

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:) CASE NO. 12,761
)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR APPROVAL OF A UNIT)
AGREEMENT, LEA COUNTY, NEW MEXICO)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

November 15th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV
01 DEC -4 AM 9:57

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, November 15th, 2001, 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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 Examiner Hearing
 CASE NO. 12,761

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

1 Q. Mr. Amiet, by whom are you employed?

2 A. Yates Petroleum Corporation.

3 Q. And what is your position with Yates?

4 A. I'm a petroleum geologist.

5 Q. Have you previously testified before the New
6 Mexico Oil Conservation Division?

7 A. I've testified both in Oklahoma and Texas, but
8 I've never testified in New Mexico before.

9 Q. Could you summarize your educational background
10 for Mr. Stogner?

11 A. A bachelor of arts degree from Bowling Green
12 State University in Ohio, a bachelor of science in geology
13 from Colorado State University, 21 hours of graduate work
14 from University of Texas, Permian Basin, approximately 25
15 weeks of industry schooling.

16 Q. For whom have you worked?

17 A. I worked approximately 21 years for Conoco, of
18 which about three years was in minerals exploration and
19 about 18 years in oil and gas exploration, and I've been
20 with Yates Petroleum for about eight months.

21 Q. And you are working for Yates as a geologist?

22 A. Yes, I am.

23 Q. Are you familiar with the proposed Mocha State
24 Unit, including the status of the lands in the proposed
25 unit area?

1 A. Yes, I am.

2 Q. And have you made a geological study of the area
3 which is the subject of this Application?

4 A. Yes, I have.

5 Q. Are you prepared to share the results of that
6 work with Mr. Stogner?

7 A. Yes.

8 MR. CARR: Mr. Stogner, we'd tender Mr. Amiet as
9 an expert petroleum geologist.

10 EXAMINER STOGNER: Mr. Amiet is so qualified.

11 Q. (By Mr. Carr) Initially, could you summarize for
12 the Examiner what it is that Yates Petroleum Corporation
13 seeks with this Application?

14 A. We're seeking approval of the Mocha State
15 Exploratory Unit agreement. This is a voluntary
16 exploratory unit. It contains approximately 2877.88 acres
17 of State of New Mexico lands located in Lea County, New
18 Mexico.

19 Q. Have you prepared exhibits for presentation here
20 today?

21 A. Yes, I have.

22 Q. Let's go to what has been marked for
23 identification as Yates Petroleum Corporation Exhibit
24 Number 1. I'd ask you to identify that for the Examiner.

25 A. This is a unit agreement, based on the state form

1 for an exploratory, between Yates Petroleum and Murchison
2 Oil and Gas.

3 Q. And what is Exhibit 2?

4 A. This is a map showing the status of the acreage.
5 It includes 4 1/2 sections of state leases in Lea County,
6 New Mexico. In this 4 1/2 sections there are a total of
7 seven State of New Mexico leases.

8 Q. No fee land, no federal land?

9 A. That's correct, these are all state leases.

10 Q. Would you go to Exhibit Number 3, which is the
11 same as Exhibit B to the unit agreement, and review this
12 for the Examiner?

13 A. The first lease, 12 South, 34 East, Section 33,
14 all the land is either Yates Petroleum, Yates Drilling or
15 the Yates family, they're both Abo and Myco, so this is
16 100-percent controlled by Yates.

17 Section 34, the north half, once again this is --
18 all the leases are held by Yates Petroleum or the Yates
19 family. Northwest quarter of 35, same, all Yates
20 Petroleum. Section 2, all Yates Petroleum or the family.
21 North half of Section 11, it's all Yates Petroleum or the
22 family, once again. South half of Section 34, Yates has
23 2/3 or approximately 67 percent, and Murchison has a 1/3
24 interest or 33.33 percent. Section 35, east half,
25 southwest quarter is again Yates 2/3 and Murchison Oil and

