

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. 12,984

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

RECEIVED

FEB 20 2003

February 6th, 2003

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 6th, 2003, 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

February 6th, 2003
 Examiner Hearing
 CASE NO. 12,984

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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: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:30 a.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 12,984, which is the Application of Yates Petroleum
5 Corporation for approval of a unit agreement, Lea County,
6 New Mexico.

7 At this time I'll call for appearances.

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

12 EXAMINER STOGNER: Are there any other
13 appearances?

14 Will the witness please stand to be sworn at this
15 time?

16 (Thereupon, the witness was sworn.)

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

20 DIRECT EXAMINATION

21 BY MR. CARR:

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

23 A. John Amiet.

24 Q. Spell your last name, please.

25 A. A-m-i-e-t.

1 Q. Mr. Amiet, where do you reside?

2 A. Artesia, New Mexico.

3 Q. By whom are you employed?

4 A. Yates Petroleum.

5 Q. What is your position with Yates Petroleum
6 Corporation?

7 A. I'm a geologist.

8 Q. Have you previously testified before the New
9 Mexico Oil Conservation Division and had your credentials
10 as an expert in petroleum geology accepted and made a
11 matter of record?

12 A. Yes, I have.

13 Q. Are you familiar with the Application filed in
14 this case?

15 A. Yes, I am.

16 Q. Are you familiar with the proposed Dempster State
17 Exploratory Unit, including the status of the lands in the
18 proposed unit area?

19 A. Yes.

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

22 A. Yes, I have.

23 Q. And are you prepared to share the results of your
24 work with Mr. Stogner?

25 A. Yes.

1 MR. CARR: Mr. Stogner, at this time we tender
2 Mr. Amiet as an expert witness in petroleum geology.

3 EXAMINER STOGNER: Mr. Amiet is so qualified.

4 Q. (By Mr. Carr) Initially, Mr. Amiet, would you
5 explain to the Examiner what it is that Yates Petroleum
6 Corporation seeks with this Application?

7 A. Yates is seeking approval of the Dempster State
8 Exploratory Unit agreement. This is a voluntary
9 exploratory unit containing approximately 3830 acres of
10 State of New Mexico lands, located in Lea County, New
11 Mexico.

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

14 A. Yes, I have.

15 Q. Would you identify for the Examiner what has been
16 marked as Yates Petroleum Corporation Exhibit Number 1?

17 A. This is the unit agreement. It's based on the
18 state/fee form for an exploratory unit.

19 Q. Let's go to Exhibit Number 2, the plat, which is
20 also the plat attached as Exhibit "A" to the unit
21 agreement, and I'd ask you to review the unit and the
22 status of the acreage.

23 A. Yes, this is a plat, it's Exhibit "A" to the unit
24 agreement. This shows the proposed unit outline. It
25 encompasses six sections. These are all State of New

1 Mexico leases. There are a total of 10 State of New Mexico
2 leases in this unit outline.

3 Q. Okay, and let's go to Exhibit Number 3, the
4 ownership breakdown. Review that, please.

5 A. This is Exhibit "B" to the unit agreement. It
6 shows the ownership in each lease in the unit area. It
7 shows that it's 100-percent Yates Petroleum, and the
8 working interests are common.

9 Q. So we have common working interest, we have
10 common royalty?

11 A. That's correct.

12 Q. Are there any overrides?

13 A. No.

14 Q. And has all the working interest been committed
15 to the unit plan?

16 A. Yes, it has.

17 Q. Have you reviewed this proposed unit with the
18 Commissioner of Public Lands?

19 A. Yes, I have. This is Yates Exhibit 4. It's the
20 approval letter from the Commissioner of Public Lands.

21 Q. Let's go to Exhibit Number 5, and would you
22 identify that for Mr. Stogner?

23 A. This is the AFE for the initial test well. The
24 AFE sets out the dryhole cost of \$942,000, a completed well
25 cost of \$1,495,000. We would like to get this drilled as

1 soon as possible, since we're currently holding this lease
2 with a spudder rig.

3 Q. Before we move on to the geological portion of
4 the case, several things I want to clarify. First of all,
5 Yates seeks to be designated operator, and that's what the
6 unit agreement provides; is that correct?

7 A. Yes, that's correct.

8 Q. The state/fee form provides for the filing of
9 periodic plans of development?

10 A. Yes, it does.

11 Q. Will Yates file the plans of development with the
12 OCD at the same time those plans are filed with the State
13 Land Office?

