

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 CASE 9835

5
6 EXAMINER HEARING

7
8 IN THE MATTER OF:

9
10 Application Grand Production Company
11 for Compulsory Pooling
12 Lea County, New Mexico

13
14
15 TRANSCRIPT OF PROCEEDINGS

16
17 BEFORE: MICHAEL E. STOGNER, EXAMINER

18
19 STATE LAND OFFICE BUILDING

20 SANTA FE, NEW MEXICO

21 November 29, 1989

22
23
24 **ORIGINAL**

A P P E A R A N C E S

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FOR THE DIVISION:

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	I N D E X	
		Page Number
1		
2		
3	Appearances	2
4	JOHN F. VAUGHN	
5	Direct Examination by Mr. Carr	4
6	Direct Examination by Hearing Examiner	17
7	Certificate of Reporter	20
8	E X H I B I T S	
9	GRAND PRODUCTION EXHIBITS:	
10	Exhibit 1	6
11	Exhibit 2	10
12	Exhibit 3	10
13	Exhibit 4	14
14		
15		
16		
17		
18		
19		
20		
21		
22		
23		
24		
25		

1 HEARING EXAMINER: Call this hearing to
2 order. We'll call the next case, No. 9835, which is
3 the the application of Grand Production Company for
4 compulsory pooling, Lea County, New Mexico. Call for
5 appearances.

6 MR. CARR: May it please the Examiner, my
7 name is William F. Carr with the law firm of Campbell
8 & Black P.A., of Santa Fe. We represent Grand
9 Production Company, and I have one witness.

10 HEARING EXAMINER: Are there any other
11 appearances in this matter?

12 Will the witness please stand to be sworn,
13 and raise your right hand.

14 JOHN F. VAUGHN
15 Called as a witness herein, after having been first
16 duly sworn upon his oath, testified as follows:

17 EXAMINATION

18 BY MR. CARR:

19 Q. Will you state your full name for the
20 record, please.

21 A. John F. Vaughn.

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

23 A. Edmond, Oklahoma.

24 Q. By whom are you employed and in what
25 capacity?

1 A. I'm land manager for Grand Production
2 Company.

3 Q. Have you previously testified before the
4 Oil Conservation Division?

5 A. No.

6 Q. Would you summarize for Mr. Stogner your
7 educational background, and then review your work
8 experience.

9 A. I received a Bachelor of Business
10 Administration from the University of Oklahoma with a
11 major in petroleum land management.

12 I also received a Master's of Business
13 Administration from the University of Oklahoma.

14 I have been employed as a landman since
15 1980. I have been to various--several different
16 companies. I have been land manager for Grand since
17 1987.

18 Q. Does your area of responsibility include
19 that portion of southeastern New Mexico which is
20 involved in this case?

21 A. Yes.

22 Q. Are you familiar with the application filed
23 in this case on behalf of Grand Production Company?

24 A. Yes.

25 Q. You're familiar with the subject area?

1 A. Yes.

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

4 HEARING EXAMINER: They are.

5 Q. Would you briefly state what Grand
6 Production Company seeks with this application.

7 A. We seek an order pooling all minimal
8 interests from the surface to the base of the Atoka
9 Formation underlying the east half, southeast, of
10 Section 10, Township 17 South, Range 37 East, Lea
11 County, New Mexico.

12 Q. Have you prepared certain exhibits for
13 presentation today?

14 A. Yes.

15 Q. Would you refer to what has been marked for
16 identification as Grand Production Exhibit 1.
17 Identify this and review the information that is
18 contained on this exhibit.

19 A. This is a map of a four-section area,
20 including Sections 10, 11, 14 and 15 of 17 South, 37
21 East, Lea County, New Mexico.

22 On the map, every well that has been
23 drilled in those four sections has been identified on
24 the map. Producing wells are color-coded by the type
25 of production they are currently producing at or were

1 last producing at at the time that they were plugged
2 and abandoned.

3 Plugged producing wells are identified by a
4 slash, and the dry holes are identified by the normal
5 dry-hole symbol.

6 Q. Now, the area that is shaded on this
7 exhibit is the spacing unit that you propose to
8 dedicate to this well, is that correct?

9 A. That is correct, and our proposed well is
10 identified in the southeast to the southeast quarter
11 of Section 10 by the small circle.