1 Gas 1/3 interest.

2 Q. And what is the status of Murchison Oil and Gas
3 participation in the unit?

4 A. They've signed a unit agreement and are
5 participating.

6 Q. So we have 100 percent of the working interest
7 committed?

8 A. That's correct, the --

9 Q. And it is 100-percent State of New Mexico land?

10 A. That's correct.

11 Q. And there are no overriding royalty interests?

12 A. That's correct.

13 Q. Has the Commissioner of Public Lands given his
14 preliminary approval to the proposed unit agreement?

15 A. Yes, I met with the State Land Office yesterday
16 morning, and they have given their preliminary approval.

17 MR. CARR: Mr. Stogner, included as Yates Exhibit
18 Number 4 is a letter from the Commissioner of Public Lands
19 dated yesterday, and you will note it is stamped "draft".
20 The letter was received by us, but Ms. Bailey had other
21 commitments and was unavailable to sign it. They will sign
22 it and deliver it to us today and we will, in turn, deliver
23 the original approval to you.

24 In reviewing this, on page 2 you will note that
25 there is a reference in paragraph 8 concerning the

1 designation, a correction where it says it should read Lea
2 County instead of Eddy County. We will take care of that
3 correction. But other than that, the only reason that we
4 have a draft instead of the final letter is that we're just
5 waiting to have it signed, and they've committed they'll
6 have it to us today.

7 Q. (By Mr. Carr) Mr. Amiet, does Yates Petroleum
8 Corporation desire to be designated operator of the unit?

9 A. Yes.

10 Q. Let's go to what has been marked as Exhibit
11 Number 5. Would you identify that, please?

12 A. This is an authority for expenditure, an AFE. It
13 says the initial well must be commenced within 60 days of
14 the effective date of this agreement. This well is showing
15 a dryhole cost and a completed well cost. Dryhole cost is
16 \$981,100, a completed well cost of \$1,491,900.

17 Q. So the unit agreement provides for the initial
18 well within 60 days?

19 A. That's correct.

20 Q. This is the AFE for that well?

21 A. That's correct.

22 Q. And this has been signed by Murchison Oil and
23 Gas?

24 A. Yes, that's correct.

25 Q. Does the unit agreement also provide for the

1 periodic filing of plans of development?

2 A. Yes.

3 Q. Will Yates file these plans of development with
4 the Oil Conservation Division at the same time it files
5 those plans with the State Land Office?

6 A. Yes.

7 Q. And how often are these plans to be filed?

8 A. Pursuant to Article 9 of the unit agreement, the
9 initial plan will be filed six months after the completion
10 of the initial well, subsequent plans will be filed 12
11 months thereafter.

12 Q. What horizons are being unitized in the Mocha
13 State Exploratory Unit?

14 A. All formations.

15 Q. And what is the primary objective?

16 A. The primary objective will be the Morrow
17 formation, which is a wildcat pool. There are no Morrow
18 producers shown on the map that we'll be talking about.

19 Q. And there are no Morrow wells within more than
20 two miles; is that right?

21 A. That's correct.

22 Q. What are the secondary objectives in the unit?

23 A. Our secondary objectives will be the Atoka
24 formation, and also we'll be drilling down into the lower
25 Mississippian lime.

1 Q. Let's go to what's been marked as Yates Exhibit
2 Number 6. Will you identify and review this, please?

3 A. This is a structure map on top of the Morrow
4 formation. Let me get it out here.

5 First of all, the contour interval is a 50-foot
6 contour interval on the top of the Morrow. The scale of
7 the map is 1 inch equals 2000 feet.

8 Shown in yellow will be the unit boundary, and
9 this includes all of Section 34, which goes under the blue.
10 Only wells greater than 11,000 feet are shown on this map,
11 so we've taken off the shallow control.

12 Just to review what I'm trying to show on the
13 map, the highs are shown with the blue. This map was
14 generated both from seismic data and subsurface data.

15 The well control, subsea depths are shown with
16 the red numbers. For instance, minus 7570 would be a
17 subsea to the top of the Morrow.

18 The black lines are the channels coming off of
19 these highs. We think these are the targets.

20 And the proposed location is shown down in
21 Section 2 of 13 South, 34 East. This is our first
22 location.

23 This L-shaped unit is supported by the data.
24 We're kind of on the flanks of the highs and going into the
25 lows, which is where we think our evaluation shows that the

1 channels are going.

