

Case Number

4766

Application

Transcripts

Small Exhibits

ETC.

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
CONFERENCE ROOM, STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO

November 21, 1972

DE NOVO HEARING

IN THE MATTER OF:

Application of Black River  
Corporation for a non-standard  
gas unit, Eddy County, New Mexico.

Case No. 4771

IN THE MATTER OF:

Application of Black River  
Corporation for compulsory pooling,  
Eddy County, New Mexico.

Case No. 4772

IN THE MATTER OF:

Application of Michael P. Grace and  
Corinne Grace for compulsory pooling  
and a non-standard unit, Eddy  
County, New Mexico.

Case No. 4766

BEFORE: State Geologist, A. L. Porter, Jr.,  
Secretary-Director

Land Commissioner, Alex Armijo,  
Member

TRANSCRIPT OF HEARING

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1215 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1002, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 MR. PORTER: Before we get into the Rutter and  
2 Wilbanks cases, which are Cases 4763, 4764, and 4765,  
3 perhaps we should determine what disposition we should make  
4 of Cases 4771, 4772, and 4766.

5 Mr. Cooley, three of these applications were  
6 De Novo by Michael P. Grace and Corinne Grace.

7 MR. COOLEY: Mr. Commissioner, time and dryholes  
8 seem to have resolved the differences that existed between  
9 the contesting parties in those cases. It has been  
10 informally understood between the parties that should Mr.  
11 Grace, after reviewing further the geology of the area,  
12 desires to drill a well in the west half of Section 4,  
13 Black River Corporation still holds the lease interests  
14 and will farm out those interests to Mr. Grace.

15 MR. HINKLE: That's correct.

16 MR. PORTER: So that could be worked out by a  
17 voluntary agreement?

18 MR. COOLEY: Yes, sir. At this time, we ask that  
19 the request for De Novo hearings in those cases be dismissed.

20 MR. PORTER: Cases 4771, 4772, and 4766, if there  
21 is no objection, will be dismissed.

22 (No response)

23 MR. PORTER: Cases 4771, 4772, and 4766 will be  
24 dismissed.  
25

1 STATE OF NEW MEXICO )  
 2 COUNTY OF BERNALILLO } SS

3  
 4 I, RICHARD E. McCORMICK, a Certified Shorthand  
 5 Reporter, in and for the County of Bernalillo, State of  
 6 New Mexico, do hereby certify that the foregoing and attached  
 7 Transcript of Hearing before the New Mexico Oil Conservation  
 8 Commission was reported by me; and that the same is a true  
 9 and correct record of the said proceedings to the best of  
 10 my knowledge, skill and ability.

11  
 12 Richard E. McCormick  
 13 CERTIFIED SHORTHAND REPORTER  
 14  
 15  
 16  
 17  
 18  
 19  
 20  
 21  
 22  
 23  
 24  
 25

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
 1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
CONFERENCE HALL, STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
August 9, 1972

## EXAMINER HEARING

## IN THE MATTER OF:

Application of Black River Corporation  
for a non-standard gas unit, Eddy  
County, New Mexico.

CASE NO. 4771

a n d

Application of Black River Corporation  
for compulsory pooling, Eddy County,  
New Mexico.

CASE NO. 4772

a n d

Application of Michael P. Grace and  
Corinne Grace for compulsory pooling  
and a non-standard proration unit,  
Eddy County, New Mexico.

CASE NO. 4766

BEFORE: Daniel S. Nutter  
Examiner

TRANSCRIPT OF HEARING

dearnley, meier &amp; mc cormick

209 SIMMS BLDG. • P.O. BOX 1002 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

dearnley, meier & mc cormick is a law firm

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87106

1 MR. NUTTER: The next case we will call will  
2 be consolidated Cases 4771, 4772 and 4766. We have already  
3 heard the testimony in Cases 4771 and 4772 presented by  
4 Black River Corporation, I believe it is. I call for  
5 appearances now at this time in the three consolidated cases.

6 MR. COOLEY: William J. Cooley of Burr and Cooley,  
7 Farmington, New Mexico, appearing on behalf of the Applicant  
8 Mr. and Mrs. Grace in Case Number 4766.

9 MR. HINKLE: Clarence Hinkle of Hinkle, Bondurant,  
10 Cox & Eaton appearing on behalf of Black River Corporation.

11 MR. NUTTER: Did you want to present any further  
12 testimony or evidence?

13 MR. HINKLE: I don't know. After we hear their  
14 testimony, we might.

15 MR. NUTTER: Are you ready to proceed with your  
16 portion of the case, Mr. Cooley?

17 MR. COOLEY: We have one witness, Mr. Steinhorst.

18 RICHARD STEINHORST,  
19 having already been duly sworn according to law, testified as  
20 follows:

21 DIRECT EXAMINATION

22 BY MR. COOLEY:

23 Q State you full name for the record, please, and  
24 spelling thereof?

25 A Richard Steinhorst, S-t-e-i-n-h-o-r-s-t.

dearnley, meier & mc cormick

206 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 Q Mr. Steinhorst, how are you employed and where do you  
2 reside?
- 3 A I reside in LaFayette, Louisiana, and I'm employed  
4 as consultant petroleum engineer by the Grace interests.
- 5 Q Mr. Steinhorst, have you particularly been retained by  
6 Mr. and Mrs. Grace with respect to their interests in  
7 the Washington Ranch Morrow area in Eddy County, New  
8 Mexico?
- 9 A I have been.
- 10 Q And are you aware that the Graces own an interest on  
11 the leasehold interest in the best half of Section 4?
- 12 A I do.
- 13 Q What is that interest?
- 14 A It's the NW of the NW of Section 4, which is better  
15 than 40 acres.
- 16 Q Are you familiar with the leasehold ownership and the  
17 balance of that half Section?
- 18 A I believe I am, yes.
- 19 Q And is it correct that the balance of the Section is  
20 operated by Black River Corporation as working in or  
21 operated for the various companies?
- 22 A That's my understanding.
- 23 Q And with respect to royalty ownership, the Grace  
24 lease is a State of New Mexico lease, is it not?
- 25 A That's correct.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-3691, ALBUQUERQUE, NEW MEXICO 87109  
1210 FIRST NATIONAL BANK BLDG., EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 Q And all of the Black River leases are federal oil and  
2 gas leases with the exception of the SE of the SW, is  
3 that correct?
- 4 A That's correct.
- 5 Q Are you familiar, generally speaking, with the producing  
6 characteristics of the Morrow sand in Eddy County,  
7 New Mexico?
- 8 A I am.
- 9 Q Is there any particular characteristic of the Morrow  
10 sand with respect to the effect thereon by any type  
11 of fluids?
- 12 A Yes, the Morrow is very sensitive to any fluids, foreign  
13 fluids particularly.
- 14 Q What deleterious effect do those fluids have on the  
15 formation?
- 16 A It has a swelling effect on the Bentonite which tends  
17 to eliminate or reduce and almost eliminate the  
18 permeability of the formation.
- 19 Q Now, is there a varying degree of sensitivity to  
20 given liquids, in your opinion?
- 21 A Yes, there is.
- 22 Q What is the most damaging, in your opinion?
- 23 A Probably a dirty fresh water would be the most  
24 damaging. The least damaging would probably be properly  
25 treated and prepared potassium chloride water.



dearnley, meier &amp; mc cormick

209 SIMMS BLDG. P.O. BOX 1092, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 Q Of your own personal knowledge, have Mr. and Mrs. Grace  
2 had any experience with respect to drilling and  
3 producing from the Morrow sand in Eddy County, New  
4 Mexico?

5 A Yes, they have.

6 Q Would you describe that experience, please?

7 A Well, they've drilled wells up in the South Carlsbad  
8 area and Mr. Grace has been very curious about what has  
9 transpired in the Morrow in the area, and in the general  
10 area, and what effects different methods of completion,  
11 different fluids that have been used in the process of  
12 drilling the wells. And he's worked very hard and  
13 very diligently to develop fluids which would minimize  
14 the deleterious effect of fluids on the Morrow  
15 formation.

16 Q Mr. Grace has not drilled any wells in the Washington  
17 Ranch Morrow gas pool, has he, to this date?

18 A Not at this time.

19 Q But he has drilled Morrow wells in the South Carlsbad  
20 area?

21 A That's correct.

22 Q Now, in your opinion, is there any particular difference  
23 between the Morrow formation in those two areas in  
24 the way it should be handled, drilled or otherwise?

25 A Not any material difference. Morrow is Morrow,

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG., EAST, ALBUQUERQUE, NEW MEXICO 87108

1 Q Now, with respect to the Morrow formation, what  
2 particular processes has Mr. Grace developed and  
3 utilized in drilling and producing the Morrow wells  
4 that he has drilled?

5 A Well, he's paid very strict attention to the character  
6 of the fluids that have been used in the drilling of  
7 the Morrow section and he's been rather successful in  
8 the last two or three wells he's drilled in that  
9 formation. In the process of completing, he's tried  
10 to dry the formation up as much as possible and give  
11 it the best chance to produce.

12 Q What particular fluids has Mr. Grace utilized in these  
13 wells?

14 A He's used a brine, mud if you want to call it that which  
15 is basically potassium chloride, and other chemicals  
16 which don't have too much effect on Morrow formation  
17 and which give them a fairly clean completion.

18 Q In your opinion, does use of the brine mud as opposed  
19 to the fresh water mud that is utilized by Black River,  
20 is there any difference?

21 A I think so, yes.

22 Q Would you describe that difference, please?

23 A Well, I think the brine has, in the P.H. that has  
24 been used, the brine fluids have minimized the  
25 swelling effects and it has also lent itself to making

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1392, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87103

- 1 it easier to dry the formation and clean it up faster.
- 2 Q Well, now, you mentioned P.H., Mr. Steinhorst. First
- 3 of all, what is it, and then, what bearing does it have
- 4 upon damage to the formation?
- 5 A Well, your P.H. is a measurer of acids, or alkalinity
- 6 of fluids, or of anything as far as that's concerned.
- 7 And it seems like that if you get too acidy a P.H.
- 8 or you let your P.H. stray too far from slightly
- 9 alkaline, why you get an adverse effect in your fluids
- 10 which reacts some way with the Morrow.
- 11 Q Then, by adjusting the P.H. to a slightly alkaline
- 12 consistency, in your opinion, you have the least possible
- 13 damage to the Morrow formation?
- 14 A Well, they've been very careful recently in controlling
- 15 the P.H. and it seems to have had a very beneficial
- 16 effect on the results of the well.
- 17 Q Now, this is the P.H. of your mud that you are using,
- 18 is that correct?
- 19 A Right.
- 20 Q And does Mr. Grace direct that this be continually
- 21 tested?
- 22 A Yes.
- 23 Q Is that constant?
- 24 A This is very, very -- he keeps right on top of it.
- 25 Q Now, what experience has Mr. Grace had with respect to

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 the type of perforating equipment that the Black  
2 River witnesses have testified that they used?

3 A Well, he used this quite some time ago.

4 Q What equipment is this, to begin with?

5 A I believe it's called the Vangun and it's run on the  
6 tubing and detonated by means of dropping a bar and --

7 Q Is it left in a hole?

8 A It's left in the hole and when the gun goes off, why,  
9 then the formation can enter the tubing and the tubing  
10 is run dry so that you've got maximum differential  
11 across the threshold of the formation to help clean  
12 it out and help clear any water or any foreign material  
13 out of it. He has used this in the past.

14 Q What experience has he had with respect to this  
15 particular mechanism?

16 A Well, the experience has not been too good. First of  
17 all, the gun doesn't always go off and had to be pulled  
18 back out of the hole two or three times. Then, secondly,  
19 is the fact that even though it partially went  
20 off, it never completely went off, and the  
21 third thing is the fact that it is somewhat difficult  
22 to exactly space this gun across the producing  
23 intervals.

24 Q Well, in order to determine whether this Vangun  
25 operated as designed, it's necessary to pull the tubing,

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87106

1 is it not?

2 A That's the only final criteria as to whether it's  
3 really worked or not.

4 Q And, in your opinion, it can act in varying degrees  
5 of accuracy?

6 A Right, it is not a positive tool.

7 Q Do you recommend it's use?

8 A In the proper places, yes.

9 Q Would you recommend its use in the drilling of the  
10 well proposed to be drilled by Mr. Grace in the W/2  
11 of Section 4?

12 A Possibly.

13 Q Has Mr. Grace used alternative methods of perforating  
14 tubes that you feel are equal to or superior to the  
15 Vangun?

16 A Yes.

17 Q Would you describe those, please?

18 A Well, what Mr. Grace has done is completely void the  
19 hole of fluids and gone in with conventional perforating  
20 equipment and perforated with the maximum differential  
21 and had very good success in getting his Morrow wells  
22 to produce well and clean up quickly.

23 Q Now, have any particular methods been utilized by  
24 Mr. Grace in order to dry out the Morrow formation  
25 from whatever wetness is caused by the brine mud?

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6091, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

- 1 A Well, yes. That was his completion process. He  
2 has voided by the use of oxygen, all of the fluid that  
3 can be blown out of the well in the region, so you  
4 had no fluid in the well except what was behind the  
5 pipe.
- 6 Q In other words, the use of oxygen to blow out the  
7 fluid has a good effect?
- 8 A The result has been that it indicates a very good  
9 method of completing Morrow wells.
- 10 Q Realizing that every location is not identical and  
11 cannot be tested one against the other, but is there  
12 any comparison that you can draw between the success  
13 of the wells that Mr. Grace has drilled and with the  
14 methods that you have just described as to those of  
15 his offset operators in the South Carlshad area?
- 16 A Well, I think probably going into Mr. Grace's wells  
17 themselves, his early wells, he had considerable  
18 difficulty with. In the latter wells, which he has  
19 used this current method on, they have been better wells  
20 in that they've shown better than his first completions.  
21 And he developed this as a result of some of the  
22 problems that these first completions had.
- 23 Q As a Morrow operator, he learned from experience?
- 24 A That's correct.
- 25 Q Do you have personal knowledge as to whether Mr. Grace

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 made requests for voluntary communitization or  
2 pooling of the W/2 of Section 4?

3 A Yes.

4 Q I hand you a telegram, or a configuration of a  
5 telegram made June 26, 1972, and ask you if that is  
6 the notice to which you refer?

7 A That is the notice to which I refer.

8 Q Now, would you read that, please?

9 A This is to Black River Corporation, Commercial Bank  
10 Tower, Midland, Texas. "You are hereby requested to  
11 join voluntary communitization of the following areas  
12 in Township 26 South, Range 24 East, adjacent to or in  
13 the Washington Ranch Morrow Gas Pool in Eddy County,  
14 specific to this case: The W/2 of Section 4 for a  
15 well to be drilled 1,980 from the north line and  
16 660 feet from the east line, the above reference well  
17 to be built sufficient to test the Morrow formation."  
18 Signed: Michael P. Grace.

