

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. 12,938
	)	
APPLICATION OF YATES PETROLEUM	)	
CORPORATION FOR APPROVAL OF A UNIT	)	
AGREEMENT, CHAVES COUNTY, NEW MEXICO	)	
	)	

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

October 10th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, October 10th, 2002, 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

October 10th, 2002  
 Examiner Hearing  
 CASE NO. 12,938

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## A P P E A R A N C E S

## FOR THE DIVISION:

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## FOR THE APPLICANT:

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P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

\* \* \*

## ALSO PRESENT:

WILLIAM V. JONES, JR.  
Petroleum Engineer  
New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

\* \* \*

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1           WHEREUPON, the following proceedings were had at  
2   8:26 a.m.:

3           EXAMINER CATANACH: All right, at this time I'll  
4   call Case 12,938, the Application of Yates Petroleum  
5   Corporation for approval of a unit agreement, Chaves  
6   County, New Mexico.

7           Call for appearances.

8           MR. CARR: May it please the Examiner, my name is  
9   William F. Carr with the Santa Fe office of Holland and  
10   Hart, L.L.P. We represent Yates Petroleum Corporation in  
11   this matter, and I have one witness.

12          EXAMINER CATANACH: Any additional appearances?

13          Can we swear in the witness at this time?

14          (Thereupon, the witness was sworn.)

15                         TIM MILLER,

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

18                         DIRECT EXAMINATION

19   BY MR. CARR:

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

21           A.    My name is Tim Miller.

22           Q.    Mr. Miller, where do you reside?

23           A.    I reside in Carlsbad, New Mexico.

24           Q.    By whom are you employed?

25           A.    Yates Petroleum Corporation.

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1 Q. And what is your position with Yates Petroleum  
2 Corporation?

3 A. I'm a geologist.

4 Q. Have you previously testified before the New  
5 Mexico Oil Conservation Division?

6 A. Yes, I have.

7 Q. At the time of that testimony were your  
8 credentials as an expert witness in petroleum geology  
9 accepted and made a matter of record?

10 A. Yes, they were.

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

13 A. Yes, I am.

14 Q. Are you familiar with the Yates proposed Ten Mile  
15 State/Federal Exploratory Unit?

16 A. Yes, I am.

17 Q. Are you familiar with the status of the lands in  
18 the area which is affected by this Application?

19 A. Yes, I am.

20 Q. Mr. Miller, have you also made a geological study  
21 of the area involved in this case?

22 A. Yes, I have.

23 Q. And are you prepared to share the results of that  
24 work with the Examiners?

25 A. Yes, I am.

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1 MR. CARR: Are the witness's qualifications  
2 acceptable?

3 EXAMINER CATANACH: Mr. Miller is so qualified.

4 Q. (By Mr. Carr) Initially, would you summarize for  
5 the Examiner what it is that Yates seeks with this  
6 Application?

7 A. We're seeking approval of the Ten Mile  
8 State/Federal Exploratory Unit, agreement on voluntary  
9 exploratory unit containing approximately 3440 acres of  
10 State of New Mexico lands and 600 acres of federal lands,  
11 located in Chaves County, New Mexico.

12 Q. Mr. Miller, the difference between the number of  
13 acres that you're seeking here today and those set forth in  
14 the legal advert for this case, there are approximately 400  
15 acres. What is the reason for this discrepancy?

16 A. Because Myco Industries did not want to be  
17 unitized.

18 Q. And when we get to the plat of the unit area, you  
19 will be able to --

20 A. Yes.

21 Q. -- identify those?

22 A. Yes, I will.

23 Q. You've prepared exhibits for presentation here  
24 today?

25 A. Yes, I have.

1 Q. Let's go to what has been marked as Yates  
2 Petroleum Corporation Exhibit Number 1, and I'd ask you to  
3 identify that for the Examiner.

4 A. This is the Unit Agreement.

5 Q. Is this agreement based on the state/federal  
6 form, agreement for exploratory units?

7 A. Yes, it is.

8 Q. Let's go to what has been marked Yates Exhibit  
9 Number 2, and I'd ask you to identify and review this for  
10 the Examiner.