2 The red line, trace of the red line, is a cross-
3 section that I'll be talking about in a minute.

4 Q. We're trying to drill wells in the lows; is that
5 correct?

6 A. That's correct.

7 Q. There also is a high south and west of the
8 proposed unit area, is there not?

9 A. There's a large high, oh, five or six miles to
10 the west, the Bagley field that some of the larger fields
11 are producing from.

12 Q. There are a number of wells in the area which
13 have previously penetrated the Atoka-Morrow-Mississippian;
14 is that right?

15 A. There are five wells that have penetrated the
16 Atoka-Morrow. None of these wells have produced from the
17 Atoka-Morrow in the unit boundary outline. There's one
18 well that's produced from the upper Atoka in Section 26, is
19 the only Atoka-Morrow producer on this map, and it was not
20 an economic well.

21 Q. And now with your ability to re-interpret the
22 area with the use of seismic, you're going to try and go
23 back in, establish a new Morrow field and intersect some of
24 these channels; is that correct?

25 A. That's correct. We're trying to find a new

1 field, an area where the Atoka-Morrow has not been
2 produced.

3 Q. Let's go to your cross-section, Yates Exhibit
4 Number 7. Will you review the information on this exhibit
5 for the Examiner?

6 A. Once again, there's a locator map at the bottom,
7 showing the trace of the cross-section. Again, only wells
8 greater than 11,000 feet are shown on this locator map.
9 What I'm trying to show with this cross-section is just
10 crossing the structural high.

11 Well Number 3, of course, is the highest subsea
12 depths in the Morrow. You go from Well Number 3 to Well
13 Number 5, clear on the right of the cross-section, there's
14 about 350 feet structural difference between the top of the
15 Morrow. I've indicated where we think between wells 4 and
16 5 there are several channels. I've shown the sand in
17 there. The sand is being deposited in the lows that we're
18 finding from both the seismic evaluation and the
19 correlation of the well logs.

20 Q. Now, Mr. Amiet, with your ability now to
21 interpret with seismic these channels, you're going to
22 drill the first well in Section 2 hoping to intersect one
23 of those channels; is that correct?

24 A. That's correct.

25 Q. If you are successful and prove up interpretation

1 with that well, then there are a number of other wells in
2 the area that you will either recomplete or drill to access
3 these Morrow channels?

4 A. That's correct. If the first well is successful,
5 we'll probably be drilling both to the north and south of
6 the initial well, following that same channel. Referring
7 back to the original -- the other structure map on top of
8 the Morrow, there are a number of other Morrow channels
9 that we'd also like to test if this first well is
10 successful.

11 Q. Is Yates Exhibit 8 a written summary of your
12 geological presentation?

13 A. Yes, it is. In this I talk about the targeted
14 Atoka-Morrow sands, which are gas-productive channel sands.
15 These sands are eroding from the structural highs, and the
16 sands are being redeposited in the lows. These sands are
17 narrow, elongate features that are often difficult to find,
18 and just being in a low doesn't guarantee a successful. So
19 these are somewhat risky wells.

20 This unit outline is located on the flanks of
21 these two immediately -- or close-by structural highs, and
22 going from the flanks into the lows. Our geologic and
23 seismic interpretation indicates there's potential for sand
24 deposition, and this would be the finding of a new field.

25 Q. Mr. Amiet, if this Application is approved and

1 the wells are drilled as you are proposing, in your opinion
2 will that serve the best interest of conservation, the
3 prevention of waste and the protection of correlative
4 rights?

5 A. Yes, I believe it will.

6 Q. Were Yates Exhibits 1 through 8 either prepared
7 by you, or have you reviewed them and can you confirm their
8 accuracy?

9 A. Yes, they were prepared by me.

10 MR. CARR: At this time, Mr. Stogner, we move the
11 admission into evidence of Yates Exhibits 1 through 8.

12 EXAMINER STOGNER: Exhibits 1 through 8 will be
13 admitted into evidence at this time.

14 MR. CARR: And that concludes my direct
15 examination of Mr. Amiet.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. I'm going to refer to -- well, several maps,
19 because they all show up on here. Is the wells in Section
20 34 and the one in the extreme northwest quarter, northwest
21 quarter of 35 -- were any of three wells ever producers?

22 A. Yes, there are three Devonian producers. This
23 was originally a Devonian field. It was drilled in the
24 late 1950s and 1960, produced from the Devonian. Some of
25 these wells were excellent Devonian wells.

1 Q. Oil or gas?

2 A. Actually, it's -- Although the Devonian is
3 normally an oil producer, these were high-GOR wells that
4 had a lot of gas. They produced several BCF of gas each,
5 some of these wells.

6 Q. And about when were they discovered, and when
7 were they plugged?

8 A. It was late 1950s, into the 1960s that these were
9 discovered, and I'm not sure -- I'm sorry, Mr. Stogner, I
10 don't know when they were plugged.

11 Q. Now, the Devonian is included in the unit
12 agreement; is that correct?

13 A. Yes, it is, although we will not be targeting the
14 Devonian, we're not taking this well to the Devonian. We
15 think that pay zone has been depleted.

16 Q. Most of the state units I have seen does not
17 include, or very rarely includes, any existing wells.
18 Naturally, there's no existing producing wells out there,
19 but there are some old plugged and abandoned wells. That
20 seems unusual for the Land Office.

21 A. Well, we're trying a new concept here, and I
22 think that's why the Land Office liked our proposal. This
23 is coming in with some new ideas. Instead of drilling the
24 highs we're drilling the lows and trying to find a new
25 field.

1 Q. Okay, so you were aware of that situation, then,
2 when you went in?

3 A. Yes, Mr. Stogner.

4 Q. What's some of the nearest Morrow producers,
5 current producers?

6 A. Yates has a Morrow producer about three to four
7 miles to the northeast. We've drilled -- Well, it's not a
8 Morrow producer yet. The logs look very good. Right now
9 that well is producing from the Austin formation, being
10 upper Mississippian limestone. We think the well will be a
11 Morrow producer, Atoka-Morrow producer, in the near future,
12 as soon as we deplete the Austin zone.

13 There's also the Indigo well that Yates drilled
14 in 2000, that's about five miles to the northeast. It's a
15 Morrow producer.

16 Q. How about some of the closest Morrow producers to
17 the south?

18 A. To the best of my knowledge, there's nothing
19 close to the south that produces from the Morrow.

20 Q. Now you're about what, nine miles -- I show nine
21 miles southwest of Tatum; is that correct?

22 A. That's correct.

23 Q. Okay. So most of the Morrow production is
24 further to the south toward Lovington?

25 A. That's correct. The Lovington has been a very

1 good Morrow producer for us, we've been very successful in
2 that area, and we're trying to extend this Morrow trend up
3 to the north, into Tatum Basin.

4 Q. Were you involved with the initial inception of
5 the unit and --

6 A. Yes, I was.

7 Q. And when did Yates begin the quest to get
8 everybody's authorization?

9 A. This is probably within the last month.

10 Q. When I say everybody, that's Murchison?

11 A. That's correct.

12 Q. Now, Mr. Murchison's interest is not -- They're
13 in Section 34 and 35; is that correct?

14 A. I believe that's correct.

15 Q. Okay, and I'm referring to Exhibit Number 3.

16 A. Right.

17 Q. When do you plan to commence the drilling of the
18 Mocha State Unit Well Number 1?

19 A. As soon as we get the OCD and State approval
20 we'll start looking for a rig, and we'll spud the well as
21 soon as possible.

22 Q. It's not currently drilling, is it?

23 A. That's correct.

24 Q. Or has been drilled?

25 A. No, that's correct, Mr. Stogner.

1 EXAMINER STOGNER: Not one of those instances,
2 okay.

3 Any other questions of this witness?

4 You may be excused.

5 MR. CARR: That concludes our presentation in
6 this case.

7 EXAMINER STOGNER: Mr. Carr --

8 MR. CARR: Yes, sir.

9 EXAMINER STOGNER: -- for the record, what's your
10 understanding of these exploratory units and the necessity
11 to go to hearing when it involves state land?