19 Q Was a similar telegram also sent to Arapaho?

20 A It was.

21 Q And the State of New Mexico and the United States  
22 Geological Survey have both indicated that they  
23 approved communitization of this area in the event the  
24 Oil Conservation Commission forced pools in the W/2  
25 of the pool; have they not?

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1082, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 A That's my understanding.
- 2 Q Did you receive any response at all, or did Mr. Grace
- 3 receive any response at all, to the telegram that was
- 4 sent?
- 5 A The only response he was sent was from Black River
- 6 Corporation. However, he said that they also wish to
- 7 be the unit operator.
- 8 Q In the event the Oil Commission selects Mr. and Mrs.
- 9 Grace as the operator of that well, do you have any
- 10 knowledge as to whether they are ready to immediately
- 11 proceed in the drilling of the well on that acreage?
- 12 A I believe that they would already be drilling if they
- 13 could.
- 14 Q Then, it is your understanding that they would
- 15 immediately be ready to drill a well?
- 16 A That's correct.
- 17 Q Upon authority to do so?
- 18 A That's correct.
- 19 Q What is your opinion with respect to the probability
- 20 of the W/2 of 4 being commercially productive?
- 21 A I believe that there is enough evidence in the field
- 22 to indicate that a well at this particular location
- 23 will probably be commercially productive.
- 24 Q In both the upper and the lower zones, or do you
- 25 have any opinion as to the lower zone?



dearnley, meier & mc cormick

209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

- 1 A Now, looking at the logs, I'd say both the upper and  
2 lower. I'd say the lower is subject to argument, but  
3 I'd say that there's a good possibility that both  
4 are productive.
- 5 Q Then, I take it you do not consider this to be a  
6 maximum risk well?
- 7 A No.
- 8 Q In view of this, do you have any recommendation as to  
9 what risk factor the Oil Commission should apply in  
10 the event any of the parties do not desire to participate  
11 in the drilling of the well?
- 12 A I would say 30 percent.
- 13 Q Is it your opinion that the W/2 of Section 4 should  
14 definitely be pooled in order to prevent waste and  
15 protect correlative rights?
- 16 A It is.
- 17 Q Then, in summation, the only real conflict in this  
18 and the consolidated cases is the question as to who  
19 should be the operator, is that correct?
- 20 A In my opinion, yes.
- 21 Q In your opinion, is Mr. Grace equally, if not better,  
22 qualified to drill the proposed well?
- 23 A Certainly equally qualified.
- 24 Q Even over the other applicant?
- 25 A Certainly equally qualified.

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-0091, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

- 1 Q Have you prepared an estimate of the cost of the well  
2 proposed to be drilled in the W/2 of Section 4 in the  
3 event Mr. Grace is designated as the operator?  
4 A I have.  
5 Q I hand you what's been marked as Exhibit 1 and ask  
6 you if that's your cost estimate to which you refer?  
7 A It is.  
8 Q Would you explain it briefly without going into detail?  
9 A Well, it's an estimate of the cost of drilling the  
10 well, and this well would be a little bit deeper than  
11 the other wells, and in that, the costs have been set  
12 out. Therefore, these costs are a little bit greater.  
13 It also sets out the additional cost in the event that  
14 a dual completion is made.  
15 Q Are you talking about what type of dual completion?  
16 A This would be in the way it's set up. This is set up  
17 to be a two tubing string dual.  
18 Q Between what formations?  
19 A The upper and the lower Morrow.  
20 Q Assuming that this Commission should, at some later  
21 date, separate those two zones?  
22 A That's correct.  
23 Q And make them into two separate pools?  
24 A That's correct.  
25 Q Is there any difference of depth of the proposed well

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 as opposed to the depth of the wells drilled in, say,  
2 the E/2 of 4 and the W/2 of 3?  
3 A Yes, it would be deeper.  
4 Q How much deeper?  
5 A Some two to three hundred feet.  
6 Q Approximately how much additional cost do you feel it  
7 would result as between the other wells and this well,  
8 as a result of the additional depth?  
9 A I would say six to eight thousand dollars, assuming  
10 completion on a single completion.  
11 Q That chart was prepared by you, was it not?  
12 A Yes, sir.  
13 MR. COOLEY: Mr. Examiner, we offer into evidence  
14 Exhibit Number 1 in Case 4766.  
15 MR. NUTTER: Exhibit Number 1 in Case 4766 will  
16 be admitted in evidence.  
17 (Whereupon, Applicant's Exhibit Number 1 was  
18 marked and entered into evidence.)  
19 MR. COOLEY: There are no further questions on  
20 Direct, Mr. Examiner.  
21 \* \* \* \* \*  
22 CROSS-EXAMINATION  
23 BY MR. NUTTER:  
24 Q Mr. Steinhorst, in the telegram that you read, what  
25 was the location of the well?

dearnley, meier & mc cornick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 A 1980 feet from the north line and 660 feet from the  
2 east line.

3 Q I thought you said east, and I believe it would have  
4 to be the west line, so that's probably an error.  
5 We're talking about the W/2.

6 A Well, this is the way the telegram read.

7 Q But they are talking about a --

8 A Well, I see what you are talking about, the W/2 of  
9 Section 4, so it's the east line of the W/2.

10 MR. COOLEY: In other words, when this thing  
11 was written, we were talking about the W/2 of Section 4.

12 MR. NUTTER: Are there any questions of  
13 Mr. Steinhorst?

14 MR. HINKLE: I have a few, I think.

15 \* \* \* \* \*

16 CROSS-EXAMINATION

17 BY MR. HINKLE:

18 Q Do the Graces have a field office in the Washington  
19 Ranch area?

20 A No, they have a field office in the Carlsbad area.

21 Q How far is it down there?

22 A About 16 miles.

23 Q How much?

24 A 16 to 25 miles.

25 Q I don't know whether this has any connection or not,

dearnley, meier & mc cormick recording services, inc.

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6661, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

- 1 but in previous cases, I think, you testified as to  
2 the kind of organization that Mrs. Grace has.  
3 A That's correct.  
4 Q No, it's not clear to me whether this Application is  
5 for both of the Graces, Mr. & Mrs. Grace, to be the  
6 operator, or whether it's for Mr. Grace or Mrs. Grace.  
7 Who is to be the operator?  
8 A I understand it to be Mrs. Grace.  
9 Q Mrs. Grace?  
10 A Well, they are co-operators. It's just a matter of  
11 who is designated.  
12 Q Well, is the Application filed by Mrs. Grace or by  
13 both of them?  
14 A It was filed by both of them.  
15 MR. COOLEY: Case 4766 is the Application of  
16 Michael P. Grace and Corinne Grace for --  
17 MR. PORTER: I think that Mr. Hinkle is asking  
18 for a copy of the Application itself.  
19 MR. NUTTER: Is this the Application? Yes, I  
20 think it is.  
21 MR. HINKLE: Well, here it's by Michael P. Grace  
22 and Corinne Grace.  
23 Q (By Mr. Hinkle) Well, which one are you requesting be  
24 designated as the operator, or both?  
25 A Both.

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 Q Both of them as operator?
- 2 A Yes.
- 3 Q Do both Mr. and Mrs. Grace operate their wells in
- 4 the South Carlsbad area?
- 5 A I think from a standpoint -- I mean, when I work, I
- 6 work for both of them. I take orders from both
- 7 people.
- 8 Q Is it usually customary for two individuals to be
- 9 operators in a case like this?
- 10 A It doesn't change anything. We work for a lot of
- 11 people.
- 12 Q Well, the responsibility has to be placed on someone.
- 13 This would be a dual responsibility, which I don't
- 14 think would be desirable.
- 15 A Well, you put desirability on a corporation and it's
- 16 really only a name.
- 17 Q So, you are actually requesting that both be the
- 18 operator?
- 19 A I'm not requesting. They have made the request, Mr.
- 20 Hinkle.
- 21 Q But that is the Application?
- 22 A That's the Application.
- 23 Q Now, you've testified to technical ways of completing
- 24 the wells in the Morrow formation. Are you proposing
- 25 that if the Graces are appointed as operators in this

dearnley, meier & mc cornick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 case, that these new methods that you have testified  
2 to, he used in completion of the well in the W/2  
3 of 4?

4 A I would say the method that appears to be best at the  
5 time the wells are completed, depending upon how they  
6 act when they are drilled and tested, would be used.

7 Q And notwithstanding the other methods that have been  
8 used by Black River in completing all of the other  
9 wells in the Washington Morrow Pool?

10 A There's always something new under the sun, and old  
11 tried and true are not always the best.

12 Q Then, you are proposing that a new experiment be taken  
13 here for the one well in the Washington Morrow Pool?

14 A Not necessarily. I'm not saying that, and I said that  
15 there is a possibility that a Vangun would be used,  
16 but I think it would have to be considered at the time  
17 that the well was drilled and it was ready for  
18 completion as to which method would be the best.

19 MR. HINKLE: I think that's all. We would like  
20 to put Mr. Aycock on the stand. He has testified previously  
21 in these cases.

22 MR. COOLEY: Before we proceed with rebuttal  
23 testimony, Mr. Examiner, in order to lay any fears about  
24 dual responsibility and one saying the other is responsible,  
25 we would restrict our Application to Michael P. Grace, II, as

1 the sole operator.

2 MR. NUTTER: All right, sir. Now, Mr. Steinhorst,  
3 I'd like for you to explain a couple items here on your  
4 Exhibit.

5 \* \* \* \* \*

6 CROSS-EXAMINATION

7 BY MR. NUTTER:

8 Q Now, the total cost here in the first column, \$154,725,  
9 that's a single completion?

10 A Yes.

11 Q And then this other \$182,725, is as a dual completion?

12 A That is right. This is a little bit confusing, this  
13 form. That is actually the total of your sub-surface  
14 equipment carried down into your bottom column.

15 Q So these are your estimates of the well's cost?

16 A Yes.

17 Q Now, you have recommended a 30 percent risk factor  
18 for nonparticipating parties. Do you have any  
19 estimate as to what the combined fixed rate overhead  
20 charge would be on this?

21 A Yes, \$135 a month.

22 MR. NUTTER: Are there any further questions  
23 of Mr. Steinhorst?

24 MR. COOLEY: Yes, I have one.

25 \* \* \* \* \*

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-0691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87101



dearnley, meier & mc comick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

REDIRECT EXAMINATION

Q Mr. Steinhorst, Mr. Hinkle referred to the methods that Mr. Grace used as being a new and untried experiment. Do you consider them such, after the experience that he has had with these methods?

A I don't consider any method that's been tried anywhere as being new and untried. If it has been used before, it's as applicable in one place as another providing the well conditions are such that you've got a similarity.

Q And you do expect that similarity, do you not?

A I would expect that similarity, yes.

Q And do you expect that, in fact, do you know of your own knowledge that the Morrow formation is water sensitive in both the South Carlsbad and the Washington Ranch areas?

A Everywhere I know, the Morrow formation is water sensitive.

Q And it is your opinion, is it not, that the brine based mud is less damaging to the Morrow formation than is fresh water mud?

A It's been the experience.

Q Well, is that your opinion?

A Well, that's my opinion that it is less damaging.

MR. COOLEY: No further questions.

dearnley, meier & mc cornick

200 SIMMS BLDG. P.O. BOX 1092, PHONE 243-0091, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 MR. NUTTER: Are there any other questions of  
2 the witness?

3 (No response.)

4 MR. NUTTER: The witness may be excused.

5 (Witness excused.)

6 MR. HINKLE: I'd like to have Mr. Aycock sworn  
7 in.

8 WILLIAM AYCOCK,

9 was called as a witness and, after being duly sworn according  
10 to law, testified as follows:

11 DIRECT EXAMINATION

12 BY MR. HINKLE:

13 Q Mr. Aycock, you previously testified in these cases,  
14 have you not?

15 A That's true, Mr. Hinkle.

16 Q I believe when you previously testified, you indicated  
17 that if Black River should be appointed as operator,  
18 that they might like to wait a little while to see  
19 how the well in the E/2 of 4 performed before starting  
20 the well in the W/2 of 4, is that correct?

21 A That's correct.

22 Q Since that time, has Black River management had a  
23 meeting and discussed this matter, and are you  
24 authorized to make any statement with respect to the  
25 time that the well is to be commenced?

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 A Yes, sir, I am. They are ready to commence, the reason  
2 being that at the previous time we did not know how  
3 long it might be before we would have orders in  
4 Section 3, and although that is not directly applicable  
5 here, we had one overriding royalty owner who was  
6 resisting voluntary communitization in the E/2 of  
7 3. I mean, in the E/2 of 4. And it appeared that  
8 overall problems of getting agreement would be  
9 intensified by his failure to agree. Now that the  
10 Commission has given orders, this gentleman has agreed  
11 to voluntarily communitize and it would allow us to  
12 get the wells on production so that we are not looking  
13 at some open ended period of time before we can begin  
14 operations. The only time problem would be how soon a  
15 rig can be made available and we would estimate within  
16 40 to 60 days at the outside that a rig could be made  
17 available.

18 Q Since giving your previous testimony, have you received  
19 any communications from any work interest or royalty  
20 owners?

21 A I have, and if Mr. Nutter will bear with me, during  
22 my prior testimony, we have had 100 percent of everybody  
23 that's involved, as far as royalty and working interests,  
24 with the exception of the Graces, who have agreed to volun-  
25 tary communitization with Black River Corporation as the

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 operator. But in addition to this, some of the royalty  
2 owners have written back with a stress to their desire  
3 to have Black River Corporation designated as the  
4 operator.

5 I placed into evidence before, the letters from  
6 Southwestern Oil Corporation; Max Coll. who has an over-  
7 riding interest, has sent back the letter which was  
8 addressed to everybody in the same way, it's a very  
9 general letter and it's available for looking at if  
10 they want, "Okay by me. You should be the operator.  
11 Max Coll." Then, in addition, Arteria Lumber Company,  
12 who has an interest, has given us a letter in which  
13 there are actually two letters, one that agrees with  
14 the voluntary communitization and the second one  
15 stresses a desire to have Black River Corporation made  
16 the operator. It's a very short letter. It's addressed  
17 to Black River Corporation and it states, "Gentlemen,  
18 The Arteria Lumber Company strongly approves Black  
19 River Corporation to pool and communitize the W/2 of  
20 Section 4, Township 26 South, Range 26 East, Eddy  
21 County, New Mexico. This firm has been very successful  
22 in drilling and completing gas wells in the Washington  
23 Ranch Morrow gas field. Thus, we would oppose any other  
24 firm or individual in operating the above described well  
25 Max Coll."

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-8691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87106

1 MR. HINKLE: I think the Commission has received  
2 the communication that has been shown to both attorneys.  
3 It's not really relevant to anything that's taken place. I  
4 would be glad to read it into the record, if the attorneys  
5 request.

6 That's all.

7 MR. NUTTER: Were you planning to offer those  
8 letters in evidence or as Exhibits or are you just making  
9 reference to them?

