

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 18 January 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Bran Oil Corporation CASE
10 for compulsory pooling, Chaves County, 9584
11 New Mexico, and

12 Application of Stevens Operating Corp- CASE
13 oration for compulsory pooling, Chaves
14 County, New Mexico.

15 BEFORE: Victor T. Lyon, Examiner

16 TRANSCRIPT OF HEARING

17 A P P E A R A N C E S

18 For the Division: Robert G. Stovall
19 Attorney at Law
20 Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico

21 For Bran Oil Corporation William F. Carr
22 and Stevens Operating Attorney at Law
23 Corporation: CAMPBELL and BLACK, P. A.
P. O. Box 2208
24 Santa Fe, New Mexico 87501
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I N D E X

SAM D. GARDNER

Direct Examination by Mr. Carr

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F. ANDREW GROOMS

Direct Examination by Mr. Carr

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E X H I B I T S

Applicants Exhibit 1A, Document

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Applicants Exhibit 1B, Document

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Applicants Exhibit 2, Correspondence

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Applicants Exhibit 3A, Map

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Applicants Exhibit 3B, Map

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Applicants Exhibit 4A, AFE

14

Applicants Exhibit 4B, AFE

14

1 MR. LYON: We will next hear
2 Case 9584.

3 Case 9584. Application of
4 Bran Oil Corporation from compulsory pooling, Chaves
5 County, New Mexico.

6 MR. CARR: May it please the
7 Examiner, my name is William F. Carr with the law firm
8 Campbell & Black, P. A., of Santa Fe.

9 We represent Bran Oil Corpor-
10 ation.

11 At this time, Mr. Examiner, I
12 would request that the Division also call Case 9585.

13 These cases involve compulsory
14 pooling of two adjoining 160-acre tracts. We are pooling
15 the same interest owner in both, an unknown -- an indivi-
16 dual whose whereabouts is unknown, and we can consolidate
17 the testimony but separate orders should issue in this
18 matter.

19 MR. LYON: All right, Case
20 9584 and 9585 will be consolidated, 9585 being application
21 of Stevens Operating Corporation for compulsory pooling,
22 Chaves County, New Mexico.

23 MR. CARR: Mr. Examiner, I
24 also represent Stevens Operating Corporation.

25 We have two witnesses.

1 (Witnesses sworn.)

2
3 MR. LYON: Proceed, Mr. Carr.

4
5 SAM D. GARDNER,
6 being called as a witness and being duly sworn upon his
7 oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q Will you state your full name and place
12 of residence?

13 A Sam D. Gardner, in Roswell, New Mexico.

14 Q By whom are you employed and in what
15 capacity?

16 A By Stevens Oil Company as a landman for
17 the company.

18 Q Have you previously testified before
19 this Division and had your credentials as a landman accept-
20 ed?

21 A No, and I have not.

22 Q Would you briefly review for Mr. Lyon
23 your educational background and your work experience?

24 A Yes. 1960, graduated as a geologist and
25 therein pursued a career in the oil business in the land

1 department with Continental Oil Company for some six years
2 and then became an independent operator and as an indepen-
3 dent landman working for major oil companies and an inde-
4 pendent capacity for the last 25 years.

5 Q Are you familiar with the applications
6 filed in each of the consolidated cases?

7 A Yes, I am.

8 Q Are you familiar with the subject area
9 and the proposed wells?

10 A Yes.

11 MR. CARR: Are the witness'
12 qualifications acceptable?

13 MR. LYON: Yes, they are.

14 Q Would you please state what is being
15 sought in each of these cases?

16 A Yes. What we are doing here is unit-
17 izing 160-acre quarter section for the purpose of drilling
18 an Abo, Pecos Slope Abo test, gas well.

19 Q And each of these wells will be located
20 at standard locations.

21 A At standard locations.

22 Q Have you prepared certain exhibits for
23 presentation today?

24 A Yes, I have.

25 Q Would you refer to what has been marked

1 as Exhibit One-A and One-B and review this for the
2 Examiner, Mr. Lyon?

3 A Yes.

4 MR. CARR: The exhibits are
5 marked for both cases. They're called Bran/Stevens
6 Exhibits One-A and One-B, Case 9584-9585, and I'd also
7 note, Mr. Lyon, that there are a number of exhibits that
8 are parallel exhibits indicated with the letter A and B.

