

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. 13,298

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

July 8th, 2004

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, July 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.

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4/9/04 JEM

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July 8th, 2004
Examiner Hearing
CASE NO. 13,298

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A P P E A R A N C E S

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* * *

1 WHEREUPON, the following proceedings were had at
2 9:25 a.m.:

3 EXAMINER JONES: Call Case 13,298, Application of
4 Yates Petroleum Corporation for approval of a unit
5 agreement, Eddy 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 two witnesses.

11 EXAMINER JONES: Other appearances?

12 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
13 representing David H. Arrington Oil and Gas, Inc. I have
14 no witnesses.

15 EXAMINER JONES: Okay. Will the witnesses please
16 stand to be sworn?

17 (Thereupon, the witnesses were sworn.)

18 CHARLES E. MORAN,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Will you state your name for the record, please?

24 A. My name is Charles Moran, I reside in Artesia,
25 New Mexico.

1 Q. By whom are you employed?

2 A. Yates Petroleum Corporation.

3 Q. And what is your current position with Yates
4 Petroleum Corporation?

5 A. Landman.

6 Q. Have you previously testified before this
7 Division?

8 A. Yes, I have.

9 Q. And at the time of that testimony were your
10 credentials as an expert in petroleum land matters accepted
11 and made a matter of record?

12 A. Yes, they were.

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 Boddington
17 Federal Exploratory Unit, including the status of the lands
18 in the area?

19 A. Yes, I am.

20 MR. CARR: We tender Mr. Moran as an expert in
21 petroleum land matters.

22 EXAMINER JONES: Mr. Moran is qualified as an
23 expert petroleum landman.

24 Q. (By Mr. Carr) Would you briefly summarize what
25 it is that Yates seeks with this Application?

1 A. Yates Petroleum seeks approval of the Boddington
2 Federal Exploratory Unit, a voluntary exploratory unit
3 containing 3200 acres of federal and fee leases located in
4 Eddy County, New Mexico.

5 Q. With this proposed unit plan, what formations
6 does Yates propose to test?

7 A. Yates proposes to test from the surface to the
8 base of the Mississippian formation.

9 Q. Mr. Moran, have you prepared exhibits for
10 presentation in this case?

11 A. The exhibits were prepared at my direction for
12 this case.

13 Q. Let's go to what has been marked Yates Petroleum
14 Corporation Exhibit Number 1. Would you identify this,
15 please?

16 A. This was -- is the initial proposed unit
17 agreement that we submitted for approval to the Bureau of
18 Land Management for the formation of the Boddington Federal
19 Exploratory Unit.

20 Q. And is this agreement on the federal form?

21 A. Yes, this is the standard federal form, or it is
22 a standard. It will need to be modified, partially.

23 Q. Let's go to what has been marked Yates Exhibit
24 Number 1. Would you identify this, please?

25 A. Yates Exhibit Number 1 is the --

1 Q. I'm sorry, Exhibit Number 2.

2 A. Exhibit Number 2 is a plat exhibiting the
3 proposed lands in Township 20 South, Range 23 East, Eddy
4 County, New Mexico, that we propose to include within the
5 unit. This would be the Exhibit A to the unit agreement.

6 Q. All right, and what we show on this exhibit are
7 how many federal leases?

8 A. This is an exhibit showing six federal leases and
9 one fee lease.

10 Q. And the fee lease is located --

11 A. The fee lease is located in the south half of the
12 southwest of Section 8.

13 Q. What percent of the working interest has
14 committed to this proposed unit plan?

15 A. As to all of the Yates entities, they have
16 committed, and that gets us to 92.5 percent. We believe,
17 or have indications, that Arrington Oil and Gas is going to
18 commit their one federal lease included within the unit
19 area, which would increase that percentage of commitment.
20 Although we have not received the paperwork from them,
21 we've received letters indicating that they intend to
22 participate.

23 Q. The one working interest owner who is not
24 committing their interest to the unit is who?

25 A. That would be Dominion Oklahoma Texas Exploration

1 and Production Company, Inc. They were invited to
2 participate, but we do not believe they will commit their
3 interest to the unit.

4 Q. On Exhibit 2 can you identify for the Examiner
5 the Arrington acreage that is included within the unit
6 area?

7 A. In Section 20, you'll see a federal lease that is
8 in the north half of the northeast, the southeast of the
9 northeast and the northeast of the southeast in Section 20.
10 We believe that to be the Arrington lease that they intend
11 to commit to the unit.

12 Q. Let's go to what has been marked Yates Exhibit
13 Number 3. Identify and review this, please.

14 A. Yates Exhibit Number 3 is a schedule of the
15 leasehold contained within the unit. I need to back up and
16 state that as to the Yates leases on Exhibit A, the
17 expiration dates marked on the plat are not correct. You
18 need to refer to Exhibit B for expiration dates.

