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:	)	CASE NO. 13,008
APPLICATION OF YATES PETROLEUM CORPORATION FOR SIMULTANEOUS DEDICATION, CHAVES COUNTY, NEW MEXICO	)	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

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

March 27th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, March 27th, 2003, 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

March 27th, 2003
Examiner Hearing
CASE NO. 13,008

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

WHEREUPON, the following proceedings were had at 10:37 a.m.:

EXAMINER JONES: At this time we'll call Case 13,008, which is readvertised, continued from the March 13th Examiner Hearing, which is the amended Application of Yates Petroleum Corporation for simultaneous dedication of three wells, Chaves County, New Mexico.

Call for appearances.

MR. CARR: May it please the Examiners, my name is William F. Carr with the Santa Fe office of Holland and Hart, L.L.P. We represent Yates Petroleum Corporation in this matter. I have two witnesses.

I would request that the record reflect that the witnesses have previously been qualified as experts, and they remain under oath.

EXAMINER JONES: Okay, let's let the record reflect that the witnesses were previously qualified and they remain under oath.

Any other appearances in this case? There being none, Mr. Carr?

MR. CARR: And we also, Mr. Examiner, need to ask that the record reflect that we are also entering an appearance in this matter for EOG Resources Oil and Gas, Inc. They have asked that we do that, they have stated they do not oppose, so we've done it.

EXAMINER JONES: Okay, they do not oppose?

MR. CARR: No, they do not.

EXAMINER JONES: But they want to have an appearance?

MR. CARR: Yes.

EXAMINER JONES: Okay, thank you.

CHARLES E. MORAN,

the witness herein, having been previously duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Would you state your name for the record, please?

A. My name is Charles Moran, I live in Artesia, New Mexico --

Q. By --

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

MR. CARR: There are days when it makes you feel almost useless, when your witness just goes.

(Laughter)

Q. (By Mr. Carr) Are you familiar with the Application filed in this case?

A. Yes, I am.

Q. Are you sure?

A. Yes.

Q. And are you familiar with the proposal of Yates Petroleum Corporation to simultaneously dedicate two gas wells in the northeast quarter of Section 5, Township 10 South, Range 26 East?

A. Yes.

Q. Mr. Moran, would you briefly summarize for the Examiner what it is that Yates Petroleum Corporation seeks in this case?

A. What Yates Petroleum is pursuing is, in the north half of Section 5, we have currently drilled the Quiniela AXQ State Number 2 well at a location of 660 from the south and 1980 from the east on a north-half spacing unit in Section 5.

We are pursuing, based on geological information which will be presented by a geologist, a location for a third well in the northeast quarter, as well as our Number 1 well in the northwest quarter of Section 5.

MR. CARR: Mr. Examiner, could we go off the record for a minute?

EXAMINER JONES: Yes.

(Off the record)

Q. (By Mr. Carr) Mr. Moran, you've explained what it is that Yates is seeking with this Application. The result of that is that there will be three wells in the north half of the section in the same formation --

A. Yes.
Q. -- is that correct?
A. Correct.
Q. And what formations are these wells actually projected to or completed in?
A. The wells will be drilled to the basement, but we anticipate the production in the Silurian-Devonian. That is currently where the Number 2 well is producing out of, and the Number 2's production is -- it's a below-average well for what we had expected to obtain out here.
Q. And that is the principal objective in this case?
A. Yes.
Q. There are some secondary objectives, are there not?
A. Yes, the secondary objectives would be the Strawn and the Cisco and the Wolfcamp.
Q. Are all of the wells that are the subject of this hearing drilled at standard locations and would be standard locations in all horizons?
A. Yes, they are.
Q. What rules govern the development of this spacing unit?
A. The statewide rules, that being Rule 104 -- let's see --
Q. And that provides for --

A. -- 320-acre --

Q. -- 320-acre --

A. -- spacing for formations below the base -- or below the top of the Wolfcamp formation.

Q. And they would provide for 660-foot setbacks from the outer of a quarter section --

A. Correct.

Q. -- and they also pre-approve an infill well in the quarter section other than the one in which the first well is located?

A. Correct.

Q. And so what we're trying to do is have two wells in the Siluro-Devonian, in the northeast quarter?

A. Correct.

Q. Have you prepared exhibits for presentation here today?

A. Yes, I have.

Q. Would you refer to what's been marked for identification as Yates Exhibit Number 1 and review the information on this exhibit for the Examiners?

A. Exhibit Number 1 I've prepared is a plat centered around Section 5 of Township 10 South, Range 26 East. It is intended to show the current wells in that area and shows that Yates Petroleum Corporation is the operator of the wells to the north in Section 32.

Section 32 is an east-half/west-half spacing unit.

