

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. 13,535

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

August 11th, 2005

Santa Fe, New Mexico

2005 AUG 25 PM 10 00

WVJ 8/25/05

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, August 11th, 2005, 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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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 10:22 a.m.:

3 EXAMINER JONES: Okay, at this time let's call
4 Case 13,535, Application of Yates Petroleum Corporation for
5 approval of a unit agreement, Lea County, New Mexico.

6 Call for appearances.

7 MS. MUNDS-DRY: Good morning, Mr. Hearing
8 Examiner. My name is Ocean Munds-Dry with the law firm of
9 Holland and Hart, here this morning representing Yates
10 Petroleum Corporation.

11 EXAMINER JONES: No other appearances and no
12 witnesses, okay.

13 MS. MUNDS-DRY: Mr. Jones, Yates seeks approval
14 of the Ike State Exploratory Unit. Yates seeks approval of
15 this proposed unit by affidavit, pursuant to Division
16 policy.

17 Yates Exhibit Number 1 is the affidavit of John
18 Amiet, who is the petroleum geologist identifying the
19 project. The proposed unit is comprised of 3016.04 acres
20 of State of New Mexico lands, and it's located
21 approximately 10 miles west of Tatum.

22 Attachment A to the affidavit is a copy of the
23 unit agreement, and you will note that it conforms to the
24 State Land Office form.

25 Mr. Jones, Attachment B to the unit agreement is

1 a copy of the plat to the unit agreement. It identifies
2 the unit boundary. Yates proposes to test all formations
3 from the surface to the base of the Mississippian
4 formation.

5 The initial test well is to be located at a
6 standard location 1650 feet from the north line and 900
7 feet from the west line of Section 30, Township 12 South,
8 Range 35 East. It will test all formations from the
9 surface to an approximate total depth of 12,800 feet.

10 You'll note the unit boundary here, Mr. Hearing
11 Examiner. There are 320 acres that have been left out of
12 the unit outline on the south side. These 320 acres are
13 leased by EOG Resources, Inc. EOG is currently drilling a
14 second Empanada well on this acreage, which is in the east
15 half of Section 31, and it's immediately north of their
16 first Empanada well. Therefore, EOG declined to
17 participate in the unit. However, all other working
18 interest owners are participating in the unit.

19 And if we turn to Attachment C to the affidavit,
20 it's a copy of the ownership breakdown. You will see that
21 approximately 87.5 of the working interest is owned by
22 Yates and its affiliated companies, and I think it's about
23 12 percent -- I'm estimating there -- is owned by
24 Murchison. Murchison is participating. And you'll see
25 that Yates Petroleum is the lessee of record. The first

1 lease to expire is September 1st, 2005.

2 So in sum, 100 percent of the working interest
3 owners are participating in the unit.

4 You'll see Attachment D, Mr. Hearing Examiner, is
5 a letter from the Commissioner of Public Lands giving
6 preliminary approval to the formation of this unit. So I
7 will also note -- it's rather obvious, but the State Land
8 Office has already given approval to the unit boundaries.
9 So in other words, they didn't have a problem with the 320s
10 that was excluded.

11 Turning to Attachment E to the affidavit, you
12 will note that it's a top-of-Austin structure map. Mr.
13 Amiet shows the basal Morrow sand channels in the area, in
14 the proposed unit area. They've proven to be good
15 reservoirs, and several miles to the north Yates is
16 attempting to extend this Morrow trend onto the proposed
17 unit, and he's shown these interpreted channels on the map
18 in dark blue.

19 Structure is very important in this area, as Mr.
20 Amiet testifies in his affidavit, since there's a major
21 north-south fault that cuts across the center of the
22 proposed unit. The faults are shown in heavy black lines
23 on the map. There are pre-existing faults, but much of the
24 structure seems to have occurred after deposition of the
25 Morrow sands.

1 Mr. Hearing Examiner, if you'll turn to
2 Attachment F to the affidavit, it's a cross-section. Mr.
3 Amiet shows two thin basal Morrow sands, which are shown in
4 yellow, both on the Yates Kookaburra well and the EOG
5 Empanada well logs.

6 The Empanada well had a cumulative production of
7 5 MBO and 221 MMCF from the Austin in five months. The
8 Kookaburra well has a thin basal Morrow channel, but the
9 production in that well has been disappointing. The Atoka
10 and Morrow combined have had a production of only 2 MBO and
11 69 MMCF.

12 Mr. Amiet in his affidavit does discuss the other
13 wells.

14 Yates Exhibit Number 2 is the AFE. You'll see
15 that for a completed well the cost is \$2,509,700.

16 And finally Yates Exhibit Number 3 is an
17 affidavit of publication showing that proper notice was
18 given in this matter.

19 Mr. Amiet testifies that the development of this
20 unit area is pursuant to unit plan and is in the best
21 interests of conservation, the prevention of waste and the
22 protection of correlative rights.

23 And with that, we'd ask that Yates Exhibit Number
24 1 and its attachments and Exhibit 2 and 3 will be admitted
25 into evidence.

1 EXAMINER JONES: Exhibit Number 1 and its
2 attachments and Exhibit 2 and 3 will be admitted into
3 evidence.

4 On this Attachment C, I didn't see anything about
5 Murchison. It just says Yates.

6 MS. MUNDS-DRY: Yeah, if you look, Mr. Hearing
7 Examiner, if you look in the left column, the working
8 interest owners under the first three tracts, the second
9 listed name is Murchison Oil and Gas. They have a 33.3-
10 percent interest.

11 EXAMINER JONES: Okay, I just didn't look over to
12 the right.

13 MS. MUNDS-DRY: With all those Yates companies on
14 there it's hard to see --

15 EXAMINER JONES: Okay, yeah, mostly Yates.

16 And the depth, he wants to go to the base of the
17 Mississippian?

18 MS. MUNDS-DRY: To the base of the Mississippian,
19 which was approximately 12,800 feet, I believe.

20 EXAMINER JONES: Okay.

21 MS. MUNDS-DRY: Let me make sure I told you
22 right.

23 EXAMINER JONES: And EOG -- I don't see EOG in
24 any of these other leases.

25 MS. MUNDS-DRY: No. No, because they've been --

1 EXAMINER JONES: -- carved out.

2 MS. MUNDS-DRY: -- carved out, they have no
3 interests in the unit.

4 EXAMINER JONES: Okay, and -- Questions?

5 MS. MacQUESTEN: No questions, thank you.

6 EXAMINER JONES: I don't have any more questions
7 either. Thank you very much --

8 MS. MUNDS-DRY: Thank you.

9 EXAMINER JONES: -- Ms. Munds-Dry. That means
10 we'll take Case 13,535 under advisement.

11 (Thereupon, these proceedings were concluded at
12 10:30 a.m.)

13 * * *

14
15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiner hearing of Case No. _____
20 heard by me on _____

21 _____, Examiner
22 Oil Conservation Division
23
24
25

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 12th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006