

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS, AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

ORIGINAL

CASE 15427

5 APPLICATION OF YATES PETROLEUM CORPORATION
6 FOR APPROVAL OF THE WOLVERINE FEDERAL
7 STATE EXPLORATORY UNIT, LEA COUNTY,
8 NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 21, 2016

Santa Fe, New Mexico

12
13
14 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
SCOTT DAWSON, EXAMINER
15 DAVID BROOKS, LEGAL COUNSEL

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16 This matter came on for hearing before the
17 New Mexico Oil Conservation Division, MICHAEL McMILLAN,
Chief Examiner, SCOTT DAWSON, Examiner, and DAVID
18 BROOKS, Legal Counsel, on January 21, 2016, at the New
Mexico Energy, Minerals, and Natural Resources
19 Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe, New
Mexico.

20
21 REPORTED BY: ELLEN H. ALLANIC
22 NEW MEXICO CCR 100
CALIFORNIA CSR 8670
23 PAUL BACA COURT REPORTERS
500 Fourth Street, NW
24 Suite 105
Albuquerque, New Mexico 87102
25

A P P E A R A N C E S

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For the Applicant:

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I N D E X O F E X H I B I T S

Offered and Admitted

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1 (Time noted 1:30 p.m.)

2 EXAMINER McMILLAN: I would like to call the
3 hearing back to order. I would like to call case
4 No. 15427, Application of Yates Petroleum Corporation
5 for Approval of the Wolverine Federal State Exploratory
6 Unit, Lea County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please the Examiner,
9 Michael Feldewert with the Santa Fe Office of Holland
10 and Hart appearing on behalf of the Applicant. I have
11 two witnesses here today.

12 EXAMINER McMILLAN: Any other appearances?

13 (No response.)

14 EXAMINER McMILLAN: If the witnesses would
15 please stand up and be sworn in.

16 (WHEREUPON, the presenting witnesses
17 were administered the oath.)

18 CHUCK MORAN
19 having been first duly sworn, was examined and testified
20 as follows:

21 DIRECT EXAMINATION

22 BY MR. FELDEWERT:

23 Q. Would you please state your full name, identify
24 by whom you're employed, and in what capacity?

25 A. My name is Charles Moran. I am employed by Yates

1 Petroleum Corporation as chief landman.

2 Q. How long have you been a chief landman for Yates
3 Petroleum Corporation?

4 A. Chief landman for Yates Petroleum? I don't
5 remember how long I've been with Yates Petroleum. I
6 have been with Yates Petroleum for 23 years.

7 Q. Okay. And your responsibilities have included
8 the Permian Basin?

9 A. Yes, they have.

10 Q. Mr. Moran, you've previously testified before
11 this Division, have you not?

12 A. Yes, I have.

13 Q. And were your credentials as an expert in
14 petroleum land matters accepted and made a matter of
15 public record?

16 A. Yes, they were.

17 Q. Are you familiar with the application filed in
18 this case?

19 A. Yes, I am.

20 Q. And did you assist in putting this proposed unit
21 together?

22 A. Yes, I did.

23 MR. FELDEWERT: I tender Mr. Moran as an
24 expert witness --

25 EXAMINER McMILLAN: So qualified.

1 MR. FELDEWERT: -- in petroleum land
2 matters.

3 EXAMINER McMILLAN: So qualified.

4 Q. Would you turn to what has been marked as Yates
5 Exhibit 1.

6 A. Yates Exhibit No. 1 is the proposed unit
7 agreement to unitize the surface to the base of the Bone
8 Spring Formation in Lea County, New Mexico, composed in
9 23, 35, south half of section 6, all of section 7, all
10 of section 18 and all of section 17.

11 Q. If I go to the third page -- to the second page
12 in the end of this exhibit, is that the Exhibit A to the
13 unit agreement that identifies the unit outline?

14 A. That is marked Exhibit A, yes, it is.

15 Q. And does it identify state and federal leases
16 involved?

17 A. It does identify the state and federal leases
18 involved.

19 Q. How many state leases are involved?

20 A. There are 8 state leases involved.

21 Q. And then you have two federal leases?

22 A. Correct.

23 Q. And then you have two federal leases?

24 A. Two federal leases is correct.

25 Q. And along with this, do you have an Exhibit B to

1 this unit agreement that provides the ownership
2 breakdown?

3 A. Yes. Exhibit B identifies the ownership.

4 Q. And if I look at the last page of Exhibit 1 and I
5 look at the bottom, it provides the Examiner with the
6 total acreage at issue, correct?

