

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. 12,443

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 29th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.
CO JUL 13 AM 4:59

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 29th, 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.

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June 29th, 2000
Examiner Hearing
CASE NO. 12,443

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A P P E A R A N C E S

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

* * *

1 WHEREUPON, the following proceedings were had at
2 10:23 a.m.:

3 EXAMINER STOGNER: At this time we will call Case
4 Number 12,443, which is the Application of Yates Petroleum
5 Corporation for approval of its Tres Canal State
6 Exploratory Unit in Chaves County, New Mexico.

7 At this time I will call for appearances.

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

12 EXAMINER STOGNER: Any other appearances? Will
13 the witnesses please remain standing?

14 (Thereupon, the witnesses were sworn.)

15 EXAMINER STOGNER: Mr. Carr?

16 CHARLES MORAN,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. CARR:

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

22 A. My name is Charles Moran.

23 Q. Mr. Moran, where do you reside?

24 A. I reside in Artesia, New Mexico.

25 Q. And by whom are you employed?

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

3 Q. Have you previously testified before this
4 Division?

5 A. Yes, I have.

6 Q. At the time of that testimony, were your
7 credentials as an expert in petroleum land matters accepted
8 and made a matter of record?

9 A. Yes, they were.

10 Q. Are you familiar with the Application filed in
11 this case?

12 A. I am familiar with the Application.

13 Q. Are you familiar with the proposed Tres Canal
14 State Exploratory Unit?

15 A. Yes, I am, it's an exploratory unit composed of
16 nine state tracts and two fee tracts?

17 MR. CARR: Mr. Stogner, are the witness's
18 qualifications acceptable?

19 EXAMINER STOGNER: They are.

20 Q. (By Mr. Carr) Mr. Moran, would you briefly state
21 what Yates Petroleum Corporation seeks with this
22 Application?

23 A. Yates Petroleum Corporation is seeking approval
24 of the Tres Canal Exploratory Unit to unitize the lands
25 within the boundary that we have proposed under the

1 Application.

2 Q. And what is the character of the land, state and
3 fee?

4 A. The lands are state and fee, nine state tracts
5 and two fee tracts.

6 Q. Would you refer to what has been marked for
7 identification as Yates Exhibit Number 1, identify this,
8 explain what it is to the Examiner?

9 A. Exhibit Number 1 is the exploratory unit
10 agreement for the Tres Canal Exploratory Unit. It's a
11 standard state form.

12 Q. Let's go to Exhibit 2, which is a copy of the
13 plat attached to the unit agreement. Refer to this and
14 review the information thereon.

15 A. Exhibit 2 is a plat with a green outline
16 identifying the lands to be included within the exploratory
17 unit. It is located in Section 8 South, 33 East.

18 Q. What is the location again? What's the township?

19 A. It's not 8 South, 33 East?

20 Q. It's Township 8 South, Range 33 East?

21 A. Yeah, Township 8 South, Range 33 East.

22 Q. In this unit there is one unleased tract. Would
23 you identify that, please?

24 A. The unleased tract is a fee tract in Section 35
25 of 8 South, 33 East. It is the west half of the northwest.

1 That tract, we have contacted the mineral owners and are
2 attempting to negotiate a lease from them.

3 Q. How many acres are in the proposed unit area?

4 A. There are 3200 acres in the proposed unit area.

5 Q. Let's go to Exhibit Number 3. Identify and
6 review that.

7 A. Exhibit Number 3 is Exhibit B to the unit
8 agreement, identifying the lands within the proposed unit.
9 It identifies the location, the state lease number or the
10 fee status of the lands, and it also shows the Tract 11 as
11 being the unleased tract.