14 A. Yes, they will.

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

16 A. That's -- The first one is six months after
17 completion of the first well, and subsequent plans are 12
18 months thereafter.

19 Q. And what horizons are being unitized in this
20 proposed unit?

21 A. All horizons will be unitized.

22 Q. If we look at the initial well on the unit area
23 in the AFE, what is the location of that well?

24 A. The location is 660 feet from the south line,
25 1980 feet from the west line of Section 30, Township 11

1 South, Range 36 East, New Mexico principal meridian lands.

2 Q. And what is the spacing unit designated for that
3 particular well?

4 A. This is the south half of Section 30. We're
5 going to drill a well approximately 13,600 feet to the
6 Mississippian formation.

7 Q. And what will be the primary objectives in the
8 well?

9 A. It will be Atoka-Morrow. This is going to be a
10 rank wildcat well. There's only one other well that's been
11 drilled in the unit area. This was a dry hole drilled
12 approximately 20 years ago, referred to on the map.

13 Q. Are there any secondary objectives?

14 A. Yes, the Mississippian limestone.

15 Q. Let's go now to Exhibit Number 6 -- that is the
16 structure map on the top of the Mississippian -- and I'd
17 ask you to take this exhibit and then review for Mr.
18 Stogner what this exhibit shows and why this unit area.

19 A. The area is shown with the yellow coloring. The
20 scale on this map is one inch equals 2000 feet. Again, I
21 refer to -- There's only one well in this unit area. This
22 was a dry hole drilled in 1983. It's in the southeast
23 corner of the unit. It's the Stone Petroleum State Number
24 1. Like I said, it was drilled in 1983 as a dry hole, so
25 there's been no drilling out here for 20 years.

1 If you look just to the west of that well,
2 there's a large black line. That's a fault. The upthrown
3 side of the fault is on the east, downthrown side to the
4 west.

5 Eroding off this upthrown block are a series of
6 braided channels coming down to the southwest. These are
7 narrow but can be very productive.

8 Yates Petroleum has recently re-entered the
9 Sunray well in Section 25 on the west side of the unit.
10 We've had some encouragement. This was an old dry hole,
11 again, drilled in 1956 that Yates re-entered. We've had
12 some encouragement when we logged this well. We only
13 logged it about 10 days ago, but -- we're waiting on a
14 completion unit, but we think we may be able to convert
15 that into a producer, and that's why we've moved that
16 location to the east of that well, again trying to stay in
17 this braided stream system that we're looking at here. The
18 braided stream are shown with the blue lines.

19 This interpretation that I've given here has
20 helped establish this unit area. We're trying to follow
21 these braided channels coming across this outlined unit
22 area.

23 Q. There's also a trace for a cross-section on this
24 exhibit, is there not?

25 A. That's correct, that's cross-section A-A' that

1 we'll be looking at in a moment.

2 Q. Let's go to that. It's marked Yates Exhibit 7
3 and I'd ask you to review that for the Examiner.

4 A. Once again, let's start with that Stone Petroleum
5 Corporation well that is on the east side of the cross-
6 section. That's on the upthrown block on this fault. This
7 is a stratigraphic cross-section hung on the top of the
8 Atoka. The Atoka is shown with kind of a bluish-green
9 color, the Morrow is shown with the red.

10 As you go from the Stone Petroleum to the Estoril
11 well, just to the west, you can see how both the Atoka and
12 the Morrow section thicken.

13 And then you go farther to the west, to the
14 Williamson Natural State Number 1 well, these zones thicken
15 again.

16 Also, I might refer back to the Stone Petroleum
17 well on the east side. The lower Atoka and Morrow, you're
18 finding very few sands, shown in yellow. As you go to the
19 west you're getting more sands, and these sands are getting
20 thicker as you go down to the Williamson well.

21 So just to emphasize, your zones are not only
22 getting thicker, but you're getting more sands as you come
23 off this fault and go to the west.

24 Q. Is Yates Exhibit Number 8 a written summary of
25 your geologic presentation?

1 A. Yes, it is.

2 Q. Would you refer to this summary and explain to
3 the Examiner why it is that Yates is attempting to develop
4 this area under the proposed unit plan?

5 A. These are very expensive wells to drill, they're
6 costing approximately \$1.5 million for a completed well.
7 These are very high-risk wildcat wells, as I've referred.

