

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. 13,397

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

February 3rd, 2005

Santa Fe, New Mexico

2005 FEB 17 AM 9 00

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, February 3rd, 2005, 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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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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FOR THE APPLICANT:

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P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 8:25 a.m.:

3 EXAMINER JONES: Okay, let's call Case 13,397,
4 which is Application of Yates Petroleum Corporation for
5 approval of a unit agreement, Chaves County, New Mexico.

6 Call for appearances.

7 MS. MUNDS-DRY: Mr. Hearing Examiner, my name is
8 Ocean Munds-Dry.

9 I'm here with Holland and Hart, and I'm here
10 representing Yates Petroleum Corporation this morning.

11 EXAMINER JONES: Any other appearances?

12 MS. MUNDS-DRY: Just little old me.

13 EXAMINER JONES: Okay.

14 MS. MUNDS-DRY: Mr. Hearing Examiner, Yates seeks
15 approval of the Leanin L Federal Exploratory Unit. It is
16 comprised of 2560 acres of federal lands. It's located
17 approximately 20 miles east of Lake Arthur.

18 Almost all of the working interest in these lands
19 is owned by Yates, with the exception of 80 acres leased by
20 Nadel and Gussman -- and I'll address that in just a little
21 while with you -- and Yates and its affiliated companies do
22 have the rest of the working interest ownership.

23 Yates proposes to test all the formations from
24 the top of the Queen to the basement, and Yates seeks
25 approval of this unit by affidavit pursuant to Division

1 policy.

2 Mr. Hearing Examiner, Yates Exhibit Number 1 is
3 the affidavit of Tim Miller, who is a petroleum geologist,
4 identifying the project.

5 Attachment A to the affidavit is a fully executed
6 copy of the unit agreement. You will see that it does
7 conform to the State Land Office form. You will notice
8 that on the last page it's signed by all the Yates
9 entities; however, it is not signed by Nadel and Gussman
10 Permian.

11 Mr. Hearing Examiner, it's my understanding that
12 Yates, when working with the BLM, they had to re-do the
13 boundaries essentially, and so the Nadel and Gussman
14 property came into this.

15 Right now Yates is currently negotiating with
16 Nadel and Gussman to acquire their interests, so they
17 expect to have all of the -- 100 percent of the interest in
18 the unit here shortly.

19 So I just wanted to explain that when you're
20 looking through this a little bit later, so you knew what
21 you're looking at there.

22 EXAMINER JONES: So Nadel and Gussman know that
23 they are being -- their acreage is being combined in the
24 unit?

25 MS. MUNDS-DRY: That's my understanding, they do

1 know that, and they're not just participating in the unit,
2 but Yates -- they are interested in selling their interest
3 to Yates. So those negotiations are going on right now.

4 EXAMINER JONES: Okay.

5 MS. MUNDS-DRY: It's been a moving target, so
6 they're working on getting all of that interest now.

7 You'll see Attachment B to the affidavit is a
8 copy of the plat to the executed unit agreement,
9 identifying the unit boundary.

10 The initial test well is to be located at a gas-
11 well location 660 feet from the south line and 660 feet
12 from the east line of Section 8, and that will test all
13 formations, as I mentioned, from the top of the Queen
14 formation to an approximate total depth of 10,000 feet.

15 Attachment C to the affidavit is a copy of the
16 ownership breakdown. Yates and its affiliated companies
17 own all the working interest, except for the 80 acres that
18 I mentioned owned by Nadel and Gussman. All of the Yates
19 interest is voluntarily committed to the unit. And as I
20 mentioned, they hope to soon have complete control of the
21 operations.

22 Attachment D to the affidavit is a letter from
23 Mr. Bray from the Bureau of Land Management, dedicating the
24 acreage to the formation and the unit.

25 Attachment E-1 and E-2 are a gross isopach and

1 structure map for the Strawn sands, and this illustrates
2 Yates' projection of the sand trend in the area. The
3 Strawn sands are the main producing objective, and Yates
4 expects to encounter about 25-plus feet of Strawn sands,
5 and it is situated -- the well is situated to encounter
6 maximum thickness.