Section 33, Yates Petroleum Corp. is the operator of the well in the south half of Section 33.

Section 4 is the west-half spacing unit, and Yates Petroleum Corporation is the operator of the wells in that section.

The south half of Section 5 is also a south-half spacing unit. Yates Petroleum Corporation is the operator of that unit.

Section 6 is operated by third parties. It is our belief that that McClellan Penjack Well Number 5 is the only deep test in that section. I was not sure whether it was a north half or -- I'm thinking it's a north-half spacing unit, but I was not sure.

And Section 31, I was not sure what the spacing was, so I -- but it's an offset operator to the adjoining Section 5.

Q. All right, Mr. Moran, Yates operates the spacing units north, south, east and northeast of the subject spacing unit?

A. Correct.

Q. And Yates owns an interest but does not operate in Section 31 and Section 6 to the west of the --

A. It is my understanding we have a very tiny

ownership interest in those sections.

Q. To whom was notice provided of this Application?

A. Notice was provided to all working interest owners in Section 31 of 9-26 and Section 6 of 10-26, because we did not operate and we notified every working interest owner in there, including Chesapeake who operates the Abo formation.

Also in Section 32, because we do not own 100 percent of that section, we notified the working interest owners in that section because we were the operator. In the other sections the Yates entities own 100 percent of the working interest.

Q. So you have, in fact, notified all other working interest owners in all affected tracts?

A. In all affected tracts, yes.

Q. And have you received any response to this notification?

A. No response was received. The only thing I'm aware of is that EOG Resources wanted an appearance entered.

Q. And is Exhibit Number 3 a copy of an affidavit confirming that this notice has been provided in accordance with the Rules of the Division?

A. Yes, it is.

Q. Will Yates call a geological witness to review

the technical aspects of this case?

A. Yes, we will.

Q. Were Yates Exhibits 1 through 3 either prepared by you or compiled at your direction?

A. They were partially prepared by me or compiled at my direction.

MR. CARR: May it please the Examiners, at this time we'd move the admission into evidence of Yates Petroleum Corporation Exhibits 1 through 3.

EXAMINER JONES: Exhibits 1 through 3 are admitted to evidence.

MR. CARR: That concludes my direct examination of Mr. Moran.

EXAMINATION

BY EXAMINER JONES:

Q. Mr. Moran, in Section 33 what was the story there? Is that all Yates --

A. Section 33 is a north-half and south-half-spaced section.

Q. Okay.

A. In the south half the Yates entities own all working interest in the south half.

Q. Okay. And in the west half of Section 4, that's a standup?

A. That is a west-half-spaced section, and those are

the Nevada wells that we operate, and we own 100 percent of those.

Q. You own 100 percent of all of these targets, these formation targets in this case, in that section?

A. The ownership in the south half of 33 is common all depths. In 4, the west half, it's common all depths. In the south half of 5 it's common in all depths.

Section 32 is part of a working interest unit. All the owners are the same, but there's a difference in the ownership between the Abo and the deep rights. It's a shallow-deep unit.

The ownership in Sections 31 and 6, I'm not as familiar with the ownership, but I know we notified everybody that we identified as a working interest owner in whatever depths that were out there, because I know from some other research that Chesapeake is the operator of most of the Abo formation out there, but they have acquired some of the deep rights. And since we were going deep I wanted to make sure we notified the deep working interest owners as well.

Q. Thank you very much for that. We've got that on the record here, so I can read the record on that one.

The location of this Quiniela AXQ State Number 2 well --

A. Yes.

Q. -- you said earlier that it is from the -- Can you tell me again the location?

A. I believe the footages of that well -- it's 660 -- excuse me, 1980 from the north line and 1980 from the east line. I may have misspoken earlier.

Q. Yes, because it was different than our records.

A. Yeah, it is. I apologize, I was looking at the dashed line in Section 5 and going 660 from --

Q. Oh, from the --

A. -- from the dashed line. I apologize. It is 1980 from the north and 1980 from the east. I need to correct myself.

Q. Okay. And when you say Silurian-Devonian, do you really mean Siluro-Devonian?

A. Siluro-Devonian. My geologist keeps changing the name of the --

Q. Okay.

A. He's also called it Precambrian and --

Q. Okay.

A. I know the rules require it to be developed on a 320-acre spacing unit --

Q. Yes.

A. -- whatever he calls it. Okay, so we'll make sure that -- and that is the -- You said the primary target and the secondary targets are the Strawn, Cisco and

Wolfcamp?

A. Yes. And I guess you could have some Abo out there as well.

Q. And you have no idea about -- is EOG -- can you tell me their --

A. EOG is a working interest owner in Section 32.

EXAMINER JONES: Okay, that's all I have.