10 MR. HINKLE: We will place them in evidence,  
11 if you so desire.

12 MR. NUTTER: Well, if you'd like to put them in  
13 your case file. The Central Southwest letter has already  
14 been placed in your file, but I think you've got a couple  
15 that haven't.

16 MR. HINKLE: We'd like to offer into evidence  
17 Exhibits 8, 9, and 10.

18 MR. NUTTER: Black River's Exhibits 8, 9, and 10,  
19 for cases 4771, 4772, will be admitted into evidence.

20 (Whereupon, Applicant's Exhibits 8, 9, and 10 were  
21 received and marked into evidence.)

22 MR. HINKLE: I believe that's all we have.

23 MR. NUTTER: Are there any questions of Mr. Aycock?

24 MR. COOLEY: No questions.

25 MR. NUTTER: He may be excused.

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6091, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 (Witness excused.)

2 MR. NUTTER: Do you have anything, Mr. Hinkle?

3 MR. HINKLE: No.

4 MR. COOLEY: Yes, Mr. Nutter, I would like for  
5 the Examiner to read into the record the dates that the two  
6 conflicting Applications for forced pooling were received  
7 by the Oil Conservation Commission.

8 MR. NUTTER: Well, the date here on this letter,  
9 the Grace Application, is being corrected, it was originally  
10 for the N/2 of Section 4 and that's been stricken and changed  
11 to the W/2 of Section 4 of 26, 24, hereby requesting a hearing  
12 to force pool this area. The date received by the  
13 Commission on June 22nd and the Application of Black River  
14 for the forced pooling was received by the Commission on  
15 July 11th, both in 1972.

16 Do you have anything further?

17 (No response.)

18 MR. NUTTER: If there's nothing further in Cases  
19 4771, 4772 and 4766, we'll take the cases under advisement and  
20 the hearing is adjourned.  
21  
22  
23  
24  
25

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG, EAST • ALBUQUERQUE, NEW MEXICO 87108

1 STATE OF NEW MEXICO )  
2 ) ss  
3 COUNTY OF BERNALILLO )

4 I, JOHN DE LA ROSA, a Court Reporter, in and for the  
5 County of Bernalillo, State of New Mexico, do hereby certify  
6 that the foregoing and attached Transcript of Hearing  
7 before the New Mexico Oil Conservation Commission was  
8 reported by me; and that the same is a true and correct record  
9 of the said proceedings to the best of my knowledge, skill  
10 and ability.

11 John De La Rosa  
12 COURT REPORTER

23 I do hereby certify that the foregoing is  
24 a correct record of the proceedings in  
25 the hearing of Case No. 4771-72 & 4766  
heard by me on 8/9, 1972.  
Examiner  
New Mexico Oil Conservation Commission

I N D E XWITNESS:PAGERICHARD STEINHORST

Direct Examination by Mr. Cooley	3
Cross-Examination by Mr. Nutter	16
Cross-Examination by Mr. Hinkle	17
Recross-Examination by Mr. Nutter	21
Redirect Examination by Mr. Cooley	22

WILLIAM AYCOCK

Direct Examination by Mr. Hinkle	23
----------------------------------	----

E X H I B I T SAPPLICANT'SOFFEREDADMITTED

Michael P. Grace, II:

Exhibit Number 1	15	16
------------------	----	----

Black River Corporation:

Exhibit Number 8	26	26
Exhibit Number 9	26	26
Exhibit Number 10	26	26

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-8891, ALBUQUERQUE, NEW MEXICO 87108  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108



BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
CONFERENCE HALL, STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
July 26, 1972

EXAMINER HEARING

IN THE MATTER OF:

Application of Black River Corporation  
for a nonstandard gas unit, Eddy County,  
New Mexico. CASE NO. 4771

a n d

a n d

Application of Black River Corporation  
for compulsory pooling, Eddy County,  
New Mexico. CASE NO. 4772

a n d

a n d

Application of Michael B. Grace and  
Corinne Grace for compulsory pooling  
in a nonstandard proration unit. CASE NO. 4766

BEFORE: Daniel S. Nutter  
Examiner

TRANSCRIPT OF HEARING

dearnley, meier & mc cornick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 MR. NUTTER: Call Case 4771.

2 MR. HATCH: Case 4771: Application of Black  
3 River Corporation for a nonstandard gas unit, Eddy County,  
4 New Mexico.

5 MR. HINKLE: If you will also call Case 4772.

6 MR. HATCH: Case 4772: Application of Black River  
7 Corporation for compulsory pooling, Eddy County, New Mexico.

8 MR. HINKLE: Clarence Hinkle, appearing on  
9 behalf of Black River Corporation.

10 We would like to have Cases 4771 and 4772  
11 consolidated for the purposes of the hearing because they  
12 are similar and involve the same subject matter.

13 MR. NUTTER: For the purpose of the hearing we  
14 will consolidate Cases 4771 and 4772.

15 MR. HINKLE: Now, at the hearing on July the 12th  
16 there was a case and I do not have the number, that appeared --

17 MR. HATCH: 4760.

18 MR. HINKLE: -- of Mr. and Mrs. Grace also for  
19 forced pooling and nonstandard units for the W 1/2 of Section  
20 4, Township 26, South, Range 24 East and it was stipulated  
21 and agreed at that time that that case would also be  
22 consolidated with these cases for purposes of the hearings  
23 today.

24 MR. NUTTER: All right, sir. We will now call  
25 Case Number 4766.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1002, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 MR. HATCH: Case Number 4766: Application of  
2 Michael B. Grace and Corinne Grace for compulsory pooling  
3 in a nonstandard proration unit.

4 MR. COOLEY: William J. Cooley, Burr and Cooley,  
5 Farmington, New Mexico, appearing on behalf of the Applicants.  
6 We concur in the consolidation of the three cases for  
7 purposes of the hearing. However, at this time, we would  
8 move that that portion of the testimony which we will put  
9 on on behalf of Mr. and Mrs. Grace in 4766, be continued to  
10 the next scheduled Examiner's Hearing.

11 MR. NUTTER: It is your motion, Mr. Cooley, that  
12 the portion of the consolidated being Case No. 4766 be  
13 continued to the next Examiner Hearing; is that correct?

14 MR. COOLEY: Yes, Mr. Examiner.

15 MR. HINKLE: We object to the continuance or  
16 further continuance because we think this should be decided.  
17 It was stipulated at the last hearing that we would not  
18 produce the gas well which has already been drilled on the  
19 E/2 of 3 which offsets this location to be drilled until  
20 this hearing. Now, that well, as well as the one on the  
21 W/2 of Section 3, are all hooked up and ready to produce.  
22 All they have got to do is turn on the valve and it is my  
23 understanding that USGS is concerned about the fact that  
24 they are not on production because they do involve Federal  
25 acreage and I talked to Carl about it and he seemed to be

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 concerned about the continuing -- that is -- not producing the  
2 wells any additional time so I would like to have it understood  
3 that this is the end of the stipulation and that we can go  
4 ahead and produce the wells in Section 3.

5 MR. NUTTER: Now, Case 4763, Mr. Hinkle, related  
6 to the E/2 of Section 3 and Case 4764 related to the W/2 of  
7 Section 3.

8 MR. HINKLE: That is right.

9 MR. NUTTER: Case 4765 related to the W/2 of  
10 Section 3.

11 Mr. Hatch, has an order been entered in any of  
12 those cases as yet?

13 MR. HATCH: I don't believe an order has been  
14 issued in any of those cases.

15 MR. NUTTER: But the wells in the E/2 and W/2 are  
16 both connected and ready to produce?

17 MR. HINKLE: They are both completed and connected  
18 and all we have got to do, as I understand it, is turn a  
19 valve and start production.

20 MR. NUTTER: Mr. Cooley, what is your comment  
21 with respect to the stipulation that was made at the last  
22 hearing that the wells wouldn't be produced until this  
23 hearing today?

24 MR. COOLEY: I don't know whether this Examiner  
25 was present at the time 4766 was called at the previous

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 Examiner Hearing. We desired to proceed with that case at  
2 that time and had all of our witnesses and people here  
3 available to do so but, at Mr. Hinkle's request, or his  
4 motion, our case was continued until such time, to this  
5 hearing and we are now indisposed as Mr. Hinkle was two  
6 weeks ago and we feel that the same ground rules should  
7 apply.

8 MR. NUTTER: Which case related to the E/2 of  
9 Section 4?

10 MR. COOLEY: There is no case.

11 MR. HINKLE: It has been completed. The well  
12 has been completed and it is under voluntary communitization,  
13 as I understand it.

14 MR. NUTTER: If there is no case related to it,  
15 you have no objection to that well being produced?

16 MR. COOLEY: The point that was brought out with  
17 respect to all of these four locations was that with the  
18 one communication that apparently exists in those pools,  
19 there is grave likelihood of drainage and it was agreed and  
20 stipulated that we would agree to the continuance to today  
21 of Case 4766 and that the well belonging to the Applicant  
22 Black River in the E/2 of Section 4 which is not the  
23 subject of any case would not be produced until such time as  
24 there was a final decision as a result of the Examiner's  
25 Hearing on the two Applications for forced pooling of the W/2.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6601 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87106

1 The concern was expressed by both Black River  
2 and Mr. & Mrs. Grace of the possibility of drainage in  
3 various areas of this pool. I would be inclined to accede  
4 to their wishes and desires with respect to it and I am  
5 certainly not controverting what Mr. Hinkle has said, but  
6 Mr. Traywick was here two weeks ago with the hearing and  
7 had no objection to the continuance. Whether he would now  
8 have an objection to a continuance until the 9th, I don't  
9 know, but if the Examiner would wish to contact Mr. Traywick  
10 as an arbiter of this particular point, we would accede to  
11 his decision on it.

12 MR. NUTTER: Has a nonstandard unit been approved  
13 for the E/2 of Section 4?

14 MR. HINKLE: It has been voluntarily approved.

15 MR. NUTTER: Has the Commission approved a  
16 nonstandard unit?

17 MR. HINKLE: It has not been approved.

18 MR. NUTTER: I think we will go ahead and continue  
19 Case Number 4766 and I think the E/2 of Section 4 has nothing  
20 to do with this case at this time and there is no proration  
21 unit approved for it, as of now, but I think when you get  
22 your proration unit, there is no stipulation, so I think it  
23 is up to you if you produce the well and if you get a  
24 proration unit approved.

25 MR. COOLEY: Is the size of the proration unit

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-0601, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 involved such that it will require a hearing?

2 MR. NUTTER: Not a hearing. I think it would  
3 be eligible for administrative approval.

4 MR. COOLEY: What are the present limits?

5 MR. NUTTER: There is no limits, Mr. Cooley.  
6 When it is a result of a correction in the surveying, and  
7 this is what is involved in this area, these are oversize  
8 sections and approval of the nonstandard unit administratively  
9 requires notification to offset operators and in the event of  
10 an objection, it has to go to hearing.

11 MR. HATCH: Pardon me, Mr. Examiner. I am not  
12 quite sure that it requires notification in this case to off-  
13 set operators.

14 MR. NUTTER: Maybe it doesn't. When it is a  
15 result of correction in surveys --

16 MR. HATCH: I will let the attorney read it  
17 himself.

18 MR. HINKLE: Can we decide this later?

19 MR. COOLEY: We have had a stipulation with  
20 respect to these two cases, Mr. Examiner, and I am not sure  
21 I understand your decision with respect to it.

22 MR. NUTTER: I think the stipulation was that  
23 you stipulated that the well would not be produced to a  
24 continuance to today's hearing and there is no stipulation,  
25 as I can see, for any further shut-in on the well.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87102

1 MR. HINKLE: We do not stipulate that we will  
2 not produce it. If we can get a nonstandard approved  
3 administratively, we will produce. If we can't, we will just  
4 have to have a hearing. So, I don't see any use of arguing  
5 about this now.

6 MR. NUTTER: I think, in view of the statement  
7 that I made awhile ago, which was in error, I think I will  
8 read this portion of the rule for approval of nonstandard  
9 units into the record.

10 This is a portion of Rule 104-D-2: "Any completed  
11 gas well which does not have the required amount of acreage  
12 dedicated to it for the pool or formation in which it is  
13 completed may not be produced until a standard unit for the  
14 well has been formed and dedicated or until a nonstandard  
15 unit has been approved. The Secretary-director of the  
16 Commission may grant an administrative approval to a non-  
17 standard gas unit without notice and hearing when an  
18 application has been filed for a nonstandard unit and the  
19 unorthodox size and shape of the unit is necessitated by a  
20 variation in the legal subdivision of the U.S. Public Land  
21 Surveys or the following facts exist and the following  
22 provisions are complied with: (a) The nonstandard unit  
23 consists of quarter sections or lots that are continuous by  
24 a common bordering side; (b) the nonstandard unit lies wholly  
25 within a single governmental quarter section, if the well is



dearnley, meier & mc cornick

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 completed in a pool or formation for which 160 acres is  
2 the standard unit size or wholly within a single governmental  
3 half section if the well is completed in a pool or formation  
4 for which 320 acres is the standard unit size; (c) the  
5 applicant presents written consent in the form of waivers  
6 from all offset operators and from all operators owning  
7 interests in the quarter section for 160 acre pools or  
8 formations or the half section for 320 acre pools or  
9 formations in which the nonstandard unit is situated and which  
10 acreage is not included in said nonstandard unit; (d) in  
11 lieu of paragraph (c) of this Rule, the applicant may furnish  
12 proof of the fact that all of the aforesaid operators were  
13 notified by registered or certified mail of his intent to  
14 form such nonstandard units. The Secretary-director may  
15 approve the application if no such operator has entered an  
16 objection to the formation of such nonstandard units within  
17 30 days after the Secretary-director has received the  
18 application.

19 MR. HINKLE: We have one witness we would like  
20 to have sworn.

21 (Whereupon, William B. Aycock was sworn.)

22 WILLIAM B. AYCOCK,

23 was called as a witness and, having been duly sworn by law,  
24 testified as follows:  
25

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

DIRECT EXAMINATION

BY MR. HINKLE:

Q State your name and residence.

A William B. Aycock. I live in Midland, Texas, and  
I am a consulting engineer.

Q Have you previously testified before the Oil  
Conservation Commission?

A Yes, sir, I have.

Q Your qualifications as a petroleum engineer are a  
matter of record with the Commission?

A Yes, sir, they are.

Q Have you made a study of the Washington Ranch-Morrow  
Gas Pool and the immediate area surrounding it?

A Yes, sir, I have.

Q Have all the wells been drilled in that area?

A Yes, sir.

MR. HINKLE: Are his qualifications acceptable?

MR. NUTTER: Yes, sir.

Q (By Mr. Hinkle) Are you familiar with the Applications  
of Black River Corporation in Cases 4771 and 4772?

A Yes, sir, I am.

Q What is Black River seeking to accomplish?

A Well, in Case 4771, Black River desires the establishment  
of a nonstandard gas unit in comprising 402.22 acres in  
the W/2 of Section 4, Township 26 South, Range 24 East,

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 in Eddy County, New Mexico.