11 A. This is an outline of the proposed Ten Mile Unit.  
12 It includes -- is in Township 14 South, Range 28 East, in  
13 Chaves County, New Mexico, and it includes all of Sections  
14 32, 33, 28, 29 and portions of 21 and portions of Section  
15 20.

16 Q. And if we look at this exhibit, in the  
17 northwestern portion of the unit area, there is a lease  
18 shown as a Myco Industries lease. Is that the property  
19 which is not included in the unit agreement as originally  
20 proposed?

21 A. Yes, it is.

22 Q. And Mr. Frank Yates elected and decided he didn't  
23 want the acreage included in the unit; is that right?

24 A. That's right.

25 Q. How many State of New Mexico leases are we

1 dealing with?

2 A. We're dealing with -- let's see here, one, two,  
3 three, four, five, six, seven -- just looking at the map --  
4 eight, nine, ten of them.

5 Q. And how many federal leases are involved?

6 A. Federal leases inside the unit are -- Well, one,  
7 excluding the 40 in -- that Myco wants out of there.

8 Q. Let me ask you to refer to what has been marked  
9 as Yates Petroleum Corporation Exhibit Number 3. Would you  
10 identify that for me?

11 A. Exhibit Number 3 is a breakdown of the sections,  
12 and the number of acres in the section and the unit, and  
13 the lessees of record and the working interest owners.

14 Q. Does exhibit show each lease in the unit area?

15 A. Yes, it does.

16 Q. And it shows the number of acres involved in each  
17 lease?

18 A. Yes, it does.

19 Q. And it indicates those which are federal and  
20 those which are state?

21 A. Yes, it does.

22 Q. And it also shows that Tract Number 3 is the  
23 federal lease that is not going to be included in the  
24 unit --

25 A. Yes, it is, that's correct.



1           Q.    Let's go to what has been marked as Exhibit  
2           Number 4.  Would you identify this, please?

3           A.    Exhibit Number 4 is the approval letter from the  
4           State Land Office, from Mr. Pete Martinez, stating that  
5           they -- they're in favor of -- they have said their  
6           approval for the formation of the unit.

7           Q.    And is this preliminary approval -- Is final  
8           approval conditioned upon the designation from the Bureau  
9           of Land Management of the unit area as an area that can be  
10          successfully developed under the unit plan?

11          A.    Yes, it is.

12          Q.    What is the status of the efforts to obtain that  
13          designation from the Bureau of Land Management?

14          A.    I spoke with Armando Lopez last Thursday morning,  
15          showed him the outline and the unit agreement, and they  
16          verbally said they are fine with it, and we are just  
17          waiting on an approval letter at this time.

18          Q.    When that letter is received, will you submit a  
19          copy to the Oil Conservation Division?

20          A.    Yes, we will.

21          Q.    Does Yates Petroleum Corporation desire to be  
22          designated unit operator?

23          A.    Yes, it does.

24          Q.    Mr. Miller, when we look at this unit area, most  
25          of the lands in the unit area are owned or operated by

1 Yates Petroleum Corporation or related entities; is that  
2 correct?

3 A. Yes, it is.

4 Q. What percent of the working interest in the area  
5 has been voluntarily committed to this unit plan?

6 A. 98.8 percent.

7 Q. When we go to the unit agreement, does it provide  
8 for periodic filing of plans of development with the State  
9 Land Office?

10 A. Yes, it does.

11 Q. Will these plans also be filed with the Oil  
12 Conservation Division at the time they are filed with the  
13 Land Office?

14 A. Yes, they will.

15 Q. And how often are these plans to be filed?

16 A. Basically every six months.

17 Q. And then after that you file annual plans of  
18 development?

19 A. Yes, we do.

20 Q. What horizons are being unitized in this proposed  
21 Ten Mile State/Federal Exploratory Unit?

22 A. It would be the Morrow.

23 Q. What is the location in the unit area -- and you  
24 might look at the plat and identify the location of the  
25 initial test well on the unit area.

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1           A.    If you look at the land plat, which is Exhibit  
2                Number 2, the proposed test well is down in Section 33,  
3                1650 from the north and east line.

4           Q.    And what acreage will be dedicated to that well?  
5                What will be the spacing unit for the well?

6           A.    It would be the east half of Section 33.

7           Q.    And approximately to what depth will it be  
8                drilled?

9           A.    8500 feet.

10          Q.    And what is the primary objective in this unit?

11          A.    Primary objective is the Morrow formation.

12          Q.    And is this well as proposed going to be in an  
13                established pool, or will it be a wildcat?