Mr. Brooks?

EXAMINATION

BY MR. BROOKS:

Q. Is this all state land?

A. I believe it is all state land, as to Section 5.

Q. Yeah, Section 6 looks like it's federal.

A. Yes, 6 is federal, 31 is federal, 32 is state, 33 is state.

Q. I saw these little lots here, though, and I wondered if any of those were fee?

A. No, I would presume that that whole section is federal, based on the map. There's no distinction.

MR. CARR: All state.

Q. (By Mr. Brooks) All state in Section 5?

A. Yeah, down in Section 5, yes.

Q. Okay, and it looks like 4 is state as well?

A. Yes.

Q. And 32 is state also, right?

A. Correct.

Q. And 33 is also state?

A. Yes.

MR. BROOKS: Okay, thank you.

EXAMINER JONES: Thanks very much, Mr. Moran.

MR. CARR: At this time we call Tim Miller.

TIM MILLER,

the witness herein, having been previously duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. CARR:

Q. Mr. Miller, you testified in the previous case, did you not?

A. Yes, I did.

Q. And at that time your credentials as an expert in petroleum geology were accepted?

A. Yes, they were.

Q. Are you familiar with the Application filed in this matter on behalf of Yates Petroleum Corporation?

A. Yes, I am.

Q. Have you made a geological study of the area which is the subject of this case?

A. Yes, I have.

Q. Are you prepared to share the results of that work with the Examiners?

A. Yes, I am.

Q. Let's just go back. What's the primary objective in this property?

A. Primary objective in this property is the Siluro-Devonian formation.

Q. If we look at what has been marked as Exhibit Number 1, we're talking about three wells in the north half of the section, are we not?

A. Correct, yes.

Q. The Number 2 well has been drilled?

A. Yes.

Q. It is in the southwest of the northeast?

A. Correct.

Q. We're proposing to drill an additional well in the northwest of the northeast; is that correct?

A. That is correct.

Q. What about the well -- the Number 1 in the northwest quarter? Has that well been drilled?

A. No, it has not.

Q. Okay, so we're talking about these three wells?

A. Yes.

Q. Let's go to what has been marked Exhibit Number 4, your structure map, and I would ask you to review the information on this exhibit for the Examiners.

A. Okay, Exhibit Number 4 is a structure map on top

of the B pay zone interval in the Siluro-Devonian dolomite. As you can see, this gives you a general feel for the structure out there. Mainly, it is a north-to-south-trending what we think -- an anticlinal feature. On the west side there's one major fault that runs from the south half of Section 32 down through Section 5 and down in through Section 8, continuing down further south.

As the map has shown, down in Section 8 we feel that this is -- this has two faults, this is basically a downthrown fault which has the pay horizon structurally low, and this has been very poor to this date, uneconomical well.

Basically what you're seeing is, the crest of the structure is running on the east half of Section 32, down through the east half of Section 5 and snakes somewhat, at least by the way I feel I've contoured it, into the northwest quarter of Section 4.

Basically the highest part of the structure -- and it might be kind of hard to see -- is where the Program Number 3 well is in the southeast quarter of the section. That is -- The legal location for that is 1980 from the south, 660 from the east.

The two Nevada wells, which are in the west half of Section 4, are just down the flank of the structure, as you can see. The structure top on the Nevada 1, which is

in the northwest quarter, is a minus 2072. The structure top on this B interval pay zone down in the southwest quarter on Nevada 2 is 2083.

The Program 3 well is 2034 over in Section 5. The Program Number 1, which is hard to see because of the contour interval right over that well, but you can see the red number is a minus 2215, so you can see it drops off sharply to the west.

Now, the Quiniela Number 2, which is the well in Section 5 that is 1980 from the north and east, this B zone in the Siluro-Devonian dolomite is not present in this well. This well is producing out of a lower interval in the Siluro-Devonian.

We feel that this well, shown on the map, and these faults are placed in here because of 2-D seismic that we have in the area is in an up -- is in a small upthrown block by itself. And as I will show later in the cross-section over here, the dolomite interval that it is producing out of is in -- lower in the Siluro-Devonian section than what produces out of the wells in the southeast quarter of this section, which is the Program 1, the Program Number 3, the -- over in the next section to the east, Nevadas 1 and 2.

Down in Section 9, in the north half of that section, you have the Expenditure 1 and the Exacta 1. If

you move up to Section 33, the Allied 1 and the Allied State Number 2. And then in the east half of Section 32, the Ultra State Number 2.

