

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 COMPULSORY POOLING)
AND AN UNORTHODOX GAS WELL LOCATION,)
LEA COUNTY, NEW MEXICO)

CASE NO. 13,038

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

RECEIVED

July 24th, 2003

AUG . 7 2003

Santa Fe, New Mexico

Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, July 24th, 2003, 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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July 24th, 2003
Examiner Hearing
CASE NO. 13,038

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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: MICHAEL H. FELDEWERT

FOR DAVID H. ARRINGTON OIL AND GAS, INC.:

MILLER, STRATVERT and TORGERSON, P.A.
 150 Washington
 Suite 300
 Santa Fe, New Mexico 87501
 By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 11:57 a.m.:

3 EXAMINER STOGNER: Call Case Number 13,038, which
4 is the Application of Yates Petroleum Corporation for
5 compulsory pooling and an unorthodox gas well location in
6 Lea County, New Mexico.

7 Call for appearances.

8 MR. FELDEWERT: May it please the Examiner, my
9 name is Michael Feldewert with the Santa Fe office of the
10 law firm of Holland and Hart. I'm appearing on behalf of
11 the Applicant today, Yates Petroleum Corporation, and I
12 have two witnesses.

13 MR. HALL: Mr. Examiner, Scott Hall, Miller
14 Stratvert law firm, Santa Fe, appearing on behalf of David
15 H. Arrington Oil and Gas, Incorporated, and I have no
16 witnesses today.

17 EXAMINER STOGNER: Just for the record, David H.
18 Arrington, are they an interest in the well or an
19 offsetting interest? What's David Arrington's position or
20 interest in this matter?

21 MR. HALL: I understand he has an acreage
22 position in the proration unit.

23 EXAMINER STOGNER: Okay, and you're here on that
24 portion of it, not the unorthodox location *per se*?

25 MR. HALL: That's correct.

1 EXAMINER STOGNER: Okay. Okay, I didn't know if
2 he was an offset. And you have no witness.

3 No other appearances?

4 Will the witnesses please stand to be sworn?

5 (Thereupon, the witnesses were sworn.)

6 EXAMINER STOGNER: Mr. Feldewert, I told Mr.
7 Kellahin earlier, and I'll remind you, I understand there
8 has been some promulgation of rules for compulsory pooling,
9 however those have not been officially accepted and are not
10 in effect yet. I guess you are aware of that fact, that
11 the risk penalty factor is still contingent upon proof at
12 this point?

13 MR. FELDEWERT: I am aware of that, and we plan
14 on calling a geologist to address those points.

15 EXAMINER STOGNER: And you understand I can sign
16 anything from zero to 200 at this point?

17 MR. FELDEWERT: I understand.

18 EXAMINER STOGNER: Okay, thank you.

19 ROBERT BULLOCK,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. FELDEWERT:

24 Q. Would you please state your name, where you
25 reside, by whom you're employed and in what capacity?

1 A. My name is Robert Bullock, and I reside in Hope,
2 New Mexico. I'm employed by Yates Petroleum as a landman.

3 Q. And have you previously testified before this
4 Division and had your credentials as a petroleum landman
5 accepted and made a matter of record?

6 A. Yes.

7 Q. Are you familiar with the Application filed by
8 Yates and the status of the lands in the subject area?

9 A. Yes, sir.

10 MR. FELDEWERT: Mr. Examiner, are the witness's
11 qualifications acceptable?

12 EXAMINER STOGNER: Any objection?

13 MR. HALL: No objection.

14 EXAMINER STOGNER: Mr. Bullock is so qualified.

15 Q. (By Mr. Feldewert) Would you briefly state what
16 Yates seeks in this case?

17 A. We seek an order pooling the mineral interest in
18 the east half of Section 19, Township 15 South, Range 35
19 East, to form a standard gas spacing and proration unit for
20 all formations developed on 320-acre spacing, which
21 includes the southeast quarter, to form a standard spacing
22 and proration unit for all formations developed on 160-
23 acres, to be dedicated to our well called the Associate
24 "AZP" State Com Number 1, to be drilled at an unorthodox
25 gas well location at 1650 from the south line and 2310 from

1 the east line of said Section 19.

2 EXAMINER STOGNER: I think we need to go back
3 here. You said something about 160-ace spacing? I'm
4 sorry, did I miss something?

5 THE WITNESS: Well, I don't think that needs to
6 be put in this thing. We're --

7 EXAMINER STOGNER: The Application is for an east
8 half, 320.

9 THE WITNESS: Correct.

10 MR. FELDEWERT: I just think -- you're right, Mr.
11 Examiner --

12 THE WITNESS: Yeah, that doesn't need to be in
13 there.

14 EXAMINER STOGNER: Okay.

15 MR. FELDEWERT: So for the record, we're not
16 pooling for a southeast quarter?

17 THE WITNESS: That's right.

18 EXAMINER STOGNER: Okay, I'm sorry. Continue,
19 please.

20 Q. (By Mr. Feldewert) Along those same lines, Mr.
21 Bullock, I know you have had some discussions with David H.
22 Arrington in connection with your pooling Application; is
23 that correct?

