

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

ORIGINAL

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

CASE NO. 14598

APPLICATION OF YATES PETROLEUM CORPORATION
FOR A NON-STANDARD SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO,

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner
DAVID K. BROOKS, Legal Examiner

February 17, 2011

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, February 17, 2011, at the New Mexico
Energy, Minerals and Natural Resources Department, 1220
South Street Francis Drive, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Lisa Reinicke
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500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

A P P E A R A N C E S

For Yates Petroleum Corporation:

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 By: David Vandiver

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1 EXAMINER EZEANYIM: We go back to the
2 docket. And on page 2 we call case number 14598. And
3 this is the application of Yates Petroleum Corporation
4 for a non-standard spacing unit and proration unit and
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. VANDIVER: Mr. Examiner, David Vandiver
8 of the firm of Vandiver & Bowman in Artesia on behalf of
9 have the applicant Yates Petroleum Corporation. And I
10 have to two witnesses.

11 EXAMINER EZEANYIM: Two witnesses. Any
12 other appearance? Okay. The witnesses stand up and be
13 sworn.

14 MR. MORAN: We were already sworn.

15 EXAMINER EZEANYIM: Okay. You're already
16 sworn. Okay.

17 MR. VANDIVER: It's the same two witnesses,
18 Mr. Examiner.

19 EXAMINER EZEANYIM: You're already sworn so
20 you may proceed.

21 CHARLES MORAN
22 after having been first duly sworn under oath,
23 was questioned and testified as follows:

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25

DIRECT EXAMINATION

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BY MR. VANDIVER:

Q. Would you state your full name, please?

A. Charles Moran.

Q. And, Mr. Moran, how are you employed?

A. I'm employed by Yates Petroleum Corporation as a chief landman.

Q. You've previously testified before the division in numerous cases and had your qualifications as a petroleum landman accepted; is that correct?

A. Yes, they have been.

Q. And are you familiar with the land title to the proposed project area that's the subject of Yates' application in case number 14598?

A. Yes, I am.

MR. VANDIVER: I tender Mr. Moran as an expert petroleum landman.

EXAMINER EZEANYIM: Mr. Moran is so qualified.

Q. (By Mr. Vandiver) Mr. Moran, what is the purpose of Yates' application in the case 14598?

A. Yates Petroleum Corporation is proposing to take an existing well bore and cut a window in the well bore and drill a horizontal well in the Cisco formation. The well is located in the south half of Section 36,

1 19 south, 24 east. The footages for the well are -- it
2 is 940 feet from the south line and 990 feet from the
3 west line. And we would like to bottom hole the well
4 940 feet from the south line and 660 feet from the east
5 line.

6 Q. And this well was originally the Dee 36SW State
7 Com. Number 2 well?

8 A. Yes, it was.

9 Q. And what formation did it produce from?

10 A. This well was originally produced out of the
11 canyon formation. It is currently completed in the
12 Cisco formation.

13 Q. So it's currently producing?

14 A. I'm going to let the geologist answer that
15 question. If it is, it's very, very marginal.

16 Q. If I could refer you to Applicant's Exhibit 1 and
17 ask you to identify that, please?

18 EXAMINER EZEANYIM: Before we go to
19 Exhibit 1, I want to get the name of this well straight.
20 Because that's the well we have a name change now. And
21 I think this is the appropriate time to see what's
22 happening. Are you going to do a vertical well and then
23 reenter the Cisco formation? And when you do a vertical
24 well, I think the API number will be affected. If you
25 look at the API numbers you have four digits at the end

1 to make those corrections when you are going to a
2 vertical a well.

3 MR. MORAN: I'm not going to speak to the
4 API number because I'm not 100 percent sure I understand
5 the API nomenclature. I will tell you how Yates
6 Petroleum intends to name the well.

7 EXAMINER EZEANYIM: Okay.

8 MR. MORAN: It was currently referred to as
9 the Dagger Draw SW2. The well was originally named by
10 Conoco not by Yates Petroleum Corporation. We purchased
11 the well from Conoco. And Yates Petroleum Corporation
12 ties the well names to where the bottom hole location
13 is. Since we are drilling this well as a horizontal
14 well, the bottom hole will be on a different lease than
15 the surface hole. So we intend to rename the well the
16 Dagger -- excuse me, I'm confusing the well with the
17 prior case. This is the Dee State 36 SW Number 2, which
18 will be renamed the Dee State 36 SE Number 7H. And the
19 H designates a horizontal well.