Those are all producing out of the Siluro-Devonian dolomite, the B interval, and we think that with our proposed Quiniela Number 3 -- which the legal location on that is 660 from the north, 1650 from the east, and we base this on seismic -- that that is not in the small upthrown block which is in the Quiniela 2. We think where we positioned it, it will have the B interval of the Siluro-Devonian, which basically it is in another reservoir. The Quiniela 2, even though it is in the same formation, is producing what we think -- and we will show that on the cross-section -- out of a lower reservoir in the Siluro-Devonian.

Q. So what we've done is, we've drilled the Quiniela Number 2?

A. Yes.

Q. And when we've drilled the Quiniela Number 2, looking at the well information and the seismic data that you have, it appears to be in a small feature, an uplift on the east side of the main fault?

A. Yes, it does.

Q. And that well will not, in your opinion, drain anything other than that small uplift in which it is

located?

A. Yes.

Q. And what we're trying to do is break that out and then go forward and drill additional wells, one in each quarter section, to drain the main Siluro-Devonian interval that's being produced and offsetting properties?

A. Yes.

Q. Let's go to what has been marked as Exhibit Number 5. Will you identify and review that?

A. Okay, Exhibit Number 5 is a gross isopach of the total thickness of the Siluro-Devonian dolomite in the area out here, and this just covers the thickness of the dolomite whether you have the B zone, where you don't have the B zone, just the total thickness of the Siluro-Devonian formation in the dolomite.

And as you can see, the thicker part of the dolomite runs basically from the northwest to the southeast of Section 32, around 250-plus feet thick. This trend runs down through the northeast quarter of Section 5 and basically all of Section 4, and basically gets what I feel by just data, increases up to around 300-feet-plus in thickness down in Sections 8 and in Section 9. This just gives you a general feel, the thickness of the dolomite.

And as you go to the west, as you can see on your map, you basically run out of dolomite. And basically

you're going slightly updip.

The only two deep wells that we have any information on to tell me that is in Section 6, which are the two McClellan wells -- actually the well that is in the northwest quarter of Section 6, which on this map is called the Chesapeake Operating Penjack Number 1, which is 660 from the north and west -- it has 18 feet of gross dolomite -- and McClellan's Penjack, which only has two feet. That's all that's left of the dolomite over here.

These two wells, what McClellan did in the Penjack 5, they deepened it. It was an old well. If I believe right, it was an old Abo dry hole, and they deepened it to find a Wolfcamp pay zone in this area. But they took it all the way to the basement just to check the lower horizons.

Q. Let's go to the cross-section, and then I'd ask you to first review the index map and then the information contained on the exhibit.

A. Okay, I apologize for the tablecloth cross-section, but to be able to get all the information on it so you can see it without shrinking it too small, this was about the right scale to show this.

As you can see, this cross-section is named A-A'. It starts up in the north in Section 33, in Yates Petroleum's Ultra UA State Com Number 2, and ends up going

to the south, to the Nevada 1 well in Section 4, then over to -- well actually, let me back up.

From the Ultra State Number 2 it goes through the Allied State Number 2 in the southwest quarter of Section 33, then to the Nevada 1 well, which is in the northwest quarter of Section 4, then through our proposed location, then through the Quiniela Number 2, then over to the Program 3, down to the Program 1, back over to the Nevada 2, giving you a feel for what the structure is doing here, then down to the Expenditure 1, and finally ending up down to the southwest, to the Hook Number 1 in Section 1.

And what is shown on the cross-section, I've labeled the different formations. The highest formation, at least on the -- or the shallowest formation that is on the cross-section is the Cisco. Then you have the Strawn formation. Again, this is structure cross-section hung on a minus-2000-foot subsea.

Then the Mississippian formation is colored in orange. And as you just look left to right across the cross-section, you can see that the Mississippian formation comes and goes in the area, and basically where you don't have it, that the higher wells, the Mississippian was either never deposited or was eroded or scrubbed off.

The next formation down below the Mississippian is what I call the Siluro-Devonian. And then below that

the productive interval in the Siluro-Devonian is the B interval, which is shaded in blue. And once again, as you can see throughout the cross-section, the higher up structurally in some of the wells, it is -- either that or it was never -- been deposited, but probably more often it was eroded off.

And what I am trying to depict here with this cross-section is, you -- give you the reason why we think -- that we are proposing the Quiniela 3 and why we think it would still have the B interval, as opposed to the Quiniela 2. As you can see in the Quiniela 2, where it is producing right now, this is in the lower part of the Siluro-Devonian.

If you compare it with the well, Program 3 to the southeast, you see that -- which is basically white on the cross-section -- that lower part. And then we have a B interval up in the Program 3.

And if you come back up to the northwest in the Quiniela 2, it is just gone. So we figure it's probably been eroded off. And this reservoir in the Quiniela 2 is a reservoir by itself, and this little upthrown block in the B interval is just not present in the Quiniela 2. And we feel where we're positioning in the Quiniela 3, that it is still intact over there at 660 from the north, 1650 from the east, and we will have a chance of being in the better

pay zone in this area.

