

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, LEA COUNTY, NEW MEXICO)

CASE NO. 13,244

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

April 1st, 2004

Santa Fe, New Mexico

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Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, April 1st, 2004, 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. 13,244

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A P P E A R A N C E S

FOR THE DIVISION:

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 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:56 a.m.:

3 EXAMINER CATANACH: At this time I'll Case
4 13,244, the Application of Yates Petroleum Corporation for
5 approval of a unit agreement, Lea County, New Mexico.

6 Call for appearances in this case.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe office of Holland and
9 Hart, L.L.P. We represent Yates Petroleum Corporation in
10 this matter, and I have one witness.

11 EXAMINER CATANACH: Call for additional
12 appearances.

13 There being none, will the witness please stand
14 to be sworn in?

15 (Thereupon, the witness was sworn.)

16 MR. CARR: Mr. Examiner, at this time we would
17 call our first witness, Mr. John Amiet.

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Would you state your full name for the record,
24 please?

25 A. John Amiet.

1 Q. Where do you reside?

2 A. Artesia, New Mexico.

3 Q. By whom are you employed?

4 A. Yates Petroleum Corporation.

5 Q. And what is your position with Yates?

6 A. I'm a geologist.

7 Q. Mr. Amiet, have you previously testified before
8 this Division?

9 A. Yes, I have.

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

13 A. Yes, they were.

14 Q. Are you familiar with the proposed Lacy J State
15 Exploratory Unit?

16 A. Yes, I am.

17 Q. And are you aware of the -- familiar with the
18 status of the lands in the unit area?

19 A. Yes, I am.

20 Q. Have you made a geological study of the proposed
21 unit?

22 A. Yes.

23 Q. Are you prepared to share the results of that
24 work with Mr. Catanach?

25 A. Yes, I am.

1 MR. CARR: Mr. Catanach, we tender Mr. Amiet as
2 an expert in petroleum geology.

3 EXAMINER CATANACH: He is so qualified.

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

7 A. Yates is seeking approval of the Lacy J State
8 Exploratory Unit agreement. This is a voluntary
9 exploratory unit containing approximately 7680 acres of
10 State of New Mexico lands located in Lea County.

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

13 A. Yes.

14 Q. Would you initially just identify what has been
15 marked as Yates Exhibit Number 1?

16 A. This is a unit agreement, and it is based on the
17 state/fee form for an exploratory unit.

18 Q. Mr. Amiet, let's go to Exhibit 2, which is the
19 plat of the unit attached to the unit agreement. Would you
20 review the information on this document?

21 A. This is Exhibit A, it's a land plat to the unit
22 agreement. It shows that these are all state leases in
23 this proposed unit, and there are a total of 24 State of
24 New Mexico leases.

25 Q. Let's go to Exhibit 3. Would you identify and

1 review this?

2 A. This is an ownership breakdown. It's Exhibit B
3 to the unit agreement. It shows the ownership of each
4 lease in the unit area, and it shows that Yates has a total
5 of approximately 67 percent of this acreage. Murchison Oil
6 and Gas has approximately 31 percent, and Occidental
7 Petroleum has 2 percent.

8 Q. Has all of the working interest been committed to
9 the unit agreement?

10 A. All except the Occidental interest. This is a
11 160-acre section in the southwest quarter of Section 5. We
12 have offered them an opportunity to participate. I called
13 them last Tuesday and talked to their landman and he had
14 not gotten the documents yet. They're working their way
15 through Occidental. So we're figuring because of the small
16 percentage they probably will not participate. They have 2
17 percent.

18 Q. How much is committed, then? Approximately 98 --

19 A. Approximately 98 percent is committed currently.

20 Q. And so you obviously will have effective control
21 of the unit operation?

22 A. That's correct.

23 Q. If the OXY tract is not committed, it will be
24 developed in accordance with the provisions of the
25 underlying lease covering that particular acreage?

1 A. That's correct.

2 Q. Has the New Mexico Commissioner of Public Lands
3 given his preliminary approval to the proposed unit
4 agreement?

5 A. Yes, I met with Mr. Martinez and his staff last
6 week and showed him the exhibits, and he has given us
7 Exhibit Number 4 as a preliminary approval letter from the
8 Commissioner of Public Lands.