20 EXAMINER EZEANYIM: And that's what I'm
21 talking about, because there is nowhere for a vertical
22 well.

23 MR. MORAN: No.

24 EXAMINER EZEANYIM: And it's going to be a
25 horizontal well. The name will have to change.

1 MR. MORAN: And I believe that would be
2 taken care of during our application process for the new
3 bottom hole at OCD.

4 EXAMINER EZEANYIM: Maybe you can give me
5 what that effect on the API number is because of the
6 change. Can you do that?

7 MR. MORAN: I will find out. I can't answer
8 that question.

9 EXAMINER EZEANYIM: Yeah, that's what I'm
10 saying.

11 MR. MORAN: I will find out and let you
12 know.

13 EXAMINER EZEANYIM: Okay. I want to know
14 what the number will change. I think the well will have
15 the number or whatever and then have the 0000 for some
16 of these changes. That's why it is put in there for
17 some changes. And since you are going from a vertical
18 to horizontal well now, I think that might be the way
19 you do it.

20 MR. MORAN: It sounds very logical to me
21 that that would be the process. I would rely upon our
22 permitting people to address that.

23 EXAMINER EZEANYIM: Of course I want to let
24 you know it has no effect whether it's approved or not,
25 just in making it right.

1 MR. MORAN: Right.

2 EXAMINER EZEANYIM: Okay. Go back to the
3 witness.

4 Q. (By Mr. Vandiver) And so the proposed well will
5 be called the Dee 36SE State Com. Number 7H well,
6 correct?

7 A. Yes.

8 Q. And in this application you're seeking the
9 approval of a non-standard spacing unit consisting of
10 the south half south half of Section 36 in Township 19
11 South Range 24 East, Eddy County?

12 A. Correct.

13 Q. And you're also seeking in the application
14 compulsory pooling of various owners who have not agreed
15 to voluntarily join the proposed project area?

16 A. Correct.

17 Q. Now if I could refer you to Applicant's Exhibit 1
18 and ask you to identify that, please?

19 A. Applicant's Exhibit 1 is my letter mailed to the
20 owners proposing the operation for the horizontal well.
21 In that letter I proposed setting out -- this is another
22 case of I have multiple operating agreements; one
23 covering the southwest quarter and one covering the
24 southeast quarter. All the parties are the same,
25 although they may have different ownership in each

1 quadrant.

2 And so I was proposing, since they all were
3 parties to both operating agreements, that we just adopt
4 one of those two operating agreements as the controlling
5 operating agreement with the revised exhibit for
6 ownership. And that was the method of my -- or my
7 letter proposing it.

8 Q. Now if I could refer you to Exhibit 2, which is
9 the authority for expenditure. If you could identify
10 that, please.

11 A. Exhibit 2 is Yates Petroleum Corporation's
12 authority for expenditure that we have put together to
13 drill or reenter the existing well and drill the
14 horizontal component for the well. The estimated
15 completed cost of this is \$2,356,000. The dry hole
16 operations would be \$719,500.

17 Q. And that authority for expenditure reflects that
18 as pooled, if the south half south half of Section 36 is
19 pooled that Yates Petroleum Corporation will have an
20 89.75 percent gross working interest?

21 A. Correct.

22 Q. And there's one executed copy attached of the AFE
23 by Randy Cone?

24 A. Randy Cone, yes.

25 Q. And then if you'll refer to Applicant's Exhibit 3

1 and identify that, please?

2 A. Exhibit 3 is the document I prepared to send out
3 to the owners to determine which operating agreement
4 would be the controlling operating agreement for the
5 horizontal well since the project area will overlay both
6 the southwest quarter and the south -- the portions of
7 the southwest quarter and portions of the southeast
8 quarter, which are governed by existing operating
9 agreements.

10 Q. And could you identify Exhibit 4, please?

11 A. Exhibit 4 is Randy Cone's signed signature to the
12 proposed pooling agreement.

13 Q. As to the parties that you notified in your
14 letter of November 12th, 2010, is Randy Cone the only
15 one you've received a response from?