9 A throughout refers to the
10 southeast quarter and the B always refers to the north-
11 east quarter.

12 MR. LYON: Now, let me get
13 that down here.

14 A is --

15 A Southeast quarter.

16 MR. CARR: Southeast quarter,
17 which is Case 9584, and when we indicate an exhibit as
18 Exhibit B it's the northeast quarter, which is Case 9585.

19 MR. LYON: Okay. Please con-
20 tinue.

21 Q Would you please review Exhibit One-A
22 and One-B?

23 A Yes. Exhibit One-A deals with the
24 southeast quarter of Section 32, Township 6 South, Range 26
25 East, Chaves County, New Mexico, for the unitization of 160

1 acres for a well to be drilled 660 from the east line and
2 1980 from the south line of said section, for an approxi-
3 mate 4400 foot Abo test.

4 The acreage breakdown in that quarter
5 section is as follows: The west half and the southeast
6 quarter is a Federal oil and gas lease and it is a Unocal
7 farmout to Bran Oil Corporation, and the northeast quarter
8 of the southeast quarter breaks out in Bran Oil Corporation
9 owning 5 net acres in fee minerals and having a lease of
10 five net mineral acres there.

11 Stevens Oil Company owns a 22.5 net
12 acres under six separate fee leases, and we have the
13 mission 7.5 net acres belonging to Pearl Young, whereabouts
14 unknown.

15 Q Would you now refer to Exhibit One-B and
16 review that, please?

17 A Exhibit One-B deals with the northeast
18 quarter of Section 32, Township 6 South, Range 26 East,
19 Chaves County, New Mexico. Unitized this 160 acres for the
20 purpose of a 4300 foot Abo test.

21 This particular tract is broken up a
22 little bit differently, dealing with the northeast quarter
23 and the southeast quarter of that quarter section, that is
24 a State oil and Gas lease owned by Stevens Oil Company,
25 being a total of 80 net acres.

1 The southeast quarter of that northeast
2 quarter is owned 22.5 net acres under six separate oil and
3 gas leases. Bran Oil Corporation owns a 10 net mineral
4 acres and Lily Pearl Young, whereabouts unknown, and the
5 open acreage is 7.5 acres there.

6 We did not cover the northeast quarter
7 of that -- pardon me, northwest, that is Stevens Oil Com-
8 pany owns 3 oil and gas leases covering 32.5 net acres and
9 Bran Oil Corporation owning 3.75 net acres in fee mineral
10 interests.

11 Q The only interest owner in each of these
12 cases that has not voluntarily committed their interest to
13 the wells proposed is the interest of Lily Pearl Young, is
14 that correct?

15 A Yes, that's right.

16 Q What percent of the acreage in each of
17 these is voluntarily committed, do you know?

18 A Yes, 90 -- 95.3125.

19 Q And the balance belongs to Ms. Young?

20 A Ms. Young.

21 Q Would you refer to what has been marked
22 as Exhibit Number Two and referring to this, summarize your
23 efforts to locate the whereabouts of Lily Pearl Young?

24 A Well, to begin with, Lily -- Exhibit Two
25 A is my letter to a landman in Bakersfield, California, who

1 is experienced in looking for missing heirs and after a
2 good deal of searching myself it was discerned that this
3 Lily Pearl Young's last known address was Bakersfield area,
4 California.

5 Therein I write this letter to this man
6 and acquired his services to look for this lady, and in
7 this letter that is marked Two, is marked number -- Exhibit
8 Two, he tells us what he did to find them; an extensive ef-
9 fort was made by this gentleman. He, as you can see on
10 here, he checked all the Kern County, California death re-
11 cords for Lily Pearl Young and her son, Lawrence David Ray;
12 ran the grantee/grantor index records for Lily Pearl Young
13 in Kern County; checked all the available public admini-
14 stration records for her. The lady was, as we were told by
15 brothers and sisters we interviewed, was having some diffi-
16 culties and we understand she ended up in sanitariums and
17 nursing homes, and we checked those out without success.

18 We increased the broadness of the search
19 to the entire State of California by running state death
20 records, marriage records, divorce records for Lily Pearl,
21 her daughter Patsy, for David Ray, her son. We only found
22 the marriage certificate for the daughter, and that is --
23 and a search for the daughter was of no avail.

24 Numerous, numerous calls, of course,
25 were made to the brother and sister of this person, who

1 lives in Roswell and have not had contact with the lady in
2 25 years and they have no idea where she is or what she's
3 done.

4 It just goes on and on in this Exhibit
5 Two explaining what they have accomplished and what they
6 weren't able to do.

