

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. 13,051

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

April 24th, 2003

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, April 24th, 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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 Examiner Hearing
 CASE NO. 13,051

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A P P E A R A N C E S

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:47 a.m.:

3 EXAMINER STOGNER: At this time I will call Case
4 Number 13,051. This is the Application of Yates Petroleum
5 Corporation for approval of a unit agreement, Lea County,
6 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 STOGNER: Any other appearances?

13 Will the witness please stand to be sworn at this
14 time?

15 (Thereupon, the witness was sworn.)

16 JOHN AMIET,
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. John Amiet.

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

24 A. Artesia, New Mexico.

25 Q. By whom are you employed?

1 A. Yates Petroleum.

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

4 A. I'm a geologist with Yates.

5 Q. Have you previously testified before this
6 Division?

7 A. Yes, I have.

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

11 A. Yes, they were.

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

14 A. Yes.

15 Q. Are you also familiar with the proposed Strait
16 State Exploratory Unit, including the status of the lands
17 in the proposed unit area?

18 A. Yes, I am.

19 Q. Have you made a geological study of the area
20 which is the subject of this unitization Application?

21 A. Yes, I have.

22 MR. CARR: Are the witness's qualifications
23 acceptable?

24 EXAMINER STOGNER: They are.

25 Q. (By Mr. Carr) Mr. Amiet, could you summarize for

1 Mr. Stogner what it is that Yates Petroleum Corporation
2 seeks with this Application?

3 A. Yates is seeking approval of the proposed Strait
4 State Exploratory Unit agreement. This is a voluntary
5 exploratory unit that contains approximately 3840 acres of
6 State of New Mexico lands, located in Lea County, New
7 Mexico.

8 Q. Have you prepared exhibits for presentation here
9 today?

10 A. Yes, I have.

11 Q. Let's first go to what has been marked for
12 identification as Yates Exhibit Number 1, and I would ask
13 you to identify the exhibit and review it for Mr. Stogner.

14 A. This is the unit agreement. It's based on the
15 state fee form for an exploratory unit.

16 Q. And what is Yates Exhibit Number 2?

17 A. This is a plat map, it's Exhibit "A" to the unit
18 agreement. It shows that all of these are state leases,
19 and there are a total of ten State of New Mexico leases in
20 this proposed unit.

21 Q. Would you identify Exhibit Number 3?

22 A. This is the ownership breakdown, it's Exhibit "B"
23 to the unit agreement. Once again, it shows the ownership
24 of each lease in the unit area. It shows that these leases
25 are 100-percent Yates.

1 Q. And so 100 percent of Yates' working interest is
2 committed to the unit?

3 A. That is correct.

4 Q. There is under one tract, which is the west half
5 of Section 21, an overriding royalty interest held by
6 Christensen Petroleum. What is the status of that?

7 A. We've both sent a letter to Christensen Petroleum
8 asking if they wanted to participate in this unit, and
9 we've also verbally spoken to them several times. At the
10 current time they are uncommitted, although they're more
11 than welcome to join the unit.

12 Q. And they know that?

13 A. That's correct.

14 Q. And they recognize that -- and have had it
15 explained, that if they don't voluntarily commit their
16 royalty will be paid on a lease basis?

17 A. That is correct.

18 Q. For the west half of Section 21?

19 A. Correct.

20 Q. Is Exhibit --

21 EXAMINER STOGNER: Before you move on, if I
22 may --

23 MR. CARR: Yeah.

24 EXAMINER STOGNER: -- you said "we" have
25 notified. Who's "we"?

1 THE WITNESS: The land department at Yates
2 Petroleum, Rob Bullock.

3 Q. (By Mr. Carr) Mr. Amiet, is Exhibit 4 a copy of
4 a letter dated April 17th from Mr. Bullock to the
5 Christensen group?

6 A. Yes, it is.

7 Q. And it is Mr. Bullock who has subsequently been
8 in telephone communication with them?

9 A. That's correct.

10 Q. And the opportunity to commit this override is
11 still available to them, and you're waiting to hear from
12 them?

13 A. That is correct.

14 Q. The proposed unit area is 100-percent state land;
15 is that correct?

16 A. Correct.

17 Q. Has Yates reviewed this proposed unit with the
18 Commissioner of Public Lands?

19 A. Yes, we met with Mr. Martinez and Joe Mraz about
20 two and a half weeks ago. He's given his preliminary
21 approval. That's Yates Exhibit Number 5.

22 Q. In the proposed unit agreement, does Yates
23 Petroleum Corporation seek to be designated operator of the
24 unit and the wells drilled therein?

