

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. 13,415

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 17th, 2005

Santa Fe, New Mexico

2005 MAR 3 AM 8 08

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 17th, 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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## I N D E X

February 17th, 2005  
Examiner Hearing  
CASE NO. 13,415

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>JOHN AMIET</u> (Geologist)	
Direct Examination by Ms. Munds-Dry	4
Examination by Examiner Catanach	14
REPORTER'S CERTIFICATE	18

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## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	14
Attachment A	7	14
Attachment B	7	14
Attachment C	8	14
Attachment D	9	14
Attachment E	11	14
Attachment F	12	14
Exhibit 2	14	14
Exhibit 3	9	14

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## 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: OCEAN MUNDS-DRY

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 9:19 a.m.:

3 EXAMINER CATANACH: All right, at this time I'll  
4 call Case 13,415, the Application of Yates Petroleum  
5 Corporation for approval of a unit agreement, Chaves  
6 County, New Mexico.

7 Call for appearances.

8 MS. MUNDS-DRY: Good morning, Mr. Hearing  
9 Examiner. My name is Ocean Munds-Dry. I'm here on behalf  
10 of Yates Petroleum Corporation.

11 EXAMINER CATANACH: Any additional appearances?

12 Okay. Do you have witnesses, Ms. --

13 MS. MUNDS-DRY: Yes, at this time we'd like to  
14 call John Amiet.

15 EXAMINER CATANACH: Okay, will the witness please  
16 stand to be sworn in?

17 (Thereupon, the witness was sworn.)

18 JOHN AMIET,  
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 MS. MUNDS-DRY:

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

24 A. John Amiet.

25 Q. Where do you reside?

1 A. Artesia, New Mexico.

2 Q. And by whom are you employed?

3 A. Yates Petroleum.

4 Q. What is your position with Yates?

5 A. I'm a geologist with Yates.

6 Q. Have you previously testified before the Oil  
7 Conservation Division?

8 A. Yes, I have.

9 Q. Would you summarize your educational background  
10 for Mr. Catanach?

11 A. I've got a BA in English from Bowling Green State  
12 University; a BS in geology from Colorado State University;  
13 I've got about 21 hours from University of Texas, Permian  
14 Basin, graduate work; and I've got about 23 years' oil  
15 experience.

16 Q. Could you review your work experience?

17 A. I started out working for -- in uranium in  
18 Wyoming for a year. I transferred to south Texas, worked  
19 there for two years in uranium exploration. I worked  
20 probably 15 years in Midland, in oil and gas exploration;  
21 about three years in Oklahoma City, in oil and gas; and  
22 then back to Midland for another five; and then I've been  
23 with Yates for about four years here in Artesia.

24 Q. Are you familiar with the Application filed in  
25 this case?

1 A. Yes, I am.

2 Q. Are you familiar with the proposed Patsy State  
3 Exploratory Unit, including the status of the lands and the  
4 proposed unit area?

5 A. Yes, I am.

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

8 A. Yes.

9 Q. Are you prepared to share the results of the  
10 study with the Hearing Examiner?

11 A. Yes.

12 MS. MUNDS-DRY: We would tender Mr. Amiet as an  
13 expert in petroleum geology.

14 EXAMINER CATANACH: Mr. Amiet is so qualified.

15 Q. (by Ms. Munds-Dry) Mr. Amiet, if you could  
16 briefly state what Yates Petroleum Corporation seeks with  
17 this Application.

18 A. Yates is seeking approval of the Patsy State  
19 Exploratory Unit agreement. This is a voluntary  
20 exploratory unit containing approximately 3200 acres of  
21 State of New Mexico lands, located in Chaves County, New  
22 Mexico.

23 Q. Have you prepared certain exhibits for  
24 introduction in this case?

25 A. Yes.

1 Q. If you could identify and review for the Hearing  
2 Examiner what has been marked as Yates Exhibit Number 1 and  
3 explain what it is.