7 A. Yes. On page 1, Exhibit B, it does have the
8 total state and total federal acreage of the unit.

9 Q. Okay. And does this agreement follow the federal
10 and state exploratory unit form?

11 A. This is the form that the State Land Office and
12 the Bureau of Land Management have approved.

13 Q. And they mentioned you are seeking to unitize
14 from the surface to the base of the Bone Spring
15 Formation, correct?

16 A. Correct.

17 Q. The Yates initially sought in this application to
18 unitize from the surface to the base of the Wolfcamp; is
19 that correct?

20 A. That is correct.

21 Q. What changed and why have you contracted the
22 unitized interval?

23 A. In the process of forming this unit, you are
24 requested to have a preliminary meeting with the State
25 Land Office and a preliminary meeting with the Bureau of

1 Land Management.

2 At the preliminary meeting with the Bureau of
3 Land Management, we presented the surface to the base of
4 the Wolfcamp. We discussed our plans with the Bureau of
5 Land Management at the preliminary meeting.

6 Upon receiving the BLM's approval of our initial
7 plan, they required that we drill a pilot hole into the
8 Wolfcamp as part of their -- that was their conditional
9 approval.

10 We deemed that that condition they put upon us
11 was untenable. It added over \$750,000 to our cost. And
12 we just can't justify that in this price environment.

13 Due to the fact of an expiring lease, we did not
14 have time to pursue getting them to remove that
15 requirement, so we made the decision to shorten up the
16 unitized lands. And if we did that, the BLM was willing
17 to give us preliminary approval, as they have.

18 Q. So you changed and modified your initial request
19 as a result of your meetings?

20 A. Correct.

21 Q. And, also, Mr. Moran, what has always been the
22 initial target of the proposed well; is it the Wolfcamp
23 or the Bone Spring?

24 A. Our primary target has been the Third Bone
25 Springs.

1 Q. Okay. Did you then receive from the BLM a
2 preliminary approval letter of your contracted unitized
3 interval?

4 A. Yes, we did.

5 Q. Is that marked as Yates Exhibit 2?

6 A. Yes, it is.

7 Q. And did you also meet with the State Land Office
8 about this contracted unit interval to be from the
9 surface of the Bone Spring?

10 A. I did not have a meeting with them, but I had
11 phone conversations with the State Land Office and
12 informed them of what the BLM was requiring and how we
13 were modifying our plans and discussed the modification
14 with the State Land Office. And they were -- they had
15 no problem with the modification.

16 Q. And did you recently receive a preliminary
17 approval from the State Land Office for this revised
18 unitized interval?

19 A. I received two approvals. Originally the State
20 Land Office approved my original plan and subsequently
21 approved my amended plan -- just this week.

22 Q. And if I turn to what has been marked as Yates
23 Exhibit 3, is that the State Land Office's amended
24 preliminary approval?

25 A. Exhibit 3 is the State Land Office's amended

1 preliminary approval.

2 Q. And have you had discussions with the working
3 interest owners about this proposed unit agreement?

4 A. I have had discussions with all working interest
5 owners about this proposal.

6 Q. And are they intending to participate?

7 A. I have received indications that all parties
8 intend to participate pending receipt of an approval
9 from the OCD and the final approved documents moving
10 forward with the unit.

11 Q. Are there any overriding royalty interests in
12 these leases?

13 A. Yes, there are.

14 Q. How many?

15 A. There are two overriding royalty interest owners.

16 Q. Okay. And when you modified the unitized
17 interval to exclude the Wolfcamp, did that at all change
18 any of the percentage interest owners?

19 A. It changed no percentage ownerships.

20 Q. And interest has always been common?

21 A. Interest has always been common.

22 Q. Okay. Did you notify the overriding -- at least
23 one of the overriding royalty interest owners of this
24 modification to the unit agreement?

25 A. At my direction, notice was sent to the

1 overriding royalty owners providing them the shortened
2 up proposed unitized formation.

3 Q. And if I turn to what's been marked Yates
4 Exhibit 4, is that a letter that was sent to Providence
5 Minerals, LLC?

6 A. That is the letter that was sent to them, yes.

7 Q. And Providence Minerals, LLC, is one of the
8 overriding royalty interest owners?

9 A. Yes, they are the owner of the overriding royalty
10 interest owner.

11 Q. The overriding royalty interest owner, what is
12 that entity?

13 A. That is shown on Exhibit B. It's a GMT -- I
14 think the entity's name is GMT New Mexico Royalty. I
15 haven't dealt with that name. I have dealt with the
16 company which is GMT Exploration, so I don't have it
17 memorized.