As you could see if you start over on the left again, the Ultra 2 is perf'd in this interval. It has accumulated 296 million cubic feet of gas from June, 2000, up through the present. And when I mean present, basically that's through the end of January.

The Allied Number 2 again is perf'd in the same interval. This made 190 million cubic feet of gas from 2001, it's been up till January, 2003.

The Nevada 1 is -- as you can see, is the best well out there in the B interval. It has been on line since July of 2001. It has already made 2.3 BCF of gas out of this interval.

And moving on the cross-section, we figure we have a chance to encounter this B interval in the Quiniela 3, either at the same thickness, maybe a little less, because you're coming up -- somewhat updip from the Quiniela -- from the Nevada 1.

The Nevada 2 -- or I mean the Quiniela 2, as you can see, the B interval is not there. It is perf'd in the lower part of the dolomite. It basically has accumulated on 53 million cubic feet of gas, and basically what it does today is around 200,000 a day of gas.

The Program Number 3, this is not perforated. We have yet to move uphole and perforate the B interval, but

we have found that lower zone there is being very productive right now. It has made 172 million cubic feet of gas. We have plans and sometime in the future to come uphole and add that B-interval perf.

The Program Number 1 was not productive in the B interval. We in producing the uphole out of, as you can see, some Strawn sands, which is on the cross-section, then there's some Wolfcamp further uphole.

The Nevada Number 2 is probably the second best well out there, and it's perforated in the B interval. And as you can see, between the Program 1, which is lower downstructure than the Nevada 2, we have a thick Mississippian section, and then the Mississippian just basically disappears in the Nevada 2 because it is higher structurally. Anyway, that is perf'd in the B interval, and it has made 1 1/2 BCF since July of 2001.

The Expenditure is a more recent well. It is perforated -- Expenditure Number 1 is perforated in the B interval, and with some upper Devonian dolomite, up- -- or Siluro-Devonian dolomite. It has made 368 million since June of 2002.

And the last well on the cross-section is the Hook well. And if you just look back to your structure map, it is in a very steep downthrown block, and basically we have tried just about everything in this well, the B

interval and upper interval, Siluro-Devonian, even Mississippian and even further uphole. And we're waiting on a pumpjack to try to pump this well too, because the dolomite down here is wet, the Mississippian has water in it, and we figure if we put a pumpjack on it and try to move water, we might eventually be able to move the water faster and maybe bring the gas in.

But basically on this cross- -- what I'm trying to show from the cross-section is what we believe why we need to drill the Quiniela 3, because we think it will be in the same reservoir the Nevadas 1 and 2, the Ultras, the Allieds, and that the Quiniela 2 is producing out of a different reservoir, that it's out of a different reservoir and that doing only 200,000 a day it is -- of course at these -- today's gas prices is not that bad of a well. But we figure we could do better with a Quiniela 3 location.

Q. And without the Quiniela 3 location, the acreage in the B interval is subject to drainage to offsetting property?

A. Yes.

Q. All right, let's go to Exhibit Number 7, which is a net porosity isopach from the Wolfcamp-Spear zone. And I guess the first question I have is, why are we now talking about the Wolfcamp?

A. Okay, the Wolfcamp -- what Mr. Carr just alluded

to as the Wolfcamp-Spear zone is another productive interval in the area.

And just recently, within the last four to five months, McClellan Oil Corporation to the west in Section 6 has deepened their old Penjack Number 5 to the basement, and they have established production out of the Wolfcamp-Spear zone. And from what I understand -- and this is just through conversations with them, that that well -- I think the thickness of the zone is only four feet thick and he's doing about 1.2 million a day. That's another one of these Wolfcamp-Spear zones.

We feel that this is a secondary objective out there and that the west half of our Section 5 is probably starting to be drained by the Penjack Number 5.

This zone also occurs in what you see on the plat of this and -- I laid it back. This is net porosity isopach thickness map of the porosity in these wells that are 4 percent or better, and the Penjack -- which is -- Chesapeake operates Penjack Federal Number 1, which is 660 from the north and west, has four feet. It has this interval in it, it was never tested. It is an Abo well now.

I really don't know if Chesapeake and McClellan has plans to go back in and test the zone. So I think that's why McClellan, since they have the deep rights over

there with some other operators, decided to deepen this old Abo dry hole. And their hunch was right, they do have a Wolfcamp-Spear zone. And we just feel that for the Quiniela Number 1, our northwest quarter is slowly probably being drained by this new reservoir out there.

