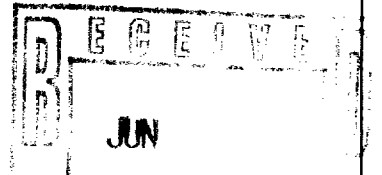


STATE OF NEW MEXICO

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)
 _____)

CASE NO. 11,282

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 18th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on Thursday, May 18th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

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

I N D E X

May 18th, 1995
 Examiner Hearing
 CASE NO. 11,282

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APPLICANT'S WITNESSES:	
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* * *

STEVEN T. BRENNER, CCR
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A P P E A R A N C E S

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

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1 WHEREUPON, the following proceedings were had at
2 9:10 a.m.:

3 EXAMINER STOGNER: At this time I'll call Case
4 Number 11,282.

5 MR. CARROLL: Application of Yates Petroleum
6 Corporation for a unit agreement, Lea County, New Mexico.

7 EXAMINER STOGNER: At this time I'll call for
8 appearances.

9 MR. CARR: May it please the Examiner, my name is
10 William F. Carr with the Santa Fe law firm Campbell, Carr
11 and Berge.

12 We represent Yates Petroleum Corporation in this
13 matter, and I have two witnesses.

14 EXAMINER STOGNER: Any other appearances in this
15 matter?

16 Will the witnesses please stand to be sworn at
17 this time?

18 (Thereupon, the witnesses were sworn.)

19 EXAMINER STOGNER: Mr. Carr?

20 ROBERT BULLOCK,
21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 EXAMINATION

24 BY MR. CARR:

25 Q. Will you state your name for the record, please?

STEVEN T. BRENNER, CCR
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1 A. My name is Robert Bullock.

2 Q. Where do you reside?

3 A. I reside in Hope, New Mexico.

4 Q. Mr. Bullock, by whom are you employed?

5 A. By Yates Petroleum Corporation.

6 Q. And what is your current position with Yates?

7 A. I'm a landman.

8 Q. Have you previously testified before this
9 Division and had your credentials as a landman accepted and
10 made a matter of record?

11 A. Yes, sir.

12 Q. Are you familiar with the Application filed in
13 this case on behalf of Yates?

14 A. Yes, I am.

15 Q. And are you familiar with the proposed San Simon
16 unit?

17 A. Yes, sir.

18 MR. CARR: Are the witness's qualifications
19 acceptable?

20 EXAMINER STOGNER: They are.

21 Q. (By Mr. Carr) Mr. Bullock, would you briefly
22 summarize for Mr. Stogner what Yates seeks with this
23 Application?

24 A. Yates seeks approval for a voluntary unit, being
25 our Sam Simon unit, comprises approximately 9105 acres of

1 state and federal lands located in Lea County, New Mexico.

2 Q. Have you prepared certain exhibits for
3 presentation in this hearing?

4 A. Yes, sir.

5 Q. Could you refer to what has been marked for
6 identification as Yates Petroleum Corporation Exhibit
7 Number 1, identify this exhibit and review it for Mr.
8 Stogner?

9 A. Exhibit Number 1 is the exploratory unit
10 agreement for the development and operation of our San
11 Simon unit.

12 It is an agreement that has been accepted by both
13 the State Land Office and the BLM Office as being
14 satisfactory for their -- the content.

15 Q. And this is actually the state form, is it not?

16 A. It is the state form, that's correct.

17 Q. And have you reviewed it with the BLM?

18 A. Yes, sir.

19 Q. And they have recommended that no amendments be
20 made; is that right?

21 A. That is correct.

22 Q. Let's go to Yates Exhibit Number 2. Would you
23 identify that, please?

24 A. Exhibit Number 2 is the outline of the unit
25 agreement.

1 On the bottom of that outline -- that's the
2 color-coded map -- we've indicated the yellow acreage as
3 state lands, the orange acreage would be the BLM lands, and
4 there are no fee lands within this unit.