19 Q. This shows the ownership in each of the tracts in
20 the unit area?

21 A. Correct.

22 Q. And again, the Arrington interest is in Tract
23 Number 5?

24 A. Correct.

25 Q. Let's go to what has been marked Yates Exhibit

1 Number 4, and I'd ask you to identify this exhibit and then
2 review for the Examiner the negotiations and contacts
3 between Yates and David H. Arrington Oil and Gas concerning
4 the development of this unit.

5 A. Exhibit Number 6 is a letter written by Robert
6 Bullock --

7 Q. Exhibit Number 4.

8 A. Excuse me, Exhibit Number 4, I'm sorry, is a
9 letter written by Rob Bullock of Yates Petroleum
10 Corporation proposing the formation of a unit, determining
11 the initial -- or trying to identify initial lands to
12 include within the unit, where we were inviting Arrington
13 to include additional lands within the unit.

14 The initial conversations concerning the
15 formation of this unit were conducted by Randy Patterson.
16 Upon making a telephone call discussing -- at our initial
17 idea of forming the unit, we were -- we made telephone
18 calls inquiring as to what they might want to do. But we
19 did not receive -- It is my understanding we did not
20 receive an answer directly.

21 If you will refer back to Exhibit Number 2, our
22 initial concept was to include Section 16 into the unit,
23 and also Section 29. Those were leases owned by Arrington
24 Oil and Gas, and we believe the south half of 16 also.
25 Those leases had an expiration date that we -- in forming

1 the unit we thought we might be able to assist in expanding
2 the unit to include these acres and provide extensions of
3 those leases to the unitization.

4 That concept we didn't -- we don't remember -- or
5 I did not understand that we received any direct feedback
6 as to including those lands, and so that is why we proposed
7 the lands as outlined in Exhibit Number 2.

8 Q. All right, the first letter in Exhibit 4 is a
9 letter from Yates dated May 13th?

10 A. Correct.

11 Q. And this letter recites that David H. Arrington
12 Oil and Gas would own 22.5 percent of the working interest
13 in the unit area?

14 A. Yes.

15 Q. And that figure is based on the inclusion of
16 certain tracts that Mr. Arrington did not commit to the
17 unit plan?

18 A. And that were not included in the boundaries of
19 what we're proposing for the unit.

20 Q. And so --

21 A. That was preliminary work that is not up to where
22 we're at today.

23 Q. Okay. The acreage in Section 29 that is under
24 lease to Mr. Arrington is not included in the unit?

25 A. Correct.

1 Q. The acreage in Section 16 is not included in the
2 unit?

3 A. Correct.

4 Q. And therefore the working interest share that Mr.
5 Arrington owns within the unit area is confined to the one
6 tract in the northeast and the northeast of the southeast
7 of Section 20?

8 A. Correct.

9 Q. Let's go to the second letter in Exhibit Number
10 4, the letter dated June the 17th. What is this?

11 A. This letter is a letter signed by Rob Bullock of
12 Yates Petroleum Corporation proposing the initial unit well
13 to be in the west half of Section 20. In that letter we
14 invited them -- David Arrington Oil and Gas -- to
15 participate in the formation of the unit and the drilling
16 of the well, and in that we enclosed the operating
17 agreement for the unit.

18 Q. When we look at this exhibit, the acreage has
19 been corrected by the deletion of Section 29, correct?

20 A. Correct.

21 Q. The AFE, unit agreement and unit operating
22 agreement were tendered at that time?

23 A. Correct.

24 Q. The proposed well represented in this letter was
25 to be located in Section 20, and the dedicated acreage

1 would be the west half of Section 20; is that right?

2 A. Yes.

3 Q. Does Mr. Arrington own anything in the west half
4 of Section 20?

5 A. The only way that he could own interest in that
6 is if he had committed his leasehold to the unit.
7 Otherwise it would be developed on a leasehold basis.

8 Q. The unit is proposed as an undivided unit; is
9 that not right?

10 A. That is correct.

11 Q. And any interest owner that commits to the
12 interest, then, would bear the cost based on their
13 percentage share of the total unit ownership?

14 A. Correct.

15 Q. If they do not commit to the unit, then is their
16 acreage simply developed on a leasehold basis?

17 A. Yes, it would be.

18 Q. So if a well were drilled at some point in time
19 that included the Arrington acreage in the east half of
20 Section 20, and that acreage was not committed, they would
21 share on a lease basis?

22 A. If the acreage was uncommitted, it would be
23 participate on a leasehold basis.

24 Q. If it is committed, then they would have an
25 interest in --

1 A. They would participate in the unit.

2 Q. -- and participate in the initial unit, in the
3 well?

4 A. In the initial unit.

5 Q. They were invited to participate in the unit by
6 the June 17th, 2004, letter, were they not?

7 A. Yes.

8 Q. They were advised that if they had questions
9 concerning the unit, they could call; is that correct?

10 A. That is correct.

11 Q. Attached to that letter is the AFE which is also
12 attached in the exhibit package, and this is for the well
13 to be located in the southwest quarter of that section?

14 A. Correct.

15 Q. Let's go to what has been -- is the next letter
16 in this exhibit packet, the letter dated June the 24th.
17 What is that?