24 A. That's correct.

25 Q. All right. Have you revised your pooling

1 Application today to accommodate some of Mr. Arrington's
2 concerns?

3 A. When we originally proposed this well to
4 Arrington, we sent him a JOA that pooled all the rights
5 from the surface down to the base of the Mississippian.
6 And through talking with him and the geologists talking, he
7 did not want to pool his Strawn rights. He owns leases in
8 the northeast quarter, and Yates owns leases in the
9 southeast quarter. The well, physical well location, is in
10 the southeast quarter, and he did not want to pool any of
11 his Strawn rights in this well, so we accommodated him by
12 revising the JOA, which pooled only the 320-acre depths,
13 the Atoka-Morrow-Mississippian depths.

14 Q. Okay, so for the purposes of the record, then,
15 Yates is here today to pool from the base of the Strawn to
16 the base of the Mississippian?

17 A. That's correct.

18 Q. And you're here today to pool the east half of
19 Section 19 to form a 320-acre spacing unit?

20 A. That is correct.

21 Q. Okay. And you're also here today for an
22 unorthodox gas well location; is that correct?

23 A. Yes.

24 Q. Okay. Your proposed location is --

25 A. 2310 from the east line is 330 feet too close to

1 that west line of Section -- of the east-half dedication.

2 Q. Okay. Is Yates Exhibit Number 1 a land map of
3 the area?

4 A. Yes, sir.

5 Q. And does it show your proposed spacing unit?

6 A. Yes, it does.

7 Q. And it shows your proposed well location in red;
8 is that correct?

9 A. Correct.

10 Q. What is the primary objective of your proposed
11 well?

12 A. It's the Morrow formation.

13 Q. And which Morrow and Mississippian gas pools are
14 involved here?

15 A. I believe that's the Eidson Morrow North Morrow
16 pool.

17 MR. FELDEWERT: Okay, and I think we -- just in
18 checking that, Mr. Examiner, I believe it's the
19 Undesignated Northwest Big Dog-Mississippian Gas Pool and
20 the Undesignated Big Dog-Morrow Gas Pool.

21 THE WITNESS: Right.

22 Q. (By Mr. Feldewert) Okay. Do you have -- What
23 are your secondary objectives for this well?

24 A. The Mississippian is a secondary, and also the
25 Strawn is a secondary.

1 Q. All right. Now, your Exhibit Number 1 shows the
2 ownership in the area; is that correct?

3 A. Yes.

4 Q. Okay, and what is the status of the acreage in
5 the east half of Section 19?

6 A. It's four state leases. Arrington owns the two
7 state leases in the northeast quarter, and Yates owns the
8 two state leases in the southeast quarter.

9 Q. Is David H. Arrington Oil and Gas, is that the
10 only interest owner that you're seeking to pool today?

11 A. Yes.

12 Q. All right. Now, I then want to focus on your
13 efforts to reach voluntary agreement with David H.
14 Arrington. How would you describe your efforts to reach
15 agreement with him?

16 A. We submitted the first proposal, the AFE and the
17 JOA were presented to him on November 26th of 2002.

18 Q. Has that been marked as Yates Exhibit Number 2?

19 A. Yes.

20 Q. Okay. And did that proposal in November 26th,
21 2002, that included an AFE and a JOA; is that correct?

22 A. That's correct.

23 Q. Okay. All right, then what does Yates Exhibit
24 Number 3 reflect?

25 A. Exhibit 3 reflects all the telephone and e-mail

1 conversations that have transpired between Yates and David
2 Arrington. We've dated the -- made the dates there, and I
3 think it shows that we have contacted and talked with him
4 quite a few times regarding trying to get him to commit his
5 interest to this well.

6 Q. Does Exhibit Number 3 reflect efforts by Randy
7 Patterson with your company?

8 A. Yes, those are actually Randy's transmissions to
9 him.

10 Q. And does it indicate his efforts to discuss this
11 matter with Arrington in April, May, June and July of 2003?

12 A. That is correct.

13 Q. Okay. Now, you mentioned this earlier. Did --
14 You mentioned the fact that at some point in time Yates
15 agreed to modify its joint operating agreement to reflect
16 concerns that were raised by Mr. Arrington?

17 A. Yes, he --

18 Q. I should say by Arrington Oil and Gas?

19 A. Right, that's that letter there, our Exhibit 4 --

20 Q. Okay.

21 A. -- the letter of March 7th, '03, where we
22 submitted him a revised Exhibit A to the operating
23 agreement, which set out shallow and deep units, which we
24 submitted for -- to try to accommodate him.

