

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:

ORIGINAL

APPLICATION OF YATES PETROLEUM
CORPORATION FOR A NONSTANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

Case No. 14740

TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: TERRY WARNELL, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

October 13, 2011

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, TERRY WARNELL,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, October 13, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
500 Fourth Street, N.W., Suite 105

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A P P E A R A N C E S

FOR THE APPLICANT:

HINKLE, HENSLEY, SHANOR & MARTIN, LLP
GARY W. LARSON, ESQ.
218 Montezuma
Santa Fe, New Mexico 87501
(505) 982-4554

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EXHIBITS 1 THROUGH 4 ADMITTED

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REPORTER'S CERTIFICATE

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1 EXAMINER WARNELL: So we'll start with our
2 first case, Case Number 14740, application of Yates
3 Petroleum Corporation for a nonstandard oil spacing and
4 proration unit and compulsory pooling, Eddy County, New
5 Mexico. Call for appearances.

6 MR. LARSON: Good morning, Mr. Examiner.
7 Gary Larson for applicant, Yates Petroleum Corporation.
8 There's no opposition to the application, so I'll be
9 presenting it by affidavit.

10 EXAMINER WARNELL: Very good.

11 MR. LARSON: As you indicated,
12 Mr. Examiner, this case concerns Yates' request for
13 approval of a nonstandard 160-acre oil spacing and
14 proration unit for a project area in the Bone Spring
15 formation in the north half/north half of Section 13,
16 Township 18 South, Range 29 East, in Eddy County.

17 And Yates also requests the pooling of the two
18 working interest owners which have not committed their
19 interest to Yates' Grateful BOD Fed Com Number 1H
20 horizontal well.

21 And initially I'd like to clarify that the
22 application incorrectly states that Yates requests the
23 pooling of all uncommitted interests in the project area
24 from the surface to the base of the Bone Springs. What
25 Yates actually requests is the pooling of all uncommitted

1 interests in the Bone Spring formation. And this request
2 is correctly stated in Yates' prehearing statement and in
3 the affidavit of Yates' landman, Charles Moran, which is
4 Exhibit Number 1.

5 And I'd also like to make another
6 clarification regarding the application. The application
7 fails to identify Yates' request for the pooling of all
8 uncommitted working interests from the surface to the top
9 of the Bone Spring underlying the northeast/northeast
10 quarter of Section 14 to form a 40-acre unit within that
11 vertical extent, save and except the West Loco Hills Unit
12 interval which underlies the northeast quarter at 2,767
13 feet to 2,792 feet subsurface. Again, this clarification
14 is set out in the pre-hearing statement and in Mr.
15 Moran's affidavit.

16 The proposed project area will be dedicated to
17 the Grateful BOD Fed Com Number 1H horizontal well. The
18 well has been drilled, but it is not yet completed.

19 I direct your attention to Mr. Moran's
20 affidavit, which is Exhibit Number 1. The affidavit
21 contains all the information required under
22 19.15.4.12(A)(1)(b). And as stated in Mr. Moran's
23 affidavit, all but two of the interest owners, which are
24 both estates, have committed to the horizontal well.

25 And when Mr. Moran initially proposed the

1 well, the personal representatives of the two estates
2 received a proposed Joint Operating Agreement and AFE and
3 both signed the JOA. And subsequently the JOA lapsed, so
4 Mr. Moran then sent a revised JOA out to all the interest
5 owners. And for some unknown reason, the estates simply
6 have not responded to Mr. Moran's request.

7 Attached as Exhibit A to Mr. Moran's affidavit
8 is a plat of the horizontal well. The well is entirely
9 in an orthodox location.

10 Exhibit B to Mr. Moran's affidavit includes
11 all of Mr. Moran's correspondence with two estates, all
12 of which predates the filing of the application by more
13 than 30 days.

14 Exhibit C to the affidavit is a copy of the
15 AFE which remained unchanged after the initial JOA
16 lapsed. And it's indicated that the dry hole cost of the
17 well is \$1,889,000, and the completed well cost is
18 \$4,295,000. And the AFE also identifies all of the
19 interest owners and all of the percentages of their
20 interests in the proposed project area.

21 As also stated in Mr. Moran's affidavit, Yates
22 requests the establishment of overhead charges of \$5,400
23 per month for a drilling well and \$540 per month for a
24 producing well.

25 I'll next direct your attention to Exhibit 2,

1 which is my affidavit of notice of the application and
2 today's hearing to the uncommitted interest owners. The
3 notice letters and Certified Mail receipts are attached
4 as Exhibit A.

5 Exhibit Number 3 is my affidavit of notice to
6 all operators and interest owners in the 40-acre units
7 offset to the proposed project area. As indicated in the
8 attached exhibits, all of those interest owners and
9 operators received a Certified Mail notice.

10 The final exhibit I've presented, which is
11 marked as Exhibit Number 4, is the affidavit of Yates'
12 geologist, John Humphrey. And there are four exhibits to
13 Mr. Humphrey's affidavit.

14 The first exhibit is a structure map of the
15 top of the Bone Spring formation. The second exhibit is
16 a map showing oil productive vertical and horizontal
17 wells from the second Bone Spring. The third exhibit is
18 a type log for the second Bone Spring for the area around
19 Yates' Grateful BOD Fed Com Number 1H Well. And the
20 final exhibit is the actual horizontal wellbore schematic
21 for the well.

22 Mr. Examiner, I move the admission of Yates'
23 Exhibit Numbers 1 through 4.

24 EXAMINER WARNELL: Yates Exhibits 1
25 through 4 are admitted.

1 (Exhibits 1 through 4 were admitted.)

2 MR. LARSON: And in closing, I request
3 that the Division enter an order granting all the relief
4 requested by Yates in its applications as amended and
5 clarified by Mr. Moran's affidavit.

6 EXAMINER WARNELL: Very well. Thank you.

7 Mr. Brooks, any questions?

8 EXAMINER BROOKS: You said two estates
9 were the only parties being pooled?

10 MR. LARSON: That's correct.

11 EXAMINER BROOKS: Since they're estates, I
12 assume we will provide for an escrow, because we wouldn't
13 necessarily know who would end up with those interests.
14 That's just an observation, not really a question.
15 That's all I have.

16 EXAMINER WARNELL: Thank you.

17 Mr. Larson, could you go over one more time
18 for me, please. You want to go from the surface to the
19 Bone Springs or just the Bone Springs?

20 MR. LARSON: In terms of the project area,
21 it's just the Bone Springs in the northeast/northeast
22 quarter, which is the surface location of the well.

23 Yates realized that this West Loco Hills Unit
24 interval ran through the northeast quarter/northeast
25 quarter, so they're asking for a 40-acre unit there,

1 excepting out the interval of the unit.

2 EXAMINER WARNELL: All right. Thank you.

3 If there's nothing more, then Case Number 14740 will be
4 taken under advisement.

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

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_____, Examiner
Oil Conservation Division

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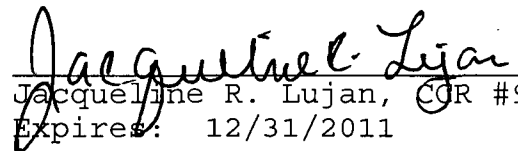
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on October 13, 2011, proceedings in
the above captioned case were taken before me and that I
did report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 26th day of October, 2011.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2011