

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. 13,638

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

February 2nd, 2006

Santa Fe, New Mexico

2006 FEB 16 PM 1 21

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This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, February 2nd, 2006, 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:

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FOR THE APPLICANT:

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Santa Fe, New Mexico 87504-2208
By: OCEAN MUNDS-DRY

* * *

1 WHEREUPON, the following proceedings were had at
2 8:14 a.m.:

3 EXAMINER JONES: Okay, with that we'll call Case
4 -- the first case of the morning, Case, 13,638, Application
5 of Yates Petroleum Corporation for approval of a unit
6 agreement, Lea County, New Mexico.

7 Call for appearances.

8 MS. MUNDS-DRY: Good morning, Mr. Hearing
9 Examiner. My name is Ocean Munds-Dry with the law firm of
10 Holland and Hart. I'm here representing Yates Petroleum
11 Corporation this morning.

12 EXAMINER JONES: Any other appearances?

13 MS. MUNDS-DRY: Mr. Hearing Examiner, Yates seeks
14 approval of the Hoyt State Exploratory Unit this morning
15 and seeks approval of this proposed unit by affidavit
16 pursuant to Division policy.

17 This unit is comprised of 7360 acres. We
18 originally advertised it for 7520 acres, and that included
19 some federal acreage which they've now taken out of the
20 unit, so now it consists only of state lands. And the
21 correct horizontal limits are listed in Exhibit 1, which is
22 Mr. Amiet's affidavit.

23 EXAMINER JONES: So the acreage is 7440 now?

24 MS. MUNDS-DRY: It is now 7360 acres.

25 EXAMINER JONES: Okay, the actual acreage is in

1 the affidavit?

2 MS. MUNDS-DRY: That's correct, Mr. Hearing
3 Examiner. This unit is located approximately seven miles
4 southeast of Crossroads, New Mexico. And as I mentioned,
5 Exhibit 1 is the affidavit of Mr. John Amiet. He
6 identifies the project, and as I mentioned he gives the
7 correct acreage and horizontal limits of the unit area.

8 Attachment A to the affidavit is the unit
9 agreement, and it conforms to the State Land Office form.

10 Attachment B to the affidavit is a plat showing
11 the unit boundary. It, as I mentioned, identifies the unit
12 boundaries in green. Yates proposes to test all formations
13 from the surface to the base of the Mississippian
14 formation. The initial test well will be located at a
15 standard location 1650 from the south line and 1650 from
16 the east line of Section 15, Township 10 South, Range 35
17 East, and they propose to go to an approximate total depth
18 of 12,800 feet.

19 Attachment C to the affidavit is a copy of the
20 ownership breakdown. Ninety-nine percent of the working
21 interest is committed to the unit, and I believe that's all
22 Yates Petroleum Corporation's working interest, and a
23 hundred percent of the royalty is owned by the State of New
24 Mexico.

25 Attachment D to the affidavit is a letter from

1 the Commissioner of Public Lands giving preliminary
2 approval to the formation of this unit.

3 If you'll turn to Attachment E to the affidavit,
4 it's a middle Atoka net sand isopach. And as Mr. Amiet
5 discusses in his affidavit, it shows the interpreted
6 channel system which in places seems to develop into distal
7 fans. You'll see that there's only been one middle Atoka
8 production that's outside of the unit, and that is shown by
9 the purple circle to the west of the unit, and that was a
10 Yates well. It's the Merle Number 1. There's been no
11 Atoka production inside of the unit boundary.

12 Attachment F to the affidavit is a stratigraphic
13 cross-section map. I'll briefly go through the wells here
14 for you. Mr. Amiet shows the proposed Atoka sand target in
15 yellow. As I mentioned, the Yates Merle Number 1 well has
16 perforated sand intervals. It had a cumulative production
17 of 17 MBO and 696 of MMCF.

18 The next well shown on the map is the map is the
19 Yates Petroleum Royal Number 1. That had poor sand, as you
20 can see on the cross-section.

21 The next well is the Humble well, and that had 30
22 feet of good sand, but it was never tested in the Atoka.

23 The final well on the cross-section is the Tom
24 Brown well. It did have a drill stem test in a similar
25 sand interval which recovered 564 of mud.

1 Yates Exhibit Number 2 is the AFE, showing the
2 proposed costs for the well. You'll see that for a
3 completed well the cost will be \$2,970,300.

4 And then finally, Mr. Hearing Examiner, Yates
5 Exhibit Number 3 is the affidavit of publication. And I
6 hope you have a readable copy. If you do not, please let
7 me know.

8 EXAMINER JONES: Okay.

9 MS. MUNDS-DRY: Mr. Amiet testifies that the
10 development of this unit area is pursuant to a unit plan,
11 is in the best interest of conservation, the prevention of
12 waste and protection of correlative rights.

13 And with that, we'd ask that Yates Exhibits
14 Number 1 through 3 be admitted into evidence.

15 EXAMINER JONES: Yates Exhibits 1 through 3 will
16 be admitted into evidence.

17 This is an Atoka 320-acre spacing target, right?

18 MS. MUNDS-DRY: That's correct, Mr. Examiner,
19 yes.

20 EXAMINER JONES: The outline on the unit shows --
21 oh, for instance, a couple of sections that could not have
22 a 320-acre spacing unit in them, and -- the State Land
23 Office is not -- is that -- does -- those were part of the
24 lease or something, or -- In other words, that little --
25 those little 160 -- like the 160 acres in, for instance --

1 well, I can't read the sections here, but there's -- even
2 Section 24, down in the lower right of the unit boundary,
3 includes -- it looks like you could put an Atoka spacing
4 unit on top, but then it's got the north half of the south
5 half, you know. So the State Land Office doesn't mind
6 doing that?

7 MS. MUNDS-DRY: I can't speak for the State Land
8 Office, Mr. Hearing Examiner. All I know is, they did look
9 at the unit boundary and were comfortable with it, and --

10 EXAMINER JONES: And they approved it.

11 MS. MUNDS-DRY: -- and they gave their
12 preliminary approval, so --

13 EXAMINER JONES: Okay.

14 MS. MUNDS-DRY: -- other than that, I can't speak
15 to that.

16 EXAMINER JONES: And as far as that goes, it
17 looks like it might be a good Atoka potential test for this
18 unit, so --

19 MS. MUNDS-DRY: We hope so.

20 EXAMINER JONES: -- so -- and these are not --
21 this is not named after a country-western singer?

22 MS. MUNDS-DRY: Unless it's a very old one, I
23 don't know.

24 EXAMINER JONES: Mr. Amiet --

25 MS. MUNDS-DRY: You know Mr. Amiet likes to name

1 them after old country singers.

2 Gail, do you have any questions?

3 MS. MacQUESTEN: No questions, thank you.

4 EXAMINER JONES: Okay.

5 MS. MUNDS-DRY: We'd ask this case be taken under
6 advisement.

7 EXAMINER JONES: Okay. With that, we'll take
8 Case 13,638 under advisement.

9 (Thereupon, these proceedings were concluded at
10 8:22 a.m.)

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____
_____, 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 2nd, 2006.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006