Q. And you would drill this well down through the Siluro-Devonian?

A. Yes.

Q. Let's go to what is marked as Exhibit Number 8.

A. Okay, Exhibit Number 8 is a cross-section from west to east, B-B'. And if you have your net porosity isopach map in the Wolfcamp-Spear zone you can kind of get an idea of where the -- how the cross-section is running, basically from west to east.

We start off in the west side, in the extreme northwestern quarter of Section 6, and I just alluded to these two wells. The first well on the cross-section is the old McClellan Oil's Penjack Number 1. What this cross-section is showing is the -- this Wolfcamp-Spear zone again, highlighted in blue with the neutron density crossover colored in red. As you can see, they had just four feet of this zone in the Penjack Number 1. And once again, as I stated to in an earlier testimony, the gamma-ray, as you could see, is very hot in here, and this means we think that this just develops better permeability.

The second well on the cross-section is the one McClellan just recently deepened, an old Abo dry hole. They were successful, found this Wolfcamp-Spear zone. It has accumulated so far since November up through February 135 million cubic feet of gas. As you can see, it's a very thin interval, only four feet. But we feel it drains a wider area, really do not have any handle on the area it actually drains. But for being just four feet thick it is producing right now at 1.2 million a day.

As we move to the east, we figure our Quiniela Number 1,which is 660 from the north, 1980 from the west, would encounter this interval, as would the Quiniela Number 3. And as Mr. Carr alluded to earlier, yes, we would drill both of these wells down into the basement.

And basically, as you just work to the east you could see where in some of the wells, like the Quiniela Number 2, we had the carbonate zone but we did not have the porosity in it. But in the Nevadas 1 and 2 and then the Ultra, you could see that we have the porosity zone in it.

The only well where we have kept it to add production right now is the Allied 2. It is perf'd in there, and it has accumulated 490 million cubic feet of gas since January of 2001 till February of '02. That is done producing, and this is not a high-pressured zone. Initial pressure on it was around 1200 pounds, bottomhole pressure.

And what you need to continue to produce this well, we would have to have more compression out there in the area on the pipelines to lower the line pressure, because what happens when you have Siluro-Devonian wells come on like Nevada 1 and 2, it knocks the lower-producing wells off-line, so to be able to lower the line pressure you need to add a compressor. But that's why this only has production from January, 2001, to January, 2002.

And then the Ultra 2 you could see the zone is sitting there, and we have yet to perf it, because we're still producing out of Siluro-Devonian downhole.

Q. Mr. Miller, what conclusions can you reach from your geologic study? And you might break these down by formation. What conclusions have you reached about the Siluro-Devonian?

A. The Siluro-Devonian over in Section 5 we believe is in separate reservoirs. The Quiniela 2 is producing, as you see by the structure cross-section, out of a lower Siluro-Devonian reservoir in the dolomite. And we believe that the Quiniela 3 would be in the B interval of -- which is the most productive interval out there in the Siluro-Devonian, which produces basically in all the other Siluro-Devonian wells out there.

We do not think there is no communication between these two zones, we feel that the spacing unit is being

effectively drained by the existing well located in the northeast quarter of Section 5.

Q. What about the Wolfcamp?

A. We feel with the drilling of the Quiniela 1 that we would be better offset to encounter that Wolfcamp-Spear zone that McClellan has opened up to the west in Section 6. We just feel that would be -- we would be in a better drainage area, having it 660 from the north and 1980 from the west in Section 5.

Q. In your opinion, are each of the tree wells which you've discussed in the north half of Section 5 necessary if you're going to be able to effectively compete for reserves in the Siluro-Devonian formation?

A. Yes, I do.

Q. Basically what we have here is, you have a well that's in an isolated fault block and isn't draining the reserves from this formation; is that fair to say?

A. Yes.

Q. And these reserves are being drained from other wells?

A. Right.

Q. If you drilled the Number 3 well first, you wouldn't be in this situation --

A. No, we wouldn't --

Q. -- perhaps you'd have a well to compete with

offset properties?

A. No, if we drilled the Number 3 first, we would not be in this situation.

Q. And so what you're trying to do is just be allowed to continue to produce the Number 2, and at the same time drill the additional two wells that would be allowed under statewide rules in the B interval in the Siluro-Devonian?

A. Yes.

Q. By doing this and as you propose, it will also enable you to compete for Wolfcamp reserves?

A. Yes.

Q. How soon would Yates propose to spud the Number 3 well?

A. As soon as it is approved.

Q. In your opinion, will approval of this Application and the drilling of the wells that are proposed result in recovery of hydrocarbons that may otherwise not be produced, or at least not available to Yates from this acreage?

A. Yes, it will.

Q. Will approval of the Application otherwise be in the best interest of conservation, the prevention of waste and the protection of correlative rights?