7 Q Okay. Attached to the back of this
8 exhibit is an additional letter. Would you identify that
9 and explain why that's included?

10 A Yes. This has come from an acquaintance
11 of mine who I also asked to check his available records
12 that he has at -- this gentleman, Steve Wisniewski, is the
13 ex-Chief of Police of Roswell, New Mexico, and he is a per-
14 sonal friend of mine, who is now the Chief of Police of the
15 City of Hermosa Beach, and he was home during the Christmas
16 vacation and I chatted with him and I asked him if he could
17 give us a hand, and he said he'd be happy to, and this is
18 the letter in return to him, from him, telling us that his
19 computer, Hermosa Beach, he searched it for all the pos-
20 sible names that I had listed and all combinations thereof,
21 without any success.

22 He contacted the Shafter County Police,
23 the Kern County Sheriff's Department, in an attempt to
24 locate these people and without success, and he goes on to
25 say that he has done about all that he can do without as-

1 signing an investigator to it, and he is hesitant to do
2 that for private enterprise.

3 Q In your opinion has a good faith effort
4 been made to locate the whereabouts of --

5 A Yes, sir.

6 Q -- of Ms. Young? Were Exhibits One-A,
7 One-B, and Two compiled under your direction and super-
8 vision?

9 A Yes, they were.

10 MR. CARR: At this time, Mr.
11 Lyon, we would move the admission of Bran/Stevens Exhibits
12 One-A, One-B and Two.

13 MR. LYON: Is there objection?
14 Exhibits One, One-A and Two
15 are admitted into evidence.

16 MR. CARR: One-A, One-B and
17 Two.

18 MR. LYON: One-A, One-B and
19 Two.

20 MR. CARR: Yes, sir.

21 MR. LYON: Okay.

22 MR. CARR: That concludes my
23 direct examination of this witness.

24 MR. LYON: I have no questions
25 for Mr. Gardner.

1 MR. CARR: At this time we
2 call Mr. Grooms.

3
4 F. ANDREW GROOMS,
5 being called as a witness and being duly sworn upon his
6 oath, testified as follows, to-wit:

7
8 DIRECT EXAMINATION

9 BY MR. CARR:

10 Q Will you state your full name and place
11 of residence, please?

12 A F. Andrew Grooms, Roswell, New Mexico.

13 Q Mr. Grooms, by whom are you employed and
14 in what capacity?

15 A I am Vice President of Bran Oil Corpor-
16 ation of which I am a majority interest owner, and am em-
17 ployed in the capacity of landman for the company.

18 Q Mr. Grooms, have you previously testi-
19 fied before this Division?

20 A Yes, I have.

21 Q Were your credentials accepted and made
22 a matter of record at that time?

23 A Yes, sir, they were.

24 Q Are you familiar with the applications
25 filed in each of these cases?

1 A Yes, I am.

2 Q Are you familiar with the subject area?
3 and the proposed wells?

4 A Yes, sir.

5 MR. CARR: Are the witness'
6 qualifications acceptable?

7 MR. LYON: Yes, they are.

8 Q Mr. Grooms, I'd like to direct your
9 attention to what has been marked as Exhibit Three-A and
10 Three-B in these consolidated cases. I'd ask you to iden-
11 tify each and review the information contained on that
12 exhibit.

13 A Exhibit Three-A is a petroleum ownership
14 map outlining the leasehold interest in the southeast quar-
15 ter of Section 32, Township 6 South, Range 26 East, Chaves
16 County, New Mexico, which designates the 160-acre proration
17 unit for an Abo test well.

18 Q And the wells are to be at standard
19 locations?

20 A Yes, sir, they are.

21 Q Okay, would you go to Three-B and just
22 identify that, please.

23 A All right, Exhibit Three-B is also a
24 petroleum ownership map of Midland Map Company, designating
25 the leasehold interest in the northeast quarter of Section

1 32, Township 6 South, Range 26 East, Chaves County, New
2 Mexico, designating 160-acre spacing unit for an Abo test
3 well.

4 Q Have Bran and Stevens both been involved
5 in the development of the Abo formation in this area in the
6 past?

7 A Yes, both companies have drilled wells
8 in the area and operated wells.

9 Q Would you refer to Exhibits Four-A and
10 Four-B, identify those and review them for Mr. Lyon?

11 A Exhibit Four-A is Authority for Expen-
12 diture prepared by the engineer employed by Bran Oil Cor-
13 poration, indicating the cost to drill and complete an
14 approximately 44-4500 foot Abo test well in the amount of
15 \$231,083.