9 Q. And the conditions set forth in that preliminary
10 approval letter are acceptable to Yates, are they not?

11 A. They are, that's correct.

12 Q. Does Yates Petroleum Corporation desire to be
13 designated the operator of the proposed unit?

14 A. Yes.

15 Q. Could you identify for Mr. Catanach the location
16 of the initial well in the unitized area?

17 A. The location is 1500 feet from the south line,
18 1290 feet from the east line of Section 8, Township 12
19 South, Range 34 East.

20 Q. Is Yates Exhibit Number 5 an AFE for that well?

21 A. That's correct, this sets out the dryhole and
22 completed well cost. The completed cost is \$1,685,500.
23 This well is on the Yates drilling schedule, and we plan on
24 spudding it probably before May 1st of 2004. These leases
25 expire in June of '05.

1 Q. Does the proposed unit provide for the periodic
2 filing of plans of development?

3 A. Yes.

4 Q. And will Yates file these plans with the Oil
5 Conservation Division at the same time it does with the New
6 Mexico State Land Office?

7 A. Yes.

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

9 A. This relates to Article 9 of the unit agreement.
10 The initial plan is six months after completion of the
11 first unit well, subsequent plans are 12 months thereafter.

12 Q. What horizons are being unitized in this proposed
13 unit?

14 A. All horizons.

15 Q. And what is the primary objective?

16 A. It would be the basal Morrow sands. I might
17 mention that there are only two Atoka-Morrow penetrations
18 within this unit area, with no Atoka-Morrow production?

19 Q. Are there secondary objectives?

20 A. There are numerous. The lower Morrow, Atoka,
21 Cisco, Canyon, Wolfcamp, all produce in the area.

22 Q. Mr. Amiet, let's take a look at the geological
23 support for the proposed unit. Would you go to Yates
24 Exhibit Number 6, identify this and review it for Mr.
25 Catanach?

1 A. This is a structure map on top of the Austin
2 limestone, or you might say the base of the Morrow. It
3 shows the unit outline in red. It's a 12-section unit.
4 The location for the initial test well is in the southeast
5 quarter of Section 8, as shown by the open circle.

6 The sand channels are shown with the blue lines.
7 We've used 3-D seismic, log correlation and regional
8 mapping to identify these channels. These are narrow and
9 limited in areal extent, so intersecting these narrow
10 channels is critical to the production of hydrocarbons.

11 Q. This exhibit also contains a trace or an index
12 for the subsequent cross-section, does it not?

13 A. That's correct, it shows the cross-section A-A'.

14 Q. Let's go to that cross-section, and I'd ask you
15 to review it for the Examiner.

16 A. This is a very simplified cross-section, just
17 because there's no wells in this -- that penetrate the
18 Atoka-Morrow. It's showing the only two wells in the area,
19 so I'm showing the concept.

20 We think that -- Right in the center of the
21 proposed Lacy J location is showing where we think there's
22 going to be a channel sand cutting down into the Austin
23 limestone, and you can see the limestone is going to be
24 thinner there, and it's thicker on both sides in the two
25 offsetting wells, the Hunt Caroline well and the Sunray

1 Midcontinent East Bagley well. Neither of these wells
2 showed significant sand or any production in the Atoka-
3 Morrow, so this is a rank wildcat well.

4 Q. How close are we to other upper Penn production
5 in this area?

6 A. Yates has an Indigo Number 1 well that's located
7 about three miles east of this proposed unit. It had a
8 cumulative production of 7000 barrels of oil and 582
9 million cubic feet of gas since December of '02.

10 There's also a Chris well that we just drilled
11 about two miles to the north. This was drilled about two
12 months ago, completed it, and it looks like it's going to
13 be an excellent well.

14 Q. They're actually out there picking these well
15 locations based on seismic data you've obtained over the
16 area; isn't that correct?

17 A. Seismic is critical to picking these locations,
18 that's correct.

19 Q. There are other upper Pennsylvanian wells in the
20 area, are there not?

21 A. That's correct.

22 Q. How many have produced from the upper Penn in the
23 immediate area?

24 A. There are five wells that are shown on the
25 structure map that we talked about previously. The

1 majority of them are located in Section 5 and 6, and also
2 the well in Section 9, the Sunray East Bagley that is shown
3 on the cross-section, is producing from the shallow -- it's
4 called upper Pennsylvanian; it's actually Wolfcamp-Cisco
5 formation.

