

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:) CASE NO. 12,883
)
APPLICATION OF YATES PETROLEUM)
CORPORATION FOR AN UNORTHODOX)
GAS WELL LOCATION, CHAVES COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

June 27th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, June 27th, 2002, 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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I N D E X

June 27th, 2002
 Examiner Hearing
 CASE NO. 12,883

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APPLICANT'S WITNESS:	
<u>TIM MILLER</u> (Geologist)	
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* * *

E X H I B I T S

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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:

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

* * *

ALSO PRESENT:

WILL JONES
Engineer
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

* * *

1 WHEREUPON, the following proceedings were had at
2 11:12 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,883, the Application of Yates Petroleum Corporation for
5 an unorthodox gas well location, Chaves County, New Mexico.
6 Call for appearances.

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: Any additional appearances?
12 Can I get the witness to please stand to be sworn
13 in?

14 (Thereupon, the witness was sworn.)

15 TIM MILLER,
16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. CARR:

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

21 A. My name is Tim Miller.

22 Q. Mr. Miller, where do you reside?

23 A. I reside in Carlsbad, New Mexico.

24 Q. By whom are you employed?

25 A. Yates Petroleum Corporation.

1 Q. And what is your position with Yates Petroleum
2 Corporation?

3 A. I'm a petroleum geologist with Yates.

4 Q. Have you previously testified before the New
5 Mexico Oil Conservation Division?

6 A. Yes, I have.

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

10 A. Yes, they were.

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

13 A. Yes, I am.

14 Q. Are you familiar with the history of the Jasper
15 "ARJ" Federal Well Number 2?

16 A. Yes, I am.

17 Q. Have you made a geological study of the area
18 which is the subject of this Application?

19 A. Yes, I did.

20 Q. And are you prepared to share the results of that
21 work with Mr. Catanach?

22 A. I am.

23 MR. CARR: We tender Mr. Miller as an expert in
24 petroleum geology.

25 EXAMINER CATANACH: He is so qualified.

1 Q. (By Mr. Carr) Would you briefly state what Yates
2 seeks with this Application?

3 A. Yates Petroleum seeks the approval of an
4 unorthodox well location in the Pecos Slope-Abo gas field
5 for the Jasper "ARJ" Federal Well Number 2, located 760
6 feet from the north line and 2240 feet from the east line,
7 Unit B of Section 25, Township 8 South, Range 26 East,
8 Chaves County, New Mexico.

9 Q. Mr. Miller, would you refer to what has been
10 marked for identification as Yates Exhibit Number 1,
11 identify that and then review the relevant portion of that
12 for Mr. Catanach?

13 A. Exhibit Number 1 is the rules of the Pecos Slope-
14 Abo Gas Field and the West Pecos Slope-Abo Gas Field. In
15 Rule 4, which pertains to our well here in question, the
16 Rule 4 provides that -- which is on the back page of
17 Exhibit 1, down towards the lower right-hand corner -- it
18 states that there are 660-foot setbacks from the outer
19 boundary of the quarter section and 10-foot setbacks from
20 any quarter quarter section line or subdivision or
21 boundary.

22 The next rule, Rule 5, provides "Location
23 exceptions to Rule 4 above shall only be granted after
24 notice and hearing."

25 Q. And we're here today seeking an unorthodox

1 location for the Jasper well?

2 A. Yes, we are.

3 Q. Let's go to Exhibit Number 2. Would you identify
4 this?

5 A. Exhibit Number 2 is the original copy of the
6 application for the unorthodox well location for this well.
7 The spacing unit, standard 160-acre unit comprised of the
8 northeast quarter of Section 25. The well is right now 260
9 feet too close to the west line of the spacing unit, and
10 offset owners are Yates partners.

11 Q. Exhibit Number 2 is an application for
12 administrative approval of an unorthodox location for this
13 well that was filed in May of 2001; is that correct?

14 A. Yes, it is.

15 Q. And in that application, you were seeking to
16 drill to the Ordovician formation and also indicated that
17 there were Abo sands that could be a target in the well; is
18 that right?

19 A. Yes, they were.

20 Q. And what is the following exhibit, Exhibit Number
21 3?

22 A. Exhibit Number 3 is the reference letter made to
23 the New Mexico Oil and Gas Commission concerning Yates
24 Corporation for the exception to provisions of the Division
25 1.

1 Q. And so this was the order that actually approved
2 the unorthodox location?

3 A. Yes, it was.

4 Q. It did not include the Pecos Slope-Abo portion of
5 the application, however, did it?

6 A. No, it didn't.

7 Q. Could you review the history of the Jasper "ARJ"
8 Federal Well Number 2?

9 A. The well was originally drilled and set up to go
10 down to the Ordovician dolomite. After we drilled the well
11 and tested the Ordovician, we found out that it was
12 uneconomic. Otherwise, we got some gas, too small to
13 measure, and 10 to 15 barrels of water an hour, so the only
14 thing left in the well to produce, to still make it a
15 producing well, was the Abo sands uphole.