4 A. This is my affidavit and attachments, and it  
5 summarizes the testimony.

6 Q. Mr. Amiet, why did you prepare an affidavit in  
7 this case?

8 A. Initially we were going to do this without an  
9 appearance, and it's been decided, I guess, that since I  
10 was here I would appear.

11 Q. But in all other respects, this is a voluntary  
12 unit --

13 A. Yes, it is.

14 Q. -- like others we've done by affidavit?

15 A. Yes, it is.

16 Q. If you could review for the Hearing Examiner  
17 Yates Attachment A.

18 A. This is Exhibit A to the unit agreement. It  
19 reviews the status of the acreage. It shows that Energen  
20 and Chesapeake are committed. We're waiting to hear from  
21 Occidental, who has a very small 1.25-percent interest in  
22 this unit outline. It also shows that there are nine State  
23 of New Mexico leases.

24 Q. If you could review what is Yates Attachment B to  
25 your Exhibit 1.

1 A. This is the ownership breakdown --

2 Q. I think before that, there's a plat there.

3 A. Oh, that's the plat map?

4 Q. Uh-huh.

5 A. Okay, I'm showing -- this is the plat map. It  
6 shows the ownership or it shows the percent interest, and  
7 it shows the unit outline.

8 Q. And you said there are nine State of New Mexico  
9 leases?

10 A. There are nine State of New Mexico leases  
11 outlined here.

12 Q. And there's approximately 3200 acres?

13 A. That's correct.

14 Q. If you could identify for the Hearing Examiner  
15 and review Attachment C, which I believe is the ownership  
16 breakdown.

17 A. This is the ownership breakdown, it's Exhibit B  
18 to the unit agreement. Again, it shows the ownership of  
19 each lease in the unit area, and it shows that they're all  
20 State of New Mexico lands.

21 Q. Has all acreage in the proposed unit been  
22 committed?

23 A. 98.75 percent has been committed. That's all  
24 except 40 acres that OXY has. It's a very small interest,  
25 and it's just low on their priority list.



1 Q. But this would give Yates effective control of  
2 unit operations?

3 A. Yes, it does.

4 Q. Has the Commissioner of Public Lands given his  
5 preliminary approval to the proposed unit agreement?

6 A. Yes, he has, we have an approval letter from the  
7 Commissioner of Public Lands.

8 Q. Is that what Attachment D is, a letter from the  
9 Commissioner?

10 A. That's correct.

11 Q. Let's turn to -- Does Yates Petroleum Corporation  
12 desire to be the designated unit operator?

13 A. Yes.

14 Q. If you could turn to what's been marked as Yates  
15 Exhibit Number 3, which I think is at the end there, and  
16 identify that for the Hearing Examiner.

17 A. This is the AFE for the initial test well. It  
18 sets out the dryhole and completed well costs. The dryhole  
19 cost is \$1,248,000, the completed cost is \$1,836,500. We  
20 plan to spud this well before March 1st. At that time,  
21 four leases will expire if this unit has not been approved  
22 and drilling has not commenced.

23 Q. Turning back to the unit agreement, Mr. Amiet,  
24 does this -- the agreement provide for periodic filings of  
25 plans of development?

1 A. Yes, it does.

2 Q. Will these plans be filed with the OCD as well as  
3 the State Land Office?

4 A. Yes.

5 Q. How often are these plans filed?

6 A. This is covered in Article 9 of the unit  
7 agreement. The initial plan is six months after completion  
8 of the initial unit well. Subsequent plans are 12 months  
9 thereafter.

10 Q. What horizons are being unitized in the proposed  
11 Patsy Exploratory Unit?

12 A. Yates wishes to unitize all formations from the  
13 surface down into the Mississippian limestone.

14 Q. And where does Yates propose to drill the test  
15 well?

16 A. It will be 660 feet from the east line, 990 feet  
17 from the north line, Section 15, Township 12 South, Range  
18 31 East.