18 A. The letter dated June the 24th is a revision to
19 our initial proposal where we have changed the initial well
20 -- we've changed the location where we choose to drill the
21 initial well inside the unit, and this is where we notified
22 them that we were moving the well to drill in Section 20 --
23 I mean, excuse me, in Section 17 at a location 1980 feet
24 from the south line and 1980 feet from the east line, and
25 it was going to be referred to as the Boddington Federal

1 Unit Number 2 well, and with that letter we sent a
2 corrected page 4 to the operating agreement identifying the
3 initial well and a revised AFE for the new location.

4 Q. Does Mr. Arrington own anything in Section 17?

5 A. The only way he could own anything in Section 17
6 would be by committing that leasehold in Section 20 to the
7 unit. Otherwise, he would not own an interest in Section

8 (20). *1028*

9 Q. Mr. Moran, would you refer to the next letter,
10 dated June 30, 2004, from David H. Arrington Oil and Gas?

11 A. The letter is a letter in response to our
12 proposal for the Boddington Number 1 well, indicating that
13 they were -- desired to participate in the drilling of the
14 well and that they were on board in getting this done and
15 had reviewed partner -- had -- and anticipated bringing in
16 partners and were advising us that there might need to be
17 additional people that would need to be included in the
18 agreement.

19 Q. And the letter is signed by a Mr. Randy Lewicki?

20 A. Randy Lewicki, working for David H. Arrington.

21 Q. Do you know Mr. Lewicki?

22 A. I personally do not know him.

23 Q. This letter references the June 17th letter from
24 Yates; is that correct?

25 A. Yes, it does.

1 Q. And it's the June 17th letter that submitted the
2 unit agreement, the unit operating agreement, and an AFE?

3 A. Correct.

4 Q. And Mr. Arrington indicates they want to
5 participate in the captioned well?

6 A. The -- If you'd read the letter, it states --
7 stating that David H. Arrington Oil and Gas, in the second
8 sentence, "...would like to participate in the captioned
9 unit well..." And based on that, we believe they intend to
10 commit their acreage to the unit.

11 Q. Unless they commit the acreage to the unit, they
12 would have no basis for participation in the well?

13 A. -- participation in the well.

14 Q. They also indicate they're working on a
15 participation agreement with an industry partner; is that
16 right?

17 A. That is correct.

18 Q. They have advised that they received a copy of
19 our June 17th letter. That is the industry partner, and
20 the industry partner is, in their words, on board --

21 A. Correct.

22 Q. -- is that right?

23 Did anything in this letter suggest that
24 Arrington needed additional information to make a
25 determination whether to commit either to the unit or the

1 well?

2 A. No, it does not.

3 Q. Did they indicate that their industry partner
4 didn't have the information they needed to commit to the
5 unit or the well?

6 A. We received no indication that additional
7 information was needed.

8 Q. And they did in this letter indicate that there
9 would be revisions needed to the Exhibits A and B of the
10 unit agreement if they concluded their arrangement with
11 their industry partner; is that right?

12 A. Correct.

13 Q. Does this exhibit also include copies of the
14 similar letters that were submitted to Dominion Oklahoma
15 Texas concerning the development of this unit?

16 A. Yes, it does.

17 Q. Mr. Moran, has Yates Petroleum Corporation
18 reviewed this proposed unit with the Bureau of Land
19 Management?

20 A. Yes, we have.

21 Q. And would you identify Exhibit Number 5, please?

22 A. Exhibit Number 5 is the Bureau of Land Management
23 preliminary approval of the Boddington Unit, with some
24 required modifications to the unit agreement. The
25 modifications are more grammatical in that we need to

1 remove references to the State Land Office and make some
2 small corrections to the exhibits on the lands included.

3 Q. But the unit area has been designated by the BLM
4 as an area --

5 A. Yes.

6 Q. -- logically suited for development under a unit
7 plan?

8 A. Yes, it has.

9 Q. And it is comprised of federal lands except for
10 the 80-acre tract held by Dominion?

11 A. Correct.

12 Q. Does Yates Petroleum Corporation seek to be
13 designated operator of the well?

14 A. Yes, we do.

15 Q. And how soon does Yates plan to drill the initial
16 well in the unit area?

17 A. We need to commence operations out here as soon
18 as possible because of the lease-expiration problems we
19 have out here. These leases -- the federal leases that
20 Yates Petroleum owns are in an extended term, and the
21 expiration date of March 6th is a must-produce date. It's
22 not -- we cannot just drill and hold the leases. These
23 leases are -- received an extension previously, and to
24 continue the leases in effect we must have production into
25 the pipeline.

1 This area, it is my understanding, is a very
2 difficult to get a pipeline into, so we need to get to
3 drilling as quick as possible so that we can know what we
4 need to do prior to the March 6th.