16 A. He is the only one I've received a positive
17 response from. Yesterday afternoon I received a
18 telephone call from Tom Cone. Tom Cone has indicated
19 that he would like to make a deal. That came at
20 3 o'clock yesterday as I was leaving to come up here. I
21 believe that deal will be an acceptable deal.

22 As for Kenneth Cone, as I testified previously,
23 he is out of the country is my understanding, and his
24 employee is the one that told me they would not be
25 making any decisions in his absence.

1 Q. And then if you could refer to the Applicant's
2 Exhibit 5.

3 EXAMINER EZEANYIM: Well, who are these
4 Cones? There's a lot of Cones. I get confused. Cathie
5 Cone and Mark Cone, who are these?

6 MR. MORAN: I'm going to be nice. They are
7 some owners that don't tend to cooperate.

8 MR. VANDIVER: The Cones are the children of
9 Gordon Cone who owned an abstract plant in Lee County.
10 And he, during his lifetime, acquired a lot of mineral
11 interests and leasehold interests in southeast
12 New Mexico. And these are his children and trusts for
13 his grandchildren. They own a lot of oil and gas
14 properties. And you'll see them again.

15 EXAMINER EZEANYIM: Okay. Very good. So
16 only Randy has signed to participate.

17 MR. MORAN: Randy has agreed. As Exhibit 5
18 indicates, I have an e-mail from Cathie Cone just
19 telling me to force pool her. I thought she was going
20 to cooperate. But as you can see by her e-mail, as I
21 read it: Contrary to my verbal statement of probably
22 going non-consent on the Auvenshine Trust's and on my
23 interest, we have decided to be force pooled on this
24 proposed well. By doing so, I'm assuming it is not
25 essential that I return the stipulation joint operating

1 agreement.

2 EXAMINER EZEANYIM: And these Cones, they
3 are separately owned. They are not collective?

4 MR. MORAN: They are separate interests.
5 They are brothers and sisters and --

6 EXAMINER EZEANYIM: And nephews and
7 everything.

8 MR. MORAN: Some of them are nephews. Randy
9 Cone actually is a nephew. I understand him to be the
10 next generation. They've been around a lot longer than
11 I have. And I've just heard very many stories about how
12 you get things done with them. And a lot of that gets
13 done up here before the commission.

14 EXAMINER EZEANYIM: Well, anyway, I wanted
15 to understand. Thank you.

16 MR. VANDIVER: Mr. Examiner, Applicant's
17 Exhibit 6 is an affidavit of mailing, my affidavit of
18 mailing. And you'll notice that with -- you should have
19 the letters attached notifying the non-consenting or
20 non-joining owners of this hearing with the attached
21 return receipts.

22 I don't believe we ever got a return receipt from
23 Bank of Oklahoma, which is the trustee of a trust for
24 one of the Cone grandchildren. And you'll notice that
25 the affidavit only addresses notice to those parties

1 that were seeking a force pool. And there has been no
2 notice to offsetting operators or working interest
3 owners of the proposed non-standard location.

4 And I would move the admission of Applicant's
5 Exhibits 1 through 6.

6 EXAMINER EZEANYIM: Exhibits 1 through 6
7 will be admitted.

8 [Exhibits 1 through 6 admitted.]

9 Q. (By Mr. Vandiver) Mr. Moran, what are you
10 proposing in the way of overhead rates if the
11 application is granted in this case?

12 A. For matters of the forced pooling, I would
13 propose that we go back to our base standard rates,
14 which would be \$540 per day rate and 5,400 per day for
15 drilling rate for overhead. The existing operating
16 agreements would have those amounts above that, due to
17 escalation at this point. But as this is a new
18 operation and requires -- I don't have a base agreement
19 to cover everything. Those would be my base rates to
20 fall back on under the order.

21 Q. Mr. Moran, do you believe that Yates has made a
22 good faith, diligent effort to seek the voluntary
23 pooling of this proposed project area?

24 A. Yes, I do believe we have.

25 MR. VANDIVER: That's all I have,

1 Mr. Examiner. If you'd like to inquire of the witness?

2 EXAMINER EZEANYIM: Thank you. Any
3 questions?

4 MR. BROOKS: No questions. Thank you.

5 EXAMINER EZEANYIM: You are the composite
6 from the surface to the Cisco formation or formation
7 from the surface to the Cisco, right?