A. Yes, it will.

Q. Were Yates Exhibits 4 through 8 prepared by you?

A. Yes, they were.

MR. CARR: At this time, Mr. Examiner, we move the admission into evidence of Yates Exhibits 4 through 8.

EXAMINER JONES: Yates Exhibits 4 through 8 will be admitted into evidence.

MR. CARR: And that concludes my examination of Mr. Miller.

EXAMINATION

BY EXAMINER JONES:

Q. Tim -- I mean Mr. Miller, so you want to drill the Number 3 first, even though Number 1 is maybe being drained by that Wolfcamp-Spear zone?

A. Well, we feel the better reserves out here in this area, even though the Wolfcamp-Spear zone is a good reservoir, we figure the best wells out here for more reserves are in the Siluro-Devonian.

Q. Okay.

A. Basically the Wolfcamp-Spear is a good backup zone out here.

Q. Okay. I found a downhole commingle approval for the Quiniela AXQ State Number 2 in the Four Ranch-Wolfcamp and the Wildcat-Strawn, and the Strawn was permitted at 94-percent gas and the Wolfcamp 6-percent gas. Is that really perf'd in the Wolfcamp?

A. Yeah, we're producing out of what it -- and since -- I don't a log, but it's a Wolfcamp sand further up the hole.

Q. Okay. And the Strawn is the -- Actually, your perfs on here show --

A. Well, what I showed on here, I was just showing the perfs in the Siluro-Devonian. If I remember right on the Quiniela 2, the perfs are basically from -- They're in the interval of 5700 down to 5730. That's one of those cherty-looking sands. That is a Strawn sand interval.

Q. Okay, what about that interval in these other wells that you would drill?

A. That is a possible objective. We could have production in that. It doesn't produce that well out there -- It does produce that well out there, it comes and goes. It is not primary target, it is more like it adds to production if you have a show in it out there.

Q. Okay, even though it came in really well, it's --

A. It looks -- it -- you get shows on it in the mud log. It looks, like you said, fairly decent on the log. But you just perf and acidize it, it may be able to do around 100,000 a day. If you try to frac it -- and we've learned the hard way, you either make it worse or it doesn't improve it, because basically I guess calling them Strawn sands is sort of a misnomer.

What it is we found by taking a full-size core in a well further away that is in the same age that this is, a conglomerate or you can think of it as a junk basket. It has chert in it, it has igneous fragments in it, you can see granite fragments in it, you can see limestone/dolomite fragments. It's just -- It's more like a debris zone.

A. Okay.

Q. And it's just very tightly cemented, so even frac'ing it doesn't seem to help. But it's a poor secondary objective.

Q. Okay, yeah, you do list the Strawn as one of the --

A. Yeah.

Q. -- secondary formations in the -- and even though a lot of the argument here, it looks to me like, is the Siluro-Devonian is missing in the Number 2 well, so you need two more wells to get your --

A. Yeah, we feel that the two more wells would be back into the -- what is the B interval. But --

Q. This Strawn perforation in the Number 2 could possibly be draining its fair share of the north half of that Section 5?

A. It could.

Q. Okay. What about drilling a well right in the southeast of 32? Did you say you're going to do that?

A. We have plans to do that.

Q. But not until you drill --

A. Yeah, not until we see what this Quiniela 3 does.

Q. Oh.

A. This would help us whether -- decide whether we go ahead with that one that's -- and I can't remember the exact footage. I think it's something like -- It might be 1250 or something from the east, 660 from the south, that's in the ballpark. But we want to see what the Quiniela 3 tells us before we would go ahead with that one.

Q. Okay. So you would be -- as far as protecting your other working interest owners in Section 32, if you drilled the AXQ State Number 3, you would start draining them until you get the other well drilled, wouldn't you?

A. I mean, you probably would. But you also have a chance of maybe also getting some better secondary objectives, maybe like the Wolfcamp-Spear, since it seems to be prevalent in the area.

Q. Okay.

A. And I imagine the way our management works is, as soon as we would see the logs on the Quiniela 3, if our idea works and it is the B interval, that we would probably already give the go-ahead to go ahead and drill that one up in the southeast quarter of 32.

Q. Yeah. So it would be to Yates' advantage to have

both wells drilled if they --

A. Right.

Q. -- are good objectives? And do we have on testimony how much Yates has interest in the south -- in the -- let's see here, it's the -- I think we do, but -- how much they have in this Section 32 versus how much they have in Section 5. That's --

MR. BROOKS: I don't recall if that's in the record or not.

EXAMINER JONES: Mr. Moran, could you answer that?

MR. MORAN: I'm speaking off the top of my head. I don't remember the exact percentages, but in Section 32 it is a working interest -- inside what's called the Bittersweet working-interest unit. And my memory is, Yates has approximately 50 percent of that, and it could be even higher, up to 60 percent.