5 Q. Does the unit agreement provide for the filing of
6 periodic plans of development?

7 A. Yes, it does.

8 Q. Will these plans be filed with the OCD as well as
9 the BLM?

10 A. They will.

11 Q. And how often are the plans to be filed?

12 A. The plans are to be filed six months from the
13 completion of the initial well and then annually
14 thereafter.

15 Q. What horizons are being unitized in the
16 Boddington Federal Exploratory Unit?

17 A. All formations.

18 Q. Now, to be sure it's clear, where is the initial
19 test well to be drilled?

20 A. The initial test well is to be the Boddington
21 Number 2 in Section 17.

22 Q. And it will be drilled to a depth sufficient to
23 test --

24 A. -- to test the Mississippian formation.

25 Q. Were Exhibits 1 through 5 prepared by you or

1 compiled under your direction and supervision?

2 A. They were compiled under my supervision.

3 MR. CARR: May it please the Examiner, at this
4 time we'd move the admission into evidence of Yates
5 Exhibits 1 through 5.

6 EXAMINER JONES: Mr. Bruce?

7 MR. BRUCE: No objection.

8 EXAMINER JONES: Exhibits 1 through 5 will be
9 admitted to evidence.

10 MR. CARR: And that concludes my direct
11 examination of Mr. Moran.

12 EXAMINER JONES: Mr. Bruce?

13 MR. BRUCE: Just a few questions.

14 EXAMINATION

15 BY MR. BRUCE:

16 Q. Mr. Moran, when was the meeting with the BLM?

17 A. I'm not sure of that date. I did not attend that
18 meeting.

19 Q. Okay. Now, looking at your Exhibit 4 and then
20 maybe your Exhibit 2 alongside of that, I just want to
21 understand. The initial -- The May 13th letter shows the
22 initial proposed unit boundaries, correct?

23 A. That I would call the second round.

24 Q. This was the -- Okay, so what I'm getting at is,
25 I just want to see how the boundaries changed. What was

1 the first proposal?

2 A. The very loose first proposal, it is my
3 understanding --

4 Q. Verbal?

5 A. -- was a verbal discussion, was to include
6 Section 16 and Section 29, that are not currently included
7 in the boundaries.

8 Q. Okay, was Section 9 in that proposal?

9 A. To my knowledge, I don't know.

10 Q. Okay.

11 A. I would presume it would be, because it was ours.

12 Q. So that would have been seven sections of land?

13 A. Correct.

14 Q. And then the May 13th letter is the second
15 proposal, the first formal proposal?

16 A. Correct.

17 Q. And so that would have been Sections 5, 8, 17, 20
18 and 29, and so the unit would have been five sections tall
19 and just one section wide?

20 A. Right.

21 Q. Okay. And then the current unit boundaries are
22 the third proposal?

23 A. The official proposal.

24 Q. Okay. And according to your correspondence, the
25 first well proposal was in Section 20, but that has been

1 superseded by the second well proposal in Section 17, which
2 will be -- even though it's the Unit Number 2 well, it will
3 be the first well?

4 A. It will be the first well.

5 Q. Okay, and then just one final thing. Under the
6 -- if Arrington signs the unit documents, under the JOA
7 working interest ownership will be undivided --

8 A. Correct.

9 Q. -- throughout the unit? Okay. Even though in
10 the unit agreement, the unit agreement provides for
11 participating areas as federal units --

12 A. Right.

13 MR. BRUCE: Okay, that's all I have, Mr.
14 Examiner.

15 EXAMINATION

16 BY EXAMINER JONES:

17 Q. Okay, Mr. Moran, your letter on May 13th, it
18 didn't Section 9 in the header of that letter, so
19 originally Section 9 was not going to be in the unit,
20 right?

21 A. I want to be clear that I've got what I call the
22 initial discussions, then the first proposal and then the
23 final proposal.

24 Q. Okay.

25 A. It would be my belief that in the initial

1 proposal it talked about being included. I was not present
2 for those conversations, but knowing how we do our initial
3 thinking and analysis of offsets, that would have been
4 considered strongly for inclusion in the unit at that time.

5 The first written proposal did not include it. I
6 don't know if that was an error or not on inclusion in the
7 letter, but I would believe it should have been included.

8 Q. Okay, but the first -- when you first verbally
9 started talking about 16 and 29, you wanted those to be in
10 the unit, right?

11 A. We discussed including them in the unit, because
12 if you will note, there are -- those leases have expiration
13 dates, and by including them in the unit, they would help
14 Arrington hold his leasehold by unit, with the drilling of
15 one well within the unit. But I believe they've chosen to
16 go proceed on their own and drill their own wells on those
17 lands.

18 Q. Yeah, but if they drill their own wells, they get
19 100 percent of the --

20 A. Right.

21 Q. -- production?

22 A. Which is fine.

23 Q. But they have to hook up their pipeline too?

24 A. Correct.

25 Q. Okay, so this Exhibit 2 is the official proposal

1 advertised in the case, right --

2 A. Yes.

3 Q. -- today?

4 And this letter on July the -- well, actually,
5 the BLM letter --

6 A. -- is dated yesterday.

7 Q. -- came in yesterday, okay. Can you explain that
8 to me a little bit, that letter and what it's saying?

9 A. Let me find it.

10 Q. Exhibit Number 5.

11 A. I've got it here, I just -- This is the letter
12 where it grants preliminary approval for the formation of
13 the federal unit, and this is where they advised us what
14 they want us to do with regards to the unit agreement.