8 MR. VANDIVER: No, sir. I think that we
9 have only asked for pooling of the Cisco since it's
10 going to be a -- I don't think we asked for surface to
11 the base of the Cisco. We're just asking to pool the
12 Cisco for this horizontal well.

13 EXAMINER EZEANYIM: Okay.

14 MR. MORAN: Again, being that any operations
15 in the straight hole subsequent would be governed by the
16 existing joint operating agreement that is in place
17 already.

18 MR. BROOKS: This is going to be a single
19 unit project area, right?

20 MR. MORAN: Yes.

21 MR. BROOKS: It's 120?

22 MR. MORAN: No. Actually 160.

23 MR. BROOKS: Oh, 160.

24 MR. MORAN: And we anticipate this to be an
25 oil well.

1 MR. BROOKS: Yeah.

2 MR. VANDIVER: It's a lay down of 160, four
3 40s.

4 MR. BROOKS: Okay. So it's not a single
5 unit project area. You're asking us to -- you're asking
6 for a non-standard unit here as well as --

7 MR. MORAN: Yes.

8 MR. VANDIVER: Yes, sir.

9 MR. BROOKS: Okay. That's what I was trying
10 to get to.

11 MR. MORAN: Yes.

12 MR. VANDIVER: Yes, sir.

13 MR. BROOKS: Then you'll be putting on other
14 witnesses to testify to the propriety of establishing
15 the unit.

16 MR. VANDIVER: Yes, sir.

17 MR. BROOKS: Okay. Thank you.

18 EXAMINER EZEANYIM: Okay. I will ask a
19 question unless you can't answer, then we will defer.
20 One of my questions is, I don't whether you have an
21 expert here, in the project area, in the producing area,
22 that uses the well construction or how you're going to
23 proceed for a well in the entry point.

24 MR. MORAN: I think the next witness will
25 answer that.

1 EXAMINER EZEANYIM: Okay. Now, because you
2 are involved in notice, I guess try to get notice
3 requirements. Everybody that is required to get notice,
4 got notice, right?

5 MR. MORAN: The discussion between Counsel
6 and myself was for the non-standard spacing unit, who
7 determined we needed to notify. And originally we
8 operated under a premise that we only needed to notify
9 the parties affected and not the surrounding offset
10 owners and spacing unit.

11 Subsequent to that and subsequent to the filing
12 date, we determined that the rules lead us to believe we
13 probably need to notify the offset owners. We have not
14 done that yet because I didn't give Counsel the names of
15 those owners. We started to gather it up. Then I got
16 under a mindset that I didn't need to do it and then
17 realized we needed to do it. And we have not done it
18 yet. I have got to get that information out to them
19 still.

20 Q. (By Mr. Vandiver) Could you describe, to your
21 knowledge, who the offset operators are?

22 A. The majority of the offset operators is going to
23 be Yates Petroleum Corporation. And I believe the only
24 other one will going be Nearburg Exploration.

25 Q. And so we'll be notifying the working interest

1 owners.

2 MR. BROOKS: Right. Where you are the
3 operator if there are other working interest owners then
4 you would be required to notify them.

5 MR. VANDIVER: In the north half of the
6 south half of this section is all the same parties,
7 Yates Petroleum and all the parties that we're proposing
8 to force pool are the working --

9 MR. BROOKS: Yeah. If the interests are
10 identical then the notice requirement does not apply.

11 MR. VANDIVER: But to the south and east and
12 west of the project area, Yates operates most of that
13 land. And so we have not notified the working interest
14 owners to the south and east and west of this project
15 area. So we need to do that.

16 MR. BROOKS: So you contemplate this case
17 will be continued --

18 MR. VANDIVER: Yes, sir. Yes, sir.

19 MR. BROOKS: -- and readvertised.

20 EXAMINER EZEANYIM: So that's what I want to
21 do, set the requirements straight to see if we've done
22 it right. Because everybody is required to get notice.
23 And once you've done that then we can proceed.

24 MR. MORAN: And we have notified those
25 parties that we're seeking to pool. But we have not

1 notified the offset working interest owners or operators
2 where it's not Yates.

3 EXAMINER EZEANYIM: So we might want to --
4 well, I want to hear the case, all the case today. And
5 then not take it under advisement until you notify those
6 people and continue this case for another two weeks.