12 Q. An what percentage of the acreage at this time
13 has been voluntarily committed to the unit?

14 A. All the acreage in the 3200 except the 80 acres,
15 over 95 percent.

16 Q. And the one outstanding tract is the tract that
17 is shown being owned by Lynn and Billy Medlin?

18 A. Yes.

19 Q. And that is the tract that you are currently
20 negotiating with Medlin for a lease?

21 A. Yes.

22 Q. So as the unit stands, you now have in excess of
23 95 percent voluntarily committed, and you may have 100
24 percent?

25 A. Yes, and that would give us effective control of

1 the unit.

2 Q. Has the Commissioner of Public Lands given
3 preliminary approval to the proposed unit agreement?

4 A. We have received preliminary approval from the
5 Commissioner of Public Lands, subject to they are only
6 going to authorize unitization below a depth of 9608 feet.

7 Q. And is a copy of the Commissioner's letter what
8 has been marked as Yates Petroleum Corporation Exhibit
9 Number 4?

10 A. Yes.

11 Q. Is agreeable to Yates Petroleum Corporation to
12 limit the unitized interval pursuant to the request of the
13 Commissioner of Public Lands to all horizons below the
14 depth of 9608 feet?

15 A. We will accept it. We are not in agreement with
16 the Commissioner's decision, but at this time we don't have
17 time to attempt to change the Commissioner's mind before we
18 need to get the unit formed.

19 MR. CARR: And so at this time, Mr. Stogner, we
20 request that the unit agreement and the approval from this
21 agency unitize only those depths below 9608 feet.

22 EXAMINER STOGNER: Okay.

23 Q. (By Mr. Carr) Mr. Moran, does Yates seek to be
24 designated operator of the unit?

25 A. Yes, Yates Petroleum corporation seeks to be

1 designated as operator of the unit.

2 Q. Does the agreement provide for periodic filings
3 of plans of development?

4 A. Yes, the report requires within six months after
5 the initial well, a filing of our plans, and then on an
6 annual basis after that, and we will file those plans with
7 the appropriate agencies, including the OCD.

8 Q. Will Yates also call a geological witness to
9 review the technical portions of this case?

10 A. Yes, we will.

11 Q. Were Exhibits 1 through 4 either prepared by you
12 or compiled under your direction?

13 A. They were compiled under my direction, yes.

14 MR. CARR: Mr. Stogner, at this time we would
15 move the admission into evidence of Yates Petroleum
16 Corporation Exhibits 1 through 4.

17 EXAMINER STOGNER: Exhibits 1 through 4 will be
18 admitted into evidence.

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

21 EXAMINATION

22 BY EXAMINER STOGNER:

23 Q. Mr. Moran, why the limitation? This is the first
24 one I've seen something like this.

25 A. The State Land Office has developed what we

1 consider a new policy on allowing lands to be unitized.

2 They take the position that lands that have been penetrated
3 should be excluded from units. And down in the southern
4 part of the unit there is a well that was drilled to 9600
5 feet, and thus it is the sectional -- the Crystal well that
6 I'll let the geologist tell more about.

7 But that is my understanding of their rationale.

8 Q. Okay. Are you referring to the well in Section
9 35 of --

10 A. Section 35.

11 Q. -- of Number 2, which is in the southeast
12 southeast?

13 A. Yes.

14 Q. Do you know if this unit is the first Application
15 to be under the new policy?

16 A. No, we have another unit that they excluded some
17 lands because of this new policy.

18 Q. Okay, now those lands were just excluded?

19 A. Not in this Application or this unit, it was a
20 completely different unit. But this is our second time to
21 run across this.

22 Q. Okay, but in that first instance, the lands
23 were --

24 A. That was my understanding. I'm not real familiar
25 with that case, but that's what I understood that is.

1 MR. CARR: Mr. Stogner, this is the third
2 proposed unit agreement this year where the Land Office has
3 required that certain acreage be deleted from the unitized
4 interval.

5 We're having meetings with them tomorrow to talk
6 about what is meant by "exploratory unit" versus
7 "development units", and perhaps we're discussing some new
8 types of forms of unit agreement at the Land Office level.