2 In Case 4772 Black River Corporation desires an  
3 order for compulsory pooling at the acreage that lies  
4 within this said W/2 of Section 4. The Black River  
5 would further request the approval of a well location  
6 to be located at approximately the center of lot 5 or  
7 the SW/4 of the NE/4 -- I mean, the SE/4 of the NW/4  
8 of Section 4.

9 Q Have you prepared or has there been prepared under  
10 your direction certain Exhibits for introduction in  
11 this Case?

12 A Yes, sir.

13 Q These are Exhibits 1 through 6?

14 A Yes, sir.

15 Q Refer to Exhibit 1 and explain what this is and what  
16 it shows.

17 A Exhibit 1 is a current land map of the Washington  
18 Ranch area in which the current pool boundaries  
19 comprising the E/2 of Section 33 and all of Section 34  
20 of 25 South, 24 East, are shown in green and the  
21 acreage for which the request is being made for the  
22 nonstandard proration unit in the W/2 of Section 4  
23 in 26 South, 24 East, is shown in yellow.

24 Also shown are all the current leaseholds and  
25 mineral interests.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87106

- 1 Q Refer to Exhibit 2 and explain what this is and  
2 explain what this is and what it shows.
- 3 A Exhibit 2 is a structure map on the bottom of the  
4 lower Morrow sand in the Washington Ranch area and  
5 in which the traces of cross-sections which will  
6 subsequently be presented as Exhibits to this  
7 Commission are located and in which all of the wells  
8 are indicated and the proration units are not indicated,  
9 but they are at the locations of the wells or at the  
10 approximate two locations which is called for by the  
11 plats that are on file with this Commission.
- 12 Q What is this contoured on?
- 13 A This is the bottom of the lower Morrow reservoir which  
14 is the main reservoir in the Washington Range field.
- 15 Q I will refer you to Exhibit 3. Explain that.
- 16 A Exhibit 3 is a cross-section A, A' which runs from  
17 the north end of Washington Ranch area over to the SE  
18 side of the Washington Ranch area and which, in the  
19 datum represented by the map shown -- the previous  
20 figure is indicated as bottom of the lower Morrow  
21 sand.
- 22 Q I think this figure shows the regular development of  
23 the reservoir and the main reservoir.
- 24 A It appears on all logs and is immediately recognizable.  
25 It shows, very graphically, the structural configuration.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1002, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 This is a true cross-section. In other words, the  
2 vertical scale is exaggerated but it shows the  
3 proximity of the wells horizontally and vertically  
4 proportionately.

5 Q Refer to Exhibit 4 and explain that.

6 A Exhibit 4 is a cross-section B, B', which is an east-  
7 west cross-section that was indicated on the structure  
8 map of Exhibit 2 and it shows the same thing.

9 The well in the E/2 of Section 4 is the third  
10 well from the right-hand side of cross-section B, B'  
11 and I think it is very consequential to note the  
12 extremely high rate of dip between this location  
13 and the dry hole over in Section 5.

14 Q This is between the two holes?

15 A The well in Section 4 and 5 are approximately a mile  
16 apart. They are a little bit more than that, but  
17 they are approximately a mile apart.

18 Q Exhibit 5 is --

19 A Exhibit 5 is a survey plat which shows the surveyed  
20 size of all the subdivisions in Section 4, and as  
21 is indicated at the bottom, the W/2 of Section 4  
22 comprises 402.22 acres. The well that is in the E/2  
23 of Section 4 is shown at its proper location and  
24 though we have not indicated it, you would note that  
25 a location at the approximate center of lot 5 would be

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 about 2640 feet, I think. It will be a little bit  
2 more. It will be close to 3000 feet from the north  
3 line and 2640 from the west line, approximately.

4 Q Are you familiar with both the lease ownership and  
5 the overriding royalty and oil-mineral ownership in  
6 the W/2 of Section 4?

7 A Yes, sir, I am.

8 Q Have you or has Black River contacted all owners or  
9 made an effort to get them to pool their interests  
10 and form the nonstandard unit consisting of the W/2  
11 of 4?

12 A Yes, sir, they have been contacted.

13 Q What about the working interest owners? Have they  
14 all consented?

15 A Yes, they have all consented to the formation of a  
16 nonstandard unit as well as the designation with the  
17 exception of Michael P. Grace.

18 Q It is actually 50.25 acres?

19 A Without exception, all of the working interests have  
20 agreed to the establishment of the nonstandard  
21 proration unit and the designation of Black River  
22 Corporation as the operator.

23 Q Did you get any response from contact with Michael  
24 P. Grace.

25 A No, sir.

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6601, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 Q What about the owners of the royalty and override  
2 royalty interests?
- 3 A They have all been contacted.
- 4 Q Have you had any that have not agreed to come in?
- 5 A No, sir. They have all agreed and in fact, there  
6 have been, in at least one case, there has been an  
7 expressed desire for the designation of Black River  
8 Corporation as an operator from one of the overriding  
9 royalty owners.
- 10 Q Which one was that?
- 11 A Central Southwestern Oil Corporation.
- 12 Q Did you receive a letter from Central Southwestern?
- 13 A Yes, sir, dated July 24, 1972, signed by Mr. Thomas  
14 Allen, President, "Gentlemen, this is to notify you  
15 that Central Southwestern Oil Corporation does  
16 voluntarily approve the pooling and communitization  
17 of the W/2 of Section 4, Township 26 South, Range 24  
18 East, Eddy County, New Mexico. We believe that  
19 Black River Corporation should operate the unit and  
20 do approve Black River as operator. It is completely  
21 unreasonable to suggest that Michael P. Grace and  
22 Corinne Grace should operate the unit and we are  
23 strongly opposed to their being designated as operators.  
24 We believe the entire W/2 of the Section should be  
25 included in the unit and nothing more or less than the

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-0691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 W/2 would be completely satisfactory. Yours truly,  
2 Central Southwest."

3 Q I believe you said that all the working interest  
4 except Michael Grace have approved the formation?

5 A Yes, sir.

6 Q Has all the working interest owners except Michael  
7 Grace indicated who they would like to have as  
8 operator?

9 A Yes, sir, they have.

10 Q Who have they indicated?

11 A Black River Corporation. The only working interest  
12 owner other than Black River and Michael P. Grace that  
13 are involved in this acreage is Arapahoe Gas Limited  
14 and we have received an approval letter by Mr. Warren  
15 Taylor, President, dated the 18th of July approving  
16 Black River's proposal to all interest owners of which  
17 I have a copy.

18 Q Now, refer to Exhibit 6 and explain what this is and  
19 what it shows.

20 A Exhibit 6 is a summary of the individual well data  
21 for the completed wells for Black River Corporations  
22 completed wells in the Washington Ranch field and which  
23 are shown all the pertinent information including  
24 completion intervals, date of C form 122, test shut-  
25 in, well pressure, any drill shut-in bottom hole



dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 pressure and the absolute open flow and the date of  
2 first gas delivery for all the wells.

3 Q Would Black River like to be the operator of the  
4 unit?

5 A Definitely.

6 Q What experience has Black River had in connection with  
7 operations in this area?

8 A Well, I hope those of you, like Mr. Hatch, you have  
9 heard this testimony before, I hope you will bear  
10 with me. I don't believe the Examiner was present  
11 at the last -- the Washington Ranch discovery was  
12 a Black River Corporation prospect and the discovery  
13 well and most of the development, all except for City  
14 Service, I believe the wells in the north end of the  
15 field, have been drilled and completed by Black River  
16 Corporation. I would also like to mention that there  
17 was an article in the May 15, 1972, Oil and Gas  
18 Journal that was commentary on the unique completion  
19 procedures that had been worked out by Black River  
20 Corporation and applied to the Morrow formation in  
21 the Washington Ranch field.

22 Q Is the article you refer to Exhibit 7?

23 A Yes, sir.

24 Q Give briefly the contents of this article.

25 A Well, this is written by Mr. John L. Kennedy who is

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87109

1 drilling editor of Oil and Gas Journal. Of course,  
2 this is, I guess, the most widely read of all the  
3 periodicals that deals strictly with the oil industry.

4 It has to do with what the drilling completion procedures  
5 are and points out this is a unique application in  
6 this area and certainly in the Permian Basin. To my  
7 knowledge wells have all been completed natural and  
8 Black River has succeeded in getting natural completion  
9 that exhibit no indication of any reservoir damage  
10 whatsoever and this is caused by several things.

11 One, they have a special rig system worked out  
12 where low solid and low water loss, and it prevents  
13 invasion of formation by fluids that are compatible  
14 with it. They make a special effort to get the pipe  
15 of the bottom cemented as quickly from the time the  
16 pay is perforated so it is possible to prevent exposure.

17 They cover it with cement sufficient to cover the  
18 formation and prevent communications but not to a  
19 degree that would break the formation down.

20 Q Do you have any estimate as to the cost of drilling  
21 and completing the well in the W/2 of the Morrow?

22 A Yes, sir, I do. I estimate a completed well would  
23 cost approximately \$140,000 with contingencies.

24 Q What will Black River do -- a turn key job?

25 A It has been the practice of Black River to include

dearnley, meier & mc cormick

209 SIMMS BLDG. P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

- 1 most of the items that would normally be included  
2 in a turn key bid from a reputable contractor, yes,  
3 sir. This way they know exactly what it is going to  
4 cost them before they drill the well for those portions  
5 that have the highest degree of risk involved.
- 6 Q What is the attitude of Black River with respect to  
7 the interest of Michael Grace and Mrs. Grace?
- 8 A Well, if the Commission sees fit to designate Black  
9 River Corporation as the operator, Black River would  
10 prefer to see the Graces join in drilling a well on  
11 an actual cost basis if the Graces desire.
- 12 Q And pay their way?
- 13 A And pay their way. If the Graces desire to go  
14 nonconcent and not pay their way and have payments  
15 made out of production attributable to their interest,  
16 then Black River believes that a 50 percent risk factor  
17 is not unreasonable for this location.
- 18 Q You so request?
- 19 A Yes, sir.
- 20 Q What is your estimate of the cost of supervision and  
21 operating the well?
- 22 A \$135.00 a month.
- 23 Q Is that usual and customary charges in this area?
- 24 A Yes, sir, and it is Black River's further -- it is  
25 their custom in this area where there are already

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 operators producing wells.

2 Q On all other wells?

3 A Yes, sir.

4 Q In your opinion if this application is granted, will  
5 it be in the interest of protection of correlative  
6 rights?

7 A Yes, sir, it will. I think it would be advantageous  
8 to everyone involved to have development of this  
9 field carried on as orderly and rapidly as possible.

10 Q And be in the interest and preservation and prevention  
11 of waste?

12 A Yes.

13 MR. HINKLE: We would like to offer Exhibits 1  
14 through 7.

15 MR. NUTTER: Applicant's Exhibits 1 through 7  
16 will be received in evidence.

17 (Whereupon, Applicant's Exhibits 1 through 7 were  
18 marked and received in evidence.)

19 MR. HINKLE: That is all on Direct.

20 \* \* \* \* \*

21 CROSS-EXAMINATION

22 BY MR. NUTTER:

23 Q Mr. Aycock, you estimate your well costs to be \$140,000.  
24 Is that an average of these 20 jobs you have had on  
25 the pool to date?

dearnley, meier & mc cornick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 A Yes, sir. If you want to know an actual average,  
2 it is about \$137,800 is what they have been running  
3 but this has a little contingency build into it.
- 4 Q It would be subject to actual cost on the well when  
5 completed?
- 6 A Yes, sir, that's correct.
- 7 Q Now, you are requesting a 50 percent risk factor and  
8 50 percent of the maximum which the Commission is  
9 authorized by statute to impose upon a forced pooling  
10 case. Do you think this is the maximum risk that we  
11 could have?
- 12 A Probably not, no sir, because if you will note from  
13 the cross-section, B, B', we are looking at an un-  
14 favorable structural location. It will be among the  
15 lowest wells drilled in the field to date. If  
16 structural projection is correct, the position seems  
17 to be related to reservoir quality as reflected by  
18 deliverability.
- 19 Q If we take your cross-section B, B', we find that  
20 going one mile from the producing wells to the dry  
21 hole we have a drop of approximately 445 feet.
- 22 A Yes, sir.
- 23 Q Now, where on this 445 foot drop would you place the  
24 location of the well?
- 25 A We will be at about minus 3450, in that vicinity, which

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 will put us equivalent to your J. M. Hubert well  
2 Section 11 which, to my knowledge, has not been  
3 officially completed. I don't believe the forms have  
4 yet been submitted.

5 Q That is the well across Section A, A'?

6 A Yes, sir.

7 Q Well, on the extreme right is lower than that. It  
8 is a production well, is it not?

9 A Yes, sir, but the Hubert Corporation well is completed  
10 in the upper Morrow and the other one is completed in  
11 the lower Morrow.

12 I think it is apparent at this location and due  
13 to the fact that both of the wells are in Section 3 as  
14 well as the well in the E/2 of Section 4, are duals,  
15 that we would hope that some of the risk would be taken  
16 out by the fact that we do have two shots rather than  
17 one.

18 Q So you do have the upper Morrow in this Number 1 well?

19 A Yes, sir.

20 Q You expect you probably have upper Morrow?

21 A In fact, my personal opinion is that the lower Morrow  
22 has only about a 50 percent chance of being commercially  
23 productive, but the reason for drilling the well with  
24 high assurance that you get something is that the  
25 upper Morrow is present and will probably produce at

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 this location.

2 Q On this \$135 a month operating cost, what are you  
3 including?

4 A This is all the normal overhead and direct field  
5 supervision costs.

6 Q This would be your combined fixed rate as described  
7 in the accounting table?

8 A Yes, sir, the satisfaction of all the State of New  
9 Mexico proration requirements as to the submittal  
10 forms and this sort of thing.

11 Q Your direct well operating costs and work overs and  
12 so forth will be separate from that?

13 A That will fall under joint operating agreement that  
14 would be directly attributable and chargeable separately  
15 on an actual cost basis on whatever the work or any  
16 work that might be required and what it would actually  
17 cost.

18 Q So this \$135 is combined fixed rates only?

19 A Yes, sir.

20 MR. NUTTER: Are there any further questions of  
21 the witness:

22 \* \* \* \* \*

23 CROSS-EXAMINATION

24 BY MR. COOLEY:

25 Q Mr. Aycock, earlier in your Direct Testimony I believe

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 you testified with respect to the experience of  
2 Black River that they had completed all the wells in  
3 the pool with the exception of whom?

4 A City Service wells to the north.

5 Q Then you later referred to a Hubert well.

6 A Yes, sir. I pointed out, Mr. Cooley -- I don't believe  
7 officially it is completed yet since forms haven't  
8 been submitted and it is apparent that it will probably  
9 be a commercial well. J. M. Hubert Corporation is not  
10 releasing any information. Stan Cromwell, who is their  
11 District Manager, told me that he was not in a  
12 position to release any information at this time. We  
13 were successful in getting a copy of the log from  
14 them. That's all.