7 MR. VANDIVER: Well, I think we need more
8 time to notify.

9 MR. BROOKS: I would think four weeks
10 because you have 20-day notice requirements.

11 MR. VANDIVER: So we'll have to send out the
12 notices.

13 EXAMINER EZEANYIM: So we might continue to
14 March 17 then after we finish it today. All right?

15 MR. VANDIVER: Yes, sir.

16 EXAMINER EZEANYIM: Okay. But we're going
17 to continue and hear the case. And then once you comply
18 with the nuisance requirement then we can take the case
19 on.

20 MR. BROOKS: There will be no need for a
21 further hearing unless somebody shows up and objects.

22 MR. MORAN: And I don't anticipate anybody
23 will object. And most of the surrounding owners are
24 myself or the project area is not -- does not impinge or
25 encroach upon any of their rights. I don't anticipate

1 any objections.

2 EXAMINER EZEANYIM: Well, Mr. Moran, I
3 wanted to ask, because I was curious about notifying the
4 offsets, because you've done that several times.

5 MR. MORAN: The reason being, I was
6 extremely busy. I asked the question and I was told I
7 did not need to do that, so I stopped gathering that
8 information. I had enough projects on my desks that
9 when I was told I didn't need it, I stopped working on
10 it. And then subsequently, you know, in the back of my
11 mind I thought we needed it. And we determined we did.

12 But I didn't have it -- I did not make that --
13 get that information gathered in time for this hearing.
14 It was recognized we needed to do it. I just had been
15 told, no, you don't need to do that. And since I wasn't
16 the -- I was moving ahead and just had a full plate.

17 MR. VANDIVER: I misread the rule,
18 Mr. Examiner, and told him I don't think we need to
19 notify the offset working interest owners. And it's
20 just my --

21 MR. BROOKS: Well, the rule is not very
22 instructive because the rule, as you know since you've
23 read it, is that for a non-standard unit you notify
24 certain parties within the proposed spacing unit or
25 within the legal subdivision that the proposed spacing

1 unit is a part of. And then you notify anybody else the
2 division requires you to notice.

3 Well, to get to what you're required to notice in
4 a case like this, you would have to know that the
5 division has a policy requiring notice to offsets where
6 you're putting in a multi-unit horizontal well project.

7 EXAMINER EZEANYIM: And that's why I asked
8 the question because I've done this several times. It's
9 not the first time doing it. I just wanted to know why
10 it fell by the waste side.

11 MR. MORAN: Well, the reason was David and I
12 talked. He told me not to. And I trust --

13 MR. VANDIVER: It's Counsel's lack of
14 experience and not Yates'.

15 MR. BROOKS: Well, you know, when the rules
16 aren't written, it's a little hard to figure out.

17 MR. VANDIVER: Now I know and I won't do it
18 again.

19 MR. BROOKS: Even if there's a written rule
20 it will tell you do whatever we tell you.

21 MR. MORAN: I was truly hoping there had
22 been a rule change. That was why I agreed. I said,
23 well, there must have been a rule change. Because
24 that's what I was hoping for.

25 MR. BROOKS: Well, there is a committee

1 working on that, but they're working very slowly
2 apparently.

3 MR. MORAN: But I did start gathering that
4 data. Most of the offset operators are going to be
5 entities that I am familiar with. I just don't
6 anticipate any problems. I might even be able to get
7 waivers from some of them to speed it up.

8 MR. VANDIVER: I have no further questions
9 of the witness.

10 EXAMINER EZEANYIM: Okay, yeah. You may
11 step down.

12 MR. VANDIVER: I call John Amiet.

13 EXAMINER EZEANYIM: You have been sworn so
14 you're still under oath.

15 MR. AMIET: Yes, Mr. Examiner.

16 JOHN AMIET

17 after having been first duly sworn under oath,
18 was questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. VANDIVER:

21 Q. State your name, please, for the record.

22 A. John Amiet.

23 Q. And how are you employed?

24 A. I'm the geologic manager for Yates Petroleum for
25 Southeast New Mexico.

1 Q. And, Mr. Amiet, you previously testified on
2 numerous occasions before the division and had your
3 qualifications as a petroleum geologist accepted?