15 If you will note in the middle paragraph, it
16 talks about defining the Morrow sand formation and drilling
17 the well to 8600 feet. That is where it talks about
18 corrections need to be made to the unit agreement before
19 it's finalized, to remove references to the Commissioner of
20 Public Lands. Since there are no state lands in the unit,
21 that language included in the unit has no effect, so they
22 -- it's what I'll call grammatical cleanup, is what they're
23 asking for.

24 Q. Okay.

25 A. And they also, with preliminary approval revised

1 Exhibit A and B, making some corrections as according to
2 what their records show.

3 Q. Okay.

4 A. And if you'll -- at the bottom of that page it
5 says when executed -- "When the executed agreement is
6 transmitted to the BLM for final approval, include the land
7 status of all acreage." That's where they will give their
8 final approval to the unit.

9 Q. Okay. Okay, these leases you were talking about
10 that have to have production by March the 1st, you say?

11 A. March 6th.

12 Q. March 6th. Does that mean they can be drilled
13 and tested by then? They actually have to be selling --

14 A. They actually have to be selling gas.

15 Q. -- selling gas.

16 A. What I believe happened to these leases is that
17 they were previously put into a unit and received a two-
18 year extension of the base lease, based on the termination
19 of the unit.

20 I cannot tell you what unit that would be, but
21 that would be the reason they received that odd expiration
22 date, is, it's tied to the exploration of an old unit, and
23 upon that termination they received a two-year extension --

24 Q. Oh.

25 A. -- and for those leases to be continued based on

1 that two-year extension, they must be producing gas.

2 Q. Okay.

3 A. They're categorized as must produce, not drilled
4 and waiting on pipeline.

5 Q. When you landmen are playing golf you really do
6 learn some things, I guess.

7 A. I don't know how much golf I get to play.

8 MR. CARR: We're not going to commit or speculate
9 to that.

10 Q. (By Examiner Jones) Why wasn't Arrington invited
11 to the meeting with the BLM?

12 A. I'm not -- that meeting was a meeting between
13 Yates Petroleum Corporation and the BLM. It was determined
14 that we do not want third parties at the meeting.

15 Q. They wouldn't be a third party if they were going
16 to be part of the unit, would they?

17 A. The meeting is between the operator of the
18 proposed unit and the Bureau of Land Management.

19 Q. Okay. So --

20 A. I don't know the full company reasons for -- It
21 is my understanding that there was a telephone call that
22 they asked to show up at the meeting, and it was my
23 understanding that a decision was made not to let them
24 come. I don't know the exact reason therefor.

25 Q. And what about Dominion, wee they invited to that

1 too?

2 A. Well, my understanding of the exact process is
3 that no invitations were issued to anybody, that we
4 received a telephone call asking if they could come to the
5 meeting, that no invitations were ever extended to anybody.

6 Q. So the BLM made the decision to write the letter,
7 but this is a logical unit without the total partici- --

8 A. Well, because under the unit agreement the
9 operator is responsible for all performance of all
10 obligations. Not all members of the unit are responsible;
11 it's the operator's duty to conduct the operations. And
12 Yates Petroleum Corporation, being the operator, was the
13 one that attended the meeting for discussions with the
14 Bureau of Land Management.

15 Q. But Arrington is the operator of Tract 5, right?
16 Or the lease?

17 A. If the acreage is committed to the unit, no, he
18 would not, and if he's not, he would be an owner.

19 Q. Oh, I see.

20 A. And until the well is drilled, there would be no
21 operator.

22 EXAMINER JONES: Okay. Okay, I -- Mr. Carr?

23 FURTHER EXAMINATION

24 BY MR. CARR:

25 Q. Mr. Moran, when we look at this unit agreement,

1 it's a voluntary contract between those who agree to sign
2 the contract and participate, correct?

3 A. Yes.

4 Q. And when they sign and agree to participate in
5 that contract, they also accept Yates as the operator of
6 that property; is that --

7 A. Correct.

8 Q. -- not true?

9 And if they elect not to commit their interest to
10 it, their interest is unaffected, it remains under the
11 lease and is developed based on the covenants expressed and
12 implied in the lease agreement; isn't that correct?

13 A. Correct.

14 Q. When you go to the BLM with one of these, it's
15 typical for the unit operator to appear and present the
16 data; isn't that right?

17 A. Yes, it is.

18 Q. Because the unit operator is the person who's
19 going to be responsible in operating every tract committed
20 to the unit plan?

21 A. Yes.

22 Q. This isn't a compulsory unit where any tract that
23 isn't voluntarily committed is in any way governed by or
24 forced under the unit agreement; is that not true?