12 Q. What is the primary objective in the
13 proposed well?

14 A. The Strawn Formation.

15 Q. If you could, Mr. Vaughn, I'd like you to
16 start with the well due east of the proposed location
17 and would you go around each of the wells that
18 surround the proposed location and identify what zone
19 they were completed in or completion was attempted in,
20 and advise Mr. Stogner as to the current status of
21 each of those wells in the Strawn formation.

22 A. The well immediately to the east was
23 drilled by Sohio, now BP Exploration. It was plugged
24 and abandoned in March of 1988, and it was drilled as
25 a Strawn test and it was plugged after logging.

1 Q. Was it dry in the Strawn?

2 A. Yes.

3 Q. Let's go south of there.

4 A. South of there are two wells. The well to
5 the northwest was drilled first. It was drilled in
6 1974. It was a Strawn test. It was plugged and
7 abandoned after mechanical failures in the hole. It
8 was drilled by Harding Oil Company.

9 Several years later Harding attempted a
10 sidetrack of that hole. Again, it was a Strawn test.
11 It was plugged in March of 1978. It was drilled
12 through the Strawn but was deemed to be not worthy of
13 a completion.

14 Immediately south of our proposed well was
15 a well drilled by Mesa. It was drilled to the Strawn
16 formation. It was plugged and abandoned in May of
17 1974. Again there it was drilled and logged and not
18 completed.

19 To the southwest, a well was drilled to the
20 Strawn formation. It was, actually, completed in the
21 Strawn formation. However, the production obtained
22 after the completion was deemed non-commercial by the
23 operator and in November of 1986 it was plugged and
24 abandoned.

25 The well immediately to the west was

1 drilled. It was a Strawn producing well. It was
2 plugged and abandoned in 1975.

3 The well to the northwest is shown on this
4 as being an Abo producer. It was drilled to the
5 Strawn formation and did produce for some time from
6 the Strawn formation but was later plugged back, and
7 is now just producing out of the Abo formation.

8 Immediately north of our proposed
9 location--

10 Q. And this is on this same proration unit
11 that you plan to dedicate to this well, is that right?

12 A. That is correct. There was a well that was
13 a Strawn producing well. It was plugged and abandoned
14 in 1976.

15 Q. What about the well off to the northeast of
16 the proposed location, the orange circle with the
17 slash?

18 A. Okay. That was a well drilled by Mesa
19 Petroleum. It did penetrate the Strawn formation;
20 however, no completion was attempted. It was an Abo
21 producer but has now been plugged and abandoned.

22 Q. The proposed location is offset directly
23 and diagonally by eight wells that either were dry in
24 the Strawn or have been plugged and abandoned in the
25 Strawn, is that correct?

1 A. That's correct.

2 Q. Do the exhibits that you've presented
3 contain an ownership breakdown in the proposed spacing
4 and proration unit?

5 A. Yes. On Exhibit 2, pages 2 and 3, there is
6 a description of the unit ownership. Grand Production
7 Company is shown on this exhibit as owning an 80.5
8 percent working interest. The remaining interest
9 owners were assignees of a company that drilled a well
10 here several years ago. They all owned fairly small
11 interests.

12 Since this has been compiled, we have been
13 continually trying to make contacts with as many of
14 these as we could locate and have come to arrangements
15 with some of them to acquire their interest.

16 Q. All right. We'll come back to that. Would
17 you identify what has been marked as Grand Production
18 Exhibit No. 3, please.

19 A. That's our AFE for the drilling of this
20 well.

21 Q. Could you review the totals of both dry
22 hole and completed well costs?

23 A. Estimated dry-hole costs of \$385,800;
24 estimated completed-for-production well of \$650,640.

25 Q. Are these costs in line with what has been

1 charged by other operators in this area for similar
2 wells?

3 A. Yes. In fact, we have reviewed AFE's from
4 other companies, and primarily from BP Exploration,
5 who we acquired our interest in this unit and several
6 other units in this area, and our AFE's are lower than
7 what they had AFE'd these wells for.

8 Q. When was this interest acquired from BP?

9 A. In September of 1989.

10 Q. What are the drilling requirements that are
11 imposed on Grand Production Company, as part of this
12 acquisition of interest?