5 Q. How many state acres are in the proposed San
6 Simon unit?

7 A. The state acreage are a total of 4953.44 acres.

8 Q. And federal acres?

9 A. Leased federal acres are 3592.63, and unleased
10 federal acres are 559.45 acres.

11 EXAMINER STOGNER: Excuse me, Mr. Carr.

12 MR. CARR: Yes, sir.

13 EXAMINER STOGNER: Exhibit Number -- You're
14 referring to Exhibit Number 2; is that right?

15 MR. CARR: Yes, and it is also Exhibit A to the
16 unit agreement itself.

17 EXAMINER STOGNER: Okay, that's where I'm getting
18 a little bit confused there, because I've got both maps in
19 front of me.

20 MR. CARR: Yes, and the Exhibit Number 2 is
21 correct.

22 The acreage shown on the Exhibit A to the unit
23 agreement is correct as of the time this was prepared. It
24 has been reviewed -- or it was believed correct. It has
25 been reviewed since this time and corrections have been

1 made.

2 THE WITNESS: That's correct.

3 MR. CARR: There is a -- So if you look at
4 Exhibit A to the unit agreement, it's incorrect as to the
5 designation of state and federal leases in the tract and
6 should be superseded by what we have marked as Exhibit 2
7 for this hearing today.

8 EXAMINER STOGNER: Okay, because one of your
9 questions, to designate between the orange and the
10 yellow --

11 MR. CARR: Yes, sir.

12 EXAMINER STOGNER: And he -- if -- I believe I
13 heard you right. You said that the orange -- and you were
14 referring to Exhibit Number 2? --

15 MR. CARR: Yes.

16 EXAMINER STOGNER: -- designated the -- or
17 represented the US acreage; is that correct?

18 THE WITNESS: That's correct.

19 EXAMINER STOGNER: But I see some US acreage
20 represented in yellow, quite a few of them, actually, like
21 up there in Section 5, the entire east half, and then down
22 in Section 29 there's two portions that show yellow there,
23 or federal.

24 That's where I'm getting confused.

25 THE WITNESS: These -- Yeah, we have some other

1 maps that I could give you that are updated. This first
2 map that we came out with, the State Land Office asked us
3 to amend that, and we did, and I can provide you an amended
4 color-coded map right now.

5 EXAMINER STOGNER: Mr. Carr, do you see what I'm
6 referring to?

7 MR. CARR: I do, Mr. Stogner, and it appears that
8 Exhibit Number 2, the yellow acreage, is all Yates
9 Petroleum Corporation leases.

10 THE WITNESS: That's correct.

11 Q. (By Mr. Carr) And that the orange, in fact, is
12 operated by other interest owners; is that right, Mr.
13 Bullock?

14 A. That is correct, that's the way it was originally
15 set up. The State Land Office asked us to amend that.

16 Q. Is the Exhibit A to the unit agreement -- Does
17 that correctly depict the distinction between State and
18 federal tracts?

19 A. Yes, sir.

20 Q. And so what we have here is an Exhibit 2 that is
21 different from Exhibit A to the unit agreement, and Exhibit
22 2 indicates the Yates leases within the proposed unit
23 boundary?

24 A. Yes, that's correct.

25 MR. CARR: Does that clarify that, Mr. Stogner?

1 EXAMINER STOGNER: Yes, that does clarify it.

2 Thank you.

3 Q. (By Mr. Carr) Let's look at what has been marked
4 Exhibit Number 2, Mr. Bullock. On this we have indicated
5 in yellow the Yates acreage.

6 What percentage of the unit acreage is under
7 lease to Yates Petroleum Corporation?

8 A. Approximately 86 percent.

9 Q. Of the other interest owners shown on Exhibit
10 Number 2, how many of those have not committed their
11 interests to the San Simon unit agreement?