14          A.    It will be a wildcat.

15          Q.    Are there wells within the unit area that have  
16                penetrated the Morrow formation?

17          A.    There are two wells that have penetrated the  
18                Morrow formation. One well is in Section 32, in the  
19                northwest quarter, the old Yates Petroleum Nine Mile State  
20                Number 1; and then in the northeastern part of Section 28,  
21                Rodman Corporation's Number 1 State.

22          Q.    Did either of these wells produce from the  
23                Morrow?

24          A.    No, they do not.

25          Q.    Are there secondary objectives in the unit area?

1           A.    Yes, there are secondary objectives. The main  
2 secondary objective, if the Morrow is not present, would be  
3 Atoka.

4           Q.    Let's go to Exhibit Number 5, the gross isopach  
5 of the Morrow clastics, and I'd ask you identify it and  
6 explain to Mr. Catanach what this exhibit shows.

7           A.    Okay, Exhibit Number 5, which is a map as Mr.  
8 Carr has said, a gross isopach map from the top of the  
9 Morrow clastics to the top of the Austin cycle, this is  
10 basically a gross isopach of that interval, and what I  
11 basically call it is a thick/thin map.

12                   And as you're looking on the map and you see the  
13 outline of the unit in green and the 40 acres in the  
14 southwest of the northwest of Section 21 that is out of the  
15 unit, this map depicts the gross thickness from top-of-  
16 Morrow clastics to Austin cycle that we -- might occur  
17 throughout this area. The general trend is basically from  
18 the north northwest to the south southeast.

19                   Our proposed location, as you can see, that is  
20 1650 from the northeast in Section 33, we hope to at least  
21 have 130 feet or more of this gross section Morrow  
22 clastics, top of the Austin cycle. Having a thicker  
23 section enables you to have a higher percentage of maybe  
24 encountering Morrow sandstones, two or three or four,  
25 maybe, in the area.

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1           The wells down toward the lower right-hand corner  
2 of the map, there are three wells in Section 3 down there,  
3 there's a middle well, you can see that the well to the  
4 left -- and when we look at the cross-section later, the  
5 names of these wells, and you can see the thickness on the  
6 cross-section, what they look like.

7           The well to left, 76, the middle well is 93 feet,  
8 and the well to the right, at the end, there, of A', is 66  
9 feet. This is the thickness, like I stated, from the  
10 Morrow clastics to the Austin cycle.

11           Like I said, the trend is generally north  
12 northwest to south southeast. You also see where I have a  
13 thin. This is -- Basically you have a thinning of this  
14 section. You look at the well in Section 32, it only has  
15 83 feet. If you go northeast of that in Section 28, that  
16 well just has a maximum of only 17 feet. So there's very  
17 little room for an accumulation, a gross accumulation from  
18 the Morrow clastics to the top of the Austin cycle.

19           And basically, you can think of this as maybe a  
20 depositional center for a channel in here, with the  
21 deposits of sand. Think of the thins as the ridge or the  
22 hill and the thicks as the lows or where you're going to  
23 have an accumulation of sandstone.

24           Q. All right, let's go to Exhibit Number 6, the  
25 gross sand map. Would you review that, please?

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1           A.   Exhibit Number 6 basically follows along with  
2   Exhibit Number 5.   Exhibit Number 6 basically gives you the  
3   outline of the proposed unit and our proposed location down  
4   there in the northeast quarter of Section 33.

5           This map depicts the Morrow gross sand of gamma-  
6   ray units on an e-log of less than 50 gamma-ray units,  
7   which means you're looking for clean sands, clean  
8   sandstones, and if you have clean sandstones you have a  
9   better chance of maybe -- of them being productive.   The  
10   contour intervals are every ten feet.

11           Again, as you can see, where we have our proposed  
12   location we're hoping to get at least 30 feet or better of  
13   sandstones.   Now, what this would be, you could possibly  
14   maybe have one sandstone that's 30 feet, or you could have  
15   three separate sandstones of ten feet apiece.

16           It generally runs into trends similar to the  
17   gross isopach map, north northwest to south southeast, and  
18   basically we see where the thick sands are in here.   They  
19   basically follow in with the thicks on Exhibit 5.   And  
20   where you have thinner parts of the sands, or say you're  
21   out of the channels, you'd be in the thins.   That's showed  
22   in the thins in Exhibit 5.

23           Q.   Mr. Miller, were these last two exhibits, 5 and  
24   6, prepared from well control or seismic information?

25           A.   Well control.

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1 Q. And they each show a trace for a subsequent  
2 cross-section?

3 A. Yes, they do.

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

5 A. Yes, I am.

6 Q. All right, would you refer to Exhibit 7 and  
7 review that?

8 A. Okay. And probably for -- just to see where the  
9 cross-section is going, if you just hold out Exhibit 5,  
10 that will help you follow along a little easier.

11 Okay, the cross-section basically goes from the  
12 northwest to the southeast. If we start on the left-hand  
13 side of the cross-section up there, Meridian Oil's  
14 Cannonball Number 1, looking at this, the cross-section,  
15 you have the different formations labeled Atoka, top of  
16 Morrow clastics, Austin cycle and the Chester formation.

17 The cross-section, just looking at a general  
18 overview, the green-colored interval is the Morrow clastics  
19 section, which is from the top of the Morrow clastics to  
20 the top of the Austin cycle, which -- this is what  
21 basically Exhibit 5 is trying to show.

22 If we start at the left, at the Meridian Oil,  
23 which on your gross isopach, your Exhibit 5, is up there in  
24 the left-hand corner in Section 7, this well has 116 feet  
25 of Morrow clastics to Austin cycle. Unfortunately in this

1 well, as far as an example showing where we'd have a thick  
2 accumulation of sandstones, this well had basically none,  
3 had basically no clean sandstones here.

4 It does have, as you can see, up in the Atoka, an  
5 Atoka sand. This basically -- well, was never put on  
6 production.

7 If you move to the right -- we're basically  
8 moving to the east on Exhibit 5 -- you see a very old well,  
9 the Honolulu Oil Corporation Malco-Federal Number 1. You  
10 can see our interval starting to thin a little to 88 feet.  
11 As you can see, there are three sands in here that are  
12 colored yellow, the gamma ray is colored yellow on it.  
13 That's depicting three sands.

14 The red-color -- if you want to say upside-down  
15 triangle there -- is the symbol for a DST. They actually  
16 DST'd 8245 to 8426, and they recovered basically only 150  
17 feet of slightly gas-cut mud.

18 Moving to the next well, which would be again at  
19 your Exhibit 5, moving to the southwest, the Larue and  
20 Muncy well in Section 20, we are thinning up a little more  
21 to 75 feet, and this basically has a thin Morrow sandstone,  
22 around three to four feet thick, with a little porosity,  
23 maybe two or three percent. That's what's colored in red,  
24 and that's the gas crossover. This basically is a neutron  
25 density log.

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1           Moving to the next well, which is the Clements  
2 Energy well, which again is moving to the southwest in  
3 Section 30, again you see we are continuing to thin up to  
4 60 feet. Again, it has a thin Morrow sand of maybe about  
5 four feet, with maybe two feet of porosity hanging in there  
6 around eight percent, and you just have basically a very  
7 thin porosity interval with some slight gas into it.

8           And the next well, which is Rodman Corporation,  
9 as you can see, we're basically thinning up to just 17  
10 feet. There is not enough section for basically any type  
11 of what we would consider a sandstone deposition. So  
12 basically you have no Morrow sand in this at all.

13           Moving to the next well, which is the Yates  
14 Petroleum old Nine Mile State Number 1, we start thickening  
15 up again to 83 feet, which on the map in Exhibit 5 is down  
16 in Section 32. It has 88 feet, but again there was no sand  
17 development here.

18           Now, the next -- our proposed well is where the  
19 cross-section goes to, and looking at our thick/thin map,  
20 or the gross isopach map, which is Exhibit 5, we are  
21 projecting that we have a chance of encountering 130 feet  
22 or more of this Morrow-clastics-to-Austin-cycle interval,  
23 which hopefully will enable us to maybe have one, two or  
24 three sandstones. Possibly you could have a sandstone as  
25 on the sandstone map of 30 feet, or you could have possibly

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1 three sandstones of, say, 10 feet each in thickness.

2 The next well is another old Yates Petroleum  
3 well, the Buffalo Valley Number 1 in Section 3. This thins  
4 up again, you can see, from our proposed location. We go  
5 from 130 feet back up to 76 feet. It does have one thin  
6 Morrow sand in it, possibly two to three feet thick, with a  
7 little porosity in it and a little gas effect.

8 The well that probably really demonstrates this  
9 is the next well on the cross-section, which is Dominion  
10 Exploration and Production Stardust Number 3 in Section 3,  
11 and this has 93 feet. And in this gross 93-foot interval,  
12 they encountered basically 37 feet of sand, one sandstone.  
13 Very clean sand, very good porosity.

14 The upper half of it, as you can see, you're  
15 probably averaging about 12 to 13 to 14 percent. That's  
16 what's colored in red, the crossover or the neutron density  
17 curves.

18 The bottom half of it is around 8 to 9 to 10  
19 percent.

20 This well is basically producing right now, and  
21 basically is producing around a half a million a day.

22 The last well on the cross-section is the Chi  
23 Energy well. It is a dry hole. So we thin from the  
24 Dominion Exploration of 93 feet to Chi Operating's well of  
25 86 feet. They did have two Morrow sandstones in there,

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1 each around six feet. They did run a DST. They recovered  
2 some gas, but they decided not to try to produce these  
3 wells.

4 But basically the cross-section gives you an idea  
5 of what I'm trying to show on the thick/thin map, and we  
6 feel that if we have -- if we encounter a thick section  
7 from the top of the Morrow clastics to the Austin cycle, we  
8 have a better chance of hopefully encountering a Morrow  
9 sand zone, possibly one as thick as the Dominion well, 37  
10 feet thick, or have two or three of variable thickness.

11 Q. Mr. Miller, is Exhibit Number 8 a summary of your  
12 geologic presentation?

13 A. Yes, it is.

14 Q. Referring to this, would you just briefly  
15 summarize for the Examiner why Yates is proposing to  
16 develop this area under a unit plan.

17 A. Well, we're -- Yates Petroleum Corporation is  
18 proposing to develop this under a unit plan because  
19 basically this is a very rank wildcat area to explore for  
20 Morrow sand, and we feel that forming a unit, we would have  
21 timely effort to try to develop the area and possibly be in  
22 a development scheme that if our proposed -- or the initial  
23 well, 1650 from the north and east in Section 33, hits with  
24 one thick sand or two to three thinner sands, that you  
25 could see we would be developing the trend basically

1 northwest of this well, trying to stay in the thicker part  
2 of the map section.

3 And we believe that, again, 20 foot or better  
4 would be -- of sand would be economic to drill these wells  
5 for.

6 Q. In your opinion, will approval of this  
7 Application and development of this acreage under the unit  
8 plan be in the best interest of conservation, the  
9 prevention of waste and the protection of correlative  
10 rights?

11 A. Yes, it will.

12 Q. How soon does Yates plan to -- or hope to drill  
13 the initial test well?

14 A. We hope to drill it as soon as possible.

15 Q. Do you have leases expiring in this area?

16 A. Yes, we have two leases that go out December 1st.

17 Q. Were Exhibits 1 through 8 prepared by you or  
18 compiled at your direction?

19 A. Yes, they were.

20 MR. CARR: Mr. Examiner, at this time we'd move  
21 the admission into evidence of Yates Petroleum Corporation  
22 Exhibits 1 through 8.

23 EXAMINER CATANACH: Exhibits 1 through 8 will be  
24 admitted as evidence.

25 MR. CARR: And that concludes my direct

1 examination of Mr. Miller.

2 EXAMINATION

3 BY EXAMINER CATANACH:

4 Q. Mr. Miller, the last well on the cross-section,  
5 did you say that was not producing?

6 A. The Chi -- are you -- the Chi Operating?

7 Q. Yes.

8 A. Yes, it's not, it's a dry hole.

9 Q. It's a dry hole. So the only one producing on  
10 this cross-section is the Stardust?

11 A. Right.

12 Q. And that had what, 28 feet of sand? Is that  
13 right?

14 A. Basically around 37 gross feet.

15 Q. 37 gross.

16 A. Basically, as you see, the blue symbols with the  
17 holes, they perforated the whole section of the sand.

18 Q. Uh-huh. Okay, so the Nine Mile well in Section  
19 32, you said, didn't have sand development, but you show 14  
20 feet on your Exhibit Number 6. Is it just that that didn't  
21 have enough sand? Is that what you're --

22 A. Yes, that didn't have enough sand.

23 Q. So that was not productive?

24 A. Not productive, right.

25 Q. Okay, the acres in Section 20, that was

1 originally all included in the unit?

2 A. Originally, it was.

3 Q. And a portion of that was taken out because Myco  
4 did not --

5 A. Right.

6 Q. -- want to participate?

7 A. Yes, it was.

8 Q. Do you know why they didn't or --

9 A. Mr. Frank Yates, Jr., just did not want it in the  
10 unit.

11 Q. Well, if you're using your 20-foot criteria, that  
12 west half of Section 20 wouldn't necessarily be productive  
13 anyway; is that your --

14 A. Right.

15 Q. -- interpretation?

16 A. Right. And basically felt since it's -- you  
17 know, it's Myco Industries' and it's a different lease, he  
18 just did not want to become part of the unit.

19 Q. Okay. Who have you not gotten approval for the  
20 unit operations from?

21 A. BLM.

22 Q. Pardon me?

23 A. BLM.

24 Q. No, I mean which interest owners, what interest  
25 owners have not approved? Do you know?

1           A.    It's all Yates.

2           MR. CARR:  Mr. Catanach, there are two interest  
3 owners, Myco and Paul Slayton.  Those are the only interest  
4 owners that are not in, and they are also the interest  
5 owners in the acreage in Section 20 that did not want to be  
6 included and also owned some interest in the northwest of  
7 the southwest of 21.  And it is that interest that means  
8 that 98 percent-plus of the working interest is committed  
9 instead of 100 percent.

10           EXAMINER CATANACH:  So being that that interest  
11 is not committed, how is that treated, Mr. Carr?

12           MR. CARR:  It will be treated just on a lease  
13 basis.  If it is in a spacing unit dedicated to a well, it  
14 won't have its interest proportionately reduced as to a  
15 unit share but will share on a lease basis.

16           Q.    (By Examiner Catanach)  Mr. Miller, you mentioned  
17 some secondary targets.  Do you want to discuss that a  
18 little bit or --

19           A.    Secondary targets up above the Morrow, you could  
20 possibly have Atoka sands.

21           Q.    Now, does this unit agreement specifically say  
22 the Morrow, or is it all formations?

23           A.    It says Morrow.

24           MR. CARR:  It says all.

25           THE WITNESS:  It does say all.  I thought it was

1 all --

2 EXAMINER CATANACH: All formations.

3 MR. CARR: All formations, yes, sir.

4 EXAMINER CATANACH: So, Mr. Carr, are we  
5 excluding that acreage in Section 21 from the unit; is that  
6 what we're proposing to do?

7 MR. CARR: Well, the way it works is, it's just a  
8 voluntary contract, and everybody within the unit area that  
9 commits to the unit plan shares pursuant to the terms and  
10 provisions of the unit plan. If an interest owner elects  
11 not to participate, then they are not committed to the  
12 agreement.

13 This isn't like statutory unitization where we  
14 force them in, and so they elect to not participate. And  
15 then if a well is drilled, for example, on either the west  
16 half or the south half of Section 21, then that tract would  
17 just share on a lease but not unitized basis. Just the  
18 nature of the voluntary unit.

19 EXAMINER CATANACH: But we've normally included  
20 that acreage in the unit; is that --

21 MR. CARR: It's not to be treated or carved out  
22 of the unit. It's within the unit area. It just doesn't  
23 participate under the unit plan.

24 EXAMINER CATANACH: Okay. So the total acreage  
25 is 3400 acres?



1 MR. CARR: 3440.

2 EXAMINER CATANACH: 3440 would include that 40-  
3 acre tract?

4 MR. CARR: Yes, it does. It's in, it's just a  
5 normal participating tract, and that's why you have 98  
6 percent of the working interest committed. That's the  
7 approximately 2 percent of the total unit area.

8 Q. (By Examiner Catanach) Mr. Miller, when is the  
9 test well to be commenced?

10 A. As soon as possible. But of course we have two  
11 leases that go out December 20th -- or December 1st. You  
12 can see them if you look at the Exhibit 2. They are the  
13 west half of Section 28 and what is all state lease in  
14 Section 29.

15 EXAMINER CATANACH: Okay.

16 EXAMINATION

17 BY MR. JONES:

18 Q. Mr. Miller, the Stardust 3 Federal Number 1 --

19 A. Right.

20 Q. -- pretty good development of the Morrow there.

21 And the gamma ray is getting dirtier as you go up in the  
22 Morrow, so it's fining upward, portion of the gamma ray --

23 A. Yeah, fining upward, I believe it's --

24 Q. What does that mean, the ocean is moving which  
25 way?

1           A.    Oh, that means finer -- that just means finer  
2 grains of -- finer grains of sand, possibly -- maybe the  
3 water in the channel is moving a little further to the east  
4 of this well, possibly.

5           Q.    What about -- So you're basically going for a  
6 stratigraphic play here, not a structural --

7           A.    Right.

8           Q.    -- component at all?

9           A.    Right.

10          Q.    Okay. And what kind of range of reserves are you  
11 looking at?

12          A.    There are wells that are -- and of course they're  
13 not on this, but there's a field called Buffalo Valley  
14 south of this about four or five miles. There are wells  
15 that have made anywhere from 8 BCF to 4 BCF. So we have  
16 possibilities of getting a well, you know, possibly that  
17 good. We're looking probably more at 3- or 4-BCF wells in  
18 this area.

19               And frankly, this is -- taking the Morrow up this  
20 direction is basically really exploring this direction.  
21 And as you can see from the maps, there's just not too many  
22 deep penetrations up through here. There are some wells  
23 that have penetrated the Morrow, but again, the way I've  
24 mapped it I feel that they just weren't in the heart of the  
25 channel to try to encounter productive Morrow sands.

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1 Q. So what geologic risk factor would you say for  
2 this well? Is it one in four or one in six or what?

3 A. You could probably -- around one in four, just to  
4 give it a number.

5 MR. JONES: That's all of my questions.

6 EXAMINER CATANACH: Mr. Carr, on the letter from  
7 the Commissioner of Public Lands, it doesn't cite the  
8 acreage. Is that the same acreage that you're proposing  
9 today?

10 MR. CARR: Yes, it is. When it was reviewed with  
11 the Land Office, the acreage contracted out of the  
12 northwest, and that portion of Section 21 was also  
13 reviewed.

14 And I believe from conversations yesterday with  
15 Mr. Martinez at the Land Office that he discussed this with  
16 Mr. Lopez at the BLM.

17 EXAMINER CATANACH: And you'll submit that letter  
18 from the BLM?

19 MR. CARR: Yes, we will.

20 EXAMINER CATANACH: Did you have any questions?

21 EXAMINER BROOKS: Under the terms of this unit  
22 agreement, there is a well that's drilled in the unit that  
23 includes this northwest to the southwest of 21. Would  
24 the -- The uncommitted interests would share in costs and  
25 revenues based on their percentage ownership and --

1 MR. CARR: Yes.

2 EXAMINER BROOKS: -- the rest of it would be by  
3 the people in the unit in proportion to their ownership in  
4 the unit?

5 MR. CARR: Correct.

6 EXAMINER BROOKS: Because Yates owns all the  
7 unit, so that wouldn't make any difference in this  
8 instance?

9 MR. CARR: That's how --

10 EXAMINER BROOKS: Yates and the State?

11 MR. CARR: Yes.

12 EXAMINER BROOKS: Right. Okay, thank you.

13 EXAMINER CATANACH: Anything further, Mr. Carr?

14 MR. CARR: Nothing further.

15 EXAMINER CATANACH: Okay, there being nothing  
16 further in this case, Case 12,938 will be taken under  
17 advisement.

18 (Thereupon, these proceedings were concluded at  
19 8:56 a.m.)

20 \* \* \*

21 I do hereby certify that the foregoing is  
22 a complete record of the proceedings in  
23 the Examiner hearing of Case No. 2931.  
24 heard by me on October 10 1920.  
25 David R. Catant, Examiner  
Oil Conservation Division

STEVEN T. BRENNER, CCR  
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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 October 10th, 2002.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 2002

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