

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

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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)

Oil Conservation Division
CASE NO. 13,181

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

November 7th, 2003
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Friday, November 7th, 2003, 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.

* * *

I N D E X

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Examiner Hearing
CASE NO. 13,181

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<u>JOHN AMIET</u> (Geologist	
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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy 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 9:11 a.m.:

3 EXAMINER JONES: Okay, now we'll call Case
4 13,181, Application of Yates Petroleum Corporation for
5 approval of a unit agreement, Lea County, New Mexico. Call
6 for appearances.

7 MR. FELDEWERT: May it please the Examiner, my
8 name is Michael Feldewert with the Santa Fe office of the
9 law firm of Holland and Hart. I'm appearing on behalf of
10 the Applicant, Yates Petroleum Corporation, and I have one
11 witness today.

12 EXAMINER JONES: Any other appearances? There
13 being none, will the witness please stand to be sworn in?

14 (Thereupon, the witness was sworn.)

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

18 DIRECT EXAMINATION

19 BY MR. FELDEWERT:

20 Q. Would you please state your name and address for
21 the record?

22 A. John Amiet.

23 Q. And by whom are you employed and in what
24 capacity?

25 A. I'm employed by Yates Petroleum in Artesia, New

1 Mexico.

2 Q. Have you previously testified before this
3 Division as a petroleum geologist?

4 A. Yes, I have.

5 Q. And are you familiar with the Application that's
6 been filed in this case?

7 A. Yes.

8 Q. And are you familiar with the status of the lands
9 in the subject area?

10 A. Yes, I am.

11 Q. And have you made a geologic study of the area
12 that is the subject of this Application?

13 A. Yes, I have.

14 MR. FELDEWERT: Mr. Examiner, are the witness's
15 qualifications acceptable?

16 EXAMINER JONES: Mr. Amiet is so qualified.

17 Q. (By Mr. Feldewert) Would you briefly state what
18 Yates Petroleum seeks with this Application?

19 A. Yates is seeking approval of the proposed Cash
20 State Exploratory Unit. This area is comprised of 7117
21 acres, more or less, of State of New Mexico lands, and also
22 40 acres of fee acreage in Lea County, New Mexico.

23 Q. And what is the purpose of this unit?

24 A. Yates plans on testing all formations from the
25 surface down to the top of the lower Mississippian

1 formation.

2 Q. And does Yates Petroleum Corporation seek to be
3 designated the operator of this unit?

4 A. Yes, they do.

5 Q. Okay. Why don't you turn to Yates Exhibit Number
6 1, identify that and review that for the Examiner, please?

7 A. This is the unit agreement, and it's based on the
8 State Land Office State/Fee Unit Agreement Form.

9 Q. Okay, is there an Exhibit A to this unit
10 agreement?

11 A. Yes, there is.

12 Q. This is a land map showing the state acreage and
13 the lease ownership. It also shows the boundaries of the
14 proposed unit and shows that there are 22 state leases
15 within the unit area. The location of this initial well
16 will be 1980 feet from the south and east lines of Section
17 31, Township 10 South, Range 34 East.

18 I might also say, the vast majority of this land
19 is state. Less than 1 percent is fee land. There's a
20 single 40-acre fee tract in the southwest quarter of the
21 southwest quarter of Section 10, 11 South, 34 East.

22 Q. Okay. Now, we just went through Exhibit A. And
23 Exhibit B to this unit agreement, is that the ownership
24 breakdown?

25 A. Yes, it is, this shows the ownership of each

1 lease in the unit area. Yates owns all the state leases
2 except for three state tracts. Concho owns a 600-acre
3 tract in Section 10 of 11 South, 34 East. Chevron owns an
4 80-acre tract in Section 25 of 10 South, 33 East, and
5 there's an unleased 43-acre tract in Section 3 of 11 South,
6 34 East.

7 Q. Okay. Now let's talk first about the Concho
8 acreage. Has Concho committed their 600 acres to this
9 unit?

10 A. Yes, they have.

11 Q. Okay. Has Chevron committed their 80 acres to
12 this unit?

13 A. We've been in touch with Chevron. At this time
14 they have not committed their acreage to the unit.

15 Q. All right. Now, you mentioned the unleased 43-
16 acre tract. Where is that located?

17 A. That's in Section 3 of 11 South, 34 East. It's a
18 playa lake area, and the State has decided at this time not
19 to lease this. They have a stipulation in their
20 preliminary approval that we'll talk about, that if this
21 lease is leased it will be committed to the unit.

22 Q. Okay. So how much of the total acreage in this
23 unit has been committed?

24 A. There's 6984.5 acres that are committed, and it's
25 all state acreage.

1 Q. And is that in excess of 85 percent then?

2 A. Yes.

3 Q. Okay, so does that give Yates effective control
4 of unit operations?

5 A. Yes.

6 Q. Has Yates been in touch with the owners of that
7 40-acre fee tract down in the southwest quarter of the
8 southwest quarter of Section 10?