13 A. It was a multi-unit farmout agreement
14 covering several units in this general area, and the
15 farmout requires that Grand commence at least two of
16 the wells prior to December 31, 1989.

17 Q. Is this one of the wells you hope to at
18 least spud by that time?

19 A. Yes, it is.

20 Q. Would you review for Mr. Stogner the
21 efforts you have made to locate those interest owners
22 who are subject to this pooling case today?

23 A. When we executed the farmout agreement with
24 BP, they provided us with copies of what they felt
25 were pertinent portions of their land files, their

1 ownership reports and other data.

2 At that time I reviewed all the data,
3 requested additional information from the landman in
4 charge of this prospect at BP. I made a personal
5 examination of the records in Lea County, New Mexico.
6 I have contacted the company--as I mentioned
7 previously, all of these interest owners, except for
8 Grand, were assignees of Harding Oil Company. Each of
9 the parties received their interest on one assignment
10 that is of record in Lea County.

11 I contacted Harding Oil to obtain updated
12 addresses on all these individuals. I, through my
13 discoveries, I've also, when I talked to parties who
14 were owners, I asked them for addresses and then
15 located owners at that point. I was successful in
16 getting several of them at that time.

17 I've also been in contact with an
18 ex-employee of Harding Oil that now has his own oil
19 company and deals on a day-to-day basis with several
20 of these parties, and he was able to supply some
21 additional addresses, also.

22 Q. Is the first page of Exhibit No. 2 the
23 letter that Grand Production sent to each of the
24 owners that you were able to locate?

25 A. Yes, it is.

1 Q. Have you been in contact with any of these
2 owners since that time?

3 A. Yes, I have.

4 Q. What has been the result of the subsequent
5 contacts?

6 A. In a general statement, none of the parties
7 have indicated any real interest in participating in
8 the well. All their interests are relatively small.
9 They are not active oil companies or active--in other
10 words, they were generally passive investors and, for
11 the most part, each individual has either assigned his
12 interest to Grand for cash or in reservation of the
13 override.

14 Q. Have you been able to acquire interest by
15 some of these individuals by assignment of your recent
16 contacts?

17 A. Yes.

18 Q. Can you identify those individuals for the
19 Examiner?

20 A. Yes. On the second page, Ronald Stepanek,
21 we have received an executed assignment. There are
22 two other parties that we have verbally agreed on
23 terms and we've sent them assignments for their
24 execution, those parties being Eugene Fresch and the
25 Estate of Walton E. Frederick.

1 I've also been in contact with H. J.
2 Zeigenthaler, and also with a party who represented to
3 me that he, more or less, acted as his advisor, and he
4 advised him not to participate in the well and to sell
5 his interest to us.

6 Q. At the present time, though, the only
7 additional interest you have in hand is Ronald E.
8 Stepanek, is that correct?

9 A. That's correct.

10 Q. At this time Grand Production Company
11 represents--

12 A. 81.25 percent.

13 Q. On the last page of Exhibit 2 there's some
14 owners that are listed as unlocatable. In your
15 opinion, have you made a good-faith effort to locate
16 each of these individuals and provide them with notice
17 of this hearing, and attempted to bring them in
18 voluntarily?

19 A. Yes.

20 Q. Could you identify what has been marked as
21 Exhibit No. 4.

22 A. That is an affidavit executed by yourself,
23 indicating that each of the respondents has been
24 notified for this hearing.

25 Q. Attached to this, are there copies of

1 notice letters and return receipts?

2 A. Yes.

3 Q. Does Grand Production request that a
4 penalty be assessed against any non-consenting
5 interest owner in this project?

6 A. Yes, we do. We recommend a 200-percent
7 penalty, based on the fact that Exhibit 1 has shown
8 that the well is virtually surrounded by either dry
9 holes or no longer producing Strawn wells.

10 Q. Is it your hope to be able to complete in
11 the same interval as the offsetting wells that have
12 produced?

13 A. Yes, but it's also Grand's belief that
14 there may be a lower bank to the Strawn that might be
15 productive at that location.

16 Q. Do you believe there's a chance that you
17 could drill a well at the proposed location that would
18 not be a commercial success?

19 A. Yes, there's that potential.

20 Q. Have you made an estimation of overhead and
21 administrative costs and also producing it, if it's
22 successful?

23 A. Yes. We recommend an overhead rate of
24 \$5,000 a month while drilling and \$500 a month for
25 producing the well.

