

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. 12,336

APPLICATION OF YATES PETROLEUM)
CORPORATION FOR APPROVAL OF A UNIT)
AGREEMENT, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

March 16th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, March 16th, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

March 16th, 2000
 Examiner Hearing
 CASE NO. 12,336

PAGE

REPORTER'S CERTIFICATE

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* * *

E X H I B I T

Applicant's

Identified

Admitted

Exhibit 11

4

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

BRUCE ROGOFF

Assistant General Counsel

Energy, Minerals and Natural Resources Department

2040 South Pacheco

Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN P.A.

Suite 1 - 110 N. Guadalupe

P.O. Box 2208

Santa Fe, New Mexico 87504-2208

By: PAUL R. OWEN

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 9:53 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 12,336, the Application of Yates Petroleum Corporation for
5 approval of a unit agreement, Lea County, New Mexico.

6 Call for appearances in this case.

7 MR. CARR: Paul R. Owen, of the Santa Fe law firm
8 Campbell, Carr, Berge and Sheridan, appearing on behalf of
9 the Applicant, Yates Petroleum Corporation. I have no
10 witnesses in this matter.

11 EXAMINER CATANACH: Any additional appearances?

12 There being none, Mr. Owen?

13 MR. OWEN: Mr. Examiner, you will recall that on
14 your last docket you heard this case on the merits on
15 February 3rd, the year 2000.

16 Prior to that hearing, the advertisement which my
17 office submitted and which the Division caused to be
18 advertised indicated that Yates sought to include 2360
19 acres in the proposed unit.

20 At the time of the hearing it was determined that
21 the proper size of the unit was, in fact 2400 acres.
22 Accordingly, following the hearing on this merits, this
23 case was reopened and readvertised. The proper acreage is
24 included in the advertisement for today's hearing.

25 In addition, Mr. Examiner, subsequent to the

1 February 3rd, 2000, hearing, the State Land Office
2 indicated that it would not approve the unit as an
3 exploratory unit, because the shallow intervals within the
4 proposed unit boundaries already had several wells
5 producing from those intervals.

6 We discussed the matter with the State Land
7 Office and agreed to a compromise. The State Land Office
8 has issued preliminary approval of the unit, with the
9 understanding that Article 2 of the Unit Agreement is
10 deemed admitted.

11 I offer at this time, Mr. Examiner, Yates Exhibit
12 Number 11 in this case, which I believe is the next exhibit
13 following the exhibits that were introduced at the February
14 3rd, 2000, hearing.

15 And you will note that the second paragraph of
16 this exhibit, which consists of a letter dated March 9th,
17 2000, from the Commissioner of Public Lands to Mr. Bill
18 Carr of my office, indicates a preliminary approval has
19 been given with the understanding that Article 2 of the
20 Unit Agreement is deemed amended.

21 And the amendment to which we have agreed reads,
22 The unitized interval shall be limited to only those
23 formations correlated deeper than the total measured depth
24 of the Prairie Schooner AIF State Well Number 1 electric
25 well log dated January 7th, 1991.

STEVEN T. BRENNER, CCR
(505) 989-9317

1 The Prairie Schooner AIF State Well Number 1 was
2 drilled to a total measured depth of 10,127 feet in Lot 3,
3 Section 5, Township 10 South, Range 34 East, Lea County,
4 New Mexico.

5 Therefore Yates requests that the unit agreement
6 be deemed amended for purposes of its Application in this
7 case, which will reflect the agreed amendment as set forth
8 in Yates Exhibit Number 11.

9 Moreover, Mr. Examiner, Yates requests that the
10 Division issue an order following this hearing approving
11 the unit based on the record in this case as developed in
12 the February 3rd, 2000, hearing, as supplemented by Yates
13 Exhibit Number 11 and by my statement here today.

14 And I move the admission of Yates Exhibit Number
15 11.

16 EXAMINER CATANACH: Exhibit Number 11 will be
17 admitted as evidence.

18 MR. OWEN: I have nothing further in this case,
19 Mr. Examiner.

20 EXAMINER CATANACH: Mr. Owen, it's your
21 understanding that the 2400 acres are to be included in
22 this unit?

23 MR. OWEN: That is my understanding Mr. Examiner.

24 EXAMINER CATANACH: Okay. Is there anything
25 further?

1 MR. OWEN: That's all I have.

2 EXAMINER CATANACH: There being nothing further,
3 Case 12,336 will be taken under advisement.

4 (Thereupon, these proceedings were concluded at
5 9:55 a.m.)