19 Q. And what depth do you propose to drill to?

20 A. Approximately a TD, 11,375 feet, which will go  
21 into the Mississippian.

22 Q. What is the primary objective in this well, Mr.  
23 Amiet?

24 A. This will be a wildcat well looking for basal  
25 Atoka production.

1 Q. Are there any secondary objectives?

2 A. Yes, there's Queen production south of here and  
3 immediately to the west of the map area.

4 Q. If you would turn to what's been marked as  
5 Attachment E to your affidavit and review that for the  
6 Examiner.

7 A. This is a basal Atoka net sand isopach map. The  
8 unit outline is shown with the solid green line. It  
9 outlines a total of five sections. It shows the wells that  
10 have penetrated the basal Atoka. The solid purple circles  
11 are wells that have produced -- in the southeast corner of  
12 the map, wells that have produced from the basal Atoka.  
13 The one well with open circle in Section 14 has penetrated  
14 but is not producing from the basal Atoka, it's producing  
15 from upper Atoka zone. And then there's one penetration up  
16 in Section 34 that was a dry hole.

17 So in summary, there's only been a total of four  
18 wells drilled into the -- or through the basal Atoka  
19 formation in this map area.

20 It shows that these are braided channels. The  
21 channel systems are trending from north to south. These  
22 channels split and intertwine. It's a complicated braided  
23 system.

24 The proposed Patsy well is in a second channel  
25 that's located off to the west, in the northeast quarter of

1 Section 15.

2 Q. How did you determine that location?

3 A. This was determined by using 3-D seismic and the  
4 limited well control. Yates shot about 85 square miles of  
5 seismic in conjunction with Chesapeake.

6 Q. Mr. Amiet, if you could identify and review for  
7 the Examiner Yates Attachment F.

8 A. This is a stratigraphic cross-section going  
9 through the three wells in the southeast quarter of the map  
10 and through the proposed Patsy location to the west. The  
11 basal Atoka sands are highlighted in yellow.

12 The well in the middle is the Enserch. This is a  
13 well that's made around 5 BCF of gas and around 100 MBO of  
14 oil.

15 You can also find the sand on the well to the  
16 east. This well is located about 160 feet structurally low  
17 to this excellent producer. For some reason, it was not a  
18 good producer. It never made much water, but it just  
19 seemed like it was tight. It never made much of anything.  
20 It made about 33 to 35 million cubic feet of gas, is all.

21 Going to the third well from the right, is the  
22 Enserch State 14 Number 1. It does not have this basal  
23 sand. It produced from about 200 feet up the hole. Again,  
24 it had very limited production of about 77 million cubic  
25 feet of gas, so it was not close to being an economic well.

1           And then you continue on to the west, is the  
2 proposed Patsy well where we hope to find 30 to 40 feet of  
3 sand.

4           Q.    Thank you.  Going back to your affidavit, which  
5 has been marked as Exhibit 1, if you could refer to your  
6 affidavit and explain to the Examiner why Yates is  
7 proposing to develop its area under the proposed unit plan.

8           A.    The north-south trend of these sands, it would be  
9 much easier -- or better produced under a unit plan to  
10 where you could follow the sand channels, rather than  
11 worrying about expiring acreage.

12                   It is an expensive well, over \$1.8 million, and  
13 there's been very limited success out here.  Like I say,  
14 there's only one successful well in this 24 square miles.

15           Q.    Will the formation of this unit result in the  
16 reasonable development of these reserves?

17           A.    Yes.

18           Q.    And is the pool effectively developed under a  
19 unit plan?

20           A.    Yes, it would be better developed under a unit  
21 plan.

22           Q.    What does your geologic study tell you about the  
23 subject formation in this area?

24           A.    It's a tight sand, it's very sensitive to fluids,  
25 you have to be very careful completing these wells.  They

1 can make excellent wells, they're very easily damaged.  
2 It's kind of a high risk. We have to be very careful with  
3 these sands.

4 Q. Mr. Amiet, is Exhibit 2 an affidavit of  
5 publication?

6 A. Yes, it is.

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

11 A. Yes.

12 Q. Were Exhibit 1 and its attachments and Exhibits 2  
13 and 3 prepared by you or under your direction or  
14 supervision?