12 A. Dalen Resources has not committed their interest.
13 They have approximately 8.35 percent of the unit.

14 Texaco USA has not committed their acreage. They
15 have .4 of one percent.

16 Enron Oil and Gas has not committed their acreage
17 as of this date. They have 1.75 percent.

18 And Amerada Hess has not indicated they would
19 commit their acreage. They have also 1.75 percent.

20 For a total of approximately 12 percent.

21 Q. So 88 percent of the interest within the proposed
22 San Simon unit has been voluntarily committed to the unit
23 agreement?

24 A. That is correct.

25 Q. Will the voluntary commitment of 88 percent of

1 the working interest afford Yates effective control of the
2 unit operation?

3 A. Yes, sir.

4 Q. Has the proposed unit area been designated by the
5 Bureau of Land Management as an area logically suited for
6 development under a unit plan?

7 A. Yes, it has.

8 Q. And is Exhibit Number 3 a copy of the letter from
9 the Bureau of Land Management making that designation?

10 A. Yes, it is.

11 Q. Has this proposed unit been submitted to the
12 Commissioner of Public Lands?

13 A. Yes, it has been submitted to him.

14 They are still looking this -- the agreements
15 over. As of this date, they have not given preliminary
16 approval.

17 Q. Have you discussed this matter with the
18 representatives of the Commissioner of Public Lands?

19 A. Yes, sir, we have, and he has indicated that they
20 think they will give approval for it.

21 Q. And with whom have you been talking with at the
22 State Land Office?

23 A. His name is Maraz, Tom Maraz, I believe.

24 Q. Will you provide a copy of the Commissioner's
25 preliminary approval to the Oil Commission -- or Division

1 -- as soon as it is received?

2 A. Yes, sir.

3 Q. Does Yates seek to be designated operator of this
4 unit?

5 A. Yes, they do.

6 Q. Does this unit agreement provide for the filing
7 of periodic plans of development?

8 A. Yes, sir.

9 Q. And will these plans of development be filed with
10 the Oil Conservation Division and filed with other
11 agencies?

12 A. Yes, they will.

13 Q. Does Yates propose to also call a geological
14 witness to review the technical aspects of this case?

15 A. Yes.

16 Q. Were Exhibits 1 through 3 either prepared by you
17 or compiled at your direction?

18 A. Yes, sir.

19 MR. CARR: At this time Mr. Stogner, we move the
20 admission of Yates Petroleum Corporation Exhibits 1 through
21 3.

22 EXAMINER STOGNER: Exhibits 1 through 3 will be
23 admitted into evidence.

24 MR. CARR: That concludes my direct examination
25 of Mr. Bullock.

EXAMINATION

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BY EXAMINER STOGNER:

Q. Mr. Bullock, in referring to Exhibit Number 2, and the Exhibit A attached to the unit agreement, there is some unleased federal acreage. What percentage does that account for in the unit area?

A. That accounts for --

Q. Approximately?

A. -- approximately 6 percent.

Q. Has the BLM indicated -- Or do you know what the BLM's intent on that acreage is at this time?

A. They have requested us to have that acreage be made available for bid, which we have done.

Q. Do you know whether that might be available or -- I assume it's at the next --

A. We're hoping it will be on the July federal sale.

Q. Okay. Now, should some other party besides Yates pick up that acreage, will they be approached to join the unit voluntarily?

A. Yes, sir.

Q. Do you know if that will be included, or will there will be any special representation for that acreage when the BLM calls that up, that it's in --

A. Usually that's the way that it's handled. They ask that the person that purchased it commit it to that

1 unit.

2 Q. And that's not an unusual request?

3 A. No, no, it's a typical request.

4 Q. And all the state acreage in here is committed;
5 is that correct?

6 A. That's correct. There's no unleased state
7 acreage.

8 Q. Do you have a preliminary approval by the land
9 office on this unit?

10 A. No, we do not.

11 Q. Is that forthcoming?

12 A. Yes, sir, I believe it is.

13 Q. Have you visited with them in their offices?

14 A. They didn't request us to come up. We offered to
15 come up and show our technical information, and we've
16 handled it by mail up to this point. I don't anticipate us
17 having to come up and show it to them.

