

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. 13,591

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 17th, 2005

Santa Fe, New Mexico

2005 DEC 1 PM 3 37

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 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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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 8:28 a.m.:

3 EXAMINER CATANACH: And at this time I'll call
4 Case 13,591, the Application of Yates Petroleum Corporation
5 for approval of a Unit agreement, Lea County, New Mexico.
6 Call for appearances.

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

10 EXAMINER CATANACH: Any other appearances?
11 None.

12 MS. MUNDS-DRY: Mr. Hearing Examiner, Yates seeks
13 approval of the Milsap State Exploratory Unit this morning,
14 by affidavit pursuant to Division policy.

15 The Milsap unit, Mr. Hearing Examiner, is
16 comprised of 2240 acres of State of New Mexico and fee
17 lands.

18 I did note just this morning on the docket, just
19 to bring to your attention right up front, I believe we're
20 going to have to readvertise this unit, as we only
21 advertised that there were State of New Mexico lands
22 involved. With your permission, I'll continue to run
23 through the exhibits. And then if you'll allow, we'll
24 continue the case and re-notify and re-advertise.

25 This unit is located approximately 10 miles west

1 of Tatum, New Mexico. And if you turn to Yates Exhibit
2 Number 1, that's the affidavit of John Amiet, who is the
3 petroleum geologist identifying the project. For some
4 reason the lettering seems very small this morning, I'm not
5 sure why.

6 If you turn to Attachment A to the affidavit --
7 Oh, and just to note, he does state in his affidavit that
8 this is both State of New Mexico and fee lands, so we did
9 get it right in one spot anyway.

10 Attachment A to the affidavit is a copy of the
11 unit agreement. You'll note that it conforms to the State
12 Land Office form.

13 Attachment B to the affidavit is a copy of the
14 plat to the unit agreement. It identifies the unit
15 boundary. Yates proposes to test all the formations from
16 the surface to the base of the Mississippian formation.
17 The initial test well will be located at a standard
18 location 1980 feet from the north line and 660 feet from
19 the east line in Section 36, Township 12 South, Range 33
20 East.

21 And the plan is to test all formations from the
22 surface to an approximate total depth of 12,000 feet.

23 Attachment C to the affidavit is a copy of the
24 ownership breakdown. Ninety-nine percent of the working
25 interest is committed to the unit, and 99 percent of the

1 royalty is owned by the State. There are 40 acres of fee
2 land. Currently 20 acres is leased and 20 acres is
3 unleased.

4 Exhibit 3 is the letter that was sent to the
5 unleased interest owners, asking them to participate in the
6 well, which is in the back here.

7 Mr. Catanach, Attachment D to the affidavit is a
8 letter from the Commissioner of Public Lands giving
9 preliminary approval to the formation of this unit.

10 Attachment E to the affidavit is a top-of-Austin
11 structure map. Mr. Amiet is showing on this map that
12 they're interpreting the sand channels, extending the
13 Morrow trend onto the proposed unit. The basal Morrow sand
14 channels have proven to be good reservoirs four miles to
15 the north, as is shown on this map.

16 The map shows also that structure is very
17 important in this area. You'll note there is a major
18 north-south fault running along the left of the map here,
19 shown by the heavy black line, and that's located
20 immediately west of the proposed unit. There are pre-
21 existing faults, but much of the structure, Mr. Amiet
22 believes, seems to have occurred after deposition of the
23 Atoka-Morrow sands.

24 Attachment F to the affidavit is a structural
25 cross-section map. It shows several Atoka sands in yellow,

1 and these Atoka sands were described in sample logs from
2 wells on the map. There are four deep wells which were
3 Devonian tests, and were the only Atoka-Morrow penetrations
4 east of the large fault.

5 The Phillips Signal well, which is the second
6 well shown on the cross-section, had Devonian production of
7 9602 barrels of order -- of oil, excuse me -- and 147
8 MMCFG.

9 The State HT Number 1 well, which is the first
10 well shown on the map, produced 206 MBO and 159 MMCFG from
11 the upper Pennsylvanian. Yates believes there is good
12 potential for upper Pennsylvanian production in this well.

13 Turning to Exhibit Number 2, that's the AFE for
14 the proposed well. Yates believes it will be \$2,413,800 to
15 complete this well.

16 And finally, Yates Exhibit Number 4 is an
17 affidavit of publication showing that notice was given.

18 Mr. Amiet testifies that the development of this
19 unit area is pursuant to a unit plan and is in the best
20 interest of conservation, the prevention of waste and the
21 protection of correlative rights.

22 And I believe that's it. We would ask that Yates
23 Exhibits Number 1 through 4 be admitted into evidence.

24 EXAMINER CATANACH: Exhibits 1 through 4 will be
25 admitted.

1 MS. MUNDS-DRY: And as I mentioned, Mr. Catanach,
2 if you would allow us to continue this case we will
3 renotify and readvertise to include the fee lands in the
4 description.

5 EXAMINER CATANACH: Okay. So there are fee
6 interest owners who are not committed to the unit at this
7 point?

8 MS. MUNDS-DRY: That's correct. I don't know the
9 exact breakdown, but there are 20 acres that are unleased
10 at this point.

11 EXAMINER CATANACH: Okay. All right, four weeks'
12 continuance, is that --

13 MS. MUNDS-DRY: That would be fine, Mr. Catanach,
14 thank you.

15 EXAMINER CATANACH: Okay, anything further?

16 MS. MUNDS-DRY: Nothing further.

17 EXAMINER CATANACH: Okay, at this time we will
18 continue Case 13,591 to the December 15th hearing.

19 (Thereupon, these proceedings were concluded at
20 8:25 a.m.)

21 * * *

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 13591,
25 heard by me on November 17, 2005.

David R. Catnach, 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 November 18th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006