15 Q Are you familiar with the method of completion of  
16 drilling that was used by Mr. Hubert in the well?

17 A Not other than the fact that they had some severe  
18 equipment difficulties when they attempted to complete  
19 the well. They ran a string of secondhand tubing in  
20 the well and it was filled with rust and before they  
21 got through, they had all the rust at the bottom  
22 and they had to drag the tubing out and lay it down  
23 and clean it out, is my understanding.

24 Q Mr. Hubert was successful in obtaining a commercial  
25 well in your opinion?



dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHOENIX 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87106

- 1 A Oh, yes.
- 2 Q You don't mean to imply that Black River is the only
- 3 company in the business that could successfully drill
- 4 and complete a well in this pool, do you?
- 5 A No. I think the fact that in general Black River's
- 6 experience has been exceptionally better than City
- 7 Service on the basis of the preliminary deliverability
- 8 tests that have been submitted, it indicates that there
- 9 is no more than just chance to what has taken place
- 10 out there so far.
- 11 Q Would you attribute the difference between Black
- 12 River and City Service wells solely to methodology?
- 13 A Partially.
- 14 Q What is the other part?
- 15 A Partially -- I don't think there is a well located
- 16 structurally in general --
- 17 Q Generally speaking, lower?
- 18 A Yes.
- 19 Q In your opinion that is a crucial factor?
- 20 A I think it has been indicated to be here. There is
- 21 no question about it.
- 22 Q What City Service practices are you aware of that you
- 23 consider were erroneous?
- 24 A I am not aware that they made any special efforts
- 25 along the lines that I outlined for Black River as far

dearnley, meyer & mc cormick

209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87106

1 as low exposure time and as near as possible  
2 compatibly employed, and I am not positive -- I do  
3 not know exactly the way they have perforated well,  
4 but it is apparent that they have not made special  
5 efforts along the lines that I outlined like Black  
6 River Corporation has.

7 Q What makes that apparent to you, I mean? It is not to  
8 me.

9 A Well, if you will bear with me, Mr. Cooley, I think  
10 I have the scout tickets and we can get them out and  
11 go over how many sacks of cement they cemented them  
12 with and so forth.

13 Q Rather than going through completion, can you single  
14 out what they did wrong?

15 A I don't think, as an example, here is the City  
16 Service Government Number 3 which is located in Section  
17 27. If you will refer to the Exhibit 1 that we  
18 presented, it is the well that is in the N/2 of the E/2  
19 of Section 27 and instead of perforating in the way  
20 that Black River has, they have got shots scattered all  
21 up and down the hole here and I do not have their  
22 operations reports, but it would appear from the way  
23 the well was perforated that in all probability it  
24 was perforated with a fire gun under a typical  
25 procedure where you go in either in a balanced

dearnley, meier & rnc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 condition or with a formation pressure slightly  
2 unbalanced and perforate each individual perforation  
3 and you raise the gun and have to zero it in with  
4 depth and correlate it properly each time and then you  
5 shoot it and this is an example of what Black River  
6 Corporation does not do. I think I have the City  
7 Service Government in view located here and you have  
8 got a similar type situation there.

9 It made a much better well than the M-2 whether  
10 or not it is as good a well.

11 Q I think you meant the M-3?

12 A As the M-3. Whether or not it is as good a well, I  
13 am not prepared to say, because I have not made a  
14 detailed analysis of the deliverability tests to  
15 determine whether or not there is apparent damage.  
16 If, of course, as you know or as is apparent, sometimes  
17 if the well is good enough, it still looks good regard-  
18 less of what the outcome of it is.

19 On the other hand, City Service had a well in  
20 here for many years prior to the time that Black River --  
21 the 1-M located in the SE of the SE of the 28 and  
22 neither were they able to make commercial completion  
23 before nor have been able to since the time that they  
24 initially started working on this well. I don't have  
25 any other completion tickets on any other wells. I do

dearnley, meier & rnc cormick

209 SIMMS BLDG., P.O. BOX 1092 PHONE 243-6601 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 not have the 1-M, I don't have the original ticket  
2 with me. All I have is the final completion ticket  
3 on the well.

4 Q Insofar as the prospects of making a commercial well  
5 in at least the upper Morrow, you feel it is relatively  
6 a low risk venture; is that correct?

7 A Considering we have an edge location there, Mr.  
8 Cooley, yes, sir.

9 Q In light of this factor, that this is a relatively  
10 low risk in your opinion and in light of the fact that  
11 the maximum amount of the risk factor that can be  
12 allowed by statute is 50 percent, would you alter your  
13 recommendation with respect to the risk factor now?

14 A No, sir, I wouldn't. The number 1-BR in the E/2 of  
15 5 gave every indication that it was a commercial well  
16 at the time and, in fact, a very reputable service  
17 company had their expert analyze the drill stem test  
18 that was taken in the pay zone and he concluded there  
19 was an insignificant possibility of it being anything  
20 but a commercial well and we know what the result has  
21 been, so I would have to conclude that there is a  
22 significant risk at this location.

23 Q But not a maximum risk?

24 A Well, I don't know how you define a maximum risk. I  
25 would define it for this field as a maximum risk because

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 10925, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 I don't think at this time we have any indication that  
2 any locations lower than where the proposal is to drill  
3 this well have any chance of producing gas.

4 Maybe subsequently we will develop that. I am  
5 not prepared to say, but right now I don't think we do.

6 Q Mr. Aycock, are you familiar with the operational  
7 experience that Mr. Michael P. Grace, II, has had in  
8 the general area of Eddy County?

9 A No, sir, I am not familiar with it at all.

10 Q You obviously, then, would have no comment?

11 A I would have none whatsoever.

12 Q When you spoke in terms of those things that led  
13 Black River to come into the area, who was the  
14 individual, or if there was more than one, who were  
15 the individuals who made a decision on behalf of  
16 Black River?

17 A Well, there were a combination of people. I can't  
18 give you the exact people. Obviously since Forest  
19 Miller is the geologist, the geological concept was  
20 his. As far as who made the actual decision to go  
21 forward with the thing and on what basis, I have no  
22 personal knowledge and cannot say. I personally do  
23 know Mr. Miller was responsible for the geological  
24 concept because I have talked to him personally.

25 Q Did Mr. Forest Miller, at any time work for City

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

- 1 Services in connection with the drilling of their  
2 wells?
- 3 A Not to my knowledge.
- 4 Q Have you personally been in attendance at the drilling  
5 and completion of the wells?
- 6 A Not every one, but I have been on location and  
7 inspected. I spent a day out there in which I looked  
8 at each individual -- there were enough wells going  
9 on that I could look at each individual operation and  
10 go over it with them, yes.
- 11 Q You do feel consulting --
- 12 A I was out there on the ground with John Berry and  
13 Forest Miller, yes, sir. I made a special trip out  
14 there for that purpose.
- 15 Q What I was trying to get at is, was it you personally  
16 who developed these new concepts or what individual?
- 17 A Well, which concept are we talking about, the low  
18 exposure time or the mud fluids or the perforation?
- 19 Q You have listed a number of what you consider to be  
20 unusual methods or specialized methods adapted by  
21 Black River in this area. I am curious as to who  
22 those individuals are that developed them?
- 23 A Well, Mr. John Berry and Mr. Forest Berry were  
24 responsible between them for the development of the  
25 procedures that are in effect out there at the present

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 time.

2 Q Is Mr. Forest Miller a full time employee of Black  
3 River Corporation?

4 A He is not a full time employee. He is employed as a  
5 consultant for the drilling and completion of all the  
6 wells in the field out there.

7 Q Mr. Berry is also a consultant?

8 A That's correct.

9 Q You are a consultant?

10 A That's correct.

11 Q So the three people that were active and responsible  
12 for the methods being used were all consultants rather  
13 than full time employees?

14 A That's correct.

15 MR. COOLEY: No further questions.

16 \* \* \* \* \*

17 REDIRECT EXAMINATION

18 BY MR. HINKLE:

19 Q You understand that Mr. & Mrs. Grace have pending  
20 their application to force pool the W/2 of the 4  
21 and also a nonstandard unit?

22 A Yes, sir.

23 Q I believe your testimony has shown that everyone  
24 who is included in the working interest or royalty  
25 overriding interest and all mineral owners have

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 approved this unit for the W/2 of 4, so doesn't it  
2 resolve down to just who is going to be the operator,  
3 whether it is Grace or Black River in this case?

4 A Well, I would assume so, yes, sir. I can't see any  
5 other problem here at all as long as the Commission has  
6 already stated that the nonstandard proration unit  
7 in this case being due to a factor discovered in the  
8 rules is something that can be taken care of.

9 I would say that the only problem here is going  
10 to be who is the operator of the well.

11 MR. HINKLE: That's all.

12 \* \* \* \* \*

13 RECROSS-EXAMINATION

14 BY MR. NUTTER:

15 Q Mr. Aycock, this article from the Oil and Gas Journal  
16 describes this perforating technique. Which was the  
17 first that you used this technique on in the pool?

18 A It was used on the discovery well which is the City  
19 Federal Number 1 which is the one that is located in  
20 the W/2 of Section 34.

21 Q How many wells have you used it on since then?

22 A Every one of them. Seven, I believe.

23 Q Referring to Exhibit Number 6, refer to that, and  
24 identify which wells you used that on then. You said  
25 the City Federal 1?



dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87106

1 A Yes, sir.

2 Q Federal 2 and Federal 3 --

3 A Well, I was wrong. There is seven of them and three  
4 of those are duals and it was used in every case on  
5 both singles and duals.

6 Q So every well on Exhibit 6?

7 A Yes, sir.

8 Q The same procedures have been used basically?

9 A The only variation would be naturally that perforations  
10 have to be spotted to conform with where the best  
11 development sections of the reservoir are located in  
12 each individual wellbore.

13 Q I see.

14 MR. NUTTER: Are there any further questions  
15 of Mr. Aycock?

16 \* \* \* \* \*

17 CROSS-EXAMINATION

18 BY MR. HATCH:

19 Q Mr. Aycock, in the discussion of your well location  
20 in the W/2 of Section 3, it is only identified as the  
21 approximate center of lot 5. Do you have a footage  
22 location of what the approximate center would be?

23 A Well, I can get you one, Mr. Hatch, if you will give  
24 me a few minutes to dig out a scale. 900 feet from the  
25 west and 2500 feet from the north line.

dearnley, meier & mc cormick

209 SIMMS BLDG. • P. O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87103

1 Q Mr. Aycock, would that leave as much as 660 feet from  
2 your well location to the nearest side boundary of your  
3 recommended proration unit? That is, your half section  
4 line there to the east?

5 A Yes, sir. It would leave just slightly over that  
6 unless my plat is wrong.

7 Q When do you plan to drill your well if Black River  
8 were named the operator?

9 A It would be preferable, Mr. Hatch, to have a little  
10 experience with production on the well in the E/2  
11 before the well in the W/2 is commenced in order to  
12 reduce the risk and I think we would propose to have  
13 60 to 90 days experience after the well in the E/2 is  
14 put on a continued production at least before commencing  
15 the well in the W/2.

16 MR. HATCH: That's all.

17 MR. NUTTER: Are there any further questions of  
18 Mr. Aycock?

19 MR. COOLEY: In light of the last question and  
20 the last answer, if you please, Mr. Examiner.

21 \* \* \* \* \*

22 RECROSS-EXAMINATION

23 BY MR. COOLEY:

24 Q To reduce the risk, was that your reason for drilling?

25 A Yes, sir, I think so.

dearnley, meier & mc cormick

200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, A.L. BUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

- 1 Q Would you explain that answer? There is nothing that  
2 can be done on the E/2 to reduce the risk of the W/2.
- 3 A If there should happen to be that the reservoir is  
4 very limited that the performance on the E/2 will  
5 probably demonstrate that within a reasonable time. It  
6 is not an absolute risk production, but it is a further  
7 factor that would reduce the risk, I believe.
- 8 Q If I understand, then what you are saying, then, is  
9 that if the performance of the well on the E/2 of  
10 Section 4 were disappointing to a certain degree, that  
11 it might change your mind entirely as to whether you  
12 wish to drill the well in the W/2.
- 13 A I can't envision at the current time that it would  
14 completely necessitate a reevaluation of the plans,  
15 Mr. Cooley, although in theory this is certainly  
16 possible.
- 17 Q That has to be what you are talking about. You want  
18 to watch the well in the E/2 so you can decide whether  
19 to drill?
- 20 A There are a couple of things you have to consider. One  
21 is whether the reserves are adequate to sustain the  
22 investment required and what is going to be the  
23 sustained deliverability of the well. I think more  
24 of a concern than the reserve would be -- my feeling  
25 is that if you are able to get a commercial completion

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 out there now knowing what we know about the field  
2 and its size, that the chances of having noncommercially  
3 small reserves are not very high, but I think there  
4 is a more significant chance than that of having  
5 deliverability that would cause the intestment to  
6 be less than attractive at the current time.

7 Q Very long pay on the thing?

8 A Right. I think this is the data that we would hope to  
9 get from a limited period of sustained production from  
10 the well in the E/2.

11 Q Then if the deliverability or any addition or reserves  
12 of that which you ascertain from a period of production  
13 in the E/2 of Section 4, that could conceivably, in  
14 your mind, as you testified here today, dictate the  
15 whole concept of drilling a well on the W/2?

16 A Conceivably, if the performance is completely  
17 unexpected, yes, sir, I think that is true. Black  
18 River Corporation is a reasonable and prudent operator  
19 like anyone else and has no desire to drill unnecessary  
20 wells for any reason and if it does not appear that  
21 there is an incentive -- a commercial incentive -- to  
22 do it, I wouldn't envision that Black River would want  
23 to do it under any circumstances. As I say, I don't  
24 feel the probability of that is high. Certainly in  
25 any case where drilling an edge well, there is a

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 multitude of unexpected things that can happen.

2 Q Can you unequivocally state to the Examiner that  
3 Black River under any circumstances is going to  
4 proceed to drill the well in the W/2?

5 A I am sorry, Mr. Cooley, I don't understand the nature  
6 of your question. Are you saying that it is possible  
7 that Black River will not?

8 Q It is possible you will not drill the well?

9 A I think in the vicinity of a five to ten percent  
10 possibility that that could happen, that's correct.

11 MR. COOLEY: No further questions.

12 \* \* \* \* \*

13 RECROSS-EXAMINATION

14 BY MR. NUTTER:

15 Q Mr. Aycock, on your Exhibit 6, you identified four  
16 wells as being connected. How about the City  
17 Service wells? Are they connected also?

18 A Mr. Examiner, I have no personal knowledge of what  
19 City Service's disposition is, at this time.

20 Q But none of the wells in the Township 26 or 24 are  
21 connected, as yet?

22 A No, sir. Well, let's put it this way. I think they  
23 are connected but they have not yet been produced.

24 MR. NUTTER: Any further questions of the witness?

25 (No response.)

dearnley, meier & mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1215 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87106

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

MR. NUTTER: You may be excused.

