

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, EDDY COUNTY, NEW MEXICO)

CASE NO. 13,922

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

May 24th, 2007

Santa Fe, New Mexico

2007 JUN 7 AM 9 28

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, Jr., Hearing Examiner, on Thursday, May 24th, 2007, 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:

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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 8:47 a.m.:

3 EXAMINER JONES: Okay, at this time let's call
4 Case 13,922, Application of Yates Petroleum Corporation for
5 approval of a unit agreement in Eddy County, New Mexico.
6 Call for appearances.

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

10 EXAMINER JONES: Any other appearances?

11 MS. MUNDS-DRY: Mr. Examiner, Yates seeks
12 approval of the Recif Exploratory Unit this morning. It's
13 comprised of 5207.37 acres of federal, state and fee lands,
14 and it's located approximately 13 miles west of Carlsbad.

15 Yates Exhibit Number 1 is the affidavit of John
16 Humphrey, who's the petroleum geologist identifying the
17 project.

18 Attachment A to the affidavit is a copy of the
19 unit agreement. This does conform to the State Land Office
20 form. Yates proposes to test all formations from the
21 surface to the base of the Canyon, which is also known as
22 the Upper Penn formation. The initial test well is to be
23 located at a standard location 660 feet from the north line
24 and 1980 feet from the west line of Section 7, Township 23
25 South, Range 23 East, and will test all formations from the

1 surface to an approximate total depth of 8000 feet.

2 Attachment B to the affidavit is a copy of the
3 plat to the unit agreement identifying the unit boundary.
4 It also gives you a further breakdown of the federal, state
5 and fee lands located in the unit.

6 Attachment C to the affidavit is a copy of the
7 ownership breakdown. A hundred percent of the working
8 interest is committed to the unit. And I'm going to ask
9 you to skip to the back a little bit, just so you can see
10 there's some unleased mineral interest owners.

11 And Exhibit 3 is a copy -- which is almost at the
12 back there -- is a copy of the letter that went to all the
13 working interest owners, proposing the unit to them.

14 But like I said, a hundred percent of the
15 interest is committed to the unit.

16 Attachment D to the affidavit is a letter from
17 the Bureau of Land Management designating this unit, as
18 there are federal lands.

19 And Attachment E to the affidavit is the letter
20 from the Commissioner of Public Lands giving their
21 preliminary approval to the formation of the unit.

22 Attachment F to the affidavit is a magnetic
23 survey. It shows a structural positive extending from the
24 southern end of the Indian Basin Pool over the proposed
25 unit area.

1 Attachment G to the affidavit is a structure map
2 on top of the upper Penn carbonate. It also shows the
3 structure over the proposed unit, which is inferred from
4 the magnetic feature that we saw in Attachment F.

5 Attachment H to the affidavit is a cross-section
6 A-A'. It includes wells in the east, south and west of the
7 proposed unit, that also shows a thickening over the
8 magnetic positive in the carbonate section of the upper
9 Penn.

10 Yates Exhibit Number 2 is the AFE, showing the
11 dryhole and completed well costs for this well.

12 And then finally, Exhibit 4 is the affidavit of
13 publication in the *Artesia Daily Press* showing notice given
14 of this Application.

15 Finally, Mr. Humphrey testifies that the
16 development of the unit area is pursuant to the unit plan,
17 is in the best interest of conservation, the prevention of
18 waste and the protection of correlative rights.