8 There's only one producing well that has been
9 shown in this mapped area. It only made about 15,000
10 barrels of oil. That's outside the unit area, and that was
11 completed in 1953. So there's been very little drilling in
12 this area. Virtually all these wells have been dry holes.
13 All these wells have either been dry holes or uneconomic.
14 Formation of this unit will enable Yates to develop this
15 acreage in a reasonable manner, and if we do drill a
16 successful well we're going to follow these channels updip
17 to this fault, so it will lead to other wells being drilled
18 within this braided-stream network.

19 Q. Approval of the unit will, in fact, enable you to
20 plan your subsequent development based on geologic
21 considerations, not just well-location requirements?

22 A. That's correct.

23 Q. In your opinion, will approval of the Application
24 and the establishment of this unit be in the best interest
25 of conservation, the prevention of waste --

1 A. Yes.

2 Q. -- and the protection of correlative rights?

3 A. Yes.

4 Q. Were Exhibits 1 through 8 either prepared by you,
5 or have you reviewed them, and can you testify as to their
6 accuracy?

7 A. Yes.

8 MR. CARR: At this time, Mr. Stogner, we move the
9 admission into evidence of Yates Petroleum Corporation
10 Exhibits 1 through 8?

11 EXAMINER STOGNER: Exhibits 1 through 8 will be
12 admitted into evidence at this time.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Amiet.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Mr. Amiet, I notice the wells -- and I'm
18 referring now to Exhibit Number 7, the plat map, and all
19 these wells up here to have been dry and abandoned.

20 What are -- or where is the nearest Morrow and/or
21 Atoka production from this unit area?

22 A. It's going to be probably five to ten miles away.
23 This is out in the center of the basin. This is a rank
24 wildcat area.

25 Q. When you say basin, what basin are you talking

1 about?

2 A. This is the Tatum Basin.

3 Q. The Tatum Basin. Okay, you're -- It says here
4 you're approximately five miles north of Tatum, New Mexico;
5 is that about right?

6 A. That's correct.

7 Q. And most of that production up in northern Lea
8 County is shallower, isn't it?

9 A. Well, we haven't really gotten back to the shelf
10 edge. You're going to have to go farther to the north or
11 to the east. You go to the -- oh, like 11 South, 37 East,
12 you're starting to pick up some Devonian production. Go
13 farther to the north, you get Bough production. But again,
14 you've got to go a number of miles, probably 10 miles, to
15 start picking up that Bough production, 10 to 15 miles.

16 So there are no fields in this area. This is,
17 like I say, a rank wildcat area. We're trying to go into
18 this area and use some new ideas and develop -- find some
19 overlooked gas production.

20 Q. I normally don't think of Yates being that far
21 north in Lea County. Is this kind of a new venture for --

22 A. No, actually we've drilled some wells farther
23 north than this.

24 Q. Have you?

25 A. Yes.

1 Q. Okay.

2 A. We're up to 10 South. In fact, we're drilling
3 into 9 South, we have some tests that we're drilling up
4 there.

5 EXAMINER STOGNER: I have no other questions of
6 this witness.

7 MR. CARR: That concludes our presentation.

8 THE WITNESS: Thank you.

9 EXAMINER STOGNER: Do you have any?

10 MR. BROOKS: No questions.

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

13 EXAMINER STOGNER: Does anybody else have
14 anything further in Case Number 12,984?

15 This matter will now be taken under advisement.

16 (Thereupon, these proceedings were concluded at
17 8:44 a.m.)

18 * * *

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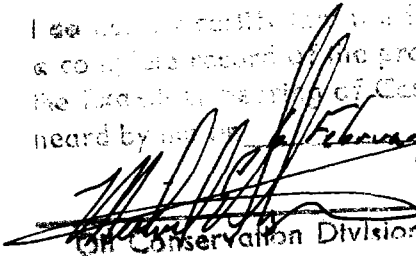
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I do hereby certify that the foregoing
is a correct record of the proceedings in
the Examiners hearing of Case No. 12984
heard by me on February 2, 1988
 , Examiner
Oil Conservation Division

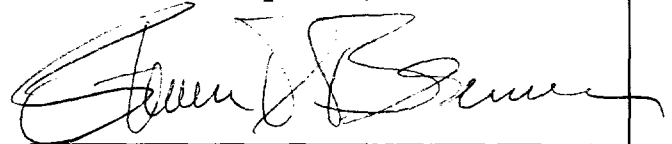
CERTIFICATE OF REPORTER

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 February 6th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006