15 A. Yes.

16 MS. MUNDS-DRY: We would move the admission into  
17 evidence of Yates Exhibits 1 through 3 and their  
18 attachments.

19 EXAMINER CATANACH: Exhibits 1 through 3 and  
20 their attachments will be admitted as evidence.

21 MS. MUNDS-DRY: Mr. Hearing Examiner, that  
22 concludes my direct examination of Mr. Amiet.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Amiet, Occidental is -- they have what you --

1 they own Tract 4 within the unit; is that correct?

2 A. They own in Section 2. It's the southeast of the  
3 southwest, 40 acres.

4 Q. Okay. They haven't committed as of yet?

5 A. Not at this time. Again, it's kind of a low  
6 priority for them. They will have 1.25 percent of the unit  
7 outline, and they just haven't responded yet.

8 Q. Okay. Did you say Energen and Chesapeake had  
9 committed?

10 A. Yes, in the last several days they've given their  
11 verbal commitments. This has been kind of late getting  
12 together. This whole thing started about a year ago where  
13 Chesapeake and Yates decided to shoot a 3-D seismic  
14 program. We ended up shooting about 85 square miles at  
15 about a \$1.5-million cost.

16 And Yates and Chesapeake did their individual  
17 interpretations and then finally got together and picked  
18 the location. But our geophysicist had hip surgery in  
19 December, and so in light of October, November and December  
20 he was out, so it kind of put the program behind. And it's  
21 just been in the last few weeks we've really been able to  
22 get together with Energen and Chesapeake.

23 I've talked to Dave Cromwell with Energen, and  
24 he's -- again, says it's a low priority for them, because  
25 they only have about 13.75 percent, and they just would

1 rather participate -- or just farm out, rather than  
2 participate in the unit.

3 And I've talked to Mike Braun with Chesapeake,  
4 and he again expressed his interest in cooperating with  
5 Yates. In fact, they shot the seismic with us, and their  
6 geophysicist agrees with our geophysicist on where to drill  
7 the well.

8 Q. The initial well is going to be on a 100-percent  
9 Yates lease; is that right?

10 A. Actually -- well, Chesapeake owns half of this  
11 section. I think Yates has -- this was repurchased and --

12 Q. Okay, I see it, yeah. You have Chesapeake 50  
13 percent, that's --

14 A. Right.

15 Q. That's right. Okay. So they're going to share  
16 in the cost of the well?

17 A. That's correct.

18 Q. And you're going to spud the well before March  
19 1st?

20 A. That's correct.

21 Q. That's coming up.

22 A. Very quickly, yes.

23 Q. Okay.

24 A. We've currently got six rigs going out in this --  
25 in the Lea -- northwest Lea, Chaves, eastern Chaves area,



1 so it's a very active area for Yates.

2 EXAMINER CATANACH: That's why we see all those  
3 downhole commingling applications, I suspect.

4 Okay, anything further?

5 MS. MUNDS-DRY: Nothing further.

6 EXAMINER CATANACH: There's nothing further. I  
7 suspect you want an expedited order in this case?

8 MS. MUNDS-DRY: Please.

9 EXAMINER CATANACH: Okay. All right, there being  
10 nothing further, Case 13,415 will be taken under  
11 advisement.

12 THE WITNESS: Thank you.

13 EXAMINER CATANACH: Thanks, John.

14 Let's take a 15-minute break here.

15 (Thereupon, these proceedings were concluded at  
16 9:36 a.m.)

17 \* \* \*

18  
19 I do hereby certify that the foregoing is  
20 a complete record of the proceedings in  
the Examiner hearing of Case No. 13415,  
heard by me on February 17, 2005.

21 David R. Catanach, Examiner  
22 Oil Conservation Division  
23  
24  
25

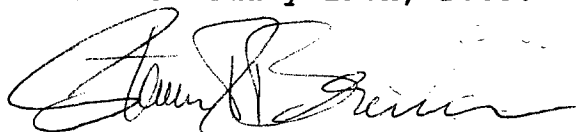
## CERTIFICATE OF REPORTER

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 19th, 2005.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006