9 A. Yes, Yates has its acreage leased. They've
10 decided not to participate in the unit and just participate
11 if a well is drilled on their acreage or within that --

12 Q. Okay, so Yates is the leaseholder of that fee
13 acreage?

14 A. That's correct.

15 Q. And the royalty owner has not ratified the unit?

16 A. That's correct.

17 Q. Okay. Now, you mentioned the State Land Office
18 preliminary approval letter. Has that been marked as Yates
19 Exhibit Number 2?

20 A. Yes, it has, this is the preliminary approval
21 letter from the State.

22 Q. And the third paragraph of that letter references
23 the playa lake acreage that you ere talking about
24 previously, correct?

25 A. That's correct.

1 Q. All right. Now, what -- Looking now at the unit
2 agreement, which has been marked as Exhibit 1, what
3 horizons are being unitized in the Cash State Exploratory
4 Unit?

5 A. This is covered in Article 2, and it's all
6 formations of the unitized lands.

7 Q. Okay. And what is the anticipated depth of the
8 initial test well?

9 A. It's covered in Article 8. It shows the well
10 will TD in the Mississippian limestone at 12,750 feet.

11 Q. And does Article 9 of this unit agreement provide
12 for periodic filing of plans of development?

13 A. Yes.

14 Q. Will these plans be filed with the Oil
15 Conservation Division as well as with the State?

16 A. Yes, they're going to be filed six months after
17 the completion of the initial well, and subsequent plans
18 will be every 12 months.

19 Q. Okay, why don't we then move to Yates Exhibit
20 Number 3? Identify that and review that for the Examiner.

21 A. This is an AFE for the initial test well to test
22 the Atoka-Morrow formations. A dry hole will run
23 \$1,155,000, a completed well cost will be \$1,796,500, and
24 we plan to spud the initial unit well before January 1st,
25 since we have leases expiring on that date.

1 Q. Now, you've mentioned the primary objective of
2 this well is the Atoka-Morrow sands; is that right?

3 A. That's correct.

4 Q. Are there any secondary objectives?

5 A. Yes, both the upper Penn or Cisco and the upper
6 Mississippian are productive. In fact, the upper Penn is
7 productive in this area.

8 Q. All right. Why don't we then focus on your --
9 the primary objective of this well? Turn to Yates Exhibit
10 Number 4. Would you identify that and review that for the
11 Examiner, please?

12 A. This is a structure map on top of the upper
13 Mississippian limestone or what we sometimes call the
14 Austin zone, and it shows the projected Atoka-Morrow sand
15 channels in blue. It shows the initial well location in
16 the southeast corner of Section 31.

17 Q. Is that the Cash Number 1?

18 A. This will be the Cash State Unit Number 1. It
19 also shows the second well clear up in the northern part of
20 the unit as the Cash Number 2. This is a two-well
21 commitment to hold this unit.

22 Yates has used both 3-D seismic and well control
23 to construct this map. All wells shown on this map are
24 Morrow penetrations. The Morrow producers are shown with
25 the larger purple circles.

1 There was shallow production that was developed
2 on this lease in the late 1960s and early 1970s. This was
3 upper Pennsylvanian or Bough. These were approximately
4 10,000-foot-TD wells. The last well was abandoned in 1990.
5 So this shallow production has been abandoned for over 10
6 years.

7 Q. Now, you're targeting these blue channels?

8 A. That's correct.

9 Q. Okay, where is the -- And then you show the
10 Atoka-Morrow production in purple. The nearest one looks
11 to be about what, a mile and a half away?

12 A. About a mile and a half away from our proposed
13 well. The best well in that -- It's called the Sand
14 Springs field there in Section 2 and 11 of 11 South, 34
15 East. The best well there made about 28 MBO and about 1.4
16 BCF, and that would be an economic well.

17 Q. Okay. Now, you don't show any purple dots within
18 the unit area. Has there been any Atoka-Morrow production
19 within the unit area?

20 A. No, there hasn't. There have been three Atoka-
21 Morrow penetrations, and there's been no production from
22 this deeper zone. So there's three dry holes within the
23 unit area.

24 Q. Did you utilize the information from those dry
25 holes to develop a cross-section?

1 A. Yes, I did, that's cross-section A-A', shown on
2 the structure map.

3 Q. Okay, why don't we turn to that, and if you'll
4 review that for the Examiner, please? Has that been marked
5 as Exhibit Number 5?

6 A. That's correct.

7 Q. Okay.

8 A. This cross-section A-A', I've shown the sand
9 channels or projected sand channels in yellow. This is a
10 structural cross-section. The vertical scale is one inch
11 equals 150 feet, the horizontal scale is 1 inch equals 1500
12 feet. There's a ten-times vertical exaggeration, which
13 kind of throws your scale off.

14 But we'll start on the Waylon well on the left-
15 hand side. It's a Yates well that was drilled several
16 months ago. It kind of shows what we're trying to do.

17 Q. Now you've got a legend down there at the bottom,
18 right?

19 A. That's correct.

20 Q. Okay.

21 A. This well tested 653 MCF a day in the lower
22 Morrow, and we've had a test up in the lower Atoka for 42
23 barrels of oil and 1.1 million. We still haven't put this
24 well on line, but this is what we're targeting.

