

1 STATE OF NEW MEXICO  
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
3 OIL CONSERVATION DIVISION  
4

5 IN THE MATTER OF THE HEARING CALLED  
6 BY THE OIL CONSERVATION DIVISION FOR  
7 THE PURPOSE OF CONSIDERING:

CASE NO. 14121

8 APPLICATION OF YATES PETROLEUM  
9 CORPORATION FOR APPROVAL OF A UNIT  
10 AGREEMENT, EDDY COUNTY, NEW MEXICO

ORIGINAL

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

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EXAMINER HEARING

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BEFORE: DAVID K. BROOKS, Legal Examiner  
TERRY G. WARNELL, Technical Examiner  
17 RICHARD EZEANYIM, Technical Examiner

17

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May 15, 2008

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Santa Fe, New Mexico

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21 This matter came for hearing before the New Mexico Oil  
22 Conservation Division, DAVID K. BROOKS, Legal Examiner, and  
23 TERRY G. WARNELL, Technical Examiner, and RICHARD EZEANYIM,  
Technical Examiner, on May 15, 2008, at the New Mexico Energy,  
Minerals and Natural Resources Department, 1220 South  
St. Francis Drive, Room 102, Santa Fe, New Mexico.

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REPORTED BY: JOYCE D. CALVERT, P-03  
Paul Baca Court Reporters  
25 500 Fourth Street, NW, Suite 105  
Albuquerque, New Mexico 87102

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A P P E A R A N C E S

FOR THE APPLICANT:

Ocean Munds-Dry, Esq.  
HOLLAND & HARD, LLP  
110 North Guadalupe, Suite 1  
Santa Fe, New Mexico 87501

PAGE

EXHIBITS 1 - 2 ADMITTED

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1 MR. WARNELL: So we'll go ahead, then, and start with  
2 Case No. 14121.

3 MS. MUNDS-DRY: Good morning, Mr. Examiner, Ocean  
4 Mund-Dry with the law firm of Holland & Hart, representing  
5 Yates Petroleum Corporation this morning. And I am presenting  
6 this case by affidavit. And, hopefully, I have enough copies  
7 here for everyone. I think we're okay.

8 MR. WARNELL: Are there any other appearances? No  
9 witnesses?

10 MS. MUNDS-DRY: There are no witnesses.

11 Mr. Examiner, Yates seeks approval of the Banquet  
12 Exploratory Unit this morning, comprised of 960 acres of  
13 federal and State of New Mexico lands and located approximately  
14 45 miles southeast of Artesia.

15 I've handed you a packet, and on top of that packet  
16 is Yates Exhibit No. 1, which is the affidavit of Ray Podany.  
17 He's the petroleum geologist for this project. Attachment A to  
18 the affidavit is a copy of the unit agreement. This conforms  
19 to the state land office form.

20 Attachment B to the unit agreement and to the  
21 affidavit is the Banquet Unit border outline. It identifies  
22 the unit boundary. It indicates there are two Yates leases and  
23 a 40-acre state tract lease held by Featherstone.

24 Attachment C to the affidavit is also part of the  
25 unit agreement and identifies the interest in the unit. The

1 schedule shows that Yates Petroleum holds the majority of the  
2 working interest in the proposed unit, and that the federal  
3 lands are 95 percent, which corresponds with the Yates interest  
4 in the unit. And, again, the state lands are 40 acres and the  
5 interest is approximately four percent.

6 Yates proposed to test all formations from the  
7 surface to the base of the Morrow Formation, and the initial  
8 unit well is planned at a location 1680 feet from the south  
9 line, and 840 feet from the west line of Section 24,  
10 Township 21 South, Range 21 East to test all formations from  
11 the surface to an approximate total depth of 8500 feet.

12 Again, as indicated on Attachment C, 95 percent of  
13 the working interest is committed to the unit, and 95 percent  
14 of the royalty is also owned by the federal government.

15 Attachment D to the affidavit is a letter from the  
16 Commissioner of Public Lands giving their preliminary approval  
17 to the formation of this unit. Also included in a Attachment D  
18 is the BLM letter of designation of the Banquet Unit Area.