25 Q. Okay, and while we're on that subject, is Yates

1 Exhibit Number 5 the joint operating agreement that --

2 A. Yes.

3 Q. -- you're talking about?

4 A. Yes.

5 Q. And if you'll look at the revised Exhibit A to
6 that agreement, does it reflect your efforts to split out
7 the deep and shallow --

8 A. Yes, it does, uh-huh.

9 Q. Okay. Now, your -- Yates Exhibit Number 4, which
10 is your March 7th letter --

11 A. Okay.

12 Q. Does that also reflect your efforts in June and
13 July to discuss this matter with Arrington Oil and Gas?

14 A. Yes, page 2 of that, we talked to his office on
15 three occasions there in June and July.

16 Q. Okay, let me ask you, what happened in terms of
17 your discussions after you made this change to your JOA in
18 order to try to reach an agreement? What happened?

19 A. Well, nothing happened until -- That was sent in
20 March, and it -- really, there was no response from
21 Arrington until we started pushing the effort in the mid
22 part of June, but no response was made with respect to
23 any --

24 Q. Okay. Now at some point in June or July, was
25 there an effort to reach a farmout agreement?

1 A. Yes.

2 Q. Okay, and what happened with respect to that
3 effort?

4 A. He indicated that he would farm out to Yates, and
5 he set out the terms of -- there in that -- he'd deliver a
6 75 net lease with a quarter back in. But I guess he had --
7 he wanted to attach some strings to that farmout, and what
8 he sought was, he wanted a seismic from Yates on this
9 spacing unit, this spacing unit plus eight contiguous
10 spacing units, and Yates indicated to him that they would
11 not do that.

12 Q. So he was asking for proprietary seismic data for
13 roughly a four-square-mile area?

14 A. That's correct.

15 Q. Okay, and that was unacceptable to Yates?

16 A. That's right.

17 Q. And is that why you then proceeded with this --

18 A. Yes.

19 Q. -- pooling Application?

20 A. Yes.

21 Q. Now, what percentage of the interest, the working
22 interest, is voluntarily committed to this well?

23 A. Fifty percent.

24 Q. Okay. In your opinion, has Yates made a good-
25 faith effort over an extensive period of time to obtain a

1 voluntary agreement with respect to Arrington Oil and Gas?

2 A. Yes.

3 Q. Now, is Arrington Exhibit Number -- or, I'm
4 sorry, Yates Exhibit Number 6, is that your AFE for this
5 proposed well?

6 A. Yes, it is.

7 Q. And has Yates drilled other Mississippian wells
8 in this immediate area?

9 A. Yes, we've got a Mississippian well in the west
10 half of this section and two Mississippians in the section
11 just to the west of this.

12 Q. So the section just to the west of Section 9?

13 A. Yes.

14 Q. Okay. And are these costs reflected on this AFE,
15 are they in line with what you have incurred for similar
16 wells in this area?

17 A. Yes, sir.

18 Q. And what are the estimated totals, both dryhole
19 and completed well cost?

20 A. \$943,500 for the dryhole and \$1,480,500 for the
21 completed well costs.

22 Q. Okay. Now, we had the JOA marked as Exhibit
23 Number 5. Does that contain the COPAS accounting
24 procedures for the joint operations for this proposed well?

25 A. Yes, it does.

1 Q. Okay. And those COPAS accounting procedures, do
2 they provide for a periodic adjustment of overhead and
3 accounting --

4 A. Yes.

5 Q. -- rates?

6 Does Yates request that the overhead and
7 administrative costs set by an order which results from
8 this hearing be adjusted in accordance with those COPAS
9 procedures?

10 A. Yes, sir.

11 Q. Is Yates Exhibit Number 7 an affidavit with an
12 attached letter giving notice of this hearing to David H.
13 Arrington Oil and Gas?

14 A. Yes.

15 Q. Now, Yates is also seeking approval for an
16 unorthodox well location; is that correct?

17 A. That's correct.

18 Q. And your proposed location encroaches on the
19 west-half spacing unit by 330 feet; is that correct?

20 A. Right.

21 Q. Okay. Is that west-half spacing unit, is that
22 acreage operated by Yates?

23 A. Yes.

24 Q. And are all of the owners in this west-half
25 spacing unit, are they the same as they are in the east-

1 half spacing unit under your proposal?

2 A. With the exception of Arrington. It's the Yates
3 Companies and the David Petroleum Corporation companies.

4 Q. Okay, so Arrington does not own any acreage on
5 the west half?

6 A. That's correct.

7 Q. Okay. So in essence, you are then encroaching
8 upon yourself; is that correct?

9 A. Yes.

10 Q. And you mentioned -- does that ownership -- is
11 that common both at working interest and royalty ownership
12 level?

13 A. Yes.

14 Q. Okay. Have you made an estimate of the overhead
15 and administrative costs while drilling this well and also
16 while producing it if you are successful?