16 Q. Now, you have gone ahead and completed the well
17 in the Abo sands, have you not?

18 A. Yes, we have.

19 Q. And the Oil Conservation Division has advised you
20 that because the pool rules will only permit an unorthodox
21 location after notice of hearing that the well had to be
22 shut in until the location was approved?

23 A. Yes, they have.

24 Q. Is the well shut in?

25 A. Yes, it is.

1 Q. And we filed this Application to comply with that
2 directive; is that correct?

3 A. Yes, we did.

4 Q. Was notice of the recompletion of this Abo well
5 provided to all those affected parties as defined by OCD
6 Rules?

7 A. Yes, they were. Notice to the affected offset
8 operators were sent out May 7th, 2001.

9 Q. And then this year did you contact those
10 operators again and seek waivers from all the affected
11 parties, waivers of objection to the completion in the Abo
12 formation?

13 A. Yes, we did. We recontacted them and a letter
14 dated April 15th, 2002, was sent out.

15 Q. And is that April 15th letter attached or
16 included in the exhibit packet and marked Yates Exhibit
17 Number 4?

18 A. Yes, it is.

19 Q. Have waivers been received from all affected
20 operators?

21 A. Yes, they have.

22 Q. With the exception of -- Do we not have one
23 operator --

24 A. We have one operator, Campbell Investment
25 Company, that has not replied, but we have received

1 information that Mr. Campbell, Campbell Walker, did receive
2 the letter, was sent to him on April 29th of this year, and
3 we have good rapport with him, and we understand he will
4 make a reply to us and send us the letter, so we are just
5 waiting on his reply back.

6 Q. In fact, his office has written you and said as
7 soon as it's received it will be forwarded to Yates?

8 A. Yes, they did.

9 MR. CARR: Mr. Catanach, as soon as that waiver
10 from Campbell Investment Company and Clark Investment
11 Company is received, we will provide a copy to the
12 Division.

13 Q. (By Mr. Carr) Mr. Miller, could you explain to
14 Mr. Catanach why the well in the Abo is at this particular
15 well location?

16 A. Well, of course the wellbore was available,
17 obviously, when we failed to make a well down in the
18 Ordovician, and the Abo sands are a prospective formation
19 in the area, and we thought we would have possible
20 commercial production at this location.

21 Q. Would you refer to what has been marked for
22 identification as Yates Exhibit Number 5, identify the
23 exhibit and review it for Mr. Catanach?

24 A. Exhibit Number 5 is the well log, the neutron
25 density log, the porosity log of the Abo section in the

1 Jasper "ARJ" Federal Number 2. And what I have done is,
2 this is a snapshot of where we are perforated in the Abo
3 sands. Towards the top of the log, that is the top of the
4 Abo.

5 And the way Yates Petroleum breaks it down, we
6 break it down into three different intervals in the Abo
7 section, as you can see, A zone, B zone and C zone. And
8 each one of the zones -- there's several different sand
9 lenses in each of the three zones, and when we perforate
10 we'll perforate A zone, which may have, as you see here,
11 two sands in it, B zone, there's two other sands, and then
12 the C zone has basically four sands in it.

13 So the zones, that's kind of a misnomer. They
14 are several sands lumped together, and we normally produce
15 all of them together.

16 And on the log composite, what you see down there
17 in the C section or the C zone is -- what's colored in red
18 is the neutron density crossover, which mainly means we
19 have gas in the formation, known as gas effect.

20 Q. Does this exhibit show where the well has been
21 perforated in the Abo formation?

22 A. Yes, it does.

23 Q. Let's go to what's been marked for identification
24 as Yates Exhibit Number 6. Again, I'd ask you to identify
25 and review that.

1 A. Exhibit Number 6 is an isopach map of the C zone,
2 and it is a net porosity isopach greater to or equal to 9-
3 percent porosity crossover of the neutron density. And
4 again, the C sand contour interval is five feet, and you
5 can see the Jasper "ARJ" Federal Number 2 up in the
6 northeast quarter of the section, and we have gross 9-
7 percent porosity of 21 percent in the sand.

8 And as you can see, the way I've had it mapped,
9 this is one of the ones where we have just about on the
10 button how much gross 9-percent or better porosity we
11 thought we would have.

12 Q. You have a wellbore and you have a log on the Abo
13 formation.

14 A. Yes, we do.

15 Q. And it made sense to complete there instead of
16 drilling a new well?

17 A. Yes, it did.

18 Q. At the time this matter was brought to Yates'
19 attention by the Division, there were discussions
20 concerning a request for a change in the pool rules to
21 eliminate the provision that requires unorthodox locations
22 only after notice of hearing. Are you aware of that?

