

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 AND LEA COUNTY, )  
NEW MEXICO )

CASE NO. 13,476

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 21st, 2005

Santa Fe, New Mexico

2005 MAY 5 AM 7 32

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 21st, 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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## 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

\* \* \*

STEVEN T. BRENNER, CCR  
(505) 989-9317

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

3           EXAMINER CATANACH: We're going to go slightly  
4 out of order this morning; we're going to hear a Yates case  
5 first and then go on to the RB Operating Company cases.

6           At this time I'll call Case 13,476, the  
7 Application of Yates Petroleum Corporation for approval of  
8 a unit agreement, Chaves and Lea County, New Mexico.

9           Call for appearances.

10          MS. MUNDS-DRY: Good morning, Mr. Hearing  
11 Examiner. My name is Ocean Munds-Dry, I'm with Holland and  
12 Hart, and I'm here on behalf of Yates Petroleum Corporation  
13 this morning.

14          EXAMINER CATANACH: Any additional appearances?  
15 If there are none, Ms. Munds-Dry, you may  
16 proceed.

17          MS. MUNDS-DRY: Thank you, Mr. Hearing Examiner.  
18 Yates seeks approval of the Chicken Little State  
19 Exploratory Unit this morning, comprised of 3323.16 acres  
20 of State of New Mexico and fee lands. It's located  
21 approximately 36 miles southwest of Maljamar.

22          Yates seeks approval of this proposed unit by  
23 affidavit pursuant to Division policy.

24          Mr. Examiner, if you'll turn to the exhibits and  
25 look at Exhibit Number 1, it is the affidavit of Tim

1 Miller, who is the petroleum geologist identifying the  
2 project.

3 Attachment A to the affidavit, which is actually  
4 marked in your exhibits as Attachment 1-A, is a copy of the  
5 unit agreement that's been executed by the Yates Petroleum  
6 Corporation and its affiliated companies, and it does  
7 conform to the State Land Office form.

8 Attachment B to the affidavit is a copy of the  
9 plat to the unit agreement, and it identifies the unit  
10 boundary. That's actually Attachment 1-B in your packet.

11 Yates proposes to test all formations from the  
12 surface to the base of the Mississippian formation. The  
13 initial test well is located at a standard gas location 660  
14 feet from the south line and 660 feet from the west line in  
15 Section 36, Township 10 South, Range 31 East, and will test  
16 all formations from the surface to an approximate total  
17 depth of 11,255 feet.

18 Attachment C, which is marked Attachment 1-C in  
19 your packet to the affidavit, is a copy of the ownership  
20 breakdown. You will note later on that in Mr. Miller's  
21 affidavit we noted that it was 83 percent of the working  
22 interest. Since that time, Yates has since acquired 93  
23 percent of the working interest in the unit, and its  
24 affiliated companies now owns ten percent more.

25 Also, you will note in Mr. Miller's affidavit

1 that in irregular tract 5 there were 337.04 unleased acres.  
2 Since that time, Yates has leased approximately two-thirds  
3 of that property, and that is noted and updated in your  
4 Attachment 1-C, just that you -- if you look later and  
5 notice the discrepancy there.

6 Attachment 1-D to the affidavit is a letter from  
7 the Commissioner of Public Lands giving preliminary  
8 approval to the formation of this unit.

9 Then we have a series of cross-sections.

10 Attachment E to the affidavit is a top-of-  
11 Devonian structure map.

12 Attachment F to the affidavit is a top-of-Austin-  
13 cycle structure map.

14 Both of the structure maps display a high to the  
15 west and a high to the east of the proposed well location,  
16 with a low between. This structural low is the  
17 depositional area of greater sand accumulation, as shown  
18 when you turn to Attachment D [*sic*] to the affidavit, which  
19 is the Atoka-Austin-cycle isopach map.

20 Attachment H, I, J and K are cross-sections.  
21 Attachment H and J are stratigraphic cross-sections,  
22 Attachment I and K are structural cross-sections. The  
23 Morrow sands are highlighted in yellow in each of the  
24 cross-sections, and sonic-log porosity and neutron-density  
25 porosity are highlighted in red for you.

1           The Proctor Number 1 well produced 515 MMCF from  
2 the Atoka and the Morrow. The Natomas well produced 449  
3 MMCF from the Morrow.

4           Mr. Hearing Examiner, turning to Yates Exhibit  
5 Number 2, as we previously noted there was some fee  
6 acreage, and this is a copy of the notice letter that was  
7 sent out to all the owners of the unleased mineral  
8 interests.

9           Before that time, Mr. Moran from the land  
10 department also initially contacted the unleased mineral  
11 interest owners, the latter part of March, offering to  
12 lease their land. Subsequently he sent them the unit  
13 agreement, and that is a process that's ongoing. But as we  
14 noted before, they have approximately 93 percent of that  
15 working interest already.

16           Attachment 2-A in your packet is a copy of the  
17 lease that was sent to all the mineral interest owners that  
18 were unleased, and in fact the copies that you have in your  
19 packet are examples of executed leases that they have  
20 acquired so far.

21           And finally, Exhibit Number 3 is a copy of notice  
22 of publication, showing that proper notice was given in  
23 this matter. Mr. Miller testifies that the development of  
24 this unit area is pursuant to unit plan, is in the best  
25 interests of conservation, the prevention of waste and the

1 protection of correlative rights.

2 Mr. Hearing Examiner, we'd ask that Yates  
3 Exhibits Number 1 through 3 and all of their attachments be  
4 admitted into evidence.

5 EXAMINER CATANACH: Exhibits 1 through 3 will be  
6 admitted.

7 And I understand we have some leases expiring in  
8 this case?

9 MS. MUNDS-DRY: Yes, Mr. Hearing Examiner, the  
10 first lease to expire I believe is May 1st, so we would  
11 ask, please, for an expedited order.

12 EXAMINER CATANACH: Anything else?

13 MS. MUNDS-DRY: Nothing further.

14 EXAMINER CATANACH: Okay, there being nothing  
15 further in this case, Case 13,476 will be taken under  
16 advisement.

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

18 EXAMINER CATANACH: Thank you.

19 (Thereupon, these proceedings were concluded at  
20 8:25 a.m.)

21 \* \* \*

22 I do hereby certify that the foregoing is  
23 a complete record of the proceedings in  
24 the Examiner hearing of Case No. B476,  
25 heard by me on April 21, 2005.

David R. Catnach, 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 April 22nd, 2005.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006