17 A. We wanted \$5400 and \$540.

18 Q. Okay, and how does that compare to the most
19 recent Ernst and Young figures?

20 A. I believe it's right in line with their figures.

21 Q. Okay. And do you recommend that these figures be
22 incorporated into any order that results from this hearing?

23 A. Yes, sir.

24 Q. And does Yates Petroleum Corporation seek to be
25 designated operator of the proposed well?

1 A. Yes.

2 Q. Now, were Yates Exhibits 1 through 7 prepared by
3 you or compiled under your direction or supervision?

4 A. Yes.

5 MR. FELDEWERT: Mr. Examiner, at this time we'd
6 move the admission into evidence of Yates Exhibits 1
7 through 7.

8 EXAMINER STOGNER: Exhibits 1 through 7 will be
9 admitted into evidence.

10 MR. HALL: I have no objection, Mr. Examiner.

11 MR. FELDEWERT: And Mr. Examiner, that concludes
12 my examination of this witness.

13 EXAMINER STOGNER: Thank you, Mr. Feldewert.

14 Mr. Hall, your witness.

15 MR. HALL: No questions, Mr. Examiner.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Okay, Mr. Bullock, I want to make sure I get this
19 straight. I thought I heard you say -- The original
20 application was from the surface down to the base on 320,
21 but then I heard you say something about this is
22 essentially a force pooling from the base of the Strawn to
23 the base of the Mississippian? Did I hear that right or --

24 A. For all formations there, they require 320-acre
25 dedication.

1 Q. From the base of the Strawn to the base of the
2 Mississippian, or from the surface to the base of the
3 Mississippian?

4 A. Well, it would be from the base of the Strawn to
5 the base of the Mississippian.

6 Q. Okay. And then I heard you say that the
7 secondary targets is the Mississippian and the Strawn.
8 Okay now, Arrington has an agreement with the Strawn and
9 with Yates in this matter, is that --

10 A. Arrington would not participate. All we're
11 pooling here is formations dedicated on 320, and the well
12 itself is on the Yates lease, so Arrington would not be
13 involved if we complete a Strawn well, because it's going
14 to probably be on 40-acre dedication.

15 Q. Okay, that's making sense. I'm sorry, I was
16 thinking Strawn gas, and you were talking Strawn --

17 A. No, it's --

18 Q. -- oil, okay.

19 A. -- yeah, Strawn oil here.

20 Q. So the Application is for -- is to be amended, as
21 I understand, from the base of the Strawn to the base of
22 the Mississippian, anything on 320-acre spacing; is that
23 right?

24 MR. FELDEWERT: Correct, Mr. Examiner.

25 Q. (By Examiner Stogner) Okay. As I understand

1 also, we have four state leases involved, two owned by
2 Yates and two owned by Arrington; is that correct?

3 A. Yes.

4 Q. And that David Arrington is the only party to be
5 force pooled, but their operations or their ownership is in
6 the northwest quarter; is that correct?

7 A. Northeast quarter.

8 Q. I'm sorry, northeast quarter.

9 A. Right, yes.

10 Q. Okay. Now then, when Mr. Feldewert was asking
11 you about the unorthodox location you said that the west
12 half's interest is the same, other than --

13 A. It's the same ownership as the southeast quarter
14 of Section 19, very same, same ownership as the southeast
15 quarter leases.

16 Q. Okay, but we're talking about a west-half
17 dedication that is being affected by an east-half
18 dedication, so they're not the same; is that correct?

19 A. Well, the ownership would not be the same. It
20 would be the same parties.

21 Q. The same parties, but --

22 A. The same --

23 Q. -- not the same; is that correct?

24 A. Not exactly the same exact percentage, no.

25 Q. Okay.

1 A. That percentage would be cut in half, in --

2 Q. In the west half -- I'm sorry, in the east half?

3 A. In the east half, right.

4 Q. So that would be like me having some interest in
5 the well, and you're encroaching up on my full with your
6 half. So I refer now to the notification requirements in
7 the event the operator of the proposed unorthodox is also
8 the operator of an existing adjoining spacing unit and the
9 ownership is not common in this case, that they be
10 notified. So was this notification done, or were they
11 aware, at least, of the proposed well --

12 A. Absolutely --

13 Q. -- when you --

14 A. Absolutely.

15 Q. Okay.

16 A. Yes, sir.

17 Q. And they signed off on that; is that correct?

18 A. Yes, yes.

19 Q. And where would I find, if I was one of those
20 parties to sign off, where would I find that well location
21 mentioned?

22 A. It's been provided to the David Petroleum
23 Corporation companies, they've been given the AFE and the
24 JOA to drill this well. I don't have that as an exhibit,
25 but you can see them in the operating agreement, they're

1 right in there.

2 Q. That's what I'm trying to determine, whether that
3 is adequate notification at this point. And so far I'm not
4 seeing that, because if I remember right -- sorry, I'm
5 looking for -- Who all has to sign off, other than
6 Arrington? Oh, here it is. I'm referring now to your
7 Exhibit Number 6, and then there's a list of owners; is
8 that correct?