4 A. Yes, I have.

5 Q. And they are a matter of record with the
6 division?

7 A. Yes, they are.

8 Q. Are you familiar with the geology of the well
9 that's the subject of this application?

10 A. Yes, I am.

11 Q. And have you prepared certain exhibits for the
12 Examiners?

13 A. Yes, I have.

14 MR. VANDIVER: I tender Mr. Amiet as an
15 expert petroleum geologist, Mr. Examiner.

16 EXAMINER EZEANYIM: Mr. Amiet is so
17 qualified.

18 Q. (By Mr. Vandiver) If I could refer you to Yates'
19 Exhibit 7 and ask you to describe what that is, please.

20 A. This is describing where the well is located and
21 the well name. It talks about it was originally drilled
22 as an orthodox canyon test. It produced about 440,000
23 barrels of oil and 1.1 BCF. But it has become depleted
24 in the canyon zone. We're trying a new idea. We perfered
25 in the vertical section of what we're calling the Cisco

1 Shale from 7450 to 7550.

2 It started out producing about 20 barrels a day.
3 And slowly over two or three months it has slowly
4 declined. It's now producing probably only a barrel or
5 two a day. But horizontal wells have changed -- are
6 changing the oil industry. We thought this would be a
7 good test to reenter an existing well bore and see if we
8 could make a commercial well outgoing horizontal in this
9 shale.

10 Q. And the existing location of the well is 940 feet
11 from the south line and 990 feet from the west line of
12 Section 36?

13 A. That's correct.

14 Q. And where do you propose to commence your
15 lateral, at what depth?

16 A. We will kick off probably 500 feet above the
17 horizontal target. And I think at about 7500 feet we
18 will be horizontal.

19 Q. Do you anticipate that the well will be completed
20 in all 40-acre tracks that are proposed to be in this
21 project area?

22 A. It's currently perfed in the first proration
23 unit. We will not be horizontal until we're in the
24 second proration unit. This is 990 feet from the west
25 line. It takes normally about 500 feet of horizontal to

1 get to the horizontal. So we would be over the
2 1320 feet. So we will horizontal in the second
3 proration unit and then continue into the third and
4 fourth proration units.

5 EXAMINER EZEANYIM: Are you going to
6 penetrate the Cisco and the other units? Is that what
7 you're saying?

8 MR. AMIET: Yeah. It's already perfed in
9 the first proration. We will perf in the other three
10 proration units.

11 EXAMINER EZEANYIM: What would be your entry
12 point of that?

13 MR. AMIET: The ending point --

14 EXAMINER EZEANYIM: The entry point. The
15 entry point. Not the ending point.

16 MR. AMIET: It would be approximately --

17 EXAMINER EZEANYIM: The timing is standard.
18 But I want to know where the entry point is.

19 MR. AMIET: It would probably be about
20 1820 feet from the west line.

21 EXAMINER EZEANYIM: Where are you reading
22 from? How do you know that?

23 MR. AMIET: Well, right now we're at
24 990 feet from the west line. It takes -- well, actually
25 it takes 500 feet to go horizontal. So it will be about

1 1490 feet from the west line until we're horizontal.

2 EXAMINER EZEANYIM: Okay.

3 MR. BROOKS: Well, the entry point we're
4 concerned with is the point where the well bore
5 intersects the top of the formation.

6 MR. AMIET: Well, that's 50 feet above where
7 we're going horizontally. So it would be very close. I
8 might say 1400 feet or 1450 feet where we hit the top of
9 that shale.

10 EXAMINER EZEANYIM: I don't know where you
11 have this platform. You can indicate that on C-102. Go
12 back there and then send it to me so we can take a look.
13 Because I will tell you what you're saying, that's a
14 project area, then you have a producing area. And
15 inside the producing area I want to know whether that's
16 standard or not.