9 But my recollection is -- and I can provide the
10 case and unit names -- is that we have had units where we
11 had to segregate part of a vertical interval, and we've had
12 a case where we had to delete part of a horizontal area,
13 only because the acreage had been penetrated by a wellbore,
14 even a wellbore that was determined to be a dry hole.

15 And so we're in the process of working with that,
16 with the Land Office, at this time. I'll be happy to
17 provide the case references for you.

18 Q. (By Examiner Stogner) Okay. When I look at your
19 Exhibit Number 2, there appear to be several wells in
20 here -- they're all plugged and abandoned. It looks like
21 the northeast northeast of 27, the northeast of the
22 southeast of 27. There's a couple -- no, there's three in
23 Section 34, and then the one down in the southeast
24 southeast of 35.

25 Now, the well in Section 36, in the northwest

1 northwest, is that your proposed -- what? Initial well for
2 the unit?

3 A. No, I believe that's an HBP lease. I think
4 that's an existing producing well. I prefer to let the
5 geologist talk about the wells.

6 Q. All right. Okay, let's talk about this Tract
7 Number 11 here that is the west half of the northwest
8 quarter, and you said that Yates had been negotiating with
9 the Lynn Medlin party?

10 A. The Medlin family, yes.

11 Q. Medlin family. And how long have those
12 negotiations been going on? Could you be a little more
13 specific of what has transpired --

14 A. I personally contacted them a year ago or
15 thereabouts, at the same time I leased the Marshall
16 interest in Tract 34, and then I was pulled away from this
17 project to move to Wyoming, and there's been another
18 landman working on it. My conversations with him is that
19 he has been also talking to them about leasing. I'm not
20 familiar at this point with what he's discussed with them.
21 But I know that I personally contacted them over a year
22 ago, and it has continued.

23 Q. And if there's not an agreement that's worked
24 out, then their property would just become a part of the
25 proration unit in Section 35 if a well was drilled?

1 A. Yes. We would have to treat it as an uncommitted
2 tract to the unit.

3 EXAMINER STOGNER: I don't have any other
4 questions of this witness at this time.

5 Mr. Carr?

6 MR. CARR: Thank you, Mr. Stogner.

7 At this time we call Reed Meek.

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

11 DIRECT EXAMINATION

12 BY MR. CARR:

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

14 A. My name is Read Meek.

15 Q. Where do you reside?

16 A. I reside in Artesia, New Mexico.

17 Q. By whom are you employed?

18 A. Yates Petroleum Corporation.

19 Q. What is your position with Yates?

20 A. I'm a senior geologist with Yates.

21 Q. Have you previously testified before this
22 Division and had your credentials as an expert in petroleum
23 geology accepted and made a matter of record?

24 A. Yes.

25 Q. Are you familiar with the Application filed in

1 this case?

2 A. Yes, I am.

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

5 A. Yes.

6 Q. And are you prepared to share the results of that
7 work with Mr. Stogner?

8 A. Yes, I will.

9 MR. CARR: Are the witness's qualifications
10 acceptable?

11 EXAMINER STOGNER: They are.

12 Q. (By Mr. Carr) Initially, Mr. Meek, just identify
13 for us the horizons that are to be unitized in the Tres
14 Canal State Exploratory Unit.

15 A. It would be all horizons below the depth of
16 96,008 feet.

17 Q. And what is the primary objective --

18 A. Excuse me, 9608 feet.

19 Q. Correct. What is the primary objective in the
20 unit?

21 A. Our primary objective is the Atoka-Morrow
22 section.

23 Q. And what are the approximate depths of the Atoka-
24 Morrow?

25 A. This would be between the depths of 10,500 to

1 11,500 feet.

2 Q. Now, what data are you using to determine that
3 the Morrow is a likely prospect here? Are there other test
4 wells in the area that have penetrated the Morrow?