9 A. Right, and they've been given this AFE, the David
10 Petroleum Corporation companies, with this JOA. They've
11 been provided, and they are going to either drill with us
12 or they're going to farm out. They were not provided
13 notice of the nonstandard location, no, we did not give
14 them notice of that. But we did in effect with the AFE and
15 the JOA, that's the way I see it.

16 Q. Okay, that's what I'm trying to --

17 A. Yeah.

18 Q. -- determine here. When were they provided this?
19 When did they --

20 A. About the same time that David Petroleum -- or
21 the same time we sent Arrington his AFE and JOA.

22 Q. And that would have been March 4th?

23 A. March the 26th of 2002. Not March, excuse me,
24 November.

25 Q. Oh, November, okay.

1 A. Yeah, November.

2 Q. Let's see, which exhibit is that?

3 MR. FELDEWERT: That's Exhibit Number --

4 THE WITNESS: But David Petroleum is very
5 involved in this well.

6 Q. (By Examiner Stogner) You mention David
7 Petroleum, but I see a bunch of other names here, and I --

8 A. Well, and their related companies, McMillan
9 Production Company, McMillan Ventures, Permian Exploration
10 Corporation. Those are the companies of Colin McMillan.
11 Keith McKamey is their geologist, William B. Owen is their
12 land manager, Edward N. David is a corporate officer, and
13 Mike McMillan is their geophysicist.

14 Q. Okay, so this November letter not only went to
15 David, it went to these other parties?

16 A. Absolutely.

17 Q. Okay. Do you have copies of those?

18 A. I don't have that, I do not have that.

19 Q. Could you provide them for me?

20 A. Yes.

21 Q. Okay, again I'm going to refer to Exhibit Number
22 6. When -- Now, that was mailed out or attached with the
23 November letter? Because it is dated November 25th, so
24 that came as one packet; is that correct?

25 A. Let's see. Exhibit 6 was the AFE and the JOA

1 that were submitted to Arrington. Yeah, we submitted the
2 AFE and the JOA to Arrington at the same date. That was
3 done in November of '02.

4 Q. Okay, now I'm also trying to find out, because
5 I'm looking at Exhibit Number 2 and Exhibit Number 6, and
6 nowhere is it clear that this would be an east-half
7 dedication. I mean, let's say one of these parties did not
8 know that they were being encroached upon. When would they
9 be made aware or what would they have had to sign, knowing
10 that that was an east-half dedication, or that it was a
11 gas --

12 A. Well, I don't have anything to substantiate what
13 you're getting at here, I'm going to have to provide that
14 to you. But the David Petroleum Corporation has been
15 involved with us from day one to pick this location here.

16 Q. Well, sir, David Petroleum and all these other
17 parties are two different matters; is that correct?
18 McMillan is a different thing. He might work for David
19 Petroleum, but -- That's what I'm getting at. Is that not
20 right?

21 A. These entities are real close, they're all at the
22 same office, they all office at the same building. They
23 were all provided the AFE to drill this, and they were
24 aware that we're drilling this at a nonstandard location.

25 Q. Okay, what made them aware of that?

1 A. This AFE that I submitted to them back in
2 November.

3 Q. Okay, where does that tell me or them that it's
4 an east-half dedication? That would be a standard oil well
5 location, right?

6 A. The AFE shows the location right here.

7 Q. Yeah, the AFE shows the location, but how about
8 the acreage dedication? I'm trying to work with you here,
9 Mr. Bullock, I'm really trying to work with you here.

10 A. They know that the acreage dedication for that
11 well in the northwest quarter is the west half. They were
12 involved in that well, they drilled that well. That is a
13 west-half dedication, that well called the Pardner AXO --

14 Q. Okay.

15 A. -- up in the northwest quarter. So they knew
16 that the only spacing unit available for us would be an
17 east half dedication.

18 Q. And how would they have known that?

19 A. Well, they knew that because they were involved
20 in that well, and they knew that -- what we were going to
21 do here in this second well, this Associate well. They
22 knew that it was going to be an east-half dedication.

23 Q. And you're referring to which well that this is
24 an associate well to?

25 A. This well that we're talking about drilling here,

1 the Associate.

2 Q. Yeah, this is the first well in the east half?

3 A. Correct.

4 EXAMINER STOGNER: Okay.

5 MR. FELDEWERT: Mr. Examiner, I may be able to
6 provide some assistance.

7 EXAMINER STOGNER: Please do, I'm on the verge
8 here of continuing this, so maybe you can help out.

9 MR. FELDEWERT: Exhibit Number 5, which is the
10 operating agreement, is dated October 24, 2002 --

11 EXAMINER STOGNER: Okay.

12 MR. FELDEWERT: -- and it identifies the contract
13 area as the east half of Section 19.

14 EXAMINER STOGNER: Okay.

15 MR. FELDEWERT: And then you'll notice on page 15
16 of that operating agreement, it does contain a signature
17 line for a number of parties. Exhibit Number 6, which
18 testimony indicates was sent out along with this model form
19 operating agreement, gives the location of the well in
20 Section 19, the footage location, and it also, then, has
21 signature lines at the bottom, and attached to it is a page
22 2 that I believe corresponds to the parties identified in
23 the JOA. So I think if you take a look at the JOA and
24 combine that with the AFE we get, I believe, notice to
25 these parties that we are proposing an east-half, that this

1 is the AFE, and it is at an unorthodox well location.

