

CASE 4354: Application of MICHA  
P. GRACE & CORINNE GRACE FOR  
COMPULSORY POOLING, EDDY COUNTY

CONTINUED TO SEPTEMBER 16, 1970

Case Number

4354

Application  
Transcripts.

Small Exhibits

ETC.

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. 4354 and 4428  
Order No. R-4033

APPLICATION OF MICHAEL P. GRACE  
AND CORINNE GRACE FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO;

AND

APPLICATION OF TEXAS OIL AND GAS  
CORPORATION FOR A NON-STANDARD GAS  
SPACING UNIT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

This cause came on for hearing at 9:30 a.m. on September 16, 1970, at Santa Fe, New Mexico, before Examiner Daniel S. Mutter.

NOW, on this 2nd day of October, 1970, 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 Michael P. Grace and Corinne Grace filed an application with the Commission April 22, 1970, seeking an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range 26 East, NMPM, South Carlsbad Field, Eddy County, New Mexico, said acreage to be dedicated to a gas well to be drilled at a standard location in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11.

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(3) That Texas Oil and Gas Corporation filed an application with the Commission August 31, 1970, seeking approval of a 240-acre non-standard gas proration unit comprising the E/2 NE/4, SW/4 NE/4, W/2 NW/4, and SE/4 NW/4 of said Section 11 to be dedicated to a well to be drilled at a standard location in the N/2 of said Section 11 to test any and all formations from the surface of the ground down to and including the Morrow formation.

(4) That the aforesaid matter came on for hearing on September 16, 1970, as consolidated cases.

(5) That Michael P. Grace and Corinne Grace have the right to drill and propose to drill a well at a standard location in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11, to test any and all formations from the surface of the ground down to and including the Morrow formation.

(6) That Texas Oil and Gas Corporation has the right to drill and proposes to drill a well at a standard location in the N/2 of said Section 11 to test any and all formations from the surface of the ground down to and including the Morrow formation and to dedicate the acreage as described in Finding No. (3), above.

(7) That there are interest owners in the N/2 of said Section 11 who have not agreed to pool their interests.

(8) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in the N/2 of said Section 11 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas underlying said half section, all mineral interests, whatever they may be, from the surface of the ground down to and including the Morrow formation underlying the N/2 of said Section 11 should be pooled to form a 320-acre unit dedicated to a well to be drilled in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11, provided the operator of said unit commences the drilling of said well on or before the 15th day of November, 1970, and thereafter continues the drilling of said well with due diligence to a depth sufficient to test the Morrow formation.

(9) That Michael P. Grace and Corinne Grace should be designated the operators of the pooled unit and the well to which said unit is dedicated.

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

(11) 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 plus an additional 37½% thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) 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.

(13) 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 operators any amount that reasonable well costs exceed estimated well costs and should receive from the operators any amount that paid estimated well costs exceed reasonable well costs.

(14) That \$100.00 per month should be fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operators 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 operators should be 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.

(15) 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.

(16) That upon the failure of the operators of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 15, 1970, the order pooling said unit should become null and void and of no effect whatsoever.

(17) That upon the failure of the operators of said pooled unit to commence drilling of the well to which said unit is

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dedicated on or before November 15, 1970, the non-standard gas proration unit described in Finding No. (3), above, should be approved.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range 26 East, MMPM, South Carlsbad Field, Eddy County, New Mexico, are hereby pooled to form a 320-acre gas spacing unit to be dedicated to a well to be drilled at a standard location in either the NE/4 NW/4 or NW/4 NE/4 of said Section 11;

PROVIDED HOWEVER, that the operators of said unit shall commence the drilling of said well on or before the 15th day of November, 1970, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operators do not commence the drilling of said well on or before the 15th day of November, 1970, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operators shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Michael P. Grace and Corinne Grace are hereby designated the operators of the subject well and unit.

(3) That the operators shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(4) That within 30 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 operators 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 operators shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 30 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 completion of the well, 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 30 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 operators his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operators his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operators are 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 estimated well costs within 30 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, 37½% 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 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$100.00 per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject

well; that the operators are 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 operators are 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 operators shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That upon the failure of the operators of the above-described pooled unit to commence the well to which said unit is dedicated on or before the 15th day of November, 1970, a non-standard gas proration unit comprising the E/2 NE/4, SW/4 NE/4, W/2 NW/4, and SE/4 NW/4 of Section 11, Township 23 South, Range 26 East, NMPM, South Carlsbad Field, Eddy County, New Mexico, is hereby established and dedicated to a well to be drilled at a standard location in the N/2 of said Section 11, to test any and all formations from the surface of the ground down to and including the Morrow formation.