18 Q. So let me take a step back.

19 Is GMT Royalty Company, LLC, the entity that owns
20 the override -- to your knowledge, is that a parent or
21 affiliate company that owns a working interest in this
22 unit?

23 A. The working interest, as I understand it, is
24 owned by GMT Exploration Company, LLC.

25 Q. And they would be a signatory party to this?

1 A. And they are a signatory party to the unit, and
2 have given me indications that they want to see this
3 unit move forward.

4 Q. And when you talk to them about the overriding
5 royalty interests, do you talk to the same people?

6 A. I talk to the exact same people.

7 Q. Okay.

8 A. And that entity's name for the record is GMT New
9 Mexico Royalty Company, LLC.

10 Q. And, finally, did you provide notice of this
11 hearing to the overriding royalty interest owner that is
12 not likewise a working interest owner?

13 A. Yes.

14 Q. And if I turn to what has been marked as Yates
15 Exhibit Number 5, is that the affidavit prepared by my
16 office with the attached letter providing notice of
17 this hearing to that overriding royalty interest owner?

18 A. Yes, it is.

19 Q. Were Yates Exhibits 1 through 4 prepared by you
20 or compiled under your direction and supervision?

21 A. Yes, they were.

22 Q. Mr. Moran, you mentioned an expiring lease?

23 A. We do have an expiring lease. The federal lease
24 is due to expire the end of February, February the 19th
25 of this year.

1 Q. And is there -- do you therefore request an
2 expedited order from the Division, if at all possible,
3 so you can get your final approvals from the BLM and the
4 State Land Office?

5 A. Yes, I do.

6 MR. FELDEWERT: Mr. Examiner, at this time,
7 I move the admission into evidence of Yates Exhibits 1
8 through 5, which includes my notice affidavit.

9 EXAMINER McMILLAN: Exhibits 1 through 5 may
10 now be accepted as part of the record.

11 (Yates Petroleum Corporation Exhibits 1
12 through 5 were offered and admitted.)

13 MR. FELDEWERT: And that concludes my
14 examination of this witness.

15 EXAMINER McMILLAN: Go ahead, Scott.

16 EXAMINER DAWSON: I don't have any
17 questions.

18 EXAMINER McMILLAN: Why does this have a
19 contraction clause when some of the other units in the
20 northwest don't?

21 THE WITNESS: The standardized form required
22 by the State Land Office requires the contraction
23 clause. The State Land Office leans towards, they want
24 a unit to contract.

25 And the federal rules also have contraction

1 in it. It's probably because -- I'm not familiar with
2 the ones in the northwest. But this is a more pure
3 exploratory unit form based upon a five-year outlook to
4 get your plans developed.

5 EXAMINER McMILLAN: Would you guys be
6 willing to supply us with the yearly plan of development
7 similar basically to what you'd send the BLM?

8 THE WITNESS: I guess we would. If you
9 request it, we will be willing to do it.

10 EXAMINER McMILLAN: Okay.

11 MR. BROOKS: No questions.

12 EXAMINER McMILLAN: Do you have any
13 questions?

14 EXAMINER DAWSON: Let me see. Hang on a
15 moment.

16 EXAMINATION BY EXAMINER DAWSON

17 EXAMINER DAWSON: So that's a ten-year
18 contraction clause now? It used to be five years.

19 THE WITNESS: I think it's five years.
20 Where did the ten years come from?

21 EXAMINER DAWSON: I am reading on page 5 of
22 the unit agreement -- okay, it is five years.

23 THE WITNESS: For history, I took the state
24 form that is on the website that had -- it had a
25 revision date on it.

1 EXAMINER DAWSON: Okay.

2 THE WITNESS: I took it electronically and I
3 compared it to the 43CFR, and I don't remember the exact
4 number. And other than modifications for the State Land
5 Office, the agreement to me looked identical to what was
6 on the State Land Office's website. That was my
7 starting point for this unit agreement.

8 I will note the State Land Office agreement
9 is -- on the website does have an incorrect date on it.
10 When it's referring to the modification of the Mineral
11 Leasing Act, it says it was issued on the 1st of the
12 month, but it was actually the 2nd of the month.

13 EXAMINER DAWSON: Okay. I think the reason
14 I was asking -- I think they revised their unit
15 agreement form maybe.

16 THE WITNESS: They did. It was a fairly
17 recent revision date.

18 EXAMINER DAWSON: There is a date of
19 December 2014 on the bottom there. So that's why I was
20 asking that question.