2 EXAMINER STOGNER: Okay, when was the AFE
3 provided those parties, on what date?

4 MR. FELDEWERT: It would have been with the
5 November 26th, 2002, letter that's marked as Exhibit
6 Number --

7 EXAMINER STOGNER: -- 2.

8 MR. FELDEWERT: -- 2.

9 Q. (By Examiner Stogner) Okay, so now we're getting
10 somewhere. So this whole quarter-inch packet would have
11 been provided all of those parties; is that correct?

12 A. Yes, sir.

13 Q. Okay, that was easy enough.

14 Mr. Bullock, I'm going to refer Rule 1207.A.(2)
15 and all of part (A). We've had this discussion before on
16 NSL applications, and according to what I've been getting
17 through today you don't understand it. So I would refer
18 that to you, and I will be looking for that to be held in
19 any further nonstandard locations.

20 Thanks to Mr. Feldewert, he's gotten me right on
21 the right track that I feel adequate notice was provided,
22 only because Mr. Feldewert saw what the problem was. But
23 evidently you still don't see that the ownership is not the
24 same across that line.

25 A. No, I didn't --

1 Q. And I guarantee you, if I was one of those
2 parties --

3 A. No --

4 Q. Mr. Bullock, if I was one of those parties, I'd
5 have a problem with that well location because you're
6 encroaching up on my interest, and I don't share in the
7 same interest over there in the east half of 19. I would
8 have a big problem if I was an interest owner. Luckily
9 these parties do not, because they have been given adequate
10 warning about this, and feel that this satisfied this
11 notification.

12 With that, I will allow you to comment on it.

13 A. I think that's right, I think we did provide the
14 notice to them with the AFE and the JOA.

15 EXAMINER STOGNER: Thank you.

16 Thank you, Mr. Feldewert. Any other questions?

17 MR. FELDEWERT: No, Mr. Examiner.

18 EXAMINER STOGNER: You may be excused.

19 MR. FELDEWERT: We call our next witness.

20 JOHN AMIET,

21 the witness herein, after having been first duly sworn upon
22 his oath, was examined and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. FELDEWERT:

25 Q. Would you please state your name, your place of

1 business, by whom you're employed and in what capacity?

2 A. My name is John Amiet, A-m-i-e-t. I'm employed
3 by Yates Petroleum as a geologist, and I live in Artesia,
4 New Mexico.

5 Q. Have you previously testified before this
6 Division and had your credentials as a petroleum geologist
7 accepted and made a matter of record?

8 A. Yes, I have.

9 Q. And are you familiar with the Application that's
10 been filed by Yates in this case?

11 A. Yes.

12 Q. Have you made a geologic study of this area, and
13 are you prepared to share the results of your work with the
14 Examiner?

15 A. Yes, I have.

16 MR. FELDEWERT: Mr. Examiner, are the witness's
17 qualifications acceptable?

18 EXAMINER STOGNER: They are.

19 Q. (By Mr. Feldewert) Now, I understand that the
20 primary objective of this well is the Morrow formation; is
21 that right?

22 A. That's correct, this will be the Morrow
23 formation, it will be the Undesignated Big Dog-Morrow Gas
24 Pool.

25 Q. Okay, would you turn to Yates Exhibit Number 8,

1 identify that and review that for the Examiner, please?

2 A. This is a net sand isopach map for the middle
3 Morrow, or what Yates Petroleum calls the Mesa zone. This
4 Mesa zone is a braided sand channel that's oriented north-
5 south, as you can see on the map. There are two key wells
6 that kind of identify the type of wells that we're looking
7 for:

8 The Yates Pardner AXO State Number 1, kind of in
9 the north central part of the map. It's got a large "21"
10 by it. That's 21 net feet of pay sand. This well has
11 cum'd to date about 51 MBO and about 2 BCF.

12 There's also a well to the southeast, the Yates
13 Arreguy AVM Number 1, that's showing 18 feet of net sand
14 pay. It's cum'd 63 MBO and 1.8 BCF.

15 So these two wells kind of forming the center of
16 this channel system. This is what we're looking for.

17 The Yates location is shown with the red, Yates
18 location Associate well. It's located southeast of the
19 Pardner well. It's on the east half of this sand channel.
20 We don't know exactly where the edge is. This is one
21 reason that we'd like to stay as far to the west as we can,
22 and we've applied for this unorthodox location of 2310 from
23 the east line. We want to stay as far to the west as we
24 can. So this adds to the risk, the fact that we're on the
25 east side of this channel system.