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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. 12336,
heard by me on March 16 1920.
David R. Catant, Examiner
Off Conservation Division

CERTIFICATE OF REPORTER

[illegible]

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 March 19th, 2000.

Allen R. Green

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

STEVEN T. BRENNER, CCR
(505) 989-9317

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

IN THE MATTER OF THE HEARING CALLED BY)
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)
 APPLICATION OF YATES PETROLEUM)
 CORPORATION FOR APPROVAL OF A UNIT)
 AGREEMENT, LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 3rd, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 3rd, 2000, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

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I N D E X

February 3rd, 2000
 Examiner Hearing
 CASE NO. 12,336

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<u>REED H. MEEK</u> (Geologist)	
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E X H I B I T S

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* * *

STEVEN T. BRENNER, CCR
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A P P E A R A N C E S

FOR THE DIVISION:

LYN S. HEBERT
Legal Counsel to the Division
Energy, Minerals and Natural Resources Department
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 8:38 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 12,336.

5 MS. HEBERT: Application of Yates Petroleum
6 Corporation for approval of a unit agreement, Lea County,
7 New Mexico.

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan. We represent Yates Petroleum
13 Corporation in this matter, and I have one witness.

14 EXAMINER CATANACH: Any additional appearances?
15 Okay, will the witness please stand and be sworn
16 in?

17 (Thereupon, the witness was sworn.)

18 REED H. MEEK,
19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. My name is Reed Meek.

25 Q. Mr. Meek, where do you reside?

1 A. In Artesia, New Mexico.

2 Q. By whom are you employed?

3 A. By Yates Petroleum.

4 Q. And what is your position with Yates Petroleum
5 Corporation?

6 A. I'm a geologist.

7 Q. Mr. Meek, have you previously testified before
8 this Division?

9 A. Yes, I have.

10 Q. At the time of that testimony, were your
11 credentials as an expert in petroleum geology accepted and
12 made a matter of record?

13 A. Yes.

14 Q. Are you familiar with the Application filed in
15 this case?

16 A. Yes, I am.

17 Q. Are you familiar with the proposed Shinnery State
18 Unit?

19 A. Yes.

20 Q. And have you made a geological study of the area
21 surrounding this unit?

22 A. Yes, I have.

23 Q. Are you prepared to share the results of that
24 work with Mr. Catanach?

25 A. Yes.

1 MR. CARR: At this time, we tender Mr. Meek as an
2 expert witness in petroleum geology.

3 EXAMINER CATANACH: Mr. Meek is so qualified.

4 Q. (By Mr. Carr) Would you initially summarize for
5 the Examiner what it is Yates seeks with this Application?

6 A. We're seeking the approval of the Shinnery Unit
7 agreement. It's a voluntary exploratory unit comprised of
8 State of New Mexico lands in Lea County, New Mexico.

9 Q. Would you identify for Mr. Catanach what has been
10 marked as Yates Petroleum Corporation Exhibit Number 1?

11 A. Yes, that's the unit agreement, which is a state
12 form for an exploratory unit of this nature.

13 Q. Let's go to Exhibit Number 2. Exhibit Number 2
14 is a copy of Exhibit "A" to the unit agreement. Would you
15 identify this, please?

16 A. Yes, this is an acreage plat showing the location
17 of the proposed unit.

18 Q. And these are state lands?

19 A. Yes, they are.

20 Q. Is Exhibit Number 3 a breakdown of the ownership
21 within the proposed unit?

22 A. That is correct.

23 Q. And how many acres are we proposing to unitize?

24 A. 2360 acres.

25 Q. It indicates on Exhibit Number 3, 2400. It would

1 be, in any case, the total of the leases that are indicated
2 on this exhibit; is that correct?