25 A. Yes.

1 Q. Would you identify what has been marked as Yates
2 Exhibit Number 6?

3 A. This is the AFE for the initial well. It shows a
4 dryhole cost of \$1,187,000 and a completed well cost of
5 \$1,783,500. Yates plans to spud the initial well before
6 May 1st, 2003, because there are two leases that expire on
7 that date.

8 Q. And the initial test well will be located in the
9 southeast quarter of Section 33; is that correct?

10 A. That is correct.

11 Q. Does the unit agreement provide for periodic
12 filing of plans of development?

13 A. Yes.

14 Q. And will these plans be filed with the Oil
15 Conservation Division at the same time they're filed with
16 the Commissioner of Public Lands?

17 A. Yes.

18 Q. How often are these plans to be filed?

19 A. According to Article 9, the initial plan will be
20 six months after completion of the first well. Subsequent
21 plans will be 12 months thereafter.

22 Q. And what horizons are being unitized in the
23 proposed Strait State Exploratory Unit?

24 A. All horizons are proposed to be unitized.

25 Q. And we discussed a minute ago the location of the

1 initial test well. What is the actual footage location for
2 that well?

3 A. Footage location would be 1980 feet from the
4 south line and 660 feet from the east line, Section 33,
5 Township 10 South, Range 34 East.

6 Q. And to what depth will the well be drilled?

7 A. 12,750 feet. This would be into the lower
8 Mississippian limestone.

9 Q. What is the primary objective in this unit?

10 A. Primary objectives will be the Atoka-Morrow
11 sands. This will be a wildcat well, and I'll cover some
12 more of this when we talk about the structure map.

13 Q. Basically what Yates is doing is trying to extend
14 the Atoka-Morrow production out of the south of an area
15 which there has been production in the past; is that right?

16 A. That is correct.

17 Q. Are there secondary objectives in this unit?

18 A. Yes, both the Wolfcamp and the upper
19 Pennsylvanian carbonates will be secondary objectives.

20 Q. Let's go to what has been marked Yates Exhibit
21 Number 7. Would you identify this for the Examiner and
22 review the information on this exhibit?

23 A. This is a structure map on top of the upper
24 Mississippian limestone. Yates calls this zone the Austin
25 limestone. The map was constructed both from seismic data

1 and well control information.

2 The bold red outline shows the proposed unit
3 outline. The Atoka-Morrow producers that we've referred
4 to, there are three of them shown with the solid purple
5 circles clear in the southern part of the map. These are
6 all Atoka-Morrow producers. The only Atoka-Morrow
7 penetration is shown with the open purple circle in the
8 east half of Section 28, or the only Atoka-Morrow
9 penetration within the unit area.

10 These potential channels that we're trying to
11 discover are shown in blue with the blue lines. The green
12 line is the cross-section A-A' that we'll talk about in a
13 minute.

14 These wells that -- all dry holes up to the
15 northwest, are upper Pennsylvanian, are Bough wells. They
16 were drilled in the mid- to late 1960s, and all of these
17 were abandoned by the mid-1970s. So currently within the
18 unit outline there are no producing wells, and there's only
19 been one Atoka-Morrow penetration.

20 Q. What we're really looking for are channel sands,
21 fairly limited in areal extent; is that right?

22 A. Yes, that's correct. These are fairly narrow
23 features. They're linear in nature. Once we get a
24 discovery well, we're going to just track this channel with
25 further wells to try to delineate these channel outlines.

1 Q. And what you're doing is really finding these
2 sort of subtle lows that you're able to identify now with
3 the seismic information that you have available to you; is
4 that correct?

5 A. That is correct, we have 3-D seismic over this
6 area, which we are using to try to discover these channels.

7 Q. Let's go to what has been marked as Yates Exhibit
8 Number 8, the cross-section, and review this exhibit for
9 Mr. Stogner.

10 Q. This is a structural cross-section, A-A' that we
11 referred to earlier. The sands are shown in yellow. The
12 solid blue is the upper Mississippian or Austin limestone.

13 We'll start with the well on the left. This was
14 a productive sand in the Morrow. The top of the Morrow is
15 shown with the purple line. This well has cum'd about
16 22,000 barrels of oil and 1.2 BCF, so this was an economic
17 well.

18 Coming over to the east, or to the right on the
19 cross-section, you have a location that we've identified
20 from the 3-D seismic. We think there's a potential low
21 area there and potential sand development.

22 The well in the middle hit some very thin shaly
23 sands. It was not productive.

24 And then the well on the far right side of the
25 cross-section was not productive in the Morrow-Austin. It

1 was productive uphole. The Morrow is thinner in this well,
2 and the Austin is thicker. We're looking for just the
3 opposite. We're looking for a thick Morrow and a thin
4 Austin limestone.

5 Q. Is Yates Exhibit Number 9 a written summary of
6 your geological presentation?

7 A. Yes, it is.

8 Q. Refer to this summary and summarize for Mr.
9 Stogner why it is that Yates is proposing to attempt to
10 develop this particular area under a unit plan?