17 MR. AMIET: Okay. I'll have to have the
18 engineers do a plat and see where that --

19 EXAMINER EZEANYIM: And I don't see a plat
20 here and I need to see a plat.

21 MR. AMIET: Right. Yes, Mr. Examiner, I'll
22 do that.

23 EXAMINER EZEANYIM: Okay. Go ahead.

24 Q. (By Mr. Vandiver) Anything further with regard
25 to Exhibit 7?

1 A. No.

2 Q. If you would turn to Applicant's Exhibit 8 and
3 identify that, please.

4 A. This is just a net pay of the Cisco shale that
5 we're targeting. It's a density porosity greater than
6 8 percent. It's just showing that generally there's
7 anywhere from about 40 to 60 feet of pay over this
8 entire map area. So if this works we have a lot of
9 other potential locations that we could go horizontal.
10 So this is kind of an exploratory test. We're not sure
11 if 50 feet of net good shale pay is enough. But, again,
12 this is part of what we're trying to determine.

13 Q. If you would refer to Applicant's Exhibit 9 and
14 describe what that is, please.

15 A. This is just a cross section of the two wells.
16 The one well that we are reentering is a Conoco Dee
17 State Number 2 that will be the Dee State Number 7H once
18 we start this horizontal well. So the well on the left
19 is a reentry well. The well on the right is a well
20 we're going towards.

21 EXAMINER EZEANYIM: Are you talking about
22 this exhibit?

23 MR. AMIET: Yes, Mr. Examiner.

24 EXAMINER EZEANYIM: Well, what does yours
25 say?

1 MR. AMIET: The well on the left is the well
2 that we're reentering. It will be the horizontal Dee
3 State Number 7H. And we're going to go past the well on
4 the right, the Dee State Number 5. We will go right by
5 that well bore. So this is just showing the thickness
6 of the shale. And it shows the horizontal target at the
7 top of the Cisco shale and the base of the shale on top
8 of the canyon line.

9 The dark, dark areas on the curve to the left are
10 just showing what we think is pay. It's giving a very
11 high gamma ray reading, which is generally what we need
12 for a good horizontal well in a shale.

13 EXAMINER EZEANYIM: Go ahead.

14 Q. (By Mr. Vandiver) Anything further with regard
15 to Exhibit 9?

16 A. No.

17 Q. Mr. Amiet, in your opinion will the approval of
18 this application prevent waste and protect correlative
19 rights?

20 A. Yes, it will.

21 Q. And will it afford each interest owner the
22 opportunity to recover without unnecessary expenses a
23 just and fair share of hydrocarbons underlying the
24 proposed project area?

25 A. Yes, it will.

1 MR. VANDIVER: Mr. Examiner, I would move
2 admission of the Yates' Exhibits 7 through 9.

3 EXAMINER EZEANYIM: Yes, 7 through 9 will be
4 admitted.

5 Mr. Brooks?

6 [Exhibits 7 through 9 admitted.]

7 MR. BROOKS: No questions.

8 EXAMINER EZEANYIM: On that Section 36, how
9 many vertical wells do you know are in that Section 36,
10 do you know?

11 MR. AMIET: How many wells --

12 EXAMINER EZEANYIM: How many vertical wells
13 are drilled in there?

14 MR. AMIET: Vertical wells?

15 EXAMINER EZEANYIM: Yeah. Did you try to
16 check how many vertical wells are there in that section?

17 MR. AMIET: In this section there's about --
18 there are 12 vertical wells drilled for the canyon
19 formation in this Section 36.

20 EXAMINER EZEANYIM: Okay. There are 12 of
21 them, vertical wells?

22 MR. AMIET: Right.

23 EXAMINER EZEANYIM: Okay. And then you
24 determined that your intention is going to be west to
25 east?

1 MR. AMIET: We're going from west to east.

2 EXAMINER EZEANYIM: Instead of south to
3 north? Or you don't have anything south to north?

4 MR. AMIET: We'd like to take into account a
5 fracture direction. You can go perpendicular to the
6 fractures. But we don't see an advantage. And the land
7 was so complicated here, the south half south half
8 seemed like the best or the easiest way to test this
9 concept.

10 EXAMINER EZEANYIM: What I'm trying to
11 determine is the correct orientation of the -- because
12 you are asking us to form that unit. So I want to
13 determine which orientation we hit the most productive
14 zone. So you have 12 wells drilled in that section.
15 That would point you in the direction where most likely
16 the wells will produce if you enter horizontal.

17 MR. AMIET: The thickness of the net pay of
18 the Cisco shale is pretty much the same going north
19 south or east west.