(Witness excused.)

MR. NUTTER: Do you have anything to offer in  
this case, Mr. Cooley?

MR. COOLEY: No, Mr. Examiner.

MR. NUTTER: Do you have anything further,  
Mr. Hinkle?

MR. HINKLE: That's all.

MR. NUTTER: Does anyone have anything to offer  
in Cases 4771 and 4772, and also Case 4766?

(No response.)

MR. NUTTER: We will not continue the three cases  
to the Examiner Hearing scheduled to be at this same place  
at 9:00 o'clock a.m., August 9, 1972.

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 STATE OF NEW MEXICO )  
2 ) ss  
3 COUNTY OF BERNALILLO )

4 I, MARCIA J. HUGHES, a Court Reporter, in and for the  
5 County of Bernalillo, State of New Mexico, do hereby certify  
6 that the foregoing and attached Transcript of Hearing  
7 before the New Mexico Oil Conservation Commission was  
8 reported by me; and that the same is a true and correct  
9 record of the proceedings to the best of my knowledge, skill  
10 and ability.

11 M. J. Hughes  
12 COURT REPORTER

22 I hereby certify that the foregoing is  
23 a true and correct copy of the transcript of the  
24 hearing of Case No. 4771-4772-4766  
25 filed by me on July 26, 1972  
New Mexico Oil Conservation Commission

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108I N D E XWITNESS:PAGEWILLIAM B. AYCOCK

Direct Examination by Mr. Hinkle	11
Cross-Examination by Mr. Nutter	21
Cross-Examination by Mr. Cooley	24
Redirect Examination by Mr. Hinkle	32
Recross-Examination by Mr. Nutter	33
Cross-Examination by Mr. Hatch	34
Recross-Examination by Mr. Cooley	35
Recross-Examination by Mr. Nutter	38

E X H I B I T SAPPLICANT'SOFFEREDADMITTED

## Black River Corporation

Exhibit Number 1	12	21
Exhibit Number 2	13	21
Exhibit Number 3	13	21
Exhibit Number 4	14	21
Exhibit Number 5	14	21
Exhibit Number 6	17	21
Exhibit Number 7	18	21



dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
CONFERENCE ROOM, STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
July 12, 1972

## EXAMINER HEARING

IN THE MATTER OF:

Application of Michael P. Grace  
and Corinne Grace for compulsory  
pooling and a non-standard  
proration unit, Eddy County, New  
Mexico.

Case No. 4766

BEFORE: RICHARD L. STAMETS,  
Examiner.

TRANSCRIPT OF HEARING

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, A. ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 MR. STAMETS: Case 4766.

2 MR. HATCH: Case 4766: Application of Michael P.  
3 Grace and Corinne Grace for compulsory pooling and a  
4 non-standard proration unit, Eddy County, New Mexico.

5 MR. COOLEY: William J. Cooley, of Burr and Cooley,  
6 Farmington, appearing on behalf of the Applicant, Mr. Grace.  
7 Mr. Watkins of Carlsbad is also appearing as additional  
8 counsel for Michael P. Grace.

9 MR. HINKLE: Clarence Hinkle, of Hinkle, Bondurant,  
10 and Christy, Roswell, appearing on behalf of Black River  
11 Corporation.

12 I would like to make a motion in this case to  
13 start with. Black River Corporation has filed an application  
14 for forced pooling in the West half of Section 4 for a  
15 non-standard unit consisting of the West half of Section 4,  
16 a well to be located at an identical location as the well  
17 to be located in Case 4766. Black River's application has  
18 been set down for the Examiner Hearing of July 26th. Now,  
19 this is another case where Black River has all of the  
20 working interests and has been designated operator. Black  
21 River has all of the working interests that cover the West  
22 half of Section 4, except for the Northwest of the Northwest,  
23 which is owned by the Graces. This is an entirely different  
24 situation from the others because there has been no well  
25 drilled here, and I think it ought to be continued until

dearnley, meier &amp; mc cormick

200 SIMMS BLDG., P.O. BOX 1062, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 July 26th, so these applications can be consolidated and  
2 heard together, and I so move.

3 MR. STAMETS: Mr. Cooley?

4 MR. COOLEY: Our position is that this case was  
5 duly advertised, and Mr. Grace is an unquestioned working  
6 interest owner, and is entitled, as is any other working  
7 interest owner, to file an application for forced pooling  
8 or compulsory pooling. Mr. Grace has expended several hundred--  
9 has expended up to one thousand dollars in flying here today  
10 some seven people to put on this case, and we feel that  
11 this matter will require duplication of these expenditures,  
12 and it would be great prejudice to Mr. Grace not to have  
13 this application heard now.

14 Great to-do has been made about the grave possibility  
15 of drainage and just what a few days difference can make  
16 with respect to the West half of Section 3. It seems to me  
17 that whatever is applicable to the West half of Section 3  
18 should be likewise applicable to the West half of Section 4  
19 insofar as drainage is concerned. We need to proceed with  
20 the business of getting a well drilled, and there is no  
21 justification for a continuance now.

22 MR. HINKLE: I might add this to my motion, Black  
23 River has already gone to considerable trouble and expense  
24 in contacting all of the mineral owners, the royalty owners,  
25 the overriding royalty owners, and so forth, to communitize

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1082, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

1 the West half of Section 4. According to Mrs. Grace's  
2 testimony, she claims that they have not contacted the  
3 royalty owners in connection with this, and if that is the  
4 case, for that reason alone, it should be continued. In  
5 that way, everyone will have been notified and given an  
6 opportunity to be heard.

7 MR. COOLEY: Mr. Examiner, there has been raised  
8 before the Commission the interpretation of 65:3-14, which  
9 is the compulsory pooling statute, the statute authorizing  
10 compulsory pooling particularly with respect to the question  
11 of whether or not there need be any prior contact. Here  
12 we have the obvious inability to achieve voluntary pooling.  
13 The working interest owners have been contacted with respect  
14 to this in an effort to come up with voluntary communitization,  
15 and they have declined to accept Mr. Grace's offer to do so,  
16 and this would preclude the necessity of going to the  
17 unnecessary and useless task of offering voluntary  
18 communitization offers to the overriding royalty owners wherein  
19 it is already obvious that it is not at all possible to  
20 achieve communitization voluntarily from the working interest  
21 owners.

22 (Whereupon a discussion was held off the record  
23 between Mr. Hatch and Mr. Stamets.)

24 MR. STAMETS: Mr. Cooley, I feel that if we do  
25 hear this case today, the end result would be that we would

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 10924 PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 probably have to re-hear it again. I would imagine that  
2 the other parties in the case, if they did not agree, could  
3 file for a re-hearing or a DE NOVO hearing. Under such  
4 circumstances, would you still prefer to go ahead with the  
5 case at this time? I am just trying to avoid the necessity  
6 of duplicating the entire hearing if it is not required.

7 MR. COOLEY: Well, you are speaking in terms of  
8 some party who has not received actual notice.

9 MR. STAMETS: No, I am speaking of parties that  
10 have received notice, and the ones that are here.

11 MR. HINKLE: I will assure you this that we would  
12 request a re-hearing if we go ahead.

13 MR. STAMETS: This is not my concern. I am trying  
14 to avoid unnecessary action on everybody's part. Do you  
15 still prefer to go ahead, Mr. Cooley?

16 MR. COOLEY: I may. May I consult with my client?

17 MR. STAMETS: Sure.

18 (Whereupon a recess was taken.)

19 (Hearing continues.)

20 MR. COOLEY: My client feels that this might bear  
21 on timing. When do they expect to put the well in the East  
22 half of Section 4 on the line?

23 MR. STAMETS: In the East half of Section 4?

24 MR. COOLEY: Yes. There is an offsetting well in  
25 the East half of Section 4, and this will have a bearing

dearnley, meier &amp; mc cormick

209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

1 on why we want to go forward today.

2 MR. HINKLE: We can assure you it won't be on  
3 the line before the next hearing.

4 MR. COOLEY: There is still a question of delay.  
5 If this could be stipulated that the well in the East half  
6 of Section 4 would not be put on the line until after this  
7 case is finally resolved, then I feel we would have no  
8 objection to a continuance.

9 MR. HATCH: I think I would like to ask a question.  
10 The stipulation included the words "finally resolved". What  
11 do you mean by final determination here? Does it mean a  
12 hearing by this Commission and a decision by this Commission  
13 in the case, or would it involve a possible re-hearing or  
14 appeal of the decision?

15 MR. HINKLE: I think we would want it to relate  
16 only to the ruling of the Commission.

17 MR. COOLEY: The ruling of the Commission on the  
18 Examiner's recommendation.

19 MR. STAMETS: Of the July 26th hearing?

20 MR. COOLEY: Yes.

21 MR. HINKLE: We will stipulate to that.

22 MR. COOLEY: My client reluctantly accepts.

23 MR. HINKLE: We would be willing to stipulate to  
24 a continuance on the condition that the well will not be  
25 connected and gas sold, the well in the West half of Section 3,

dearnley, meier &amp; mc cormick

209 SIMMS BLDG. P.O. BOX 1092 PHONE 243-6691 ALBUQUERQUE, NEW MEXICO 87103  
1210 FIRST NATIONAL BANK BLDG. EAST ALBUQUERQUE, NEW MEXICO 87108

1 until such time as the Commission acts upon the  
2 recommendation of the Examiner after the hearing of July 26th,  
3 1972.

4 MR. COOLEY: If the well on the East half of  
5 Section 4 would not be produced until there has been a  
6 determination by the Commission on the Examiner's  
7 recommendation out of this case--

8 MR. HINKLE: We were just talking about the East  
9 half of Section 4.

10 MR. COOLEY: The East half of Section 4. I think  
11 that disposes of Case 4766 for the moment.

12 MR. STAMETS: You agree that it should be  
13 continued until the July 26th hearing?

14 MR. COOLEY: On the stipulation I stated into  
15 the record.

16 MR. STAMETS: The Examiner thanks the parties  
17 involved for reaching a relatively amicable decision in this  
18 matter. Case 4766 will be continued until the July 26th  
19 Examiner Hearing.  
20  
21  
22  
23  
24  
25

dearnley, meier &amp; mc cormick

209 SIMMS BLDG. P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103  
1216 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1  
2 STATE OF NEW MEXICO )  
3 ) ss  
4 COUNTY OF BERNALILLO )

5 I, RICHARD E. McCORMICK, a Certified Shorthand Reporter,  
6 in and for the County of Bernalillo, State of New Mexico  
7 do hereby certify that the foregoing and attached Transcript  
8 of Hearing before the New Mexico Oil Conservation Commission  
9 was reported by me; and that the same is a true and correct  
10 record of the said proceedings to the best of my knowledge,  
11 skill and ability.

12 *Richard E. McCormick*  
13 CERTIFIED SHORTHAND REPORTER  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the hearing before the New Mexico Oil Conservation Commission  
heard by me on *July 12*, 19*72*.  
*Richard E. McCormick*, Reporter  
New Mexico Oil Conservation Commission





## OIL CONSERVATION COMMISSION

**STATE OF NEW MEXICO**  
**P. O. BOX 2088 - SANTA FE**  
**87501**

**GOVERNOR  
BRUCE KING  
CHAIRMAN**

**LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER**

**STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR**

**November 28, 1972**

4766

4771

**4772**

Re: Case No. 4772

Order No. R-4410-A

**Applicant:**

**Michael P. & Corinne Grace**

Mr. Jack Cooley  
Burr & Cooley  
Attorneys at Law  
152 Petroleum Center Building  
Farmington, New Mexico 87401

**Dear Sir:**

Enclosed herewith are two copies of the above-referenced Commission order recently entered in the subject case.

Very truly yours,

A. L. Porter, Jr.

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC X

Artesia OCC      x

**Aztec OCC**

**Other** \_\_\_\_\_

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASES NOS. 4766, 4771 AND 4772  
(DE NOVO)  
Order No. R-4410-A

APPLICATION OF MICHAEL P. GRACE AND  
CORINNE GRACE FOR COMPULSORY POOLING  
AND A NON-STANDARD UNIT, EDDY COUNTY,  
NEW MEXICO.

APPLICATION OF BLACK RIVER CORPORATION  
FOR A NON-STANDARD GAS UNIT, EDDY COUNTY,  
NEW MEXICO.

APPLICATION OF BLACK RIVER CORPORATION  
FOR COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 21, 1972, at Santa Fe, New Mexico, before the Oil Conservation Commission of New Mexico, hereinafter referred to as the "Commission."

NOW, on this 27th day of November, 1972, the Commission a quorum being present, having considered the testimony presented and the exhibits received at said hearing, and being fully advised in the premises,

FINDS:

- (1) That the applicants for the hearings De Novo have requested that the cases be dismissed.
- (2) That the applicants' request for dismissal should be granted.

IT IS THEREFORE ORDERED:

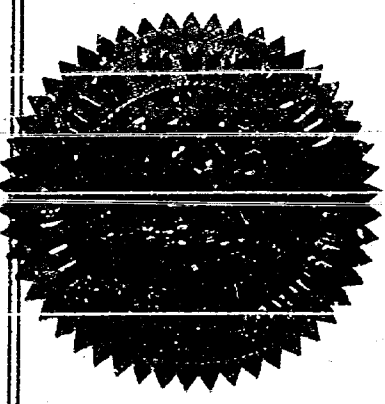
That Cases Nos. 4766, 4771, and 4772 (De Novo) are hereby dismissed.

-2-

Cases Nos. 4766, 4771 and 4772 (De Novo)  
Order No. R-4410-A

DONE at Santa Fe, New Mexico, on the day and year herein-  
above designated.

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

  
*Bruce King*  
BRUCE KING, Chairman

*Alex J. Armijo*  
ALEX J. ARMILLO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/

CASE 4766: (De Novo)

Application of Michael P. Grace and Corinne Grace for compulsory pooling and a non-standard unit, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests underlying the W/2 of Section 4, Township 26 South, Range 24 East, adjacent to the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico, comprising approximately a 402-acre non-standard proration unit. Said acreage to be dedicated to a well to be drilled 1980 feet from the North line and 1980 feet from the West line of said Section 4. Also to be considered will be the costs of drilling said well, a charge for the risk involved, and a provision for the allocation of charges for supervision of said well.

Upon application of Michael P. Grace II and Corinne Grace this case will be heard De Novo under the provisions of Rule 1220.

CASE 4796: (Continued from the August 16, 1972 Regular Hearing and October 18, 1972 Regular Hearing)

Application of Michael P. Grace II and Corinne Grace for capacity allowable, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an exception to the General Rules and Regulations governing the prorated gas pools of Southeast New Mexico, promulgated by Order No. R-1670, as amended, to produce their City of Carlsbad "COM" Well No. 1, located in Unit O of Section 25, Township 22 South, Range 26 East, South Carlsbad-Morrow Gas Pool, Eddy County, New Mexico, at full capacity.