6 There's only two of these wells that you might
7 say were economic, and there's two wells that are currently
8 producing. The Yates East Bagley well, located in the
9 northeast quarter of Section 6, is producing 2 to 3 barrels
10 of oil a day. It has cum'd 44,000 barrels of oil and about
11 58 million.

12 And the second well that's producing is the
13 Tipton Pan American State Number 1 in the southwest quarter
14 of Section 5. It's still producing two to three barrels a
15 day. So both of these are very marginal wells that are
16 going to be abandoned fairly soon.

17 Q. Is Yates Exhibit Number 8 a summary of your
18 geological study of the area?

19 A. Yes, it is.

20 Q. Could you just briefly summarize for the Examiner
21 why it is that Yates is proposing to attempt to develop
22 this area under the unit plan?

23 A. These are expensive wells to drill. \$1.685
24 million is our estimate. They're risky wells. There's
25 only two wells that have penetrated the Atoka-Morrow in

1 this 12-section unit. Both of those were abandoned and --
2 or had no production in the Atoka-Morrow. We think the
3 formation of this unit will result in a more reasonable
4 development of these potential reserves.

5 Q. And the result of your geologic study, just in
6 summary, shows what?

7 A. There is potential for channel sand development
8 in this unit area from our 3-D seismic and mapping
9 activity. There also is a secondary completion zone, we
10 have the upper Pennsylvanian potential, although it would
11 be difficult to drill an economic well for that zone.

12 But if we do have a successful well, it will lead
13 to additional drilling in this unit area. And I might
14 mention, this is a two-well commitment, this is not a
15 single well to hold this unit.

16 Q. In your opinion, will approval of this
17 Application and the creation of the Lacy J State
18 Exploratory Unit be in the best interest of conservation,
19 the prevention of waste and the protection of correlative
20 rights?

21 A. Yes.

22 Q. Were Exhibits 1 through 8 either compiled by you,
23 or can you testify as to their accuracy?

24 A. Yes.

25 MR. CARR: Mr. Catanach, at this time we'd move

1 the admission into evidence of Yates Petroleum Corporation
2 Exhibits 1 through 8.

3 EXAMINER CATANACH: Exhibits 1 through 8 will be
4 admitted.

5 MR. CARR: That concludes my direct of Mr. Amiet.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Mr. Amiet, within the unit you show a lot of sand
9 channels. How did you guys go about determining what the
10 best initial location would be in that unit?

11 A. We're looking for maybe a wider channel and
12 deeper downcutting, a little bit more signifi- -- some of
13 these channels, some of the smaller ones are a little --
14 are harder to harder to interpret. We use several
15 different maps, 3-D seismic maps, we use structure maps.
16 So there are a number of -- two or three different maps we
17 look at to pick these channels. But the depth of the
18 downcutting and maybe the thickness of the channel would be
19 very important --

20 Q. Okay.

21 A. -- and also if we can see some additional
22 reflectors in the downcutting on the seismic.

23 Q. Do you know where the second well is going to be
24 located?

25 A. Well, we've got -- like I say, there are a lot of

1 channels. We could drill it in 5, 6 or probably 16 or 17
2 would be our -- right now, our second location. If a
3 Section 8 well is very successful we probably -- we might
4 go south, try to extend that channel down to the south. If
5 it's not successful, we might try to go closer towards some
6 existing production. Like I say, there's a well two miles
7 to the north that's producing, so we might go to Section 5
8 or 6 if it's unsuccessful.

9 EXAMINER CATANACH: Okay, I don't have anything
10 else.

11 MR. CARR: That concludes our presentation in
12 this case.

13 EXAMINER CATANACH: Thank you. If there's
14 nothing further in this case, Case 13,244 will be taken
15 under advisement.

16 THE WITNESS: Thank you very much.

17 EXAMINER CATANACH: Thanks.

18 (Thereupon, these proceedings were concluded at
19 10:10 a.m.)

20 * * *
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 13244
24 heard by me on April 1, 2004.
25 David K. Catnach, 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 April 2nd, 2004.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006