5 A. There are seven deep wells that have penetrated,
6 at least partially penetrated, the Morrow in the area, none
7 of which are located within the boundaries of our unit.

8 Q. And you're going to be reviewing the logs on
9 those wells in a subsequent exhibit, correct?

10 A. Yes, I will.

11 Q. Are there secondary objectives in the well?

12 A. Yes, there are. There are objectives above and
13 below the Morrow, and we intend to take our well to the
14 Devonian horizon, which is at about 12,500 feet.

15 Q. There are these other Morrow wells in the area.
16 What is the closest Morrow production?

17 A. I'm not aware of any Morrow production within 10
18 miles of the proposed unit.

19 Q. Could you provide us with just a general
20 description of the Morrow formation in the unit area?

21 A. We lumped the Atoka and Morrow together in this
22 area, both our horizons that are deposited in an alluvial
23 type of a system where the sands that are the prospective
24 reservoirs were deposited in channel systems, and there are
25 multiple channel systems within the Atoka-Morrow sequence.

1 A. Under the unit area, in fact, there are three
2 probable depositional fairways; isn't that right?

3 A. That's right, we have mapped three depositional
4 channels in the Atoka-Morrow section that we deem as
5 prospective in this area.

6 Q. Let's go to what has been marked Yates Exhibit
7 Number 5. Would you identify and review that, please?

8 A. Yes, this is a map that shows the lower Morrow
9 channel. It's a channel that's oriented from the --
10 basically north to south, cuts through the unit boundary.

11 Q. You've shown the unit with a red outline on the
12 exhibit?

13 A. That's correct.

14 Q. You've also shown a trace for a subsequent cross-
15 section; is that right?

16 A. That's right, I'm showing a cross-section A-A'
17 that is located west and south of the proposed unit.

18 Q. Now, this is the lower Morrow. Let's go to the
19 upper Morrow, your Exhibit Number 6.

20 A. All right, this is a map of the upper Morrow sand
21 as we've interpreted it from the well control. And this is
22 a channel that has a slightly different north-to-south
23 orientation.

24 Q. The third principal objective is the upper Atoka,
25 and that's shown on Exhibit 7. Will you go to that?

1 A. Yes, this shows a third channel system in the
2 upper Atoka, which has more of a northwest to southeast
3 orientation.

4 Q. Could you identify what has been marked as
5 Exhibit Number 8 and review that for Mr. Stogner?

6 A. This is a cross-section that includes six wells
7 shown on the previous maps, which are located west and
8 south of the proposed unit. These are the Morrow
9 penetrations throughout the area, and the various sands
10 that we have shown in the isopach maps are indicated as the
11 upper Atoka, shown in three wells, the upper Morrow channel
12 which shows up in two wells. and then the lower Morrow
13 channel which also shows up in two wells.

14 And then in the lower right-hand corner of the
15 cross-section is an index map which shows the overlapping
16 configuration of the three interpreted channels.

17 Q. Where will the initial test well be located?

18 A. The initial test well will be located in the
19 southwest corner of Section 26.

20 Q. Basically, what does your geological study of the
21 area tell you about the formation in the Tres Canal Unit
22 area?

23 A. We believe that the best opportunity to achieve a
24 commercial discovery in the unit is -- well, is within the
25 unit area because of the intersection of these three

1 depositional fairways.

2 Q. Do you believe the initial test well is at the
3 best location within the unit to encounter these three
4 depositional channels and make a successful well?

5 A. Yes.

6 Q. In your opinion, is this an area that can best be
7 developed under a unit plan?

8 A. Yes.

9 Q. How soon does Yates plan to commence drilling of
10 the initial test well?

11 A. We plan to commence our well before the 1st of
12 August of this year.

13 Q. Is Yates Exhibit Number 9 a summary of your
14 geological presentation?

15 A. Yes, it is.

16 Q. In your opinion will approval of this Application
17 and the development of this acreage under a unit plan be in
18 the best interest of conservation, the prevention of waste
19 and the protection of correlative rights?

