

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION COMMISSION

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IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION COMMISSION
FOR THE PURPOSE OF CONSIDERING:

APPLICATION OF HARVEY E. YATES
COMPANY FOR EXPANSION OF A UNIT
AREA, OTERO COUNTY, NEW MEXICO.

Case No. 14,000 (*de novo*)
Order No. R-10527-A

PRE-HEARING STATEMENT

This pre-hearing statement is submitted by applicant as required by the Oil Conservation Commission.

APPEARANCES

APPLICANT

Harvey E. Yates Company
P.O. Box 1933
Roswell, New Mexico 87504

Attention: Melissa Randle
(505) 623-6601

APPLICANT'S ATTORNEY

James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

OPPONENT

Oil Conservation Division

OPPONENT'S ATTORNEY

Mikal Altomare

STATEMENT OF THE CASE

APPLICANT

Applicant seeks approval of the expansion of the Bennett Ranch Unit Area, originally approved by Division Order No. R-10527. The unit area, as expanded, comprises 11,637.09 acres of federal and state lands covering all of Sections 1-3, 10-15, 22-27, 35, and 36, Township 26 South, Range 12 East, NMPM, and Sections 18, 19, 30, and 31, Township 26 South, Range 13 East, NMPM.

The Division, by Order No. R-10527-A, denied expansion of the unit for the reasons stated in Finding Paragraphs (8)(b) – 8(e) of the order (attached as Exhibit A). Applicant will present

testimony that the reasons relied upon by the Division in denying expansion are baseless or do not relate to unit expansion.

OPPONENT

PROPOSED EVIDENCE

APPLICANT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
Melissa Randle (landman)	20 minutes	6
Gordon Yahney (geologist)	30 minutes	4

OPPONENT

<u>WITNESSES</u>	<u>EST. TIME</u>	<u>EXHIBITS</u>
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PROCEDURAL MATTERS

-None-

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Harvey E. Yates Company

CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing pleading, with attached exhibits, was served upon the following counsel of record this 2nd day of May, 2008 by hand delivery:

Mikal Altomare
Oil Conservation Division
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

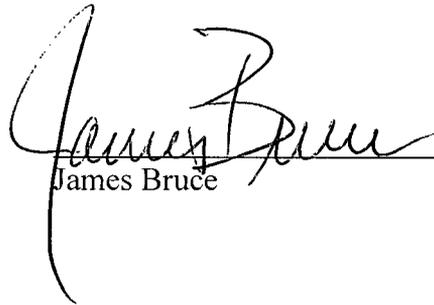

James Bruce

EXHIBIT **A**

(a) After this proposed expansion, the Bennett Ranch Unit would be composed of 1,080.7 acres of lands owned by the State of New Mexico and the remaining 10,556.39 acres administered by the BLM.

(b) The three wells drilled to date within this Unit have been unproductive of oil from Silurian or Devonian age rocks. However, that drilling along with 3-d seismic has identified some potential for natural gas from Mississippian aged rocks and a better potential for natural gas from sands of the Pennsylvanian Canyon formation. Since the primary target has changed from 40-acre spaced oil in the Fusselman to [possibly] 640-acre spaced natural gas from the shallower Canyon, the locations of prospective drilling, and the exploration prospect acreage, have changed. HEYCO did not show geologic evidence or facts confirming that the proposed Unit acreage would be compatible with this latest exploration concept. A review of Division records containing submitted Plans of Development indicates that the structure for the Canyon gas is primarily located in the southern portion of the existing Unit and extends to the Texas state line. Therefore, HEYCO has not shown the need to retain acreage along the northern or northwestern edge of the existing Unit, suggesting that the Unit should possibly be contracted in the northern and northwestern portion - instead of the proposed expansion.

(c) The drilling to date was done with compressed air to a depth at which it was no longer possible because of the occurrence of water. Wellbore stability problems were encountered above the Pennsylvanian, and large quantities of water were discovered adjacent to, above or below gas shows in a highly permeable Canyon interval. HEYCO did not show what changes, if any, have been made to its drilling well designs in order to isolate wellbore problems and to protect the large quantities of in-situ fresh waters from invasion of drilling fluids or contamination from fluids of deeper formations.

(d) The discovered Canyon interval containing gas and water was found to be highly permeable and likely needing a much larger well spacing - possibly 640 acres per unit - than the 160-acre gas spacing units for Otero County defined under Division Rule 104C(3). HEYCO did not present any evidence that would enable the Division to determine whether drilling in and near any edges of the proposed, expanded Unit would protect correlative rights.

(e) The switch from an oil target to a natural gas objective means that miles of pipelines must be constructed to get the gas out of this basin. HEYCO did not present any evidence to show that this was practically or economically feasible.

(9) The Division has the statutory duty to regulate oil and gas exploration and development within New Mexico such that waste is prevented, correlative rights are protected, and human health and the environment are not harmed. The facts available to the Division at this time do not enable the Division to determine whether approval of this