25 A. That is correct.

1 Q. The BLM agreed to keep the information provided
2 to them confidential; is that not correct?

3 A. That is what I understand.

4 Q. And they are keeping it confidential; is that
5 your understanding?

6 A. I understand they're keeping it confidential.

7 Q. And in this kind of a situation, if someone
8 elects not to commit a tract to the unit, say Section 29,
9 then they are free to go forward and develop that on a
10 stand-alone basis; isn't that right?

11 A. Yes, they are.

12 Q. And if they come in and start trying to
13 participate in meetings with the Bureau of Land Management
14 when you're trying to explain all data available to
15 establish unit boundary, what they're able to do is gather
16 information that can be used to drill wells to compete with
17 the unit; isn't that correct?

18 A. That is correct.

19 Q. And isn't that one of the reasons these meetings
20 are between the operators going to operate the entire unit
21 property and the BLM, and not everyone in the area?

22 A. That would be a reason.

23 MR. CARR: That's all I have.

24 EXAMINER JONES: Mr. Bruce?

25 MR. BRUCE: No questions.

1 EXAMINER JONES: Gail?

2 MS. MacQUESTEN: No questions.

3 EXAMINER JONES: Okay, thank you, Mr. Moran.

4 MR. CARR: May it please the Examiner, at this
5 time we would call John Humphrey.

6 JOHN F. HUMPHREY,

7 the witness herein, after having been first duly sworn upon
8 his oath, was examined and testified as follows:

9 DIRECT EXAMINATION

10 BY MR. CARR:

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

12 A. John Humphrey.

13 Q. Where do you reside?

14 A. Artesia, New Mexico.

15 Q. By whom are you employed?

16 A. Yates Petroleum Corporation.

17 Q. What is your position with Yates Petroleum
18 Corporation?

19 A. I'm a senior geologist, employed by Yates
20 Petroleum Corporation.

21 Q. Mr. Humphrey, have you previously testified
22 before this Division and had your credentials as an expert
23 in petroleum geology accepted and made a matter of record?

24 A. Yes, I have.

25 Q. Are you familiar with the Application in this

1 case?

2 A. Yes, I am.

3 Q. Have you prepared a geological study of the area
4 included in and surrounding the proposed Boddington Federal
5 Exploratory Unit?

6 A. Yes, I have.

7 Q. Are you prepared to share the results of your
8 work in this area with the Examiner?

9 A. Yes, I am.

10 MR. CARR: Are Mr. Humphrey's qualifications
11 acceptable?

12 EXAMINER JONES: They are.

13 Q. (By Mr. Carr) All right, let's start with
14 identifying the primary objective in this unit.

15 A. The primary objective of the unit is the lower
16 Morrow sandstone. The TD of the initial test well that's
17 in the proposed unit will be approximately 8900 feet.
18 There's one penetration, Morrow penetration, within the
19 proposed unit, which we'll cover in a minute when we go to
20 the next exhibit.

21 Q. And Mr. Humphrey, when the BLM requires the unit
22 agreement should provide for a well to be drilled to the
23 base of the lower Morrow formation or to a depth of 8600
24 feet, whichever is lesser, your plans are consistent with
25 that requirement of the BLM?

1 A. That's correct.

2 Q. All right, secondary objectives in the unit area?

3 A. Secondary objectives in the area include Atoka
4 and Strawn sands, as well as the Cisco/Canyon carbonates.

5 Q. Let's look at the lower Morrow, and I'd ask you
6 first to refer to what has been marked as Yates Petroleum
7 Corporation Exhibit Number 6, I believe.

8 A. That's correct.

9 Q. Would you identify and review that, please?

10 A. Exhibit 6 is a net sand isopach of the lower
11 Morrow interval. I use a gamma-ray cutoff of 50 API units
12 to define that sand. There's a contour interval of 10
13 feet. The colored dots you see on the map are Morrow
14 producers in the area, and you can get kind of a scale of
15 the magnitude of cumulative production from the Morrow
16 wells on the map area.

17 Regional subsurface mapping that I've done in the
18 area indicates that lower Morrow fluvial channels, I
19 believe, exist over the proposed unit area. This also
20 shows the predicted location of the channel system again
21 and additionally shows a trace for cross-section A-A',
22 which you can see on the map.

23 Q. Could you review for the Examiner, the current
24 Morrow production in this area?

25 A. The lower Morrow has been very prolific in this

1 area, especially to the southwest in the Little Box Canyon
2 field. The Little Box Canyon field has a cumulative
3 production of 71 BCF from the lower Morrow from 20 wells.
4 Individual well cums in that field range from over 1 to
5 over 18 BCF.

6 And again I believe -- well, not again, but I
7 believe the initial well proposed location in Section 17
8 should like within this regional channel system that I've
9 mapped. And you notice there's a Mesa Petroleum well I'm
10 keying off of in Section A-A', it's in 17, had two feet of
11 Morrow sand. I feel it's just on the edge of the channel.
12 And what we're trying to do is move a distance to the east
13 to get into the main part of the channel.