CASE 4733: (De Novo)

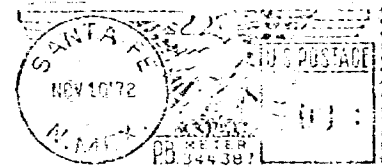
Application of David Fasken for pool contraction and creation of a new gas pool, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the contraction of the horizontal limits of the Indian Basin-Morrow Gas Pool, Eddy County, New Mexico, by the deletion therefrom of all of Sections 4 and 5, Township 21 South, Range 24 East. Applicant further seeks the creation of a new gas pool with horizontal limits comprising all of said Sections 4 and 5 for the production of gas from the Morrow formation.

Upon application of David Fasken, this case will be heard De Novo under the provisions of Rule 1220.

CASE 4865: Application of David Fasken for special allowables, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to the general rules and regulations governing the prorated gas pools of Southeast New Mexico, promulgated by Order No. R-1670, as amended, to produce his Ross Federal Well No. 1 located 1980 feet from the South and West lines of Section 4 and his Shell Federal Well No. 1 located 1980 feet from the South and West lines of Section 5, both

State of New Mexico  
Oil Conservation Commission  
P. O. BOX 2088  
SANTA FE  
87501

CONSERVATION IS  
EVERYONE'S JOB



*2 er*

REASON CHECKED  
Unclaimed .....  
Addressee unknown .....  
Insufficient address .....  
No such person or business .....  
No such street or number .....  
Not mail .....  
Not in this envelope

RETURNED  
TO  
SENDER

Forrest Miller  
Jones Street  
Happy Valley  
Carlsbad, New Mexico 88220

*Ida*

Michael P. Grace II  
Corinne Grace  
P. O. BOX 2062  
SANTA FE, NEW MEXICO 87501

June 27, 1972

*Case 4700*

New Mexico Oil Conservation Commission  
P. O. Box 2068  
Santa Fe, N. M. 87501

Gentlemen:

We have requested that a forced pooling be held on July 12, 1972 covering the following described lands in Township 26 South, Range 24 East, adjacent to or in the Washington Ranch Morrow Gas Pool in Eddy County, New Mexico:

W $\frac{1}{2}$  of Sec. 3, for a well to be drilled 1980 feet from the South line and 660 feet from the east line;

W $\frac{1}{2}$  of Sec. 4 for a well to be drilled 1980 feet from the North line and 660 feet from the East line;

E $\frac{1}{2}$  of Sec. 9 for a well to be drilled 660 feet from the East line and 1980 feet from the North line;

N $\frac{1}{2}$  of Sec. 10 for a well to be drilled 660 feet from the North line and 1980 feet from the West line.

We believe that the following parties should be notified of this hearing:

- ✓ Forrest Miller, Jones St., Happy Valley, Carlsbad, N. M. ✓
- ✓ J. W. Miller, Pine Springs Route, Carlsbad, N. M. ✓
- ✓ Alice M. Ballard, Pine Springs Route, Carlsbad, N. M. ✓
- ✓ A. J. Mayes, Pine Springs Route, Carlsbad, N. M.
- ✓ Thurman Mayes, Rt. 1, Everton, Ark. 72633
- ✓ Vera T. Craddock, c/o Vola Ryan, 1415 College Ave, Tempe, Az. ✓
- ✓ Vola Craddock Ryan, 1415 College Ave, Tempe, Az.
- ✓ D. L. Hannifin, Roswell, N. M. ✓
- ✓ Alford Mitchell Leeman, Box 193, Carlsbad, N. M.
- ✓ Juanita Ruth Leeman, 1115 W. Bonbright, Carlsbad, N. M.
- ✓ William S. Miller (address unknown)
- ✓ John Mayes, Pine Springs Route, Carlsbad, N. M.

DOCKET MAILED

Date 11-10-72  
*for Nov. 21st hearing*

DOCKET MAILED

Date 6-30-72

Cities Service Oil Company  
P. O. Box 300  
Tulsa, Oklahoma 74102

Black River Corporation  
620 Commercial Bank Tower  
Midland, Texas 79701

Arapahoe Gas, Ltd.  
640 Continental National Building  
3333 Bannock  
Englewood, Colorado

Artesia Lumber Company, Artesia, N. M. ✓  
El Paso Natural Gas Company, Box 1492, El Paso, Texas 79978 ✓  
✓ Max W. Coll II, Roswell, N. M. ✓  
Yvonne H. Stevens, Roswell, N. M.

Very truly yours,

*Corinne Grace*  
Corinne Grace, Operator



# OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

GOVERNOR  
BRUCE KING  
CHAIRMAN

LAND COMMISSIONER  
ALEX J. ARMijo  
MEMBER

STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

October 10, 1972

4766

4771

Re: Case No. 4772

Order No. R-4410

Applicant:

Mr. Clarence Hinkle  
Hinkle, Bondurant, Cox & Eaton  
Attorneys at Law  
Post Office Box 10  
Roswell, New Mexico 88201

Michael P. Grace & Corinne Grace  
and Black River Corporation

Dear Sir:

Enclosed herewith are two copies of the above-referenced  
Commission order recently entered in the subject case.

Very truly yours,

A. L. PORTER, Jr.  
Secretary-Director

ALP/ir

Copy of order also sent to:

Hobbs OCC X

Artesia OCC X

Aztec OCC       

Other Mr. William J. Cooley

DOCKET MAILED

Date 11-10-72



BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CREATED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASES NOS. 4766, 4771 and 4772  
Order No. R-4410

CONSOLIDATED CASES:

APPLICATION OF MICHAEL P. GRACE AND  
CORINNE GRACE FOR COMPULSORY POOLING  
AND A NON-STANDARD PRORATION UNIT,  
EDDY COUNTY, NEW MEXICO.

APPLICATION OF BLACK RIVER CORPORATION  
FOR A NON-STANDARD GAS UNIT, EDDY  
COUNTY, NEW MEXICO.

APPLICATION OF BLACK RIVER CORPORATION  
FOR COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 26, 1972,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this 10th day of October, 1972, the Commission,  
a quorum being present, having considered the testimony, the  
record, and the recommendations of the Examiner, and being  
fully advised in the premises,

FINDS:

(1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That the applicant, Black River Corporation, seeks  
an order pooling all mineral interests in the Washington Ranch-  
Morrow Gas Pool underlying the W/2 of Section 4, Township 26  
South, Range 24 East, NMPM, Eddy County, New Mexico, to form a  
402.22-acre non-standard gas proration unit to be dedicated to  
a well to be located 2500 feet from the North line and 1900  
feet from the West line of said Section 4.

(3) That the applicant has the right to drill and proposes  
to drill the above-described well to the Morrow formation in  
the Washington Ranch-Morrow Gas Pool.

CASES NOS. 4766, 4771 and 4772  
Order No. R-4410

(4) That the applicant, Michael P. Grace II, seeks an order pooling all mineral interests in the Washington Ranch-Morrow Gas Pool underlying the W/2 of Section 4, Township 26 South, Range 24 East, NMPM, Eddy County, New Mexico, to form a 402.22-acre non-standard gas proration unit to be dedicated to a well to be located 1980 feet from the North line and 1980 feet from the West line of said Section 4.

(5) That the applicant, Michael P. Grace II has the right to drill in the NW/4 NW/4 of said Section 4 and proposes to drill a well in the SE/4 NW/4 of said Section 4.

(6) That both applicants, Black River Corporation and Michael P. Grace II, seek to be named operator of the unit to be pooled.

(7) That Cases Nos. 4766, 4771 and 4772 were consolidated as the cases involve the same lands and issues.

(8) That the evidence indicates that the entire W/2 of the above-described Section 4 can reasonably be presumed productive of gas in the Washington Ranch-Morrow Gas Pool.

(9) That the entire W/2 of the above-described Section 4 can be efficiently and economically drained and developed by a well located in the SE/4 NW/4 of said Section 4.

(10) That there are interest owners in the proposed non-standard proration unit who have not agreed to pool their interests.

(11) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said non-standard unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, all mineral interests in the Washington Ranch-Morrow Gas Pool underlying the W/2 of Section 4, Township 26 South, Range 24 East, NMPM, Eddy County, New Mexico, should be pooled to form a 402.22-acre non-standard gas proration unit to be dedicated to a well to be located in the SE/4 NW/4 of said Section 4.

(12) That Black River Corporation should be designated the operator of the subject well and unit.

(13) That any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs in lieu of paying his share of reasonable well costs out of production.

(14) That any non-consenting working interest owner that does not pay his share of estimated well costs should have withheld from production his share of the reasonable well costs

-3-

CASES NOS. 4766, 4771 and 4772  
Order No. R-4410

plus an additional 40% thereof as a reasonable charge for the risk involved in drilling of the well.

(15) That any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but that said actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(16) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(17) That \$135.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(18) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

IT IS THEREFORE ORDERED:

(1) That all mineral interest, whatever they may be, in the Washington Ranch-Morrow Gas Pool underlying the W/2 of Section 4, Township 26 South, Range 24 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 402.22-acre non-standard gas proration unit to be dedicated to Black River Corporation's well to be located 2500 feet from the North line and 1900 feet from the West line of said Section 4.

(2) That Black River Corporation is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 60 days following the date of this order.

(4) That within 60 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share

CASES NOS. 4766, 4771 and 4772  
Order No. R-4410

of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 60 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 60 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of said estimated well costs within 60 days from the date the schedule of estimated well costs is furnished to him.
- (B) As a charge for the risk involved in the drilling of the well, 40% of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 60 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$135.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator is hereby authorized to withhold from

-5-

CASES NOS. 4766, 4771 and 4772  
Order No. R-4410

production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

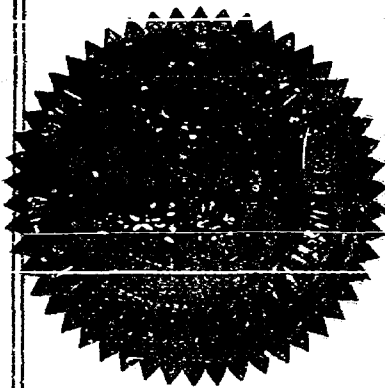
(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.



STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION

*Bruce King*  
BRUCE KING, Chairman

*Alex J. Armijo*  
ALEX J. ARMILLO, Member

*A. L. Porter, Jr.*  
A. L. PORTER, Jr., Member & Secretary

S E A L

dr/



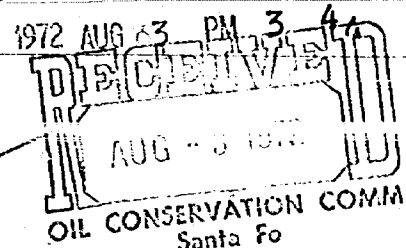
western union

Telegram

KA052 NSA250

NS MDA031 RS PD=MIDLAND TEX 3 355P CDT=  
NEW MEX OIL CONV-

STATE BLDG SANTA FE NMEX=



GENTLEMEN REF CASES 4763 4764 4765 AND 4766 WASHINGTON  
RANCH FIELD EDDY CO NMEX WE UNDERSTAND THAT ALL OF THE  
ABOVE CASES INVOLVED ESTABLISHMENT OF NON STANDARD  
PRORATION UNITS AND OR SELECTION OF AN OPERATOR AS A  
RESULT OF FOREST POOLING AS AN OPR IN THIS AREA J M HUBER  
CORP WISHES TO STATE ITS POSITION ON THESE MATTERS. J M  
HUBER CORP FAVORS AND RECOMMENDS TO THE COMMISSION THAT,  
WHERE THE ESTABLISHMENT OF NONE STANDARD PRORATION UNITS

WU 1201 (R 5-69)



western union

Telegram

IS REQUIRED, THE COMMISSION APPROVED ONLY THOSE UNITS  
THAT ARE COMPACT, LOGICAL AND IN CONFORMANCE WITH  
GOVERNMENTAL SECTION BOUNDRIES. J M HUBER CORP ALSO  
RECOMMENDS THAT OPRS REPRESENTING THE PREPONDERANCE OF  
THE WORKING AND ROYALTY INTEREST BE APPROVED AS THE OPR  
OF COMULSORY POOLED UNITS.=

J M HUBER CORP.=

=4763 4764 4765 4766 .

WU 1201 (R 5-69)

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

June 23, 1972

*Curr 4766*

C  
O  
P  
Y

Mr. Martin L. Allday  
201 Wall Towers East  
Midland, Texas 79701

Dear Mr. Allday:

In accordance with our telephone conversation  
of this date, please find enclosed copies of the  
four applications we discussed.

Very truly yours,

GEORGE M. HATCH  
Attorney

GMH/dr  
enclosure



## OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO  
P. O. BOX 2088 - SANTA FE  
87501

GOVERNOR  
BRUCE KING  
CHAIRMAN

LAND COMMISSIONER  
ALEX J. ARMIJO  
MEMBER

STATE GEOLOGIST  
A. L. PORTER, JR.  
SECRETARY - DIRECTOR

TO: ALL INTERESTED PARTIES

FROM: A. L. PORTER, Jr., SECRETARY-DIRECTOR

Due to prior commitments by members of the Commission, we will be unable to have a quorum present for the hearing which has been scheduled for November 15, 1972. Cases 4763, 4764, and 4765, all pertaining to Section 3, Township 26 South, Range 24 East, Eddy County, New Mexico, and scheduled for Hearing De Novo at the request of Rutter and Wilbanks, and Case 4796, pertaining to capacity allowable for the Grace City of Carlshad No. 1, will therefore be continued to 9:00 o'clock a.m., November 21, 1972, in the Land Office Conference Room.

Cases 4766, 4771, and 4772, all pertaining to the W/2 of Section 4, Township 26 South, Range 24 East, will also be advertised for Hearing De Novo on that same date at the request of Michael P. and Corinne Grace.

October 24, 1972



(Case 4763 continued)

Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well.

CASE 4764: Application of Black River Corporation for compulsory pooling, and non standard proration unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests in the Morrow formation underlying the W/2 of Section 3, Township 26 South, Range 24 East, adjacent to the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico, comprising, approximately, a 407.20-acre non-standard proration unit. Said acreage to be dedicated to its Cities "3" Federal Well No. 1 located 1980 feet from the North line and 1980 feet from the West line of said Section 3.

Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well.

CASE 4765: Application of Alice Ballard, Amelia Miller, Thurman Mayes, John A. Mayes for compulsory pooling and non-standard proration unit, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests underlying the W/2 of Section 3, Township 26 South, Range 24 East, adjacent to the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico comprising, approximately, a 407.20-acre non-standard proration unit. Said acreage to be dedicated to a well to be drilled 1980 feet from the South line and 1980 feet from the West line of said Section 3.

Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of actual operating costs, and the establishment of charges for supervision of said well.