18 Q. Okay, when you receive a preliminary copy of that
19 approval, would you please submit it for --

20 A. Okay, yes --

21 Q. -- the record in our case?

22 A. -- sure will.

23 EXAMINER STOGNER: Usually they will go ahead and
24 cc us. But just in case something happens, if you will
25 designate it so -- as being a matter in Case 11,282.

1 I have no other questions of this witness.

2 Are there any other questions of Mr. Bullock?

3 MR. CARR: That concludes our examination of Mr.
4 Bullock.

5 EXAMINER STOGNER: Mr. Bullock, you may be
6 excused.

7 Mr. Carr?

8 MR. CARR: At this time we would call John McRae.

9 JOHN McRAE,

10 the witness herein, after having been first duly sworn upon
11 his oath, was examined and testified as follows:

12 EXAMINATION

13 BY MR. CARR:

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

15 A. John McRae.

16 Q. Where do you reside?

17 A. Artesia, New Mexico.

18 Q. And by whom are you employed?

19 A. Yates Petroleum Corporation.

20 Q. And what is your current position with Yates?

21 A. Geologist.

22 Q. Have you previously testified before this
23 Division?

24 A. Yes, I have.

25 Q. At the time of that testimony, were your

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1 credentials as a petroleum geologist accepted and made a
2 matter of record?

3 A. Yes, they were.

4 Q. Are you familiar with the Application filed on
5 behalf of Yates in this case?

6 A. Yes.

7 Q. And have you made a geological study of the area
8 surrounding the proposed San Simon unit?

9 A. Yes, I have.

10 MR. CARR: Are the witness's qualifications
11 acceptable?

12 EXAMINER STOGNER: They are.

13 Q. (By Mr. Carr) Mr. McRae, initially could you
14 identify the formations that are being unitized in the San
15 Simon unit?

16 A. We would like all formations unitized. The
17 primary objective is the basal Brushy Canyon sands in the
18 Delaware Mountain Group, with secondary objectives deeper.

19 EXAMINER STOGNER: I'm sorry, what?

20 THE WITNESS: The main objective is the Brushy
21 Canyon, and secondary objectives deeper.

22 EXAMINER STOGNER: Oh, deeper.

23 THE WITNESS: The Bone Spring through the Morrow.

24 EXAMINER STOGNER: Okay. I'm sorry, I
25 misunderstood you.

1 THE WITNESS: Okay.

2 Q. (By Mr. Carr) Are we in any particular pool in
3 the Bone Spring formation?

4 A. No.

5 Q. And how deep will the well initially -- the
6 initial test well be drilled?

7 A. The proposed depth is 14,500 feet.

8 Q. And that will be deep enough to test all
9 formations down through the Morrow?

10 A. Through the Morrow, yes.

11 Q. Let's go to what has been marked for
12 identification as Yates Petroleum Corporation Exhibit
13 Number 4.

14 Could you identify this exhibit and review it for
15 Mr. Stogner?

16 A. This is an isopach of the Falcon Sand Package,
17 which is a sand package in the basal Brushy section of the
18 Delaware Mountain Group. These were deposited as
19 turbidites, fans.

20 I have shown on this isopach the limits of sand
21 greater than 16-percent porosity on the density curves.

22 I also have shown on this map the permeability
23 barrier, which is in realty an economic cutoff. That
24 cutoff is based on 25 feet of greater than 16-percent
25 density porosity.

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1 Q. There's also a trace on this exhibit for a
2 subsequent cross-section; is that correct?