3 A. That's right.

4 Q. What percentage of the acreage within this unit
5 area has been voluntarily committed to the unit?

6 A. Approximately 93 percent.

7 Q. And what is the status of the remaining acreage?

8 A. There's seven percent that's uncommitted.

9 Q. And who is the operator of that seven-percent
10 interest?

11 A. That is GMX Resources.

12 Q. Has Yates been in contact with GMX concerning
13 their participation in the unit?

14 A. Yes, we have.

15 Q. And what has GMX decided to do?

16 A. They have decided to remain uncommitted.

17 Q. Is Exhibit Number 4 a copy of a letter from GMX
18 indicating their desire to stay out of this unit area?

19 A. That's right.

20 Q. Does the percentage of voluntary commitment to
21 the unit agreement give Yates effective control of unit
22 operations?

23 A. Yes.

24 Q. Has the Commissioner of Public Lands given his
25 preliminary approval to the unit agreement?

1 A. Yates has provided all the required data to the
2 State Land Office. We discussed the Application with Pete
3 Martinez on February the 1st, and we anticipate no problems
4 with receiving preliminary approval letter within a few
5 days.

6 MR. CARR: Mr. Catanach, yesterday I attempted to
7 contact Mr. Martinez concerning the preliminary approval
8 letter, and he was out of the office. We anticipate having
9 it at any time, and as soon as we receive it, I will
10 supplement the record by providing you with a copy of the
11 Land Office preliminary approval.

12 Q. (By Mr. Carr) Mr. Meek, under the unit agreement
13 is Yates Petroleum Corporation designated unit operator?

14 A. Yes, we are.

15 Q. What horizons are being unitized in this unit?

16 A. We're unitizing all horizons.

17 Q. And what is the primary objective?

18 A. Our primary objective is the Atoka-Morrow
19 formation.

20 Q. And is this within an established pool at this
21 time?

22 A. No, it is not.

23 Q. Are there secondary objectives?

24 A. Yes, there are other objectives, the Abo, the
25 Wolfcamp, the upper Pennsylvanian are also prospective in

1 this area.

2 Q. Could you generally describe for Mr. Catanach the
3 characteristics of the Morrow formation in the unit area?

4 A. The Morrow formation is approximately 800 feet
5 thick. I should say the Atoka-Morrow formation is
6 approximately 800 feet thick. It consists of shales,
7 limestones and sandstones. Where porous sandstones are
8 encountered, these often produce commercial quantities of
9 natural gas.

10 Q. Let's go to Exhibit Number 5. Will you identify
11 that for Mr. Catanach?

12 A. Yes, that's a plat showing the location of the
13 proposed unit, as well as the location of a seismic line,
14 line 3100, that will be shown as an exhibit, and also a
15 line of cross-section connecting four deep wells that
16 penetrate the Atoka-Morrow formation in the area.

17 Q. It also shows faulting in the area, does it not?

18 A. Yes, it does.

19 Q. And other development?

20 A. Right.

21 Q. Okay, let's go now to Yates Petroleum Corporation
22 Exhibit Number 6, and I'd like you to first explain what
23 this is and then review the information on it for Mr.
24 Catanach.

25 A. Okay, this is a seismic line that goes from east

1 to west. This is shown on the plat, Exhibit Number 5. It
2 crosses Sections 3, 4, 5 and 6 of Township 10 South, 34
3 East.

4 The seismic line shows the top of the Morrow
5 formation in red and then the top of the Mississippian,
6 which is also the base of the Morrow formation, in orange.

7 The intention of the display is to show some
8 faulting at the top of the Mississippian, wherein the
9 Morrow formation has developed a thicker sequence in this
10 topographic depression.

11 Q. Let's go now to your Mississippian structure map,
12 Exhibit Number 7. Will you review that for Mr. Catanach?

13 A. Okay, this is a structure map on the top of the
14 Mississippian, which on the seismic line was shown as the
15 orange horizon. This map incorporates information from the
16 four deep wells in the area, as well as the seismic
17 information and shows the location of two faults which
18 create a sort of a topographic trough or graben wherein we
19 believe that the Morrow formation has developed a thicker
20 depositional sequence, and that is the target of our
21 exploratory program, to explore this trough for development
22 of Morrow sands.

23 Q. Let's go to the isopach on the Morrow, Exhibit
24 Number 8.

25 A. Okay, the isopach map is of the same area and

1 just shows how the thickness of the Morrow increases to the
2 greatest thickness in the center of this depositional
3 trough that we've interpreted.