16 And the Exhibit B is an AFE prepared by
17 Stevens Operating Corporation personnel outlining the cost
18 to drill and complete an Abo test well approximately
19 43-4400 foot in the northeast quarter of said Section 32,
20 in the amount of \$234,301.

21 Q These AFE's were independently prepared
22 by each of the companies?

23 A Yes, sir, they were.

24 Q Are these costs in line with what is
25 charged by other operators for Abo wells in the area?

1 A Oh, definitely, definitely are.

2 Q Are you prepared to make a recommenda-
3 tion to the Examiner as to the risk penalty that should be
4 assessed against the interest of Ms. Young if she can't be
5 identified and located regarding the well?

6 A Yes, sir, I am. I think it should be
7 cost plus 200 percent in each case.

8 Q And what do you based that recommenda-
9 tion on?

10 A My recommendation is based on our com-
11 pany's studies of the offset proration units close to
12 Section 32. We've made an examination of ten wells that
13 have been drilled in the area between 1982 and 1985, eight
14 of which were hooked up to a pipeline and excepting the six
15 months that these wells were shut in due to the so-called
16 arsenic problem, these wells in this area on an average
17 basis produce about 188,000 cubic feet of gas per day.
18 With these wells costing in the \$230,000 range, you're
19 talking about a payout period for an average field well of
20 about 3.6 to 4 years. The likelihood of drilling a dry
21 hole is quite minimal; however, the possibility of drilling
22 a marginal well is quite high and therefore we feel that
23 such a risk charge is justified.

24 Q Is it your opinion that you could drill
25 a well in this area that would in fact not be a commercial

1 success?

2 A Very much so, yes, sir.

3 Q Have you made an estimate of the over-
4 heard and administrative costs that will be incurred while
5 drilling and then while producing a well?

6 A Yes, utilizing standard industry COPAS
7 procedure guidelines, we recommend a drilling well over-
8 head rate of \$3,500 per well on a monthly basis and a pro-
9 ducing well overhead rate of \$350 per month on a per well
10 basis.

11 Q And these costs are in line with what's
12 being charged by other operators in the area?

13 A They are in line or less than what is
14 being charged by most operators in the area.

15 Q And you recommend that these figures be
16 incorporated into the order which results from today's
17 hearing?

18 A Yes, sir.

19 Q Do you seek -- or who do you request be
20 designated operator of each of these wells?

21 A We would request that Stevens Operating
22 Corporation be designated as operator of each of these
23 wells in a cooperative effort to develop the acreage.

24 Q The application was originally filed
25 indicating that Bran would desire to be operator of the

1 well in the southeast quarter. You are changing that re-
2 quest, are you not?

3 A Yes, sir.

4 Q Have all of the other interest owners in
5 the well been notified and are aware and concur in this
6 request?

7 A Each and every interest owner within
8 either of these locations has been notified and is fully
9 agreeable to that request.

10 Q What is the reason for requesting that
11 Stevens operate both wells?

12 A The reason for the request is simply for
13 the cost efficiencies that would be accomplished by having
14 one operator handle the paperwork on both wells as well as
15 obtaining bids and we feel that that would accomplish a
16 significant cost savings.

17 Q In your opinion will granting this
18 application be in the best interest of conservation, the
19 prevention of waste, and the protection of correlative
20 rights?

21 A Yes, sir, I believe I would.

22 Q Were Exhibits Three-A and B and Four-A
23 and B compiled under your direction?

24 A Yes, sir, they were.

25 Q Have you reviewed them and can you tes-

1 tify as to their accuracy?

2 A Yes, sir, I can.

3 MR. CARR: At this time, Mr.
4 Lyon, we would move the admission of Exhibits Three-A,
5 Three-B, Four-A and Four-B.

6 MR. LYON: Is there objection?
7 Exhibits Three-A, Three-B,
8 Four-A and Four-B will be admitted into evidence.

9 MR. CARR: That concludes my
10 direct examination of Mr. Grooms.

11 MR. LYON: I have no questions
12 at all.

13 MR. CARR: I have nothing
14 further.

15 MR. LYON: The witness may be
16 excused and we will take the case under advisement.

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18 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C. S. R. DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division (Commission) was reported by me; that the said transcript is a full, true and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9584/9585 heard by me on Jan 18 1989.

W. Boyd, Examiner
Oil Conservation Division