1 Q. Do you have any dry holes in the area?

2 A. Yes, if you look to the east of this location,
3 the Arrington Lou's Hopper Number 1 just missed the
4 channel. It's up in the northeast quarter of the section.
5 It's showing a zero net feet of sand. The Yates Blue Suede
6 that was drilled several months ago is also showing a zero.
7 The Barry ARD is zero, and the Big Bear and the BTA are
8 both zero, so --

9 Q. I'm sorry, where are you on the map?

10 A. These are all to the east and the southeast of
11 the Associate location. So there was no sand on the east
12 side of this map, for the Mesa zone.

13 Q. Okay, and you testified you're trying to get as
14 far west as you can in order to hit this sand?

15 A. That's correct, we'll want to stay in this same
16 channel.

17 Q. Okay.

18 A. I might mention this Arrington Bill's Hopper
19 Number 1, up in the northeast part of the map, with an 11.
20 That well looks good on logs, but it's only cum'd 1 MBO and
21 84 million, so as the sand thins to the east you're losing
22 your productive zone. And again, we like to stay as far to
23 the west as we can.

24 Q. Okay. Why don't you identify and review Yates
25 Exhibit Number 9, please?

1 A. This is a stratigraphic cross-section, A-A'.

2 Q. This follows your Exhibit Number 8?

3 A. That's correct, it's shown on the map as A-A'.
4 Again, just to focus on these two wells with the yellow,
5 these are the two wells that I mentioned before, the
6 Arreguy AVM and the Yates Pardner. This is showing the
7 sand channel. If you go from the Yates -- the third well
8 on this cross-section to the next well to the east, is the
9 Arrington Lou's Hopper Number 1, the channel pinches out
10 between those two wells, and again it's just showing our
11 proposed location. If you project it into this cross-
12 section it will be between these two wells. And again,
13 it's showing that pinchout, so there is risk in drilling
14 this well, and we'd like to stay as far to the west as we
15 can.

16 Q. So based on your projections, you're drilling
17 into, really, the edge of the sand? You're hoping to drill
18 into the edge of the sand?

19 A. That's correct.

20 Q. Okay. Would you then turn to Yates Exhibit
21 Number 10, identify that, please, and review that for the
22 Examiner?

23 A. This is a time-structure map on top of the Strawn
24 carbonate zone. This is an algal buildup. I might mention
25 that the location for this zone is shown with the orange

1 arrow and the green dot. This would be an orthodox
2 location for the Strawn, this is an oil target.

3 And I might emphasize how small this feature is.
4 If we would move that location 330 feet to the east, we
5 would start to come off of this structure, we'd lose about
6 40 to 50 feet of structural elevation. That's again, why
7 we'd like to stay at this 2310-from-the-east-line location.
8 We want to drill right on the top of this structure.

9 Q. So you have structural reasons and then I guess
10 you call them sand reasons for your proposed location; is
11 that right?

12 A. That's correct, we feel that this is the optimum
13 location both for the Strawn and the Morrow, which stands
14 the best chance of hitting both horizons.

15 Q. Okay. Now, Exhibit Number 10 has on it A-A' and
16 B-B'. Do you have exhibits that correspond to those
17 designations?

18 A. Yes, these are seismic-line cross-sections.

19 Q. Okay, and Yates Exhibit Number 11, is that your
20 cross-section A-A' -- or not the cross-section, I'm sorry,
21 the seismic?

22 A. Seismic section. Yes, this is showing our
23 proposed location, and if you look over on the right side
24 you'll see the Strawn identified, and follow that over to
25 the proposed location, again you see a structural high

1 there, and that's our target. Again, if you move 330 feet
2 to the east, to where you'd have an orthodox location for
3 the Morrow, you're losing structure and you're not on the
4 crest of the feature anymore.

5 Q. Okay, and is Yates Exhibit Number 12, is that the
6 seismic B-B'?

7 A. Yes, this is showing the same thing, it's just
8 going at a different angle. Again, if you look at the
9 Strawn it's showing you where the high is. We're drilling
10 right on the crest of the feature. Again, we want to stay
11 as high as we can, we believe these are algal buildups.
12 And you can see where that section is thickening from the
13 top of the Strawn mud to the top of the Strawn, which is
14 indicative, we think, of an algal buildup. These features
15 can be small but very prolific when you hit them, but you
16 have to hit them on the crest.

17 Q. Okay. Now, are you prepared to make a
18 recommendation to the Examiner as to the risk penalty that
19 should be assessed against a nonconsenting interest owner?

20 A. Yes, we believe the 200-percent penalty is the
21 normal penalty for this situation.

22 Q. Do you believe there's a chance that you could
23 drill a well at this proposed location that would not be a
24 commercial success?