23 A. Yes, I am.

24 Q. Why did Yates decide not to do that?

25 A. The notice requirements would have been very

1 burdensome, and with the well capable of producing we
2 wanted to avoid delays and get the thing on production as
3 soon as possible.

4 Q. Mr. Miller, will approval of this Application be
5 in the best interest of conservation, the prevention of
6 waste and the protection of correlative rights?

7 A. Yes, it would.

8 Q. Were Exhibits 1 through 6 prepared by you or
9 compiled under your direction?

10 A. Yes, they were.

11 Q. Can you testify as to their accuracy?

12 A. Yes.

13 MR. CARR: At this time, Mr. Catanach, we move
14 the admission into evidence of Yates Petroleum Corporation
15 Exhibits 1 through 6.

16 EXAMINER CATANACH: Exhibits 1 through 6 will be
17 admitted as evidence.

18 MR. CARR: That concludes my direct examination
19 of Mr. Miller.

20 EXAMINATION

21 BY EXAMINER CATANACH:

22 Q. Mr. Miller, when the application for the
23 unorthodox location was originally filed back in 2000, were
24 you involved in that request?

25 A. Yes, I was.

1 Q. Now, do you recall whether or not any
2 consideration was given at that time to a possible
3 recompletion in the Abo? Was that brought into play at
4 all?

5 A. Yes, it was.

6 Q. And it was still necessary to seek the unorthodox
7 location?

8 A. Yes, because of the topography out there, the
9 drainages. I think in -- Exhibit 2, there is a topography
10 map, next to last page, and just because of the drainage
11 issues this was about the only place we can adequately
12 stake the well to drill and have it on a decent location.
13 So basically it's topography reasons.

14 And this initially was part of a 3-D seismic
15 shoot, and the combination of locating it, you know, in a
16 better part of the seismic prospect, plus the topography,
17 caused us to make it unorthodox.

18 Q. Okay. The well was drilled to what depth? Do
19 you recall?

20 A. I think it's down to about 6600 feet.

21 Q. 6600. And the Abo is at what depth?

22 A. The Abo is anywhere from basically 4660 down to
23 our last perforations -- you can say from 4660 down to 5100
24 feet.

25 Q. And is this the first Abo well in that quarter

1 section?

2 A. Yes, it is.

3 Q. Do you know if the northeast quarter of that
4 section is operated by Yates?

5 A. Yes, it is.

6 Q. So the parties that you notified, the affected
7 parties, are they interest owners in that quarter section?

8 A. Yes, it's -- This, I think is a hundred percent
9 us, and then we have surrounding sections that are us or
10 partners.

11 Q. And everybody's waived objection except for
12 Campbell?

13 A. Yes, they have, that's right.

14 Q. And you have it on good knowledge that they will
15 sign a waiver?

16 A. Yes.

17 MR. CARR: Mr. Catanach, we have a letter from
18 his office in Roswell saying he is in Ireland, they've sent
19 it to him and they will get it back to us. And we've had
20 good relationships with him in the past, and no reason to
21 think that isn't coming.

22 Q. (By Examiner Catanach) Okay. Do you know what
23 the productive capability of this well is in the Abo?

24 A. It does between 300,000 and 400,000.

25 Q. So I suspect you're in a hurry to get it back on

1 line?

2 A. Yes, we are.

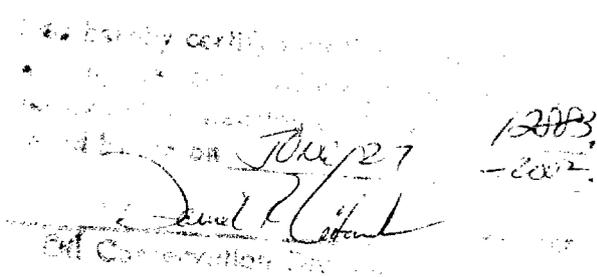
3 EXAMINER CATANACH: I have nothing further, Mr.
4 Carr.

5 MR. CARR: Mr. Catanach, that concludes our
6 presentation in this case.

7 EXAMINER CATANACH: There being nothing further
8 in this case, Case Number 12,883 will be taken under
9 advisement.

10 (Thereupon, these proceedings were concluded at
11 11:27 a.m.)

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25
Handwritten notes and signature. The notes include "12883" and "-COR". The signature is "David R. Carr" and is dated "JUL 27". Below the signature is the text "Off Conservation Dept".

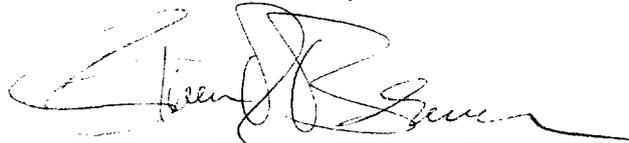
CERTIFICATE OF REPORTER

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 June 30th, 2002.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 2002