19 And with that, we would ask that Exhibit 1, its
20 attachment, 2, 3 and 4, be admitted into evidence.

21 EXAMINER JONES: Okay, Attachments 1 with --
22 Exhibit 1 with Attachments A through --

23 MS. MUNDS-DRY: -- H, I believe.

24 EXAMINER JONES: -- H, should be admitted to
25 evidence.

1 MS. MUNDS-DRY: And Exhibits 2, 3, and 4, please.
2 EXAMINER JONES: And Exhibits 2, 3 and 4.
3 MS. MUNDS-DRY: And I have nothing further.
4 EXAMINER JONES: Nothing further?
5 The AFE says the Morrow on here, but they said
6 they're only going to -- they're going to unitize the
7 Canyon? Going through the Canyon?
8 MS. MUNDS-DRY: Hm. Does it?
9 EXAMINER JONES: It's just -- But it's 10,650
10 feet.
11 MS. MUNDS-DRY: I can't explain that discrepancy
12 for you, Mr. Jones, I don't know --
13 EXAMINER JONES: Okay --
14 MS. MUNDS-DRY: -- why they AFE'd it to the
15 Morrow if they were only going to the Canyon. I can
16 certainly find out the answer to that if you'd like --
17 EXAMINER JONES: Well --
18 MS. MUNDS-DRY: -- from Mr. Humphrey.
19 EXAMINER JONES: -- the -- tell me how this works
20 when you mix state, federal and fee acreage. You said 100
21 percent is committed?
22 MS. MUNDS-DRY: It is.
23 EXAMINER JONES: But you said you couldn't locate
24 some people?
25 MS. MUNDS-DRY: No, we just -- because there were

1 some unleased mineral interest owners --

2 EXAMINER JONES: Unleased.

3 MS. MUNDS-DRY: -- just for your reference, we
4 included the letters that we sent to them, and they are
5 committed to the unit, but --

6 EXAMINER JONES: Okay.

7 MS. MUNDS-DRY: -- just so you have that for your
8 record.

9 EXAMINER JONES: Will this be a federal unit or a
10 state unit?

11 MS. MUNDS-DRY: That's a good question. It's up
12 to the federal government what they want to do with it.

13 EXAMINER JONES: Okay.

14 MS. MUNDS-DRY: Right now it's just called the
15 Recif Unit, if you've noticed. It isn't designated state
16 or federal.

17 EXAMINER JONES: Yeah.

18 MS. MUNDS-DRY: So the BLM usually gets the first
19 call --

20 EXAMINER JONES: Okay.

21 MS. MUNDS-DRY: -- as to whether it will be
22 federal or not.

23 EXAMINER JONES: And --

24 MS. MUNDS-DRY: And my understanding is, the rule
25 of thumb is if, you know, it's over 10 percent, then

1 they'll usually claim it as theirs.

2 EXAMINER JONES: Okay. And the drilling
3 requirements on federal units are -- is there a certain
4 number of wells they have to drill every year, or --

5 MS. MUNDS-DRY: It's basically the same
6 requirements as the State, so the unit agreement is
7 similar. They have to -- you drill their first well by the
8 end of the expiration of the first lease --

9 EXAMINER JONES: Okay.

10 MS. MUNDS-DRY: -- and then I believe it has six
11 months --

12 EXAMINER JONES: To --

13 MS. MUNDS-DRY: -- to designate whether it's
14 commercial or not.

15 EXAMINER JONES: Okay.

16 MS. MUNDS-DRY: And then go from there.

17 EXAMINER JONES: And then go from there, okay.

18 Okay. Well, David knows a lot more about these
19 than I do.

20 MR. BROOKS: Well, I'm just curious. You got all
21 these people signed up between April 23rd and the May 23rd?

22 MS. MUNDS-DRY: That's my understanding, Mr.
23 Brooks. Yates moves fast when they would like to.

24 MR. BROOKS: Okay. I don't think it matters,
25 because they're not in the unit for the initial well, and

1 you could always force pool them when you get ready to
2 drill that section, but it does seem --

3 MS. MUNDS-DRY: And we certainly have over 80
4 percent.

5 MR. BROOKS: Sounds like they were sprinting
6 around getting these sign-ups.

7 MS. MUNDS-DRY: Yes, sir.

8 MR. BROOKS: Thank you.

9 EXAMINER JONES: Okay. Well, thank you.

10 MS. MUNDS-DRY: Thank you.

11 EXAMINER JONES: With that, we'll take Case
12 13,922 under advisement.

13 (Thereupon, these proceedings were concluded at
14 8:55 a.m.)

15 * * *

16
17 I do hereby certify that the foregoing is
18 a true and correct copy of the proceedings
19 heard by me on _____
20 _____, Examiner
21 Oil Conservation Division

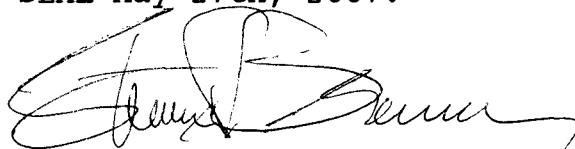
CERTIFICATE OF REPORTER

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 27th, 2007.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010