4 Q. Are you ready to go to your cross-section?

5 A. Yes.

6 Q. Okay, let's take out Exhibit Number 9, and if you
7 will then review the line of -- the trace of the cross-
8 section, and then the information well by well?

9 A. Okay, the trace of the cross-section is between
10 the first two wells, is east -- excuse me, west to east,
11 and it takes a north-to-south trend. It's simply to show
12 the four deep wells that have already been drilled in the
13 area. It shows the nature of the Atoka and Morrow
14 formations.

15 Highlighted on the logs are -- colored in yellow,
16 are the zones that we've interpreted as sand, that we think
17 have prospective for natural gas reservoirs. And then in
18 between the first two wells on the cross-section, I'm
19 indicating this fault-bounded trough where we believe the
20 Morrow has been deposited in a thicker sequence, and we may
21 find some additional sands down in this trough.

22 Q. All right. Now, the gas-bearing sands in the
23 Atoka-Morrow are the principal objective in this unit,
24 correct?

25 A. That's correct.

1 Q. And how is it bounded east and west? Is that by
2 faults or by just the edge of the reservoir?

3 A. It's by these faults.

4 Q. Where will the initial test well be located in
5 the unit area?

6 A. The location of the initial well is indicated on
7 Exhibit 5, as well as the other map exhibits, and it will
8 be located in the northwest corner of Section 9 of Township
9 10 South, Range 34 East.

10 Q. What does your geologic study tell you about the
11 formation in the area of this proposed unit?

12 A. It tells me that there is a good opportunity for
13 us to discover natural gas reservoirs in this area.

14 Q. And is the proposed location at what geologically
15 appears to be the best location for an initial well on the
16 unit?

17 A. I would say it's a good location.

18 Q. Hopefully the best?

19 A. Hopefully the best, yeah.

20 Q. Is Yates Exhibit Number 10 a summary of the
21 geological portion of your testimony?

22 A. That is correct.

23 Q. And how soon does Yates hope to commence the
24 initial test well?

25 A. Within 30 to 90 days of the approval of the unit

1 agreement.

2 Q. In your opinion, will approval of this
3 Application be in the best interest of conservation, the
4 prevention of waste, and the protection of correlative
5 rights?

6 A. Yes.

7 Q. Were Exhibits 1 through 10 either prepared by you
8 or compiled under your direction?

9 A. Yes.

10 MR. CARR: At this time, Mr. Catanach, we would
11 move the admission into evidence of Yates Petroleum
12 Corporation Exhibits 1 through 10.

13 EXAMINER CATANACH: Exhibits 1 through 10 will be
14 admitted as evidence.

15 MR. CARR: And that concludes my direct
16 examination of Mr. Meek.

17 EXAMINATION

18 BY EXAMINER CATANACH:

19 Q. Mr. Meek, in your initial application, I notice
20 that you had omitted a 40-acre tract in Section 8, but now
21 you propose to include that in the unit? The northeast
22 quarter, northeast quarter?

23 A. Okay, I was unaware that we had neglected to
24 include that originally in the unit. I believe it was
25 probably just an oversight.

1 Q. Do you know who owns that particular lease?

2 A. Yates Petroleum.

3 Q. Okay.

4 A. I'm sorry, is that the tract that is owned by GMX
5 Resources?

6 MR. CARR: Mr. Catanach, that's a portion, I
7 believe, of the tract that is owned by GMX Resources. They
8 don't own surface to about 9900 feet. I'll be glad to
9 confirm the status of that tract for you.

10 EXAMINER CATANACH: Okay.

11 MR. CARR: It's Tract Number 6 on Exhibit B,
12 and -- But I'll confirm the status of that.

13 Q. (By Examiner Catanach) Mr. Meek, the proposed
14 initial well is going to be on -- Is that Yates acreage?

15 A. Yes, it is.

16 Q. Now, you say Atoka-Morrow formation, but it's
17 actually -- is it two different producing formations in
18 this area? Or do you know -- I mean, we usually consider
19 it to be two different producing horizons.

20 A. In the area immediately to the south of this, the
21 Sand Springs area, about six miles to the south of this
22 area, we applied for a pool which combined the Atoka and
23 the Morrow. It's -- Geologically, they're often recognized
24 as separate formations, although they're related in their
25 depositional history and the type of production that's

1 achieved from them.