21 EXAMINER McMILLAN: And there is no full
22 creations, right?

23 MR. FELDEWERT: Correct.

24 Call our next witness.

25 EXAMINER McMILLAN: Yes. Go ahead.

1 EXAMINER McMILLAN: So qualified.

2 Q. Mr. Fly, did you prepare for the Examiners first
3 a structure map that covers the unitized area?

4 A. Yes.

5 Q. And has that been marked as Yates Exhibit 6?

6 A. Yes.

7 Q. And would you pull that out. Would you please
8 identify for the Examiners how you show the unitized
9 area and the other colors and lines that we see on
10 here?

11 A. Okay. The unit is identified as the yellow area
12 within the red boundary. It covers the south half of
13 section 6, all of section 7, 17, and 18 in Township 23
14 South, 35 East.

15 I would point out the color-coded wells on the
16 map. The purple wells are wells that are -- that have
17 been drilled into the Third Bone Spring sand. The blue
18 are wells that have been drilled into the Avalon shale.
19 And the orange are wells that are drilled into the
20 Delaware Mountain Group, Brushy Canyon sandstone.

21 This is a structure map on a marker within the
22 Third Bone Spring sandstone, and it does show a dip
23 to the south, southwest. Structural depths are
24 shown by the wells that have penetrated and do have log
25 data.

1 Q. Within the unitized area, you have a dashed
2 line -- I don't know what color that is -- is that
3 magenta?

4 A. Yes, I think that's --

5 Q. You have a dashed line in there, what does that
6 signify?

7 A. That line represents the well track of the
8 initial exploration well, the Wolverine BWT State Unit
9 Number 1H. The surface hole location is indicated at
10 the end of that line. And the bottomhole location at
11 the bottom of that line.

12 Q. And that's the one referenced in the unit
13 agreement?

14 A. Yes, it is.

15 Q. Now you also then have a green line here with two
16 arrows on it. What does that signify?

17 A. Okay. The green line shows an A on the north end
18 and A Prime on the south end. That represents the
19 accompanying cross section, which will be the next
20 exhibit.

21 Q. Okay. Before we get to that, based on your
22 expert opinion, do you observe any faults or pinchouts
23 or any other geologic impediments to developing this
24 acreage under a unit plan?

25 A. Not within the unit area.

1 Q. And what is the targeted interval or formation of
2 your initial well?

3 A. We will be targeting the Third Bone Spring
4 sandstone.

5 Q. And is that the formation in which you have
6 prepared a cross section?

7 A. Yes, it is.

8 Q. We then turn to what's been marked Yates Exhibit
9 Number 7. Is that the cross section that corresponds
10 with the A to A Prime on Exhibit No. 6?

11 A. Yes.

12 Q. Why don't you explain to us what you show on
13 here, first identifying the tops of the area for the
14 relevant formations and then what your coloring means.

15 A. Okay. Again, the left side of the cross section
16 is A on the map, on Exhibit 6, and the right side is A
17 Prime. So left is north and right is south on this
18 cross section.

19 Formations indicated on the cross section are the
20 stratigraphic datum, which is the top of the Third Bone
21 Spring sandstone. The correlation marker which is the
22 lower Third Bone Spring sandstone which is the horizon
23 that was the structural horizon on Exhibit 6. And the
24 top of the Wolfcamp in brown at the basin.

25 Q. In this cross section, did you include the well

1 that is referenced in the unit agreement for identifying
2 the unitized interval?

3 A. Yes. That is the center well on this three-well
4 cross section.

5 Q. Okay. In your opinion, is the formation that's
6 initially targeted under this unit plan of development,
7 is it continuous across the unitized area?

8 A. Yes, it is. And it is indicated in the yellow
9 bands within the cross section, showing a consistent
10 interval through the unit area.

11 Q. Now, referring back to Exhibit No. 6, briefly,
12 what is the plan of development that Yates has put
13 together for this unitized area?

14 A. After drilling and completing the initial well,
15 the No. 1H, we would proceed with drilling wells from
16 north to south essentially along the section line,
17 separating section 7 and 18. We drill four wells --
18 three additional wells in section 18. And we would
19 drill four wells going from the north edge of section
20 17, going north, south. So that would be a total of
21 eight, one-mile wells going north, south.

22 Going south to north, we would put four
23 mile-and-a-half locations, essentially twining the
24 one-mile location -- the mile-and-a-half locations
25 would go north from the southern edge of section 7 up

1 through the southern south half of section 6. So a
2 total of eight, one-mile wells and four mile-and-a-half
3 wells.