CASE 4766: Application of Michael P. Grace and Corinne Grace for compulsory pooling and a non-standard proration unit, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests underlying the W/2 of Section 4, Township 26 South, Range 24 East, adjacent to the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico comprising approximately a 402-acre non-standard proration unit. Said acreage to be dedicated to a well to be drilled 1980 feet from the North line and 1980 feet from the West line of said Section 4. Also to be considered will be the costs of drilling said well, a charge for the risk involved, a provision for the allocation of charges for supervision of said well.

CASE 4767: Application of Alice Ballard, Amelia Miller, Thurman Mayes, and John A. Mayes for compulsory pooling, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests underlying the E/2 of Section 9, Township 26 South, Range 24 East, adjacent to the Washington Ranch-Morrow Gas Pool, Eddy County, New Mexico. Said acreage to be dedicated to a well to be drilled 1980 feet from the North line and 660 feet from the East line of said Section 9.

Well No.	Section	Block/Township	Survey/Range	State
1	W/2 Sec. 4	T 26 S	R 24 E	New Mexico
Eddy	Washington Ranch Morrow Gas Pool	Pror. of Cost 100 %	Date Work Began	Date of Completion

# DRILLING AND COMPLETION TO EVALUATE PRODUCTIVE POSSIBILITIES OF (4) PENNSYLVANIA GAS ZONES

WORK DETAIL	Cash Outlay Necessary	If Dry Hole No. of Days in this Column	Actual Cost
INTANGIBLES	SINGLE	DUAL (add)	
Drilling and Completion Title Exam. & Related Work	420		
Drilling and Completion Preparation	1,200		
Drilling Services	250		
Drilling-Filling Pits-Cleanup	175		
Drilling Rig			
Drilling Rig ft. of per foot	57,600		
Drilling Rig time at			
Drilling Rig time at			
Drilling Rig-Tool Rental			
Drilling Bits at			
Drilling Bits at			
Drilling Cutters			
Drilling Core Barrel-Core Head Rental			
Drilling Work, Testing, Logging, etc.			
Drilling Completion	2,000		
Drilling Completion or Plugging			
Drilling - Sidewall Coring Log Suite	3,500		
Drilling Analysis			
Drilling Testings O.S.T.'s	1,400	1,400	
Drilling Completion	2,000	1,000	
Drilling and Frac			
Drilling Rig Completion			
Drilling Services - Welding, etc.	400		
Drilling	1,000		
Drilling	1,000		
Drilling Engineering	2,000	500	
Drilling Labor	400		
Drilling Logging Unit			
Drilling and Equipment Rental	1,500		
Drilling and Fuel	1,000		
Drilling Supplies	1,000		
Drilling and Chemicals	8,000		
Drilling Supervision ( per mo.)	1,600		
Drilling and	3,200		
Drilling Temperature Surveys			
Single Completion TOTAL INTANGIBLES	89,645		
Dual Completion TOTAL INTANGIBLES		2,900.	
TANGIBLES			
Drilling Conductor			
Drilling ft. of	2,880		
Drilling ft. of			
Drilling ft. of	26,350		
Drilling	500		
Drilling ft. of	8,050	8,000	
Drilling	2,300		
Drilling & Surface Equipment	15,000	15,000	
Drilling	10,000	5,000	
Drilling	40,080	8,000	
Drilling and Total TANGIBLES	65,080	28,000	
Drilling and TOTAL	154,725	182,725	

Case No. 4766

Exhibit No. \_\_\_\_\_

WELL COST &  
COMPLETION ESTIMATE

BEFORE EXAMINER UTZ  
OIL CONSERVATION COMMISSION

Grace EXHIBIT NO. 1  
CASE NO. 4766

Copy of this  
corrected application  
sent to Mr. Alley  
on June 27<sup>th</sup>.  
(Black Pine conf)

Michael P. Grace II  
Corinne Grace  
P. O. BOX 2062  
SANTA FE, NEW MEXICO 87501

June 22, 1972

RM  
Case 4765

Mr. A. L. Porter, Jr.  
Secretary-Director  
New Mexico Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, N. M. 87501

Dear Mr. Porter:

We hereby request a hearing to force pool the following areas  
in Township 26 South, Range 24 East; adjacent to the Washington  
Ranch Morrow Gas Pool in Eddy County:

West ~~North~~ half of Section 4, Township 26 South, <sup>EAST</sup> Range 24 East,  
for a well to be drilled 600 feet from the ~~North~~ <sup>North</sup> line and  
1980 feet from the ~~West~~ <sup>North</sup> line, River Federal Well No. 2,  
Corinne Grace, Operator.

Very truly yours,

MICHAEL P. GRACE  
CORINNE GRACE

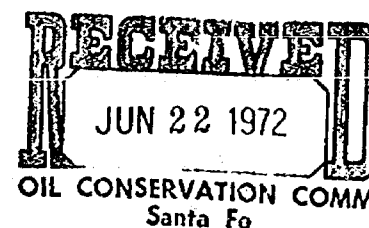
By Dorothy Harvey, Agent  
Dorothy Harvey

Corrected location  
1980 FNL +  
1980 FWL DA

Also Nonstandstill  
of 402 acres more or less  
DA

DOCKET NUMBER

Date 7-14-72



BURR & COOLEY  
ATTORNEYS AND COUNSELORS AT LAW  
SUITE 152 PETROLEUM CENTER BUILDING  
FARMINGTON, NEW MEXICO  
87401

RECEIVED  
OCT 12 1972  
OIL CONSERVATION COMM  
Santa Fe

JOEL B. BURR, JR.  
WM. J. COOLEY

TELEPHONE 325-1702  
AREA CODE 505

October 11, 1972

NEW MEXICO OIL CONSERVATION COMMISSION  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Case Nos. 4766, 4771, 4772  
Order No. R-4410

Gentlemen:

Enclosed herewith for filing are original and two copies  
of Application for De Novo Hearing in the above referred  
cases.

Very truly yours,

BURR & COOLEY

By

*W. Cooley*  
William J. Cooley

WJC:jjh  
Encls.

DOCKET MAILED

Date 11-10-72

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTERS OF:

THE APPLICATION OF MICHAEL P.  
GRACE and CORINNE GRACE FOR  
COMPULSORY POOLING AND A NON-  
STANDARD PRORATION UNIT, EDDY  
COUNTY, NEW MEXICO.

NO. 4766

THE APPLICATION OF BLACK RIVER  
CORPORATION FOR A NON-STANDARD  
GAS UNIT, EDDY COUNTY, NEW MEXICO.

NO. 4771

THE APPLICATION OF BLACK RIVER  
CORPORATION FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

NO. 4772

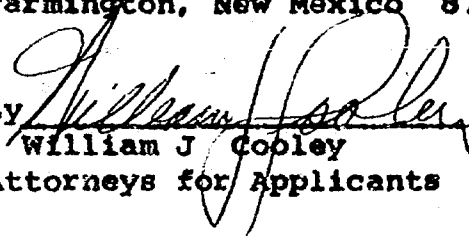
R-4410

APPLICATION FOR DE NOVO HEARING

COME NOW Michael P. Grace II and Corinne Grace, and respect-  
fully make application for a hearing de novo in the above styled  
and numbered cases.

WHEREFORE, Applicants respectfully request the Commission to  
grant a hearing de novo in the above styled and numbered cases.

BURR & COOLEY  
152 Petroleum Center Building  
Farmington, New Mexico 87401

BY   
William J. Cooley  
Attorneys for Applicants

DRAFT

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASES NOS. 4766, 4771 and 4772 (De Novo)  
Order No. R-4410-A

CASE NO. 4766 (De Novo)  
Order No. R-

APPLICATION OF MICHAEL P. GRACE AND  
CORINNE GRACE FOR COMPULSORY POOLING  
AND A NON-STANDARD UNIT, EDDY COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on November 21, 1972,  
at Santa Fe, New Mexico, before the Oil Conservation Commission  
of New Mexico, hereinafter referred to as the "Commission."

NOW, on this \_\_\_\_\_ day of November, 1972, the Commission  
a quorum being present, having considered the testimony presented  
and the exhibits received at said hearing, and being fully advised  
in the premises,

FINDS:

(2) That the applicant's request for dismissal should be granted.

IT IS THEREFORE ORDERED:

That Cases Nos. 4766, 4771, and 4772  
(De Novo) ~~are~~ hereby dismissed.

DONE at Santa Fe, New Mexico, on the day and year hereinabove  
designated.

(1) That the applicants for the hearings ~~be~~ <sup>have</sup> requested that that the ~~hearings~~ <sup>cases</sup> be dismissed.

*Handwritten signature*

DRAFT

GMH/dr

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

IN THE MATTER OF THE HEARING  
CALLED BY THE OIL CONSERVATION  
COMMISSION OF NEW MEXICO FOR  
THE PURPOSE OF CONSIDERING:

CASES NOS. 4766, 4771 and 4772  
Order No. R- 4410

CONSOLIDATED CASES:

APPLICATION OF MICHAEL P. GRACE AND  
CORINNE GRACE FOR COMPULSORY POOLING  
AND A NON-STANDARD PRORATION UNIT,  
EDDY COUNTY, NEW MEXICO.

APPLICATION OF BLACK RIVER CORPORATION  
FOR ~~COMPULSORY POOLING~~; EDDY COUNTY,  
NEW MEXICO.

APPLICATION OF BLACK RIVER CORPORATION  
FOR COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9 a.m. on July 26, 1972,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this \_\_\_\_\_ day of \_\_\_\_\_, 1972, the Commission,  
a quorum being present, having considered the testimony, the  
record, and the recommendations of the Examiner, and being fully  
advised in the premises,

FINDS:

(1) That due public notice having been given as required  
by law, the Commission has jurisdiction of this cause and the  
subject matter thereof.

(2) That the applicant, Black River Corporation, seeks an  
order pooling all mineral interests in the Washington Ranch-  
Morrow Gas Pool underlying the W/2 of Section 4, Township 26  
South, Range 24 East, NMPM, Eddy County, New Mexico, to form a  
402.22-acre non-standard gas proration unit to be dedicated to  
a well to be located <sup>2500 feet from the North line and 1900 feet from the West line</sup> ~~in the approximate center of Lot 5~~  
(~~SE/4 NW/4~~) of said Section 4.

(3) That the applicant has the right to drill and proposes  
to drill the above-described well in the Morrow formation  
~~of said Section 4~~ in the Washington Ranch-Morrow Gas Pool.

Where?

CASES NOS. 4766, 4771 and 4772  
Order No. R-

(4) That the applicants, Michael P. Grace II and ~~Corinne Grace~~ seeks an order pooling all mineral interests in the Washington Ranch-Morrow Gas Pool underlying the W/2 of Section 4, Township 26 South, Range 24 East, NMPM, Eddy County, New Mexico, to form a 402.22-acre non-standard gas proration unit to be dedicated to ~~the Black River Corporation's~~ <sup>a</sup> well to be located 1980 feet from the North line and 1980 feet from the West line of said Section 4.

(6)(5) That both applicants, Black River Corporation and Michael P. Grace II, and ~~Corinne Grace~~ seek to be named operator of the unit to be pooled.

(7)(6) That Cases Nos. 4766, 4771 and 4772 were consolidated as the cases involve the same lands <sup>and interest.</sup> ~~and well.~~

(8)(7) That the evidence indicates that the entire W/2 of the above-described Section 4 can reasonably be presumed productive of gas in the Washington Ranch-Morrow Gas Pool.

(9)(8) That the entire W/2 of the above-described Section 4 can be efficiently and economically drained and developed by a well <sup>located in the SE 1/4 NW 1/4 of said Section 4.</sup> ~~the above-described well.~~

(10)(9) That there are interest owners in the proposed non-standard proration unit who have not agreed to pool their interests.

(11)(10) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in said non-standard unit the opportunity to recover or receive without unnecessary expense his just and fair share of the gas in said pool, all mineral interests in the Washington Ranch-Morrow Gas Pool underlying the W/2 of Section 4, Township 26 South, Range 24 East, NMPM, Eddy County, New Mexico, should be pooled to form a 402.22-acre non-standard gas proration unit to be dedicated to ~~the Black River Corporation's~~ <sup>a</sup> well to be <sup>in the SE 1/4 NW 1/4 of said Section 4.</sup> located, ~~1980 feet from the North line and 1980 feet from the West line of said Section 4.~~

(5) That the applicant, Michael P. Grace II, has the right to drill in the NW 1/4 NW 1/4 of said Section 4 and proposes to drill a well ~~in the SE 1/4 NW 1/4 of said Section 4.~~ <sup>in the NW 1/4 NW 1/4 of said Section 4.</sup>



CASES NOS. 4766, 4771 and 4772  
Order No. R-

(12) (11) That Black River Corporation should be designated the operator of the subject well and unit.

(13) (12) That any non-consenting working interest owner should be afforded the opportunity to pay his share of <sup>estimated</sup> actual well costs in lieu of paying his share of reasonable well costs out of production.

(14) (13) That any non-consenting working interest owner that does not pay his share of <sup>estimated</sup> said actual well costs should have withheld from production his share of the reasonable well costs <sup>plus an additional 40% of the cost of a reasonable charge for its risk involved in drilling</sup> (14) That any non-consenting interest owner should be (15) afforded the opportunity to object to the actual well costs but that said actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(17) (15) That <sup>125.00 \$135.00</sup> \$135.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator should be authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(16) That title to the working interest in a 402.22-acre tract being the SE/4 NW/4 of said Section 4, is the subject of litigation and the working interest share of proceeds from production attributable to said tract should not be disbursed pending the outcome of said litigation.

(18) (17) That all proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

(15) That following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

IT IS THEREFORE ORDERED:

(1) That all mineral interest, whatever they may be, in the Washington Ranch-Morrow Gas Pool underlying the W/2 of Section 4, Township 26 South, Range 24 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 402.22-acre non-standard gas proration unit to be dedicated to Black River Corporation's well to be located 2500 feet from the North line and 1900 feet from the West line of said Section 4.

(2) That Black River Corporation is hereby designated the operator of the subject well and unit.

(3) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 60 days following the date of this order.

(4) That within 60 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and that any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) That the operator shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 60 days following completion of the well; that if no objection to the actual well costs is received by the Commission and the Commission has not objected within 60 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, that if there is an objection to actual well costs within said 60-day period, the Commission will determine reasonable well costs after public notice and hearing.

(6) That within 60 days following determination of reasonable well costs, any non-consenting working interest owner that has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operator is hereby authorized to withhold the following costs and charges from production:

(A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of said estimated well costs within 60 days from the date the schedule of estimated well costs is furnished to him.

(B) As a charge for the risk involved in the drilling of the well, 40% of the pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 60 days from the date the schedule of estimated well costs is furnished to him.

(8) That the operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) That \$135.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operator is hereby authorized to withhold from production the proportionate share of such supervision charge

attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) That any unsevered mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) That any well costs or charges which are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) That all proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; that the operator shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.