20 EXAMINER EZEANYIM: What are you saying?

21 MR. AMIET: The thickness of the Cisco
22 shale, the pay interval, is pretty much the same going
23 west to east or going from the southwest corner going
24 north. So I don't think there's a difference in terms
25 of the thickness of the pay that one direction would be

1 better than the other.

2 EXAMINER EZEANYIM: How do you determine
3 that? How do you know that?

4 MR. AMIET: I don't know that for sure until
5 we drill some wells.

6 EXAMINER EZEANYIM: Okay. And do you have
7 any interest if you go south north in that 160? If you
8 have a stand up south north. Do you have any interests
9 up there?

10 MR. MORAN: Mr. Examiner, if I might answer
11 that question. The leasehold in Section 36 is a
12 combination of all the same leases. It is the same set
13 of owners in the north half as it is in the south half,
14 just the percentages are a little bit different based
15 upon the leasehold ownership.

16 EXAMINER EZEANYIM: It is where we are going
17 to hit the most hydrocarbons.

18 MR. AMIET: Right.

19 EXAMINER EZEANYIM: Regardless of how many
20 vertical wells you have in there, you are going to
21 produce, you know, 1,000 barrels or a 100 barrels. See
22 what I mean? That's why I'm exploring this.

23 MR. MORAN: Not to be contrary to Mr. Amiet,
24 but the land ownership did not, in my mind, enter into
25 which way we laid it. The geologists determined that

1 this is based upon well location and where the well was
2 situated, what we had. We're saving a great deal of
3 money by utilizing this existing well bore to test this
4 concept. This well in this location gave us probably
5 the best economics to test this concept on this
6 formation. And the geology was believed to be uniformed
7 here.

8 So that is why, you know, we've chosen to go to
9 the south half. And the ownership, the owners in the
10 south half are similar owners in the north half -- you
11 know, they're all the same owners. So it was more of a
12 geologic reasoning and economic reasoning for our
13 testing or utilizing this well bore to drill from this
14 location.

15 MR. AMIET: This will save 800,000 to
16 \$1 million by reentering this well bore rather than
17 drilling a new well bore. And this well bore was not
18 producing an economic quantity so we thought this was
19 maybe a best case. We checked the casing in this well
20 bore. The casing is in good shape. And so everything
21 kind of pointed to this was a good well bore to try to
22 reenter since it is not producing.

23 Some of the others are still producing. So
24 that's why we chose this well bore. And then in terms
25 of going west to east or going from the southwest to the

1 north, I don't see any difference in the geology. So we
2 decided to go from west to east. And once this pattern
3 is set up all the other wells, if this is successful and
4 we continue to the north, we will continue going west to
5 east.

6 EXAMINER EZEANYIM: Okay. What I would like
7 you to supply again is that from C-102, that plat.

8 MR. AMIET: Right.

9 EXAMINER EZEANYIM: And I want you to
10 include the project area, the producing area, and
11 indicate your entry points. And particularly the entry
12 point and the terminals are not within the sufficient
13 location. But you might include that too.

14 MR. AMIET: Yes, Mr. Examiner. And I will
15 also check on the API numbers and see what that is going
16 to change.

17 EXAMINER EZEANYIM: Yes. So do that too,
18 the API number, see what it is going to change. And
19 then the plat. And in accordance with what we decided
20 before we started this case, I think we will defer the
21 advisement until March 17, right?

22 MR. BROOKS: Right.

23 EXAMINER EZEANYIM: So we will continue the
24 case until March 17th to give you the opportunity to
25 notify those offset operators. And then at that point I

1 will get the information that you have done that, and
2 then take it under advisement on March 17. I think
3 that's enough time.

4 MR. MORAN: I've almost got it done. It was
5 the communication between David and I was he told me we
6 don't need to do it. And I immediately had other things
7 to work on. And then we subsequently determined that we
8 needed to do it but we didn't have time to correct it
9 prior to this hearing.

10 And since we had our other case we decided to go
11 ahead and present the case at this point and advise you
12 that we had not done that with our plan.

13 EXAMINER EZEANYIM: Okay. So the plan is we
14 take this case under advisement on March 17th. You do
15 what you're supposed to do. So that being the case,
16 this concludes case number 14598.

17 [Case 14598 is continued.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14598
heard by me on 3/17/11

Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District 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 whatsoever in the final disposition of this case in any court.



Lisa R. Reinicke,
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Ex count: