

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. 12,911
)
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

August 22nd, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, August 22nd, 2002, 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.

* * *

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

08/22/02 11:28:00

I N D E X

August 22nd, 2002
 Examiner Hearing
 CASE NO. 12,911

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A P P E A R A N C E S

FOR THE DIVISION:

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Energy, Minerals and Natural Resources Department
Assistant General Counsel
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FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

ALSO PRESENT:

WILL JONES
Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

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

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3 EXAMINER STOGNER: At this time I'm going to call
4 Case Number 12,911. This is the Application of Yates
5 Petroleum Corporation for approval of a unit agreement in
6 Lea County, New Mexico.

7 At this time call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe office of Holland and
10 Hart, L.L.P., and I have one witness.

11 EXAMINER STOGNER: Any other appearances?
12 Will the witness please stand to be sworn at this
13 time?

14 (Thereupon, the witness was sworn.)

15 EXAMINER STOGNER: Mr. Carr?

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

19 DIRECT EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your name for the record, please?

22 A. John Amiet.

23 Q. Mr. Amiet, where do you reside?

24 A. Artesia, New Mexico.

25 Q. By whom are you employed?

1 A. Yates Petroleum.

2 Q. And what is your position with Yates?

3 A. I'm a petroleum geologist.

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

6 A. Yes, I have.

7 Q. At the time of that testimony, were your
8 credentials as an expert in petroleum geology accepted and
9 made a matter of record?

10 A. Yes, they were.

11 Q. Are you familiar with the Application filed in
12 this case?

13 A. Yes.

14 Q. Are you familiar with the proposed West Echols
15 State Exploratory Unit --

16 A. Yes.

17 Q. -- including the status of the lands in the unit?

18 A. Yes.

19 Q. Have you made a geological study of the area
20 which is the subject of this Application?

21 A. Yes, I have.

22 Q. Are you prepared to share the results of your
23 work with Mr. Stogner?

24 A. Yes, I am.

25 MR. CARR: Are the witness's qualifications

1 acceptable?

2 EXAMINER STOGNER: They are.

3 Q. (By Mr. Carr) Mr. Amiet, would you briefly state
4 what it is that Yates Petroleum Corporation seeks with this
5 Application?

6 A. Yates seeks approval of the West Echols State
7 Exploratory Unit. This is a voluntary exploratory unit
8 that contains approximately 11,240 acres of State of New
9 Mexico lands, located in Lea County, New Mexico.

10 Q. Have you prepared certain exhibits for
11 presentation here today?

12 A. Yes, I have.

13 Q. Could you identify and briefly review what has
14 been marked as Yates Petroleum Corporation Exhibit Number
15 1?

16 A. This is the unit agreement. It's based on the
17 state fee form for an exploratory unit.

18 Q. Let's go to what has been marked Yates Exhibit
19 Number 2. Would you identify this, please?

20 Q. This is the plat, Exhibit A to the unit
21 agreement. It reviews the status of the acreage. It shows
22 that there are 46 State of New Mexico leases.

23 MR. CARR: Mr. Stogner, on this exhibit, if you
24 will note, the east half of Section 18 is not included in
25 the unit. This is a federal tract. It is the only tract

1 within the outer boundary of the unit area that is not a
2 State of New Mexico lease.

3 I have reviewed this matter with Armando Lopez at
4 the BLM. It constitutes approximately three percent of the
5 total unit area. Mr. Lopez has indicated they do not
6 actually care whether it is in or out of the unit. Being
7 left out of the unit, they will expect it to be developed
8 on a lease basis, and I can provide following a hearing a
9 letter that confirms that from the Bureau of Land
10 Management. But I have handled that part of it.

11 And you can see from the plat that the remainder
12 of this is 46 State of New Mexico tracts.

13 EXAMINER STOGNER: What provision is in that
14 agreement, or is your understanding with Mr. Armando Lopez,
15 how the spacing unit is, since 320 out there is the
16 prevalent deep gas spacing.

17 MR. CARR: The lease --

18 EXAMINER STOGNER: Will that be a total east
19 half --

20 MR. CARR: Yes, sir.

21 EXAMINER STOGNER: -- or does Yates intend to --

22 MR. CARR: No, it would be a total east-half
23 standup spacing unit that he would expect to be developed
24 independently and individually pursuant to the terms of the
25 lease.

1 EXAMINER STOGNER: Is this Yates's intent, to
2 develop it as such?

3 MR. CARR: If they are successful with the
4 initial well, yes, sir, it would be.

5 EXAMINER STOGNER: So it would be developed by an
6 east-half and a west-half spacing unit --

7 MR. CARR: Correct.

8 EXAMINER STOGNER: -- and no laydown would be
9 proposed in any way, form or fashion?

10 MR. CARR: That is correct. And we can provide
11 that letter to you. I have discussed it with Mr. Lopez,
12 and I tried to get the letter yesterday. I checked this
13 morning. We're going to meet with him today when Mr. Amiet
14 goes through Roswell, and we're hopeful to be able to
15 present that to you in the next -- probably tomorrow, as
16 fast as we can get it.

17 EXAMINER STOGNER: Do you know if that letter
18 specifically addresses the issue that I just brought up
19 about the spacing unit?

20 MR. CARR: I will tell you that it will address
21 that. We will ask, and we will put that in the letter.

22 Q. (By Mr. Carr) Mr. Amiet, let's go to what has
23 been marked Yates Petroleum Corporation Exhibit 2. Would
24 you identify that for the Examiner, please? I'm sorry,
25 Exhibit 3.

1 A. Three. This is the ownership breakdown. It
2 shows the ownership of each lease in the unit area. The
3 Yates parties own a total of 84 percent of these 46, total
4 of 46 leases. Thirteen percent is owned by Contour Energy
5 Exploration and Production, and three percent is owned by
6 Pogo.

7 Q. And at this point in time both Pogo and --
8 Condor?

9 A. Contour.

10 Q. Contour -- have been offered an opportunity to
11 participate in the unit?

12 A. That's correct, we've offered them both an
13 opportunity. I've talked to both of them verbally. We
14 have not received a reply yet.

15 Q. And what percent is currently committed to the
16 unit plan?

17 A. Eighty-four percent.

18 Q. And that would give you effective control of unit
19 operations?

20 A. That's correct.

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

23 A. Yes, I met with Mr. Martinez and his staff last
24 week, and we have a preliminary letter of approval from Mr.
25 Martinez.

1 Q. And is that what has been marked as Yates
2 Petroleum Corporation Exhibit Number 4?

3 A. That's correct.

4 Q. Yates Petroleum Corporation desires to be
5 designated operator of this unit?

6 A. That's correct.

7 Q. Would you identify what is marked as Yates
8 Petroleum Corporation Exhibit Number 5?

9 A. This is an AFE for the initial test well. Yates
10 is proposing a total of two wells to hold this acreage.
11 The first well, the dryhole cost will be \$780,400, and a
12 completed well cost of \$1,257,200.

13 Q. And maybe you could refer back to the plat and
14 point out the location of this well in the unit area?

15 A. This well will be located in the east half of
16 Section 17.

17 Q. And there's a spot on the plat --

18 A. That's correct.

19 Q. -- a circle on the plat, with the number "1"
20 beside it that indicates that location?

21 A. That's correct.

22 Q. Whereabouts will the second well that you're
23 committing to drill --

24 A. Second well will be the southwest quarter of
25 Section 11, T 11 South, R 38 East, of New Mexico, public

1 minerals. It will be an 11,500-foot TD in the
2 Mississippian.

3 Q. And how soon do you intend to spud the initial
4 well on the unit?

5 A. The initial well will be spudded before September
6 1st.

7 Q. And why is that?

8 A. We've got expiring leases in this unit area.

9 Q. Does the unit agreement provide for the filing of
10 periodic plans of development with the Commissioner of
11 Public Lands?

12 A. Yes, it does.

13 Q. And will those plans also be filed with the Oil
14 Conservation Division at the time they're filed with the
15 State Land Office?

16 A. Yes, they will.

17 Q. And how often are those plans to be filed?

18 A. The initial plan is six months after completion
19 of the first unit well, subsequent plans are twelve months
20 thereafter.

21 Q. What horizons are you proposing to unitize in
22 the West Echols State Exploratory Unit?

23 A. Yates wishes to unitize all horizons.

24 Q. And what is the primary objective in the initial
25 test well?

1 A. Primary objective will be lower Atoka formation,
2 and this will be a wildcat pool.

3 Q. Are there wells that have penetrated the unit in
4 the past?

5 A. Yes, there are, there are a number of
6 penetrations. And I'll cover this to some extent when I
7 talk about the geologic map, but inside the unit area there
8 are some wells in the northwest corner of the unit. All
9 other wells are dry holes. There have been no wells
10 produced since 1990, there have been no new locations
11 drilled since 1990. So it's 12 years since there have been
12 any wells drilled in this area.

13 Q. And you have reviewed the existence of these
14 wellbores with the staff of the Commissioner of Public
15 Lands, have you not?

16 A. Yes, I have.

17 Q. Are there secondary objectives in the unit?

18 A. Possibly Morrow. Morrow is very thin as you go
19 to the northeast, but there could be some thin Morrow. And
20 of course there's always Cisco/Canyon, Wolfcamp.

21 Q. Would you refer to what has been marked for
22 identification as Yates Petroleum Corporation Exhibit
23 Number 6?

24 A. Yes.

25 Q. Identify this and review the geological

1 information on this exhibit with the Examiner.

2 A. This is a structure map on top of the
3 Mississippian lime. This is a one-inch-equals-3000-scale
4 map. The proposed locations are shown by the two orange
5 dots. The faults are the heavy black lines. The proposed
6 unit outline is in the red outline.

7 The two fields I talked about, the highs are
8 shown with the blue outline. The lows are shown with the
9 yellow, where we're hoping to find sands. And then I'm
10 showing two channels coming off of these highs, potential
11 channels, that we're hoping to find productive oil and gas
12 in.

13 Q. And now let's go to the isochron map, Exhibit 7.

14 A. This attempts to show the same thing. This is a
15 total thickness map from the top of the Atoka down to the
16 Woodford, and again it shows that the zone is thickening in
17 these -- in Section 17, where the initial well -- So again,
18 we're having a thicker section. We think that's where the
19 sands are going to be deposited.

20 Q. Now, there's no production in the area that
21 you've mapped?

22 A. None of the wells on this map are producing at
23 this time. These two fields have pretty much been
24 abandoned, about 1970. I think there was one well that
25 carried into 1989 or 1990, but...

1 Q. And if this unit is not approved, would you
2 anticipate that any of these formations would be tested?

3 A. No, I do not. Like I say, nobody's drilled out
4 here for 12 years.

5 Q. Are you drilling -- or attempting to target
6 structural highs or lows in this --

7 A. We're targeting structural lows. This is kind of
8 a new concept. These wells that are shown on the map are
9 both Devonian fields. They've been drilled on structural
10 highs.

11 We're coming in with a new concept, trying to
12 come into some of these old field areas and, instead of
13 drilling the highs, drill the lows and try to re-establish
14 production in the area.

15 Q. And you develop this information from what?
16 Well-control information?

17 A. We've used both -- We've had some old 2-D seismic
18 and also, of course, well control.

19 Q. Is Exhibit Number 8 a summary of your geological
20 presentation?

21 A. That's correct.

22 Q. Would you summarize for the Examiner the reasons
23 for this unit plan?

24 A. Again, Yates is coming into an old area that had
25 wells drilled, it has not had any drilling in a long time.

1 We're trying a new exploratory concept. Well cost is \$1.3
2 million, approximately. This is a risky project. There
3 are a lot of dry holes around this well. We feel that this
4 can be more effectively developed under a unit plan since
5 these channels we're looking for are very narrow features.
6 If we get some encouragement from the first well, we'll
7 probably shoot some more seismic to get better control over
8 this area.

9 Q. And then you'd anticipate additional development;
10 is that correct?

11 A. That's correct.

12 Q. In your opinion, will approval of the
13 Application, the formation of this unit and the drilling of
14 these wells be in the best interest of conservation, the
15 prevention of waste, and the protection of correlative
16 rights?

17 A. Yes, I do.

18 Q. Were Exhibits 1 through 8 prepared by you?

19 A. Yes, they were.

20 MR. CARR: Mr. Stogner, at this time I'd move the
21 admission into evidence of Yates Petroleum Corporation
22 Exhibits 1 through 8.

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

25 MR. CARR: And that concludes my direct

1 examination of Mr. Amiet.

2 EXAMINATION

3 BY EXAMINER STOGNER:

4 Q. Okay, the 320-acre window made up of federal
5 land, was this proposed originally by Yates whenever they
6 went to the State Land Office and the BLM, or is it
7 something that developed after talking to the BLM?

8 A. I told Mr. Martinez about the federal unit, but
9 of course that wasn't in his jurisdiction. So we contacted
10 Mr. Lopez after that meeting with the State.

11 Q. Okay, I'm a little confused. So Yates was the
12 one that made the suggestion about leaving the window?

13 MR. CARR: That is correct --

14 THE WITNESS: That's correct.

15 MR. CARR: -- Mr. Stogner.

16 Q. (By Examiner Stogner) Okay. All right, let's
17 see. Has there been a former Echols State Unit out in this
18 area before?

19 A. Yes, there was. Yates had a unit, it was a 1440-
20 acre unit that was made in 1988 and was discontinued in
21 1989. Yates did the one well in Section 9. I believe it
22 was composed of Section 9, some of Section 10, and we
23 couldn't find an outline or any map showing the exact
24 location of the unit, but it was 1440 acres, and it was
25 Section 9 and I believe part of Section 10, and I'm not

1 sure beyond that.

2 Q. Okay, because I'm looking at -- Actually, I'm
3 looking at your Exhibit Number 7 and your Exhibit Number 2
4 in Section 9. Now, I'll draw your attention down to that
5 southwest quarter. On Exhibit Number 2 that well is
6 identified as the old Gulf Lea State 11 Well Number 3, but
7 in Exhibit Number 11 it's identified as the Yates Petroleum
8 Company Echols State Unit Number 3.

9 A. That was a re-entry.

10 Q. That was a re-entry.

11 Okay. Now, if you look up in the north half on
12 Exhibit 2, there was a Yates Petroleum well, Echols State
13 Unit Well Number 2, but that well doesn't show up on
14 Section 9. What's the status of that well?

15 A. That well TD'd at 55 feet. They just got started
16 and discontinued it when they got the negative results on
17 the initial well.

18 Q. Was that a Yates formation test or --

19 A. No, never even got to the Yates. That was --
20 Like I say, the well evidently was just spudded and then
21 was discontinued when they got the discouraging news on
22 their re-entry on the Gulf Lea well.

23 Q. So that's not a representation of Yates's --

24 A. Yeah --

25 Q. -- plans on completing a well at a shallow depth

1 under 200 feet?

2 A. No. Like I say, the unit was discontinued at
3 that point.

4 Q. Okay.

5 A. Yeah, the maps I'm showing are only showing wells
6 deeper than 10,000 feet. That's why that well doesn't show
7 up.

8 Q. Now, this is quite an extensive geological
9 interpretation. How much -- Was that done with 3-D
10 seismic?

11 A. Yes, sir, we had 2-D seismic. We've got some old
12 1968-69 pretty marginal 2-D seismic, and then we've got
13 some -- towards the late 1980s -- seismic that's pretty
14 good seismic data, and we've integrated that with the well
15 control to come up with a map.

16 But it's a very complex area, it's very heavily
17 faulted. You've got Gladiola field that sits to the south
18 and then you've got your two Echols fields that are
19 uplifted. So this is a major structural feature coming
20 through here.

21 EXAMINER STOGNER: Okay, Mr. Carr, maybe I'm
22 missing something here, but was there -- As I understand
23 it, Contour and Pogo were both notified, but is the
24 notification included today?

25 THE WITNESS: We have not received a response.

1 I've verbally talked to both of them. Pogo probably will
2 not participate. Contour expressed an interest, but -- and
3 I've tried to contact them since the initial contact, and
4 they've both been sent the forms.

5 MR. CARR: Mr. Stogner, usually with a unit
6 agreement we don't notify those parties, because the only
7 interest owners subject to the order or the unit are those
8 who have voluntarily committed under the voluntary unit.
9 And what we have done -- and this is, I think, typical with
10 all unit applications -- we don't notify them of the
11 hearing, but we do confirm that they have been given a full
12 opportunity to commit their interest to the unit.

13 And so we can provide to you evidence that they
14 have been given the opportunity to join.

15 EXAMINER STOGNER: What would that evidence
16 consist of?

17 MR. CARR: I don't know, we've --

18 THE WITNESS: They --

19 MR. CARR: -- talked to them, and we can confirm
20 that by affidavit and documents from the files of Yates. I
21 can't tell you particularly, because they were contacted by
22 Yates.

23 THE WITNESS: But we've sent them the forms
24 proposing the unit outline.

25 MR. CARR: And I can provide all that to you, to

1 show that they have been given the full opportunity to
2 commit their tract to the unit plan.

3 THE WITNESS: And when I contacted them, they had
4 both received our proposal for this unit.

5 (Off the record)

6 EXAMINER STOGNER: I don't believe I have any
7 other questions of this witness.

8 Any other questions?

9 MR. JONES: I have one question, John.

10 EXAMINATION

11 BY MR. JONES:

12 Q. These deep wells that you have --

13 A. Yes.

14 Q. -- out here, they look like they're as deep as
15 you're going to go -- pretty close to the --

16 A. Those are all Devonian wells. We don't plan on
17 taking this to the Devonian, so we're going to stop
18 probably several hundred or maybe 500 feet above the
19 Devonian. We're going to go down into the Mississippian
20 lime, but we feel -- The Devonian features produce from
21 highs; we're looking for lows. So again, we don't feel
22 it's going to be worth the time to drill that extra 500
23 feet to be cost-effective.

24 Q. So it looks like you don't have any of these
25 wellbores to re-enter at all. I mean, you're just using

1 them for well control?

2 A. I'm using them for well control. Again, they're
3 generally looking for structural highs, and we want to use
4 the seismic and try to get as low as we can. This is where
5 the sand is going to be deposited.

6 MR. JONES: That's all I have.

7 EXAMINER STOGNER: Okay, any other questions?

8 MR. BROOKS: No.

9 EXAMINER STOGNER: Anything further in this case?

10 MR. CARR: Nothing further, Mr. Stogner.

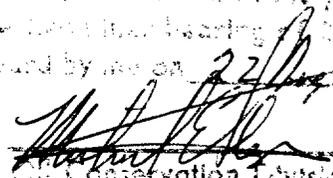
11 EXAMINER STOGNER: If there's nothing further in
12 Case Number 12,911, this case will be taken under
13 advisement.

14 Thank you, Mr. Carr.

15 MR. CARR: Thank you.

16 (Thereupon, these proceedings were concluded at
17 8:46 a.m.)

18 * * *

19
20 I do hereby certify that the foregoing is
21 a complete and correct transcript of the
22 hearing held by me on 22 August 2002 in Case 12911.
23 
24 Matthew E. Kelly, Director
25 Oil Conservation Division

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

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 August 24th, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

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