3 A. That's correct, A-A'.

4 Q. Before we get to that, let's move to the
5 structure map, which is Yates Exhibit Number 5.

6 Could you review the information on this exhibit
7 for Mr. Stogner?

8 A. This is a structure map, mapped on the top of the
9 Bone Springs formation. It shows two north-south
10 structural ridges. The one on the left side of the map is
11 the Antelope Ridge field. Subsurface well control
12 indicates a second north-south structural ridge underlying
13 the proposed San Simon unit.

14 Q. And this structure map was developed using well-
15 control information?

16 A. That's correct.

17 Q. Why is structure important in terms of developing
18 the Bone Spring in this area?

19 A. Well, we'll be developing the Brushy Canyon.
20 Delaware production in this portion of Lea County has shown
21 that structure enhances the potential of the Delaware. In
22 particular, for separate reservoirs there is generally an
23 oil leg and a water leg, and the very best production is
24 found on structural highs, where these reservoirs are
25 draped over the high.

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1 Q. Where will the initial test well be located in
2 this unit?

3 A. In the southeast quarter of Section 18, 23 South,
4 35 East.

5 Q. And that has a number 5 on it, on this exhibit?

6 A. Yes, both maps and cross-section.

7 Q. Let's go to the cross-section. Can you review
8 that for Mr. Stogner?

9 A. This is a southwest-to-northeast structural
10 cross-section.

11 I have highlighted in yellow the Falcon Sand
12 Package. I have named it the Falcon Sand, based on Well
13 Number 1 where it is productive, and the Pogo Producing
14 Number 1 Falcon Federal. It is productive in the lower
15 portion of that sand package but demonstrates that oil is
16 present in that system.

17 Well Number 2, we move structurally updip. I
18 also have shown on this cross-section the 16-percent
19 porosity cutoff.

20 Well Number 3 is structurally higher again and
21 has 83 feet of greater than 16-percent porosity.

22 Well Number 4 is structurally flat, approximately
23 flat to Well Number 3, and this is the only well that I
24 have a mud log, and we have mud-log shows in this Falcon
25 Sand Package.

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1 Well Number 5 is the proposed location, which we
2 feel will be structurally high to all of the wells on the
3 cross-section.

4 And Number 6, Well Number 6, is off the structure
5 and structurally low.

6 Q. Basically, what conclusions can you reach from
7 your geologic study of the subject formations in this area?

8 A. The Falcon Sand is productive in Well Number 1.
9 It is below the cutoff. And well history has shown that
10 it's uneconomic. We need much better porosity.

11 The cross-section clearly demonstrates that as
12 you move north into the proposed San Simon unit, the sand
13 quality increases. There are mud-log shows, and we're on a
14 structural high.

15 Q. How soon does Yates propose to drill the initial
16 test well in the unit?

17 A. We will spud the well prior to July 1st, 1995.

18 Q. Mr. McRae, in your opinion will approval of the
19 Application and the development of this area under the
20 proposed unit plan be in the best interest of conservation,
21 the prevention of waste and the protection of correlative
22 rights?

23 A. Yes, it will.

24 Q. Is Exhibit Number 7 a written summary of your
25 geological presentation?

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1 A. That's correct.

2 Q. Were Exhibits 4 through 7 prepared by you?

3 A. Yes.

4 MR. CARR: At this time, Mr. Stogner, we move the
5 admission of Yates Petroleum Exhibits 4 through 7.

6 EXAMINER STOGNER: Exhibits 4 through 7 will be
7 admitted into evidence.

8 MR. CARR: And that concludes my direct
9 examination of this witness.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. McRae, is it somewhat unusual to have --
13 What? A former producing well and several dryhole tests
14 included within the unit?

15 A. The producing well is outside the unit, because
16 it's uneconomic.

17 Q. Oh, I'm sorry, that was the Number 1 well?

18 A. Yes.

19 Q. Okay, and then you had 2, 3 and 4 wells, which
20 were dry; is that correct?

21 A. That's correct, when they were drilled.

22 Based on the mud-log show in Well Number 4, which
23 was drilled and abandoned in 1981, before the Delaware play
24 really became prevalent, I feel that well is capable of
25 production.

