

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 A UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)

CASE NOS. 13,200

APPLICATION OF YATES PETROLEUM)
CORPORATION FOR A UNIT AGREEMENT,)
LEA COUNTY, NEW MEXICO)

and 13,201

RECEIVED
(Consolidated)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

JAN 22 2004

EXAMINER HEARING

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

BEFORE: DAVID R. CATANACH, Hearing Examiner

January 8th, 2004

Santa Fe, New Mexico

ORIGINAL

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, January 8th, 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.

* * *

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

I N D E X

January 8th, 2004
Examiner Hearing
CASE NOS. 13,200 and 13,201 (Consolidated)

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E X H I B I T S

Case No. 13,200

Applicant's	Identified	Admitted
Exhibit 1	6	11
Exhibit 2	8	11

* * *

Case No. 13,200

Applicant's	Identified	Admitted
Exhibit 1	6	11

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
 110 N. Guadalupe, Suite 1
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: MICHAEL H. FELDEWERT

FOR PRIDE ENERGY COMPANY:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 8:44 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 13,200, which is the Application of Yates Petroleum
5 Corporation for a unit agreement, Lea County, New Mexico.

6 Call for appearances in this case.

7 MR. FELDEWERT: May it please the Examiner,
8 Michael Feldewert with the Santa Fe office of Holland and
9 Hart, appearing on behalf of Yates Petroleum Corporation in
10 this matter.

11 EXAMINER CATANACH: Additional appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
13 appearing on behalf of Pride Energy Company.

14 MR. FELDEWERT: Mr. Examiner, I would request
15 that this case be heard in conjunction with the next case,
16 13,201, which is also an Application for a unit agreement.
17 The evidence in both cases are basically the same, and I
18 think we can save a little time by handling them both at
19 the same time.

20 EXAMINER CATANACH: Okay, in that case I will
21 call Case 13,201, which is the Application of Yates
22 Petroleum Corporation for a unit agreement, also in Lea
23 County, New Mexico.

24 Additional appearances in this case?

25 Okay, do you have witnesses in this case, Mr.

1 Feldewert?

2 MR. FELDEWERT: Mr. Examiner, Yates is seeking
3 approval of the Reba State Exploratory Unit in Case Number
4 13,200 and the Willie State Exploratory Unit in Case Number
5 13,201. These are unit areas that are adjacent to each
6 other in Lea County. The area is approximately 10 miles
7 northwest of Tatum. We are here today seeking approval of
8 these proposed units by affidavit pursuant to the
9 Division's policy.

10 The Reba State Unit, which is the subject of Case
11 Number 13,200, is comprised of 3520 acres of state lands.
12 95 percent of the working interest in these lands is owned
13 by Yates and its affiliated companies. And the remaining
14 five percent of this unit area, which comprises 160 acres,
15 is held by Pride Energy.

16 With respect to the second case, Number 13,201
17 involving the Willie State Unit, that case is comprised of
18 2208 acres of state lands, and 100 percent of the working
19 interest in these lands is owned by Yates and its
20 affiliated companies.

21 In each case, Mr. Examiner, Yates proposes to
22 test all formations from the surface to the lower
23 Mississippian limestone.

24 And what we have done for you, Mr. Examiner, in
25 each case is provided an affidavit of Mr. John Amiet. It's

1 Yates Exhibit Number 1 in each case. Mr. Amiet is a
2 petroleum geologist for Yates.

3 And in each set of exhibits you have a Tab A to
4 the affidavit, which is the fully executed copy of unit
5 agreement, which conforms to the State Land Office form.

6 Exhibit B to each affidavit is the plat to the
7 unit agreement, identifying the unit boundary. And just to
8 orient you, Mr. Examiner, these units abut each other at
9 Section 29 and 32 for the Reba State Unit, and the 30 and
10 31 for the Willie State Unit.

11 The schedule -- or Tab C to each of these
12 affidavits is, in essence, a schedule B to the executed
13 unit agreement, which still is the ownership breakdown for
14 each of these two proposed units.

15 Tab D in each of these affidavits is the letter
16 from the Commissioner of Public Lands giving his
17 preliminary approval to each of these units.

18 And then under Tab E to each of -- for each of
19 these units, is the Austin limestone isopach for this unit
20 area. It shows the Atoka-Morrow sands, which are the main
21 producing objective for this unit, in blue. That's the --
22 That's where Yates predicts the sand channel will have
23 eroded into the underlying limestone in each of these
24 proposed units. They project on each of these maps the
25 sandstone interval, the thickest sandstone interval, in

1 yellow, and in each case the proposed test well is shown in
2 red, on each of these maps. And I should point out that
3 the initial test well for each unit is going to be at a
4 standard location.

5 Then Tab F for each of these affidavits is a
6 cross-section A-A' that Yates has developed of Morrow sands
7 near these proposed unit area. When you look at them
8 you'll see it demonstrates that there are differences
9 between wells with respect to the sand deposition in each
10 of these areas, and they show in yellow on these maps the
11 potential sand channels that exist throughout each of these
12 unit areas.

13 And then finally, Mr. Examiner, Tab G to each of
14 these affidavits is the AFE for the initial test well.
15 With respect to the Reba State Unit, the estimated cost is
16 \$1,790,000. And for the Willie State Unit the estimated
17 cost is \$1,779,000.