7 EXAMINER JONES: Okay.

8 MS. MUNDS-DRY: Attachments F-1 and F-2 to the
9 affidavit are structural and stratigraphic cross-sections
10 which display the Strawn, the Atoka-Morrow clastics and
11 Austin cycle intervals.

12 The structural cross-section shows an updip trend
13 from south to north. The stratigraphic cross-section shows
14 one or two Strawn sands and all the surrounding wells.

15 One of the wells on the cross-sections is the
16 Dominion Excalibur well, and that shows -- you will see
17 from the logs that it has two Strawn sands. Yates believes
18 that if Dominion had frac'd this well, they would have had
19 successful Strawn sand production, but they did not do
20 that, and there wasn't any other information on the well.

21 Mr. Miller testifies in his affidavit that
22 approval of this unit is pursuant to unit plan and is in
23 the best interest of conservation, the prevention of waste
24 and the protection of correlative rights.

25 If there are no questions, Yates asks that

1 Exhibit Number 1 and all of its attachments be admitted
2 into evidence.

3 EXAMINER JONES: Exhibit 1 and all the
4 attachments to Exhibit 1 will be admitted into evidence.

5 I do have a question. The -- He's projecting it
6 to the basement. The unit goes to the basement --

7 MS. MUNDS-DRY: Right.

8 EXAMINER JONES: -- from the top of the Queen; is
9 that right?

10 MS. MUNDS-DRY: The Queen, right. But I think
11 their main producing objective is the Strawn.

12 EXAMINER JONES: Okay. But then they have these
13 Morrow sands mapped out, which are below the Strawn.

14 MS. MUNDS-DRY: I think part of that is a
15 function of them changing their objective that they've gone
16 along in farming this unit.

17 I think that was shown on there earlier, but
18 they've since amended that to focus on the Strawn.

19 EXAMINER JONES: Okay. But their first well is
20 only going to be 10,000 feet to the Strawn. Okay, well,
21 they've worked this out with the feds anyway, I guess,
22 so...

23 Do you have any questions?

24 MS. MacQUESTEN: Do we have a proof of notice of
25 the hearing date sent to the appropriate parties?

1 MS. MUNDS-DRY: I believe so. I didn't bring
2 that file with me, excuse me.

3 What I can do, Mr. Hearing Examiner, is, as
4 opposed to taking up time, I can locate that and provide
5 that to you --

6 EXAMINER JONES: Okay.

7 MS. MUNDS-DRY: -- very shortly, if you'd like
8 to, and I'll get that to you.

9 EXAMINER JONES: Okay, that would be noticing
10 Nadel and Gussman?

11 MS. MacQUESTEN: Right.

12 MS. MUNDS-DRY: Right.

13 EXAMINER JONES: Yeah.

14 MS. MUNDS-DRY: I do have that, but --

15 EXAMINER JONES: Okay. Okay, and for some
16 reason, they started at the Queen -- base -- is it the base
17 of the Queen? Top of the Queen.

18 MS. MUNDS-DRY: Top of the Queen.

19 EXAMINER JONES: So they've nothing in the Yates
20 or above, they wanted to leave that out for some reason.

21 Okay. Okay, that's all I have in this case.

22 MS. MUNDS-DRY: Then we ask that you take this
23 matter under advisement, and I will find that notice for
24 you.

25 EXAMINER JONES: Okay, let's take Case 13,397

1 under advisement.

2 (Thereupon, these proceedings were concluded at
3 8:34 a.m.)

4 * * *

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8
9 I do hereby certify that the foregoing is
10 a complete record of the proceedings in
11 the Examiner hearing of Case No. _____,
heard by me on _____.

12 _____, Examiner
13 Oil Conservation Division
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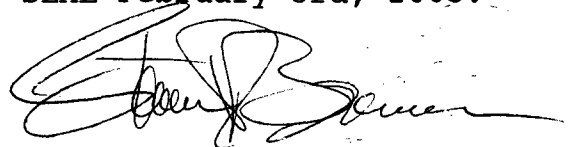
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
)
COUNTY OF SANTA FE) ss.

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 3rd, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006