19 Attachment E to the affidavit is a top-of-structure  
20 map. Mr. Podany indicates in his affidavit that this map shows  
21 there's a south plunging anticline closure of what he calls the  
22 Box Canyon Structure with a fault boundary to the west. The  
23 proposed well is in a structurally favorable location for  
24 hydrocarbon accumulation.

25 Attachment F to the affidavit is an isopach of the

1 Middle Morrow. This shows thickening of sand from the channel  
2 facings, projected from the down depth Duvel well, which, as  
3 you can see, is located in Section 36.

4 And finally, Attachment G to the affidavit is a cross  
5 section A, A-prime, and it shows that there is probably the  
6 presence of this Morrow channel system in the prospect area.

7 Yates Exhibit No. 2 is the Affidavit of Publication  
8 showing that notice was given this of this application.

9 And, finally, in his affidavit, Mr. Podany testifies  
10 that the development of this unit area is pursuant to a unit  
11 plan and is in the best interest of conservation, prevention of  
12 waste, and the protection of correlative rights.

13 And with that we would ask that Yates Exhibits No. 1  
14 and all of its attachments, and Exhibit No. 2 be admitted into  
15 evidence.

16 MR. WARNELL: So be it. The exhibits will be  
17 admitted.

18 MS. MUNDS-DRY: And with that, we would ask that this  
19 matter be taken under advisement.

20 MR. BROOKS: Question about what's dedicated to the  
21 unit. You said 95 percent of the working interest is dedicated  
22 to the unit.

23 MS. MUNDS-DRY: That's Yates interest in the unit.  
24 Featherstone has not committed their interest yet. We're  
25 hoping that they will be --

1 MR. BROOKS: They have all of the remaining working  
2 interest?

3 MS. MUNDS-DRY: They do. They have that 40-acre  
4 state lease.

5 MR. BROOKS: So it's 95 percent Yates, and that's all  
6 federal.

7 MS. MUNDS-DRY: Correct.

8 MR. BROOKS: And then the state lease is -- the other  
9 5 percent is state and it's Featherstone. And the state has  
10 given their preliminary consent?

11 MS. MUNDS-DRY: That's correct.

12 MR. BROOKS: I believe I saw the letter in there.

13 MS. MUNDS-DRY: They have, Mr. Brooks.

14 MR. BROOKS: But Featherstone has not committed.

15 MS. MUNDS-DRY: They have not yet committed.

16 MR. BROOKS: There are no fee lands in this?

17 MS. MUNDS-DRY: There are no fee lands. It's all  
18 state.

19 MR. BROOKS: Thank you.

20 MR. WARNELL: I have no questions. Richard?

21 MR. EZEANYIM: No questions.

22 MS. MUNDS-DRY: Thank you very much.

23 MR. WARNELL: Case No. 14121 will be taken under  
24 advisement.

25 [Hearing concluded.]

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 \_\_\_\_\_

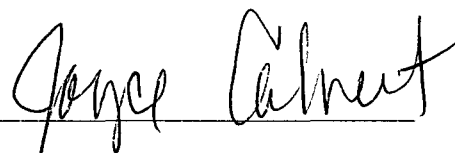
\_\_\_\_\_, Examiner  
Oil Conservation Division

## REPORTER'S CERTIFICATE

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I, JOYCE D. CALVERT, Provisional Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to any of the parties or attorneys in this case and that I have no interest in the final disposition of this proceeding.



JOYCE D. CALVERT  
New Mexico P-03  
License Expires: 7/31/08

1 STATE OF NEW MEXICO )  
2 COUNTY OF BERNALILLO )

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4 I, JOYCE D. CALVERT, a New Mexico Provisional  
5 Reporter, working under the direction and direct supervision of  
6 Paul Baca, New Mexico CCR License Number 112, hereby certify  
7 that I reported the attached proceedings; that pages numbered  
8 1-5 inclusive, are a true and correct transcript of my  
9 stenographic notes. On the date I reported these proceedings,  
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 15th day of  
12 May, 2008.

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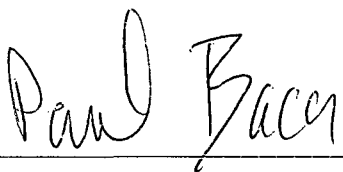
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