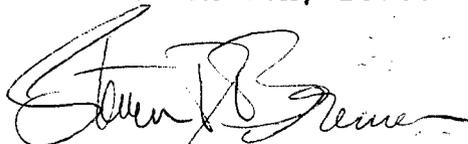
CERTIFICATE OF REPORTER

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 5th, 2005.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006