14 Q. Let's go to Yates Exhibit Number 7. Identify and
15 review that.

16 A. Yates Number 7 is again cross-section A-A',
17 indicated on the previous exhibit. It's basically going
18 from the Buzzard Federal well, which I've alluded to. And
19 I did not indicate, Mr. Examiner, that's -- on the Buzzard
20 well, that's a neutron density on the dual lateral logs, on
21 the left-hand log. And the Charles Dean Northwest Indian
22 Basin well is a sonic and a dual induction log.

23 But basically this is showing control in the
24 area, which is fairly limited. It's a fairly risk area.
25 We do have one producer, the Charles A. Dean well, shown on

1 the right side of cross-section A-A', approximately 14 feet
2 of sand, pretty edgy, cum production of a little over 149
3 million. And again, look at the Buzzard Federal Com 1 to
4 the lower Morrow interval. You can see a couple feet, a
5 couple little stringers of sand in there.

6 And from the mapping in the area, looking at Box
7 Canyon and mapping in the area, we can see -- well, we've
8 seen upwards of 90 feet of sand in the lower Morrow
9 interval in the area. So it can be very thick when you
10 nail it.

11 Q. Can you summarize for the Examiner why it is that
12 Yates is proposing to develop this area under the proposed
13 unit plan?

14 A. Because there's several potentially productive
15 horizons, I believe the formation of the unit will result
16 in more reasonable development of these reserves, and we
17 feel the pool can effectively be developed under a unit
18 plan.

19 Q. Mr. Humphrey, this is basically a wildcat area;
20 is that correct?

21 A. That's correct.

22 Q. And when you go out and drill and complete a well
23 in a wildcat area, you're basically, if you're successful,
24 proving up not only the spacing unit dedicated to the well,
25 but potentially other Morrow reserves in the area?

1 A. That's correct.

2 Q. And when you then go forward and gain information
3 on the well and go forward with your development plans,
4 does a unit enable you to come forward with a more
5 effective overall development scheme for the reserves that
6 you encounter?

7 A. I believe it does.

8 Q. In your opinion, will approval of this
9 Application be in the best interest of conservation, the
10 prevention of waste and the protection of correlative
11 rights?

12 A. Yes.

13 Q. Were Exhibits 6 and 7 prepared by you?

14 A. Yes, they were.

15 MR. CARR: Mr. Examiner, I move the admission of
16 Yates Petroleum Corporation Exhibits 6 and 7.

17 MR. BRUCE: No objection.

18 EXAMINER JONES: Exhibits 6 and 7 are admitted to
19 evidence.

20 MR. CARR: And that concludes my examination of
21 Mr. Humphrey.

22 EXAMINER JONES: Mr. Bruce?

23 EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Humphrey, were you at the BLM meeting?

1 A. Yes, I was.

2 Q. What was the date of it?

3 A. I can get back with you on that. I don't have
4 that with me.

5 Q. Was it June, mid-June?

6 A. It was -- yeah, somewhere in that time frame, but
7 I do not have the exact date on me.

8 Q. That's okay. Now, Mr. Moran testified about a
9 couple of changes in the unit boundaries. Were the unit
10 boundaries changed at that meeting?

11 A. No.

12 Q. Okay.

13 A. What I proposed to the BLM is what you see here.

14 Q. Okay. Now, on your map -- Let's just look at
15 your Exhibit 6. What porosity cutoff did you use in
16 preparing this map?

17 A. There's no porosity cutoff, it's net sand.

18 Q. Okay. And you made the cross-section of two
19 wells. Down to the south in this same channel you have the
20 Orval BDQ State Com Number 1. Is that a recently completed
21 well?

22 A. Yes, it is.

23 Q. When was it completed?

24 A. Approximately two weeks ago.

25 Q. And is it producing or shut in?

1 A. It's producing.

2 Q. What rates?

3 A. Two days ago it was 600 MCF, a little over 600
4 MCF.

5 Q. Okay. Do you have a bottomhole pressure on that
6 initially?

7 A. It's close to 3000 pounds.

8 Q. Wouldn't that also be an important well in
9 determining the unit boundary?

10 A. Yes, but again -- this is getting back -- we
11 wanted to keep it confidential due to the fact that David
12 Arrington has a lease to the north between the unit
13 boundary and that we're trying to keep the log confidential
14 within the legal time frame which I believe is 90 days, I
15 forget what, though.

16 Q. Okay.

17 A. We're trying to keep that log confidential.
18 That's the main reason for the confidential nature of the
19 BLM meeting.

20 Q. Okay. Is it producing from correlative sands as
21 the Little Box Canyon --

22 A. Yes.

23 Q. -- to the west? Okay. Will that well be
24 included as part of the Little Box Canyon-Morrow Pool, or
25 will it be a new pool discovery?

1 A. I would guess -- I don't have that answer. I
2 would guess it would be a new pool discovery, but I have
3 not seen the paperwork file on that.

4 Q. Okay, a couple more questions. I mean, in your
5 -- looking at your map, Section 9 kind of sticks out. What
6 is the justification for including Section 9 in the unit?