25 A. That's correct. Number one, we're on the east

1 edge of the sand and we've got all these dry holes to the
2 east, and also drilling for an anomaly in the Strawn is
3 also risky.

4 Q. The unorthodox well location, do you believe
5 that's going to be important to the success of your
6 project?

7 A. Yes, I believe it's very important, both in the
8 Strawn and the Morrow.

9 Q. Okay. In your opinion, will the granting of this
10 Application be in the best interests of conservation, the
11 prevention of waste and the protection of correlative
12 rights?

13 A. Yes, I do.

14 Q. Okay, how soon does Yates plan to spud this well?

15 A. We'd like to drill this as soon as possible, but
16 we'd have to work it into the drill schedule, so right now
17 all our rigs are taken and it takes several months to drill
18 these wells, but within two or three months we'd like to
19 spud this well.

20 Q. Okay. Were Yates Exhibits 8 through 12 prepared
21 by you or compiled under your direction and supervision?

22 A. Yes, they were.

23 MR. FELDEWERT: Mr. Examiner, at this time I
24 would move the admission into evidence of Yates Exhibits 8
25 through 12.

1 EXAMINER STOGNER: Eight through 12 will be moved
2 into evidence at this time, if there's no objection.

3 MR. HALL: There is none.

4 EXAMINER STOGNER: Okay, Mr. Hall, your witness.

5 EXAMINATION

6 BY MR. HALL:

7 Q. If you could set me straight on something here,
8 briefly, Mr. Amiet, I understand we're pooling from the
9 base of the Strawn to the base of the Mississippian only,
10 correct, for all 320s?

11 A. That's correct. The Strawn would be on 40-acre
12 spacing, so it would -- and the base of the Strawn to the
13 base of the Mississippian would be on 320 spacing.

14 MR. HALL: Okay, that answers my question.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Now, that Pardner well over in the west half, is
18 that also in the Mississippian? Is that completed in the
19 Mississippian?

20 A. No, this is a Mesa zone. This net isopach map is
21 just on the middle Morrow, what we're calling the Mesa
22 zone.

23 Q. I realize that, but did that well -- does it also
24 have some Mississippian production?

25 A. It went through the Mississippian. It does not

1 produce from the Mississippian.

2 Q. And what is the nearest Mississippian production?
3 Because, let's see, we did refer to what, the Northwest Big
4 Dog-Mississippian Gas Pool?

5 A. The Yates Big Bear ATN Number 2, down in the
6 southeast corner of the map, is producing from the upper
7 Mississippian zone, or it was at one time.

8 Q. That was a recent drill, was it not?

9 A. Well, it's been probably two years ago, at least.
10 It's marginal from that zone.

11 But sometimes the upper Mississippian can be an
12 excellent zone. We've got a well probably three miles to
13 the west of here that's already paid out in less than a
14 year, in just the upper Mississippian. So the upper
15 Mississippian is a good part, although none of the wells in
16 this map are really what you'd call economic Mississippian
17 wells.

18 Q. And all the wells that are shown on this map did
19 indeed -- because that's usually what Yates' practice is,
20 is go in and test that Mississippian?

21 A. That's correct.

22 EXAMINER STOGNER: Okay, make it an even more
23 risky proposition.

24 Okay, if there's no other questions of Mr. Amiet,
25 you may be excused.

1 Anything further, Mr. Feldewert?

2 MR. FELDEWERT: Mr. Examiner, that concludes our
3 presentation in this matter.

4 EXAMINER STOGNER: Okay. Let's see, I did this
5 with Marbob, and the same turnabout is fair play at this
6 particular time, and it doesn't -- unless there's need for
7 closing arguments?

8 MR. HALL: (Shakes head)

9 EXAMINER STOGNER: As far as the unorthodox
10 location, it's my recommendation to Ms. Wrotenbery that it
11 be approved because there's substantial evidence. And
12 other than not understanding the notice intent and the
13 wording on that, I intend to proceed and make a
14 recommendation, I'm satisfied that the unorthodox location
15 people have been notified and it is justified in this
16 matter.

17 With that, then this case will be taken under
18 advisement.

19 And with that we stand adjourned until 1:15.

20 MR. FELDEWERT: Thank you, Mr. Examiner.

21 MR. AMIET: Thank you.

22 (Thereupon, these proceedings were concluded at
23 12:40 p.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
* * * the Examiner hearing of Case No. 13038,
heard by me on 24 July 2003.

25

Examiner

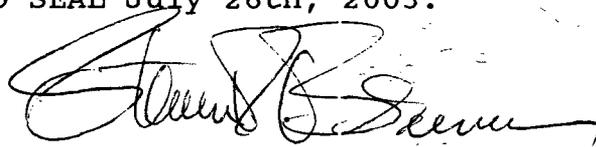
CERTIFICATE OF REPORTER

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 July 26th, 2003.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 16th, 2006