1 Well Number 3 is structurally flat with it and
2 has good porosity, and we also feel that one is also
3 probably capable of production.

4 Well Number 2, which is in the unit, is right on
5 the edge. It has 23 feet of porosity, and I feel that's
6 right on the economic limit, as I've shown by the green
7 permeability barrier. The green permeability barrier or
8 economic limit on the isopach is actually the 25-foot
9 contour.

10 Q. Now, your exhibit shows five other old wells in
11 the unit, primarily over on the eastern side. Did those
12 wells not penetrate the zone of interest?

13 A. Yes, sir, in the legend, the normal well symbol
14 is a dryhole with a TD of less than 6000 feet. The wells
15 that are circled are greater than 6000 feet, so only the
16 wells that are circled are wells that have penetrated the
17 proposed -- or the primary objective, this Falcon Sand
18 Package.

19 The Well Number 3 and Well Number 2 are old
20 Morrow wells that produce from the Bone Spring and have
21 been plugged out. So all the deep tests in the unit,
22 proposed unit, are currently plugged.

23 Q. It just appears to me in the normal course of
24 action that Wells 2, 3 and 4 were stepout wells, which --
25 Your proposed Number 5 is somewhat going into no-man's

1 land, other than what your geological interpretation is.

2 A. The Wells 2, 3 and 4 were stepout Morrow tests in
3 the development of the Antelope Ridge field, and they were
4 primarily going after Morrow and Atoka gas production.

5 Our --

6 Q. What -- I'm sorry, go ahead.

7 A. Our proposed location is primarily targeting the
8 Delaware, which was not a primary objective when Antelope
9 Ridge was developed.

10 There is currently Delaware production in
11 Antelope Ridge, and there is activity in Section 10 of 23-
12 34, to develop that.

13 Most of the wells on this map are still producing
14 from either the Morrow or the Atoka formations, and the
15 Delaware potential in Antelope Ridge is still behind pipe.

16 Q. What's your proposal for the Well Number 5, your
17 proposed well? Will it go down and test the Morrow also?

18 A. That is our objective at this point.

19 Q. And then test the Atoka and make your way back up
20 to the primary zone of the Brushy Canyon?

21 A. Correct.

22 Q. What's Yates's proposed startup date on this
23 well?

24 A. It will be prior to July 1st.

25 Q. Does your unit agreement, that you know of, does

1 it provide for a second well, if this one is found to be
2 successful?

3 A. I'm not sure. That's handled by our land
4 department.

5 EXAMINER STOGNER: Okay, I'll ask that
6 question --

7 MR. BULLOCK: Yes, sir, within six months. A
8 subsequent follow-up well within six months.

9 EXAMINER STOGNER: At any pre-determined
10 location, or left up to the discretion?

11 MR. BULLOCK: That's left up to our discretion.

12 EXAMINER STOGNER: Okay. I don't have anything
13 further of either Mr. Bullock or Mr. McRae.

14 MR. CARR: And we have nothing further in this
15 case, Mr. Stogner.

16 EXAMINER STOGNER: Does anybody else have
17 anything further in Case Number 11,282?

18 Then this case will be taken under advisement at
19 this time.

20 (Thereupon, these proceedings were concluded at
21 9:33 a.m.)

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the hearing of Case No. 11282
25 heard by me on 18 May 1995
_____, Examiner
Oil Conservation Division

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

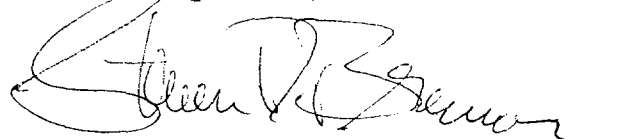
CERTIFICATE OF REPORTER

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 May 23rd, 1995.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

STEVEN T. BRENNER, CCR
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