12 MR. CARR: There's a reference somewhere in the
13 Oil and Gas Act or the Rules of the Division -- and I can
14 find it -- that authorizes the Division to approve plans
15 where operators come together and have agreed on a plan for
16 development of a resource, so I think that's the backdrop.

17 The reason we're here is, if you look at the
18 preliminary approval, Paragraph 4 says, as a condition to
19 final approval from the Commissioner of Public Lands you
20 are required to submit both an order of the Oil
21 Conservation Division or prove it will be conditioned upon
22 subsequent favorable approval by the Oil Conservation
23 Division.

24 Now, I think there's a historical component to
25 this. I believe -- What I understand is that many years

1 ago -- and this may be in the 1950s -- there was a time
2 when someone was proposing a unit in southeast New Mexico,
3 I think in the Hobbs area. They had basically
4 gerrymandered the boundary of that unit and excluded a
5 state lease. And the lessee talked to the Commissioner of
6 Public Lands and wanted to know what they could do about
7 it.

8 The Commissioner conditioned his final approval
9 upon an OCD hearing so that this individual could come in
10 and complain. As soon as that happened, they changed the
11 unit boundary and nothing ever happened.

12 But I think that is the historical background, as
13 I understand it, for why we come to you seeking approval of
14 the unit agreement.

15 It does seem to me -- And this is just hitting
16 this cold, but if the purpose of the approval is to assure
17 that the boundaries don't arbitrarily carve some interest
18 out, that there might be a notice requirement that should
19 have also been imposed. Because as you know, what
20 basically is happening here is approval of a contract, and
21 only those who have committed are subject to that contract.
22 Everyone else is being developed on a leasehold basis. And
23 so there is a notice component that may have been
24 overlooked over time.

25 But it is not one of those things where there is

1 a clear statutory mandate to this agency to review these
2 agreements.

3 EXAMINER STOGNER: Thank you, Mr. Carr. I ask
4 this question not as an expert witness but more as a legal
5 briefing, and also you're an expert at this. I believe you
6 have published some papers concerning this?

7 MR. CARR: Well, yes.

8 MR. BROOKS: I also appreciate your comments on
9 the subject, because I had been unable to find any
10 authorization for this.

11 MR. CARR: A long time ago I wrote a *Rocky*
12 *Mountain Law* paper, and in that paper I said there was no
13 statutory authority. And I had about six people call and
14 send me copies of the Oil and Gas Act and suggest I should
15 have read it. And I can find that and I'll be happy to
16 send it, but it isn't a direct mandate to the Division to
17 approve these agreements --

18 MR. BROOKS: Well --

19 MR. CARR: -- and I think it's rooted in practice
20 and history more than any kind of statute.

21 MR. BROOKS: Yeah, I think all of us read the Oil
22 and Gas Act up here on a regular basis, but there's
23 subtleties there that we've apparently missed.

24 EXAMINER STOGNER: Are you planning on updating
25 your paper, or is there an audiocassette available of your

1 paper, Mr. Carr?

2 MR. CARR: I am hoping that Mr. Kellahin will do
3 his usual work and correct my presentation for me and
4 handle that.

5 EXAMINER STOGNER: And I do have that audio
6 presentation, should anybody wish to borrow that.

7 MR. CARR: I thought we destroyed all copies.

8 EXAMINER STOGNER: If there's nothing further in
9 Case 12,761, then this matter will be taken under
10 advisement.

11 Thank you, gentlemen.

12 (Thereupon, these proceedings were concluded at
13 8:52 a.m.)

14 * * *

15
16
17 I hereby certify that the foregoing is
18 a complete record of the proceedings in
19 an Examiner hearing of Case No. 12761,
20 held by me on 15 Nov. 2001.

21
22
23
24
25
_____, 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 November 26th, 2001.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002