25 Then we come onto the unit, what we're proposing

1 as a unit. The next two wells are dry holes. Actually,
2 the next three wells are the three dry holes within the
3 unit acreage.

4 We come over on the far east side of the cross-
5 section, that's another Yates well that was drilled in
6 2000. Again, it found sand, but all these lower zones were
7 either tight or wet. This is producing from the Abo zone,
8 Abo formation, uphole. So again, you've got four wells in
9 this cross-section that are dry holes, and this is why this
10 is a risky well.

11 I've showed the proposed location in between
12 these two dry holes. It's marked proposed location. We're
13 trying to use the seismic to pinpoint structural lows in
14 this area, although you have active structure after
15 deposition of these sands, so it's sometimes difficult to
16 separate the current-day structure from the depositional
17 structure, and this is again adding to the risk.

18 Q. Why don't you then just summarize for the
19 Examiner why you're proposing to develop this area under a
20 unit plan?

21 A. First of all, these wells are expensive. It's
22 almost \$1.8 million to drill and complete a well at this
23 depth. These gas sands can be very productive. These
24 wells will come on to two or three million cubic feet a
25 day, but the channels are very narrow and limited in areal

1 extent, so they're difficult to find.

2 There are three dry holes within the unit area,
3 and this had no deep production, so again this is a high-
4 risk area.

5 So in summary, Yates is trying to develop some
6 Atoka-Morrow production in an area where there has been no
7 Atoka-Morrow production.

8 Q. Will the formation of this unit result in the
9 most reasonable and efficient development of these
10 reserves?

11 A. Yes.

12 Q. At least you hope it does.

13 In your opinion, will approval of this
14 Application be in the best interests of conservation, the
15 prevention of waste and protection of correlative rights?

16 A. Yes.

17 Q. Were Yates Exhibits 1 through 5 prepared by you
18 or under your direction and supervision?

19 A. Yes, they were.

20 MR. FELDEWERT: Mr. Examiner, at this time I
21 would move the admission into evidence of Yates Exhibits 1
22 through 5.

23 EXAMINER JONES: Yates Exhibits 1 through 5 are
24 admitted into evidence.

25 MR. FELDEWERT: And that concludes my examination

1 of this witness.

2 (Off the record)

3 EXAMINATION

4 BY EXAMINER JONES:

5 Q. This Austin is a Mississippian --

6 A. That's correct, upper Mississippian. Some people
7 call it Austin, some people call it upper Mississippian.

8 Q. Okay, it's the Morrow and the Austin you're going
9 for here.

10 A. And the Atoka.

11 Q. And the Atoka.

12 A. Yeah.

13 Q. Now, the -- I think the geology is not really a -
14 - you know, going for these structural lows is -- you're
15 the one that knows about that, I don't understand that.
16 But the main question I've got is the unsigned -- Chevron
17 didn't agree to join the unit; is that right?

18 A. That's correct. They're going to -- If we drill
19 a well on their 80 acres, then they would have a 25-percent
20 interest in the spacing unit, it would be a 320-acre
21 spacing unit. So they do not want to dilute their acreage
22 over the whole unit area.

23 Q. And then this royalty owner --

24 A. Again, that's the same thing. For some reason it
25 seems like the royalty owners a lot of times do not want to

1 dilute their acreage. They will get their full mineral
2 interest over their acreage, and it's something I don't
3 understand. I would rather be a part of the bigger
4 picture. You have a better, I think, risk. But of course
5 your reward is better if we drill a well on their acreage.

6 Q. Yeah. Is the Chevron reluctance just because of
7 that, or is it because they've gone through
8 reorganizations, they're not paying attention to the
9 business right now?

10 A. I think they probably just -- they're not active
11 in this area and they're just not interested in getting
12 involved.

13 Q. Okay. And as far as the State Land Office, they
14 are -- Let's see, do we have their preliminary approval for
15 this?

16 MR. FELDEWERT: Exhibit Number 2.

17 EXAMINER JONES: Exhibit Number 2. Okay, I think
18 we're all set here. Gail, do you have any questions?

19 MS. MacQUESTEN: Mr. Feldewert, do we have
20 notification of the interested parties? Is that not
21 required?

22 MR. FELDEWERT: That's not -- not with a
23 voluntary unit, because this is a voluntary agreement.
24 Basically the State is -- you know, the Division is just
25 approving the voluntary agreement reached by the parties.

1 MS. MacQUESTEN: Even though there are some
2 parties who did not agree?

3 MR. FELDEWERT: Correct, yeah.

4 EXAMINER JONES: I'm glad you asked that.

5 Okay, Mr. Amiet, thanks very much for coming
6 today.

7 THE WITNESS: Thank you for your time.

8 EXAMINER JONES: And thank you, Mr. Feldewert.

9 MR. FELDEWERT: Thank you.

10 EXAMINER JONES: And with that, we will take Case
11 13,181 under advisement.

12 (Thereupon, these proceedings were concluded at
13 9:29 a.m.)

14 * * *

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

18 _____, Examiner
19 Oil Conservation Division
20
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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 November 8th, 2003.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006