4 Q. And then in your unit plan of development, you'd
5 be able to consolidate the surface facilities for these
6 wells?

7 A. Yes. Basically, we would have four locations
8 along -- between 7 and 8 -- 7 and 18, and four locations
9 at the north of 17.

10 Q. Are there any existing vertical wells within this
11 unitized area in the Bone Spring Formation?

12 A. Yes. This well in the southwest of the southeast
13 in section 18 is a vertical well. It's a Morrow well.

14 Q. And when does the company intend to spud the
15 initial development well?

16 A. We anticipate spudding in February.

17 Q. With hope to meet your expiration deadline?

18 A. Yes, the expiration date of 2/29/16.

19 Q. In your opinion, can the unitized interval across
20 this proposed area be efficiently and effectively
21 developed under a common development plan?

22 A. Yes.

23 Q. Will the approval of this application be in the
24 best interests of conservation, the prevention of waste
25 and the protection of correlative rights?

1 A. Yes.

2 Q. Were Yates Exhibits 6 and 7 prepared by you?

3 A. Yes.

4 MR. FELDEWERT: Mr. Examiner, I move the
5 admission into evidence of Yates Exhibits 6 and 7.

6 EXAMINER McMILLAN: Exhibits 6 and 7 may now
7 be accepted as part of the record.

8 (Yates Petroleum Corporation Exhibits 6
9 through 7 were offered and admitted.)

10 MR. FELDEWERT: And that concludes my
11 examination of this witness.

12 EXAMINATION BY EXAMINER McMILLAN

13 EXAMINER McMILLAN: Do you see any other
14 potential in the Bone Spring here?

15 THE WITNESS: Sure. You see there are some
16 Avalon wells, those are the blue wells. This doesn't
17 show any Second Bone Spring wells, but we think there's
18 potential in the Second Bone Spring also.

19 EXAMINER McMILLAN: How about the Delaware?

20 THE WITNESS: Yes, there is some Delaware
21 development to the south of the unit area, the orange
22 wells.

23 EXAMINATION BY EXAMINER DAWSON

24 EXAMINER DAWSON: The Morrow well you are
25 talking about, is that the San Simon Unit No. 1 well?

1 THE WITNESS: Yes, sir.

2 EXAMINER DAWSON: Is that unit still in
3 existence or do you know?

4 THE WITNESS: No.

5 EXAMINER McMILLAN: But that was a Yates
6 unit, wasn't it?

7 THE WITNESS: Yes. Mid Lionese, I believe.

8 EXAMINER DAWSON: That and (inaudible) are
9 depleted?

10 THE WITNESS: No. It's still a producing
11 well.

12 EXAMINER DAWSON: But the unit agreements --

13 UNIDENTIFIED VOICE: The unit agreement is
14 terminated.

15 EXAMINER DAWSON: If there's any wellbore
16 communication -- you will notify OCD, if there is
17 wellbore communication?

18 THE WITNESS: Yes.

19 EXAMINER DAWSON: That's all I have. Thank
20 you.

21 MR. BROOKS: No questions.

22 MR. FELDEWERT: Mr. Examiner, that concludes
23 our presentation. As our first witness mentioned,
24 because of the lease expiration issues, if there's any
25 way that the Division could expedite the order in this

1 matter, we'd appreciate it so we can get the final
2 approval from the state and federal agencies.

3 EXAMINER McMILLAN: Case No. 15427 may now
4 be taken under advisement.

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(Time noted 1:56 p.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15427
heard by me on JANUARY 21 2004

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Michael A. McMullan, Examiner
Oil Conservation Division

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1 STATE OF NEW MEXICO)
 2) ss.
 3 COUNTY OF BERNALILLO)
 4
 5
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7 REPORTER'S CERTIFICATE

8
 9 I, ELLEN H. ALLANIC, New Mexico Reporter CCR
 10 No. 100, DO HEREBY CERTIFY that on Thursday, January 21,
 11 2016, the proceedings in the above-captioned matter were
 12 taken before me, that I did report in stenographic
 13 shorthand the proceedings set forth herein, and the
 14 foregoing pages are a true and correct transcription to
 15 the best of my ability and control.

16
 17 I FURTHER CERTIFY that I am neither employed by
 18 nor related to nor contracted with (unless excepted by
 19 the rules) any of the parties or attorneys in this case,
 20 and that I have no interest whatsoever in the final
 21 disposition of this case in any court.

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 23
 24
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 NM Certified Court Reporter No. 100
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