1 Q. Do you recommend these charges be
2 incorporated into any order which results from this
3 hearing?

4 A. Yes.

5 Q. Are these figures in line with what is
6 being charged by other operators in the immediate
7 area?

8 A. Yes, they are.

9 Q. Does Grand Production Company seek to be
10 designated as operator of the proposed well?

11 A. Yes.

12 Q. Will granting this application be in the
13 best interest of conservation, the prevention of waste
14 and the protection of correlative rights?

15 A. Yes.

16 Q. Does Grand request that, to the extent
17 possible, the order in this matter be expedited?

18 A. Yes.

19 Q. Were Exhibits 1 through 4 either prepared
20 by you or compiled under your direction and
21 supervision?

22 A. Yes.

23 MR. CARR: At this time, Mr. Stogner, we
24 would move the admission of Grand Production Company
25 Exhibits 1 through 4.

1 HEARING EXAMINER: Exhibits 1 through 4
2 will be admitted into evidence.

3 MR. CARR: That concludes my direct
4 examination of Mr. Vaughn.

5 EXAMINATION

6 BY MR. STOGNER:

7 Q. On Exhibit 1, you were, essentially,
8 surrounded by dry holes in this Strawn, is that
9 correct?

10 A. That's correct.

11 Q. And Exhibit No. 3, that is your AFE, and
12 this well will be drilled to 11,600 feet?

13 A. Yes, sir.

14 Q. At a standard location for this pool, is
15 that correct?

16 A. Yes.

17 Q. And Exhibit 2, was this the initial contact
18 with all these parties?

19 A. Yes.

20 Q. When did Grand Production Company take over
21 the VHP interest?

22 A. It's BP interest.

23 Q. I'm sorry, BP interest.

24 A. The farmout was executed September 25,
25 1989. It took some time to get the files and the

1 necessary information from BP. I made a trip to
2 Lovington to make an update of their ownerships, and
3 that's the reason for the time between the time the
4 farmout was executed and when our proposal letter went
5 out.

6 Q. So between September 25, 1989, and November
7 1, you were going through the Lea County records?

8 A. Yes.

9 Q. You probably had not gotten all of BP's
10 paperwork?

11 A. Well, what they sent us was what they
12 thought was relevant at that point. After my trip to
13 Lovington and my contact with some of the other
14 interest owners in there, I made further requests for
15 information from them.

16 Q. When does this lease run out?

17 A. The farmout, there's no lease expiration.
18 The farmout provides that we commence two wells on the
19 farmout area by December 31, 1989.

20 Q. When do you propose to spud a well out
21 here?

22 A. We anticipate spudding it prior to December
23 31st.

24 Q. Has Grand got a rig lined out and ready to
25 go?

1 A. Our engineer has contacted several drilling
2 contractors in the area and is currently working
3 towards that end, yes.

4 Q. So you all haven't even taken bids yet on a
5 drilling rig?

6 A. Not specific bids, no.

7 Q. Let me reask this question: When will
8 Grand Production Company be ready to spud a well out
9 here?

10 A. Well, primarily the delay has been the land
11 function and that is getting it in a manner ready to
12 go. Our engineer is in Hobbs and Lovington this week
13 negotiating and contacting various service companies
14 and drilling contractors, and we're doing everything
15 possible to get a rig on there by the end of the
16 year.

17 HEARING EXAMINER: I have no other
18 questions of this witness at this time. Do you have
19 anything else, Mr. Carr?

20 MR. CARR: Nothing further, Mr. Stogner.

21 HEARING EXAMINER: Does anybody else have
22 anything further in Case 9835? This case will be
23 taken under advisement.

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Carla Diane Rodriguez Certified
Shorthand Reporter and Notary Public, HEREBY CERTIFY
that the foregoing transcript of proceedings before
the Oil Conservation Division was reported by me; that
I caused my notes to be transcribed under my personal
supervision; 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 December 11, 1989.

Carla Diane Rodriguez
CARLA DIANE RODRIGUEZ
CSR No. 91

My commission expires: May 25, 1991

Michael R. Steyer, Executive
Oil Conservation Division
the court proceedings of Santa Fe, CSR No. 9835,
heard by me on 29 December 1989.