2 It would be in our -- I guess, our intention to,
3 depending on where the productive sands were found, to
4 combine the two together in a similar pool as we did down
5 in the Sand Springs area.

6 Q. Okay, so that was approved by the Division down
7 in the Sand Springs?

8 MR. CARR: Yes.

9 THE WITNESS: Yes.

10 Q. (By Examiner Catanach) Is this -- The seismic
11 line you show on Figure 1, is that the only seismic line
12 you guys have in this area?

13 A. No, we actually have license to a 3-D seismic
14 survey that covers the area.

15 Q. So you basically used the faulting as your east
16 and west boundaries of this unit?

17 A. That's right.

18 Q. Can you tell me what you used for the northern
19 and southern boundaries of the unit?

20 A. There's very little well control, other than the
21 deep wells that I've shown, so we don't know the northern
22 extent. Actually, the seismic survey that we own doesn't
23 extend up over the northern portion of the unit. And then
24 to the south we don't really know the extent of the
25 depositional that we expect to -- or hope to see in this

1 area.

2 Q. Well, does your seismic data tell you that the
3 entire unit area may be productive from the Atoka-Morrow?

4 A. Yes, we believe it may be.

5 Q. The wells that you've shown on your cross-
6 section, those are wells that have been drilled to the
7 Morrow?

8 A. Right, there's many other wells shown in the
9 area, but these are all shallow wells that go down just to
10 the Bough interval, which is a primary producing unit in
11 this area. It's at about 9600 feet. You don't get into
12 the top of the Morrow until you get to about 11,300 feet.

13 So the wells that I've shown on the cross-section
14 are the only deep penetrations in the area.

15 Q. Have any of these wells been tested in that
16 interval?

17 A. In the Atoka-Morrow? No, not to my knowledge.
18 The primary deep objective of wells drilled in this area
19 has been the Devonian, which is at about 12,000 -- about
20 13,100, 13,200 feet. So that's the objective that these
21 wells were drilled for. The typically penetrated through
22 the Atoka-Morrow and did not test any of the sands that are
23 found there.

24 Q. You've examined the logs of those wells, right?

25 A. Right.

1 Q. Do those look to be potential producers in the
2 Atoka-Morrow?

3 A. We think that some of them may potentially have
4 the possibility of being re-entered and recompleted in that
5 zone.

6 Q. You didn't show the Atoka on your Exhibit 6,
7 right? Or is that the interval --

8 A. Which is the seismic line? No, the Atoka is the
9 interval immediately above what I'm showing as the top of
10 the Morrow.

11 Q. And on this exhibit, does that show to be
12 potentially productive, or can you determine that from this
13 exhibit?

14 A. You can't determine that from the seismic data,
15 but from the well logs we see sands in that interval that
16 we hope maybe similar sands may be present in our well
17 location.

18 Q. Are you guys going to drill that initial well
19 down to the Devonian?

20 A. No, we don't believe the Devonian is prospective
21 in this area, or in that particular location.

22 EXAMINER CATANACH: I believe that's all the
23 questions I have, Mr. Carr.

24 MR. CARR: That concludes our presentation in
25 this case. I will confirm to you either this afternoon or

1 tomorrow morning the status of that 40-acre tract.

2 EXAMINER CATANACH: Okay, and you will provide
3 the Land Office approval when you get that?

4 MR. CARR: Yes, I will.

5 EXAMINER CATANACH: Okay. There being nothing
6 further in this case, Case 12,336 will be taken under
7 advisement.

8 (Thereupon, these proceedings were concluded at
9 9:00 a.m.)

10 * * *

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15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
the Examiner hearing of Case No. 12336.
17 heard by me on February 3 192000.
David M. Catanch, Examiner
18 Oil Conservation Division
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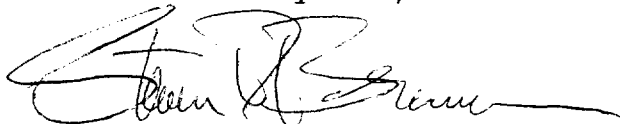
CERTIFICATE OF REPORTER

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 February 5th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

STEVEN T. BRENNER, CCR
(505) 989-9317