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



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

STATE OF NEW MEXICO  
OIL CONSERVATION COMMISSION



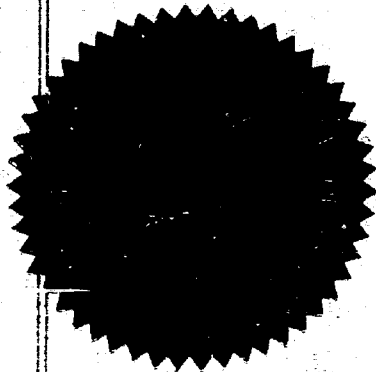
DAVID F. CARGO, Chairman



ALEX J. ARMILLO, Member



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



esr/

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BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico

September 16, 1970

EXAMINER HEARING

IN THE MATTER OF:

Application of Texas Oil and  
Gas Corporation for a non-  
standard gas spacing unit,  
Eddy County, New Mexico;

Case No. 4428

and

Application of Michael P. Grace  
and Corinne Grace for  
compulsory pooling, Eddy County,  
New Mexico.

Case No. 4354

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING

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1 MR. NUTTER: The hearing will come to order please.  
2 Case 4428, application of Texas Oil and Gas Corporation for a  
3 non-standard gas spacing unit, Eddy County, New Mexico.  
4 Case 4354, application of Michael P. Grace and Corinne Grace  
5 for compulsory pooling, Eddy County, New Mexico. In the  
6 absence of any objection of any interested party I would like at  
7 this time to consolidate cases. Any objections?

8 MR. LOSEE: No.

9 MR. LOPEZ: No.

10 MR. NUTTER: Cases are consolidated. I don't know  
11 who would prefer to go first here, the applicants in the first  
12 case or the applicants in the second case. Is there a choice?

13 MR. LOSEE: Go ahead Mr. Lopez.

14 MR. LOPEZ: Thank you Mr. Losee. My name is Owen  
15 Lopez. I am associated with the law firm of Montgomery,  
16 Federici, Andrews, Hannahs, and Morris and I am here on behalf  
17 of the applicant, Michael P. Grace, for a compulsory pooling in  
18 Eddy County, New Mexico. This is in Case 4354. I also  
19 represent Mr. Grace in opposing the application of Texas Oil  
20 and Gas Corporation for a non-standard unit in the same section.  
21 At this time, Mr. Examiner, I have two witnesses.

22 MR. NUTTER: Mr. Losee, do you have any witnesses?

23 MR. LOSEE: I have one witness.

24 MR. NUTTER: All witnesses will be sworn at the same  
25 time, please.

(Whereupon, the witnesses were sworn.)

WILLIAM J. LEMAY,

called as a witness, having been first duly sworn, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. LOPEZ:

Q Would you please state your name?

A William J. LeMay.

Q Your occupation?

A Consulting geologist, Santa Fe, New Mexico.

Q Mr. LeMay, have you testified before the Commission and are your qualifications a matter of record?

A Yes.

MR. LOPEZ: Are his qualifications acceptable?

MR. NUTTER: Yes they are.

Q (By Mr. Lopez) Are you familiar with the application of Michael P. Grace and Corinne Grace in Case 4354 for forced pooling of the north half of Section 11, Township 23 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico?

A Yes I am.

Q Have you prepared yourself or under your supervision have exhibits been prepared in connection with this application?

A Yes I have.

Q Referring to Exhibit Number 1, would you please

1 describe and explain what it means?

2       A     Exhibit 1 is a land plat of the Carlsbad Field,  
3 South Carlsbad Field area indicating the completions to date,  
4 color coded as to the zones that the various wells are  
5 producing from. Along with this information is located the  
6 proration unit which would be dedicated to a well drill in the  
7 north half of Section 11, Township 23 South, Range 26 East,  
8 South Carlsbad Field, Eddy County, and the locations which  
9 would be the choice of standard locations in that proration  
10 unit. They are indicated by small dots of red on the eighty  
11 acres that Michael P. Grace owns in that section.

12           Briefly reviewing the nature of the South Carlsbad  
13 Field, I'd say that it's basically stratigraphic accumulation  
14 of gas in some four zones of the Pennsylvanian and its an  
15 erratic occurrence. As you can see, the initial well, the  
16 discovery well, drilled by Mobil in Section 12 is a dual  
17 completion from the Atoka and Morrow. It has indicated  
18 production in the Strawn and a zone that has not been completed  
19 to date in what they call the Canyon Line above the Strawn.  
20 It's the highest well structurally in the field and looks like  
21 it has the greatest reserves because of the various zones  
22 producing, all four indicated to be productive