18 Now, in each of these affidavits, Mr. Examiner,
19 Mr. Amiet testifies in more detail about the project and
20 the geology involved. He also notes that this is a costly
21 and risky project, as there is no Atoka-Morrow production
22 in these unit areas, and in fact there are dry holes within
23 these unit areas.

24 And in each case what Yates is essentially
25 attempting to do is to develop Atoka-Morrow production in

1 acreage -- state acreage on which there has been no
2 production.

3 Finally, Mr. Amiet testifies in each of these
4 affidavits that given the cost and the risk that's involved
5 and the absence of existing Atoka-Morrow production, the
6 development of each of these areas pursuant to a unit plan
7 is in the best interests of conservation, the prevention of
8 waste and the correlative rights.

9 So we ask, Mr. Examiner, that Exhibit 1, which is
10 Mr. Amiet's affidavit in each of these cases, be admitted
11 into evidence for each respective case.

12 And then secondly, Mr. Examiner, with respect to
13 the Reba State Case, which is Case Number 13,200, we have
14 an additional exhibit, Yates Exhibit Number 2. As is
15 pointed out in the affidavit, Pride Energy owns 160 acres
16 in this unit area. They've been invited, as you'll see in
17 Exhibit Number 2, to join this unit. We've marked the
18 proposal letter and the information that was sent to Pride
19 related to this project as Yates Exhibit Number 2 for Case
20 Number 13,200.

21 Mr. Amiet also testifies in the affidavit for
22 that particular case that they've been in contact with
23 Pride Energy about this project. So with respect to Case
24 Number 13,200 we ask that the additional exhibit, Exhibit
25 Number 2, be admitted into evidence.

1 Finally, Mr. Examiner, we've been informed that
2 with respect to both of these units there are leases that
3 are going to expire on February 1st, so we ask that both of
4 these matters be taken under advisement and that the -- and
5 respectfully request that the Division expedite the entry
6 of an order in each of these matters to avoid lease
7 expiration.

8 Now, because of this request, Yates has sent Mr.
9 Amiet here to Santa Fe today to be at this hearing, to
10 answer whatever questions you may have with respect to this
11 project, and he's prepared to be sworn in and answer
12 whatever questions you may have.

13 But I think this is fairly straightforward and
14 I'd be happy to do whatever we can to assist the Division
15 in getting an order entered in each of these matters.

16 EXAMINER CATANACH: Okay. Mr. Bruce, did you
17 have anything?

18 MR. BRUCE: No, Pride Energy does not object to
19 the Application.

20 EXAMINER CATANACH: Okay, just a couple of things
21 you may be able to answer, Mr. Feldewert.

22 Pride has not signed the agreement; is that
23 correct?

24 MR. FELDEWERT: They have not, they have not, as
25 of this time. It's my understanding that they've been in

1 contact, and we hope that they're going to join.

2 And one of the unique things, if you've got the
3 Reba State Unit in front of you, Mr. Examiner --

4 EXAMINER CATANACH: Uh-huh.

5 MR. FELDEWERT: -- you look at Tab B, this is
6 kind of interesting. You'll see their acreage down in
7 Section 32. Look at the configuration, it's right in the
8 middle. So it's a rather unique situation. Yates owns
9 everything around their little square, 160-acre square
10 there in the middle.

11 EXAMINER CATANACH: The only other question I
12 have is, was the Willie State contracted somewhat? Because
13 the advertisement has more acreage than what you guys are
14 proposing now.

15 MR. FELDEWERT: Oh, I see, the advertisement says
16 2240 rather than 2208.

17 EXAMINER CATANACH: Yeah, it looks like there was
18 40 acres taken out of there for some reason.

19 MR. FELDEWERT: It looks like, yeah, 32. I'm not
20 -- that could be a typo.

21 EXAMINER CATANACH: As far as you know, it wasn't
22 contracted, then?

23 MR. FELDEWERT: No, it was not.

24 EXAMINER CATANACH: Okay. But these ads are
25 correct, they do give a correct description of the lands?

1 MR. FELDEWERT: Yes, it does, they do, as does
2 the Application. And I will say that -- I'm checking the
3 unit agreement, and it is 2208 acres, more or less. I
4 think it's 2028.57.

5 EXAMINER CATANACH: Okay. I don't think it's
6 necessary to have Mr. Amiet testify.

7 MR. FELDEWERT: Thank you.

8 EXAMINER CATANACH: Mr. Bruce, did you have
9 anything further?

10 MR. BRUCE: No, sir.

11 MR. FELDEWERT: That concludes our presentation
12 in each of these matters.

13 EXAMINER CATANACH: Okay. Exhibits 1 and 2 in
14 Case Number 13,200 will be admitted as evidence, and
15 Exhibit Number 1 in Case Number 13,201 will be admitted.

16 And there being nothing further, Case 13,200 and
17 Case 13,201 will be taken under advisement.

18 MR. FELDEWERT: Thank you, Mr. Examiner.

19 EXAMINER CATANACH: Thank you.

20 (Thereupon, these proceedings were concluded at

21 8:57 a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13200 / 13201

* * * heard by me on January 8, 2001
David M. Catnach, Examiner
Oil Conservation Division

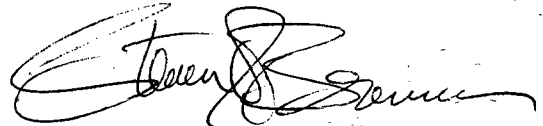
CERTIFICATE OF REPORTER

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 January 8th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006