7 A. Section 9, well, you drill a well in 17 due to
8 the sinuosity of these systems, I believe Section 9 could
9 possibly still be prospective. It could move. And there's
10 some additional trends, especially in the Strawn sand. I
11 didn't include any maps on that, but you get some
12 northeast-southwest trends in the Strawn sand. Again,
13 that's a secondary target --

14 Q. Okay.

15 A. -- but you definitely have a shot for that.

16 Q. Okay, so there could be some Strawn potential out
17 here --

18 A. Yeah, and there's Cisco/Canyon lime production
19 pretty extensively to the west, and we think we'll have a
20 shot at that too.

21 Q. And I didn't hear you earlier. I mean, Morrow is
22 obviously primary, and you mentioned the Strawn and the
23 Cisco/Canyon. Is there anything else out there that you
24 can think of that has a secondary potential?

25 A. That's it, pretty much, barring serendipities.

1 Q. One other question. I'm just looking at your map
2 again.

3 A. Uh-huh.

4 Q. Over in Section 6 there's the Yates Arley BBE
5 Federal. Is that a producing well?

6 A. No, it's shut in waiting on pipeline. That's
7 five miles from pipeline. We're going to need to drill
8 another well within that unit to justify pipeline to that.

9 Q. That's a separate federal unit up there?

10 A. That's correct, the Arley Federal Unit, that's
11 correct.

12 Q. Okay. It does look productive, but you just
13 can't produce it right now?

14 A. No, it is wet there.

15 Q. It is wet?

16 A. Yeah.

17 Q. In preparing this map, or in preparing the unit
18 boundaries, did Yates use any seismic?

19 A. No.

20 MR. BRUCE: Thank you, Mr. Humphrey.

21 EXAMINATION

22 BY EXAMINER JONES:

23 Q. Mr. Humphrey, no seismic on this, so that channel
24 -- those two channels coming together to the north, the
25 only control you would have, then, is the -- well, that dry

1 hole that --

2 A. Yeah, the Buzzard, yeah.

3 Q. Okay.

4 A. Uh-huh, and --

5 Q. But you think this is a reasonable --

6 A. Yes, sir, I sure do. I believe it's a braided
7 fluvial system, so you see a lot of this kind of
8 bifurcating in the system, and this is pretty common in
9 areas where you do have more control.

10 Q. Do you guys use bottomhole pressure data to --
11 from your different wells to judge whether you're in the
12 channel or not? Or -- Obviously if you're not in the
13 channel, you're not in the channel --

14 A. Uh-huh.

15 Q. -- but what -- do you have some drainage from
16 other wells? Internally you guys use your bottomhole
17 pressures?

18 A. That's correct, yeah.

19 Q. And do you consider it valuable as a tool for
20 exploration in the Morrow and the Atoka?

21 A. That's correct. Bottomhole pressure in Box
22 Canyon is obviously pretty low now. It's kind of toward
23 the end of its productive life. So you're looking at --
24 Oh, I don't know, it's 300 to 500 pounds.

25 Q. Okay.

1 A. That's just a guess.

2 Q. Okay, what's your abandonment pressure?

3 A. When it's really good, the perm is fantastic, it
4 can be really -- you know, I'm probably not the right guy
5 to ask about that, but you slap -- you put a compressor on,
6 you can pull it down pretty low.

7 Q. And this -- the BLM considered Section 9 to still
8 be what they call logical for the unit?

9 A. Yes, they did.

10 Q. Even though you don't show any Morrow --

11 A. Yeah, I got into them -- I used the Strawn sand
12 argument with them, and again, I didn't -- and they --

13 Q. They bought it?

14 A. They bought into that, that it would be logical.

15 Q. Does Number 2 well have an API number?

16 A. Not yet. That's the reason for the rather odd --
17 that's just an internal thing I put in the computer, so
18 that's not a real API number on the cross-section.

19 EXAMINER JONES: Okay. Gail, do you have any
20 questions?

21 MS. MacQUESTEN: No questions.

22 EXAMINER JONES: Okay, Mr. Humphrey, thanks very
23 much.

24 THE WITNESS: Thank you.

25 EXAMINER JONES: Sorry, do you have questions?

1 MR. BRUCE: No, I don't have any further
2 questions.

3 MR. CARR: That concludes our presentation in
4 this case.

5 EXAMINER JONES: With that, let's take Case
6 13,298 under advisement.

7 And let's take a 10-minute break here.

8 (Thereupon, these proceedings were concluded at
9 10:07 a.m.)

10 * * *

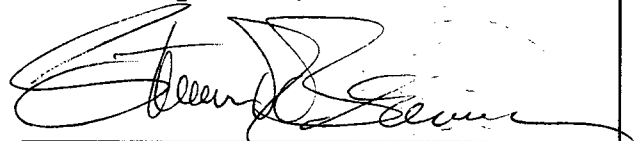
CERTIFICATE OF REPORTER

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 July 11th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006