

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,622
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR TWO NONSTANDARD)
GAS SPACING AND PRORATION UNITS, LEA)
COUNTY, NEW MEXICO)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 28th, 2001

Santa Fe, New Mexico

OIL CONSERVATION DIV
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This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 28th, 2001, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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BEFORE THE
OIL CONSERVATION COMMISSION
Case No. 12622 & 12908
Exhibit # A-12
Submitted By: Redrock Operating
Hearing Date: October 21 & 22, 2002

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

1 A. Yes.

2 Q. -- does that come across your desk for any type
3 of approval?

4 A. Yes, it does.

5 Q. So you would have an opportunity to inquire and
6 check on various things?

7 A. That's correct.

8 Q. Let's look at the APD. When this APD is filled
9 out, Nearburg as the operator/applicant fills in everything
10 except the Division approval and perhaps the API number,
11 right?

12 A. That's correct.

13 Q. When I look at the proposed pool, it indicates
14 Grama Ridge-Morrow East. Do you see that?

15 A. Yes.

16 Q. That would have been action taken by Nearburg to
17 fill in the form, right?

18 A. Either that or we would have submitted the form
19 to them and they would have told us what to put in that
20 pool, what the well -- We generally look at the well
21 location and we find out what the closest pool is, and we
22 found out in that case that that location in the northeast
23 quarter, that would be included in the Grama Ridge North --
24 or the Grama Ridge East Pool.

25 Q. Do you have in place a practice where you check

1 pool rules?

2 A. Only if we think there's a reason to do so, via
3 something that alerts us to that effect. And I honestly
4 don't believe, Tom, that any operator in the State of New
5 Mexico, when they get ready to have well, if they have a
6 dedication of 320 acres, goes and researches every single
7 pool, you know, around the area?

8 Q. Wouldn't you do that, Mr. Shelton?

9 A. No, I don't think anybody does that. I think
10 they rely on title opinions and they rely on the State's
11 notification after the C-102 is approved for that type of
12 information.

13 Q. And that is Nearburg's practice, then,
14 apparently, at least in this case?

15 A. That's Nearburg's practice and the practice of
16 other people I've been associated with, yes.

17 Q. So you're expecting the Division District office
18 and the Santa Fe office to check any kind of mistake that
19 you might make?

20 A. Well, in the title opinion also.

21 Q. Well, the title opinion, does that include a
22 search of the OCD public records?

23 A. It includes a search of the -- in this case, the
24 SLO records.

25 Q. Well, they won't search, then -- under the drill-

1 site title-opinion process, they don't search the OCD well
2 files, do they?

3 A. No, they do not.

4 Q. They don't search *Byram's* or the OCD rule book
5 for pool rules, do they?

6 A. No, they do not.

7 Q. They don't look to see where the boundaries are
8 of any pool?

9 A. That's correct.

10 Q. They don't check to see if there's a difference
11 in special rules between the special rules and the
12 statewide rules, right?

13 A. That's correct.

14 Q. And you don't do it internally?

15 A. We do it if we feel like there's a necessity to,
16 if we're alerted to that.

17 Q. Okay. How would you know which way to turn the
18 320 acres in Section 34?

19 A. Well, we would -- I don't know that we would
20 have. We likely would have come before the Division asking
21 for what we have right now at that time, based on the
22 mapping that we have now, which I think you will see and
23 which will present our evidence, that the 160-acre spacing
24 unit is the applicable acreage to be dedicated to the well.

25 Q. Well, let's look at Exhibit 1, the plat.

1 A. Okay.

2 Q. You and Mr. Gawloski are looking at this
3 prospect, and he's doing some geology for you, right?

4 A. Correct.

5 Q. And he's going to base his geology on a Morrow
6 attempt, right?

7 A. Correct.

8 Q. He's going to have available to him in Section 34
9 the existence of Morrow wells, true?

10 A. That's correct.

11 Q. Wouldn't it be interesting for you to know,
12 before you file the permit, which way those spacing units
13 are oriented for existing wells that he's looking at?

14 A. Well, we knew the well in the southeast quarter
15 was non- -- it had not produced. And just like we
16 testified to, there was no com agreement. The com
17 agreement had expired for that well.

18 Q. Did you check the OCD files to determine whether
19 or not their records still showed the east half of Section
20 34 dedicated to this temporarily abandoned well?

21 A. No, we did not at that time. But we know the com
22 agreement under the -- has terminated with regard to that
23 well, and there is no dedication to the east half.

24 Q. Did you look at the pool rules for the East Grama
25 Ridge-Morrow Gas Pool?

1 A. Well, we knew what the pool rules were. They
2 were 320 acres.

3 Q. All right. Did you know the west half was in a
4 different pool?

5 A. No, we did not.

6 Q. Did you make any effort to determine that?

7 A. Only through the indications that I've made
8 previous to you.

9 Q. In your prior practices, aren't you aware that
10 the Division precludes you from having two separate pools
11 dedicated in the same spacing unit for the same well?

12 A. Well, we haven't -- You know, that is the
13 practice of the OCD, I understand that.

14 Q. But you didn't know it then?

15 A. Well, we -- you know, I didn't know how that
16 would affect us, no.

17 Q. Who was the landman responsible for this at this
18 time?

19 A. Duke Roush.

20 Q. Is he still employed?

21 A. Yes, he is.

22 Q. Was there a petroleum engineer involved in the
23 process, Mr. Shelton?

24 A. Well, there would have been somebody that ran
25 economics on the well and reviewed the prospect along with