

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, EDDY COUNTY, NEW MEXICO

CASE NO. 14473

REPORTER'S TRANSCRIPT OF PROCEEDINGS  
EXAMINER HEARING

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BEFORE: WILLIAM V. JONES, Presiding Examiner  
DAVID K. BROOKS, Legal Examiner

May 27, 2010

Santa Fe, New Mexico

This matter came on for hearing before the  
New Mexico Oil Conservation Division, WILLIAM V. JONES,  
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,  
on Thursday, April 27, 2010, 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  
Albuquerque, NM 87103 505-843-9241

A P P E A R A N C E S

FOR THE APPLICANT:

OCEAN MUNDS-DRY, ESQ.  
HOLLAND & HART  
110 North Guadalupe, Suite 1  
Santa Fe, New Mexico 87501  
(505) 988-4421

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1 EXAMINER JONES: Let's call the first case  
2 today, Case Number 14473, application of Yates Petroleum  
3 Corporation for approval of a unit agreement in Eddy  
4 County, New Mexico.

5 MS. MUNDS-DRY: Good morning, Mr. Hearing  
6 Examiner. Ocean Munds-Dry with the lawfirm of Holland &  
7 Hart here representing Yates Petroleum Corporation this  
8 morning, and I am presenting this case by affidavit.

9 Mr. Jones, Yates seeks approval of the  
10 Herradura Exploratory Unit this morning. It's a little  
11 early for it, but we'll press on anyway. Yates seeks  
12 approval of this proposed unit, which consists of  
13 7,681.37 acres of federal and State of New Mexico lands,  
14 and is located approximately 15 miles southwest of  
15 Carlsbad.

16 Yates Exhibit Number 1 is the affidavit of  
17 D'nese Fly, who is the petroleum geologist for Yates who  
18 is responsible for this unit. In her affidavit she  
19 describes the horizontal limits of the unit area which I  
20 mentioned consist of 7,681.37 acres.

21 Attachment A to the affidavit is the standard  
22 State Land Office form of a unit agreement. Attachment B  
23 to the affidavit is a copy of the plat for the unit,  
24 which shows the unit boundaries and also identifies the  
25 tract numbers.

1           Yates proposes to test all formations from the  
2 surface into the Bone Spring formation. And the initial  
3 test well will be located at a standard location 330 feet  
4 from the north line and 660 feet from the east line of  
5 Section 16, Township 24 South, Range 25 East, to test all  
6 formations from the surface to an proximate total depth  
7 of 6,500 feet.

8           Attachment C to the affidavit is a copy of the  
9 ownership breakdown. 100 percent of the working interest  
10 is committed to the unit, and 100 percent of the royalty  
11 is also committed to the unit.

12           Attachment D to the affidavit is a letter from  
13 the BLM determining that the unit is proper and logical  
14 for unit development.

15           Attachment E to the affidavit is the  
16 preliminary approval letter from the Commissioner of  
17 Public Lands for the formation of this unit.

18           Attachment F to the affidavit is an Avalon  
19 Shale Isochore Map. As Ms. Fly discusses in her  
20 affidavit, the initial unit test well will evaluate the  
21 sand and shales located below to Bone Spring lime.

22           And Attachment G to the affidavit is  
23 a stratigraphic cross-section in which, again, Ms. Fly  
24 discusses in her affidavit that this cross-section shows  
25 the Avalon shale with the potential shale zones hatched

1 in gray. It looks really more blue, I think, on this  
2 cross-section.

3 Yates Exhibit Number 2 is the AFE for the  
4 well, showing the completed well cost to be \$4,001,500.  
5 And Ms. Fly testifies that the development of this unit  
6 area is pursuant to a unit plan and is in the best  
7 interest of conservation, the prevention of waste and the  
8 protection of correlative rights.

9 With that, Mr. Hearing Examiner, we ask that  
10 Yates Exhibit Number 1 and all of its attachments and  
11 Exhibit Number 2 be admitted into evidence.

12 EXAMINER JONES: Exhibits 1 and all  
13 attachments and Exhibit 2 will be admitted.

14 David, do you have questions?

15 (Exhibits 1 and 2 were admitted.)

16 EXAMINER BROOKS: You said surface to the  
17 base of the Bone Spring?

18 MS. MUNDS-DRY: They're going to get into  
19 the top of the Bone Spring to a depth of 6,500 feet, so  
20 they may not go to the base.

21 EXAMINER BROOKS: The vertical limits,  
22 though, of the unit are going to be to the base of the  
23 Bone Springs?

24 MS. MUNDS-DRY: To the base.

25 EXAMINER JONES: So it's not all the way

1 to granite? It's just --

2 MS. MUNDS-DRY: Yeah. Like some Yates  
3 units are; right.

4 EXAMINER JONES: So it's just through the  
5 Permian Basin. Okay. Let's take Case Number 14473 under  
6 advisement.

7 MS. MUNDS-DRY: Thank you, Mr. Examiner.

8 EXAMINER JONES: Are they in a real hurry?

9 MS. MUNDS-DRY: Not a real hurry. I think  
10 their first lease expires in August.

11 EXAMINER JONES: All right.

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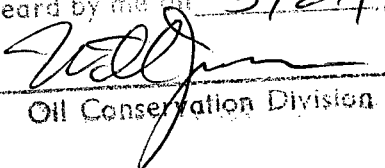
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14473  
heard by me on 5/27/10

 , Examiner  
Oil Conservation Division

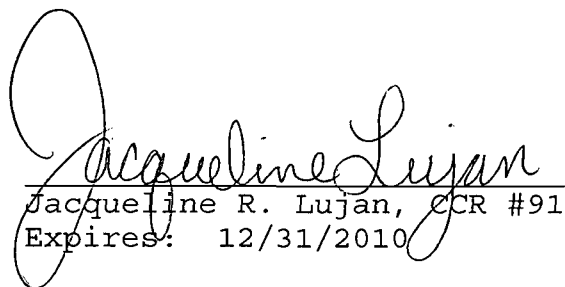
## REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO  
HEREBY CERTIFY that on May 27, 2010, 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 7th day of June, 2010.

  
Jacqueline R. Lujan, CCR #91  
Expires: 12/31/2010