The next biggest owner in that would be EOG, and the -- if my memory is -- EOG has 37 1/2 and everybody else had 12 1/2, and we had approximately 50.

EXAMINER JONES: And EOG has been noticed, and they have not --

MR. MORAN: Yes, all the working interest owners in 32 were noticed. I do know that the well in the southeast is planned -- I've been told to get it ready to

proceed ahead too.

EXAMINER JONES: Okay.

MR. MORAN: Mr. Miller throws out locations left and right.

Q. (By Examiner Jones) Mr. Miller, as far as the volume on this Number 3 well, as actually recovery, do you expect it to be a pretty good well, even though -- in other words, it looks like it's only got a little bit of drainage area in that Section 5, as far as the Siluro-Devonian.

A. Well, we feel that -- If I understand your question, we feel that it would be draining obviously that, but then across the line in the south half of 32.

Q. Yeah, okay. And just for my own -- the Siluro-Devonian, is that the Fusselman or --

A. There's a lot of argument out here. You might be aware of -- you may not be, but the Four Ranch field, a lot of people still call it Ordovician.

The reason why we have changed to Siluro-Devonian, we cut a full-size core -- This area is in 9-South-26, 10-South-26. The township to the north, which is 8-South-26, a well we call the Horn Number 2, we cut a full-size core through that dolomite. We had PGS out of Houston date it with some fossils, and they deemed it that -- what they dated it was Siluro-Fusselman, which was more -- or Siluro-Devonian, which -- with some Fusselman

and some -- and everything.

So they feel that is the same thing down here, even though you'll get into some arguments if it is or it isn't, and we just feel because of that core we took and from their study, that we're leaning to call it Siluro-Devonian.

Q. Okay, back to the crux of the argument here, as far as the B interval being gone in the Number 2 well, it's based on the gamma-ray mainly?

A. Right.

Q. And not on any other methods, like any kind of comparison of pressures between the B interval in another well and the perforations in this well?

A. No, it's just by the log characteristics and mudlog samples, what we find.

Q. Okay. Area you aware of the initial -- the highest pressure you encountered after completion operations in the Number 2 well --

A. Not right offhand.

Q. -- versus any of these others?

A. I'd have to -- If I remember right, the Nevada wells, which are the -- you know, the two -- really the two best Siluro-Devonian wells out there in the B interval, which are just to the east, I think they have bottomhole pressures to begin with about 2500, 2600. I know that --

the Quiniela 2 was less, but I can't give you really a number on that.

Q. So it was less?

A. It was less.

Q. Okay.

A. And it does make -- and I don't think I've put it on a cross-section, but like I said, it makes around 200,000 a day out of that interval, but it also makes some water too, even though it is higher structurally, which we feel -- again, it makes us think that just because of what the seismic -- we think it's showing us, that it is in its own little upthrown block, just separates it from everything else to the -- be to the north and east out there.

EXAMINER JONES: Okay, that's all I had. Okay.

EXAMINATION

BY MR. BROOKS:

Q. Are you asking to dedicate this in the Wolfcamp as well as in the Siluro-Devonian?

A. The Quiniela 3 I think just would be from the Siluro-Devonian.

Q. Okay, but you show the Wolfcamp as being --

A. Well, I didn't --

Q. -- continuous.

A. Oh, well, yeah, secondary objective, so I guess I

probably understand that we would want that too.

Q. Okay, but your logic really wouldn't apply to that --

A. No.

Q. -- if it's continuous --

A. No.

Q. -- it really should -- So it seems to me you really should -- unless you tell me a reason why, you really should be limited to producing two wells out of this -- in the Wolfcamp too, but --

A. Well -- Okay, I see what you're saying. We -- Our main objective was just -- was, you know, to address the -- what, you know, the Siluro-Devonian --

Q. Yeah, I understand --

A. -- I know what you're saying there.

MR. BROOKS: Okay. Very good, no further questions.

EXAMINER JONES: Okay, thanks a lot, Mr. Miller.

MR. CARR: That concludes our presentation in this case.

EXAMINER JONES: Thank you, Mr. Carr.

Case 13,008 will be taken under advisement.

(Thereupon, these proceedings were concluded at 1:28 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 13008 heard by me on 3/27 2003

Examiner
Oil Conservation Division

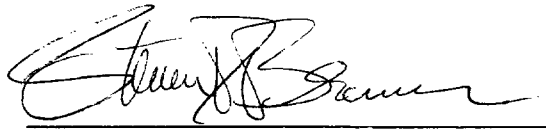
CERTIFICATE OF REPORTER

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 April 4th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006