20 A. Yes.

21 Q. Were Exhibits 5 through 9 prepared by you or
22 compiled under your direction?

23 A. Yes, they were.

24 MR. CARR: At this time, Mr. Stogner, we would
25 move the admission into evidence of Yates Exhibits 5

1 through 9.

2 EXAMINER STOGNER: Exhibits 5 through 9 will be
3 admitted into evidence.

4 MR. CARR: And that concludes my direct
5 examination of Mr. Meek.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. Mr. Meek, what's the proposed depth of this well
9 again?

10 A. 12,500 feet, to penetrate the top of the Devonian
11 formation.

12 Q. Referring to Exhibit Number 8, are any of the
13 Morrow wells that you're showing on this cross-section, are
14 they currently producing in commercial quantities from
15 either the Atoka or the Morrow?

16 A. No, they are not. None of these wells have
17 been -- Well, actually there is some indication on the
18 cross-section that the upper Atoka sand has produced 500
19 million feet from the Bright Apache Number 1.

20 Q. Now, is that well currently producing or plugged
21 and abandoned, do you know?

22 A. I believe it's plugged and abandoned at this
23 point.

24 Q. Now, of all these wells, there is only one that
25 had both Atoka and Morrow as a potential? It looks like --

1 Hold it, if you start -- I guess what I'm getting at, look
2 over at the far left of your cross-section. The Atoka was
3 the only one that looks like it was tested and perhaps
4 potentialized, but the Morrow just kind of petered out?

5 A. Right.

6 Q. And the you move over to the next well to the
7 left, the Atoka disappears, or at least they didn't test
8 it. Is that what you're showing here?

9 A. Well, it shows that the Atoka sand is not
10 developed in that well.

11 Q. Was your interpretation that you're showing on
12 Exhibit 8 and all your other maps too, was this taken off
13 of seismic interpretation of the area, some old seismic
14 data or perhaps new seismic data?

15 A. No, we don't have any seismic data in the area
16 that -- The interpretation is based entirely upon the well
17 control that we've presented.

18 Q. I'm aware that any upper zones are out of the
19 question as far as being in the unit, but are there any
20 upper zones that Yates hopes to test with this well?

21 A. Actually, anything from the top of the Atoka up
22 to the depth of 9608 would be included in the unit, and
23 there is some very slight potential for a Strawn or upper
24 Pennsylvanian discovery that would still qualify as part of
25 the unit.

1 Q. How about if you step outside of the unit, up
2 above, the shallow zone?

3 A. We don't anticipate anything, but there's always
4 a chance that you'll run into something that you're not
5 expecting.

6 Q. Is there a gas line out there that would take if
7 you do have that production?

8 A. I know there's gas lines that come within about
9 10 miles of this area, so it would be some distance to the
10 gathering system.

11 Q. Is Yates testing any other fields out there? Is
12 this the only well that Yates has or -- You haven't got a
13 lot of rigs running?

14 A. We've been fairly active in the area to the south
15 and east of this area. This is kind of pushing the
16 northern limit of the area that we've been exploring for
17 the Morrow out here. This is a -- what I would certainly
18 consider a rank wildcat.

19 EXAMINER STOGNER: Good deal. No other questions
20 of Mr. Meek.

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

23 EXAMINER STOGNER: Does anybody else have
24 anything further in Case Number 12,443?

25 Then this matter will be taken under advisement.

1 Let's take a five-minute recess at this time
2 (Thereupon, these proceedings were concluded at
3 10:49 a.m.)

4 * * *

11
12 I do hereby certify that the foregoing is
13 a complete record of the proceedings in
14 the Examiner hearing of Case No. 12443
15 heard by me on 24 June 1960
16 [Signature], Examiner
17 Of Conservation Division
18
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25

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 July 3rd, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002