

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. 13,698

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

April 27th, 2006

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, April 27th, 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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I N D E X

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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 8:21 a.m.:

3 EXAMINER JONES: So at this time let's call Case
4 13,698, Application of Yates Petroleum Corporation for
5 approval of a unit agreement, Eddy County, New Mexico.

6 Call for appearances.

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

11 EXAMINER JONES: Okay, any other appearances?

12 MS. MUNDS-DRY: I'd be surprised, but you never
13 know.

14 Good morning, Mr. Hearing Examiner. I'm here
15 representing Yates this morning, who seeks approval of the
16 Manchester State Exploratory Unit. Yates seeks approval of
17 this proposed unit by affidavit pursuant to Division
18 policy.

19 This proposed unit is comprised of 2240 acres of
20 State of New Mexico lands and is located approximately 20
21 miles west of Lakewood, New Mexico.

22 If you'll turn to Yates Exhibit Number 1, it's
23 the affidavit of John Humphrey who's the petroleum
24 geologist, and he's identifying the project in the
25 affidavit.

1 Attachment A to the affidavit is a copy of the
2 unit agreement. I just noticed for some reason, Mr.
3 Hearing Examiner, that my copy is executed but yours is
4 not, so I'll have to provide that to the Division at a
5 later time, and I'll provide that to the court reporter as
6 well. I don't know what happened there, but we'll get it
7 straight.

8 Attachment B to the affidavit is a copy of the
9 plat to the unit agreement identifying the unit boundary.
10 Yates proposes to test all formations from the surface to
11 the base of the Morrow formation. The initial test well is
12 to be located at a standard location 760 feet from the
13 north line and 660 feet from the west line in Section 20,
14 Township 19 South, Range 23 East. Yates plans to test all
15 formations from the surface to an approximate total depth
16 of 7750 feet.

17 Attachment C to the affidavit is a copy of the
18 ownership breakdown. 100 percent of the working interest
19 is committed to the unit. You will see in tract number 7
20 Pitch Energy is the lessee of record, and they have agreed
21 to commit their interest to the unit. 100 percent of the
22 royalty is owned by the State and is also committed to the
23 unit.

24 Attachment D to the affidavit is a copy of the
25 preliminary approval letter from the Commissioner of Public

1 Lands.

2 Attachment E to the affidavit is a net sand
3 isopach map. As you can see, the map shows the trend of
4 this fluvial channel through the proposed unit area.
5 Regional subsurface mapping in this area indicates a lower
6 Morrow channel that exists throughout the proposed unit.

7 Attachment F to the affidavit is a stratigraphic
8 cross-section map. As Mr. Humphrey discusses in his
9 affidavit, it shows the characteristics of the sand in the
10 channels and on the overbank edges. Major fields like
11 along this trend, including the Little Box Canyon.

12 And Attachment G to the affidavit is an upper
13 Wolfcamp type log. Although the primary target is the
14 Morrow formation, they're also looking -- Yates is also
15 looking at the upper Wolfcamp limestone dolomite as a
16 potential horizontal play. They would propose to go to an
17 approximate depth of 4650 feet.

18 There has been production from the zone to the
19 north of the unit. In fact, several operators northwest of
20 this unit have had successful Wolfcamp horizontal drills.

21 Yates believes it is possible to have a
22 significant increase in production if horizontal drilling
23 technology is used. Mr. Humphrey goes into more detail in
24 his affidavit.

25 And finally Yates Exhibit Number 2 is affidavit

1 of publication, showing proper notice was given in this
2 case. Mr. Humphrey testifies that the development of this
3 unit area is pursuant to unit plans and is in the best
4 interests of conservation, the prevention of wastes and the
5 protection of correlative rights.

6 And with that, we'd ask that Yates Exhibit Number
7 1 and its attachments and Exhibit Number 2 be admitted into
8 evidence.

9 EXAMINER JONES: Exhibit Number 1 and its
10 attachments and Exhibit Number 2 will be admitted to
11 evidence.

12 Be sure and tell Mr. Humphrey that I really like
13 his exhibits. His type log for the Wolfcamp is really
14 nice.

15 MS. MUNDS-DRY: I'll be sure to convey that to
16 him.

17 EXAMINER JONES: Okay. Yeah, he's put the mud
18 log on it and resistivity, the porosity, the drill rate,
19 everything, right there together, and it's all small enough
20 that you don't have to fold out a huge -- I guess --

21 MS. MUNDS-DRY: We aim to please.

22 EXAMINER JONES: Yeah, they must have some nice
23 software there or something.

24 But this upper Wolfcamp horizontal play is
25 heating up, apparently, and other operators seem to be

1 going for that.

2 MS. MUNDS-DRY: So it seems, yeah.

3 EXAMINER JONES: And the Morrow -- So you say
4 there's one tract that has not everybody signed; is that
5 right?

6 MS. MUNDS-DRY: No, everybody has committed to
7 this unit, including Pitch Energy Corporation. The rest
8 are Yates interests and affiliated interests --

9 EXAMINER JONES: Okay.

10 MS. MUNDS-DRY: -- but Pitch does have some
11 interest in it.

12 EXAMINER JONES: In tract 7.

13 Okay, that's -- Everything looks kosher.

14 Okay, with that, we'll -- we have nothing else
15 to --

16 MS. MUNDS-DRY: Nothing further.

17 EXAMINER JONES: Nothing further, and so we'll
18 take Case 13,698 under advisement.

19 MS. MUNDS-DRY: Thank you, Mr. Hearing Examiner.

20 (Thereupon, these proceedings were concluded at
21 8:28 a.m.)

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

25 _____, Examiner
Oil Conservation Division

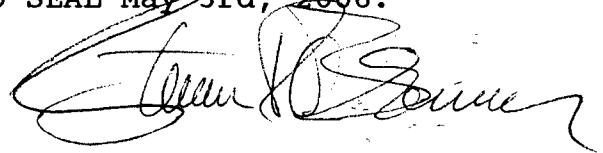
CERTIFICATE OF REPORTER

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 May 3rd, 2006.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006