

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:

MOTION OF APPLICANT YATES PETROLEUM  
CORPORATION TO REOPEN THE CASE TO AMEND  
ORDER NO. R-13270 APPROVING THE  
HERRADURA EXPLORATORY UNIT AGREEMENT,  
EDDY COUNTY, NEW MEXICO CASE NO. 14473

TRANSCRIPT OF PROCEEDINGS

Examiner Hearing

October 28, 2010

8:20 a.m.

1220 South St. Francis Drive  
Santa Fe, New Mexico 87504

BEFORE: DAVID BROOKS, HEARING EXAMINER  
WILL JONES, TECHNICAL EXAMINER

REPORTED BY: CONNIE JURADO, RPR, NM CCR #254  
Paul Baca Professional Court Reporters  
500 Fourth Street NW, Suite 105  
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

2 For the Applicant:

3 HINKLE, HENSLEY, SHANOR & MARTIN, LLP  
 4 Attorneys at Law  
 5 Post Office Box 2068  
 6 Santa Fe, New Mexico 87504  
 7 BY: GARY W. LARSON  
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11 EXHIBITS

ADMITTED

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13 1. Supplemental Affidavit of D'Nese Fly

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1 MR. BROOKS: Call Case Number 14473.

2 This is the Application of Yates Petroleum  
3 Corporation to reopen the case to amend Order R-13270  
4 approving the Herradura Exploratory Unit Agreement,  
5 Eddy County, New Mexico. Call for appearances.

6 MR. LARSON: Good morning,  
7 Mr. Examiner. Gary Larson of Hinkle, Hensley, Shanor  
8 & Martin for Yates Petroleum Corporation, and I am  
9 presenting our case by affidavit. As you noted,  
10 Mr. Examiner, this case concerns Yates' application  
11 for approval of the Herradura Exploratory Unit  
12 Agreement.

13 In its application, Yates identified  
14 a unitized interval that includes all formations from  
15 the surface of the base of the Precambrian formation.  
16 A hearing on the application was held on May 27 of  
17 this year. There was no opposition to the  
18 application. And then on June 15 of this year, the  
19 acting division director issued Order Number R-13270,  
20 which approves the unit agreement for all oil and gas  
21 in all formations from the surface to the base of the  
22 Bone Spring formation rather than the base of the  
23 Precambrian formation as identified in Yates'  
24 application.

25 And because of the discrepancy

1 between the unitized intervals identified in the  
2 application and the unitized interval approved in the  
3 order, Yates has moved to reopen the case for the  
4 sole purpose of requesting an amended order that  
5 recognizes the unitized interval identified in the  
6 application.

7                   Yates Exhibit 1 is the supplemental  
8 affidavit of D'Nese Fly, who is the Yates geologist  
9 responsible for the Herradura Unit. Ms. Fly  
10 previously submitted an affidavit in support of the  
11 application that was entered into evidence during the  
12 May 27 hearing. In her initial affidavit, Ms. Fly  
13 identified Yates' initial test well that was drilled  
14 into the base of the Bone Spring formation.

15                   As she points out in her supplemental  
16 affidavit, which is my proposed Exhibit 1, she was  
17 merely identifying the depth of the test well  
18 identified or -- I'm sorry, required by the unit  
19 agreement in that typically Yates does not drill its  
20 initial test well to full vertical depth as a unit as  
21 is the case here.

22                   Ms. Fly further states that in  
23 identifying the depth of the test well, she never  
24 intended to alter Yates' request and its application  
25 for approval of the unitized interval from the

1 surface to the base of the Precambrian. In reviewing  
2 the transcript of the previous hearing, it appeared  
3 to me that Yates may have created some confusion  
4 regarding the depth of the unitized interval.

5 That confusion aside, Yates is now  
6 requesting an amended order approving the unit  
7 agreement for all oil and gas in all formations from  
8 the surface to the base of the Precambrian formation.  
9 As Ms. Fly states in her supplemental affidavit, an  
10 amended order will enable Yates to potentially  
11 recover hydrocarbons of depths below the base of the  
12 Bone Spring formation, and I would add that it would  
13 allow Yates the flexibility to do so without having  
14 to make another filing with the division.

15 At this point, I would move the  
16 admission of Exhibit 1.

17 MR. BROOKS: Exhibit 1 is admitted.  
18 (Exhibit 1 admitted.)

19 MR. LARSON: In conclusion, I request  
20 that Yates' motion to reopen the case be granted and  
21 that an amended order be issued.

22 MR. BROOKS: Okay. This is one of  
23 those voluntary units, I take it, that we approve  
24 only because the Land Office requires our approval as  
25 a preliminary to their approval; is that correct?

1 MR. LARSON: Right.

2 MR. BROOKS: I hadn't -- don't know  
3 that I've encountered anything to the base of the  
4 Precambrian. That sounds like that should be the  
5 center of the Earth.

6 MR. LARSON: It sounds like a journey  
7 to the center of the Earth. It allows them to go to  
8 various depths below the Bone Spring without having  
9 to file an additional application.

10 MR. BROOKS: Okay. Thank you. Do  
11 you have any questions?

12 MR. JONES: No.

13 MR. BROOKS: Case Number 14473 is  
14 taken under advisement.

15 MR. LARSON: Thank you.

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20 I do hereby certify that the foregoing is  
21 a complete and correct transcript of the proceedings in  
the Examination hearing of Case No. 14473,  
22 heard by me on 10-28-10.

23 David K. Brooks, Examiner  
Oil Conservation Division

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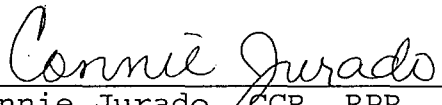
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## REPORTER'S CERTIFICATE

I, CONNIE JURADO, do hereby certify that I reported the foregoing case in stenographic shorthand and transcribed, or had the same transcribed under my supervision and direction, the foregoing matter and that the same is a true and correct record of the proceedings had at the time and place.

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 whatsoever in the final disposition of this case in any court.

WITNESS MY HAND this 28th day of October, 2010.

  
Connie Jurado, CCR, RPR  
New Mexico CCR No. 254  
Expires: December 31, 2010