11 A. These wells are expensive to drill. It's almost
12 \$1.8 million AFE cost for a completed well. These are
13 narrow, linear features, and if we drill a successful well
14 we're going to follow this channel until we hit a dry hole.
15 Thus the formation of this unit will result in a more
16 reasonable development of these reserves, as these channels
17 are followed.

18 This is a risky play. Just hitting a low doesn't
19 necessarily guarantee that you're going to hit a
20 prospective well. Once again, I might emphasize that no
21 wells have been drilled in this proposed unit outline since
22 1977, and there's been no production since the mid-1970s.

23 Q. Mr. Amiet, does Yates request that the order in
24 this be expedited to the extent possible?

25 A. Yes, we have two leases expiring on May 1st,

1 2003.

2 Q. Is Yates Exhibit Number 10 a proposed order in
3 this case?

4 A. That is correct.

5 Q. And this is based on the most recent order from
6 the Division approving a similar unit application for
7 Yates?

8 A. That is correct.

9 Q. And this Application has also been sent to the
10 Division by e-mail; is that right?

11 A. Correct.

12 Q. In your opinion, will approval of this
13 Application and the development of this acreage pursuant to
14 the proposed unit plan be in the best interest of
15 conservation, the prevention of waste and the protection of
16 correlative rights?

17 A. Yes.

18 Q. Were Yates Exhibits 1 through 10 prepared by you
19 or compiled at your direction?

20 A. Yes, they were.

21 MR. CARR: Mr. Stogner, at this time we'd move
22 the admission into evidence of Yates Petroleum Corporation
23 Exhibits 1 through 10.

24 EXAMINER STOGNER: Exhibits 1 through 10 will be
25 admitted into evidence at this time.

1 MR. CARR: And that concludes my direct
2 examination of Mr. Amiet.

3 EXAMINATION

4 BY EXAMINER STOGNER:

5 Q. Mr. Amiet, I'll now refer to -- well, either
6 Exhibit 7 or 8, and this is the wells drilled up in the
7 northern portion.

8 A. Yes.

9 Q. What was the nature of those wells? Did they
10 produce? Were they all dry holes?

11 A. No, there are some excellent wells. The best
12 well within the unit area made about 200,000 barrels of
13 oil, several hundred million cubic feet of gas. It also
14 made about a half a million barrels of water, and that's
15 the best well. Then of course there are some uneconomic
16 wells that were drilled up there too. This is kind of
17 right on the edge of the Bough development. It's called
18 the Vada field.

19 Q. The Vada. And that was the Bough C, Boughs --

20 A. Bough A through C, I think, produce in this area.

21 Q. And what system is that?

22 A. Well, that's upper Pennsylvanian or Cisco --

23 Q. Okay.

24 A. -- what I would call Cisco.

25 Q. When were those wells drilled, when were they

1 plugged out or completed?

2 A. Most of them started in the mid-1960s to late
3 1960s, and all of them were plugged by the middle of the
4 1970s. By 1975 they were all plugged. So it developed and
5 produced fairly quickly. It produced a lot of water, so
6 the wells watered out.

7 Q. And who was the main player up there? Was this
8 some Yates wells, or did --

9 A. Yates was not involved, I don't think, in any of
10 these wells. This was BTA, the old Sunray Company, Humble
11 had -- and Atlantic Richfield had several of these wells.
12 So there were a number of major and independents involved.

13 Q. Now, this Mr. Christensen that is the subject of
14 Exhibit Number 4, is he a -- has Yates had an other
15 dealings with him in any other properties?

16 A. Not to my knowledge. This is the first time I've
17 been involved with him. They're located in Midland, Texas,
18 I believe it is. We've had verbal communication with him
19 several times in the last two weeks.

20 Q. And that's a 7.8-percent override?

21 A. That's just in the west half of Section 21, so
22 320 acres. So he --

23 Q. Isn't that kind of high for a normal override?

24 A. That's what I was given by the land department.

25 EXAMINER STOGNER: Okay, any other questions of

1 this witness?

2 MR. CARR: No further questions.

3 EXAMINER STOGNER: At this time I'll take this
4 under advisement. I understand the expeditious nature of
5 this request, and thank you for preparing a rough draft.

6 MR. CARR: Thank you, sir.

7 EXAMINER STOGNER: And I will do what I can on my
8 part to submit this to the Director as early as possible.

9 MR. CARR: Thank you, we appreciate that.

10 EXAMINER STOGNER: This case will be taken under
11 advisement, that's 13,051.

12 (Thereupon, these proceedings were concluded at
13 8:57 a.m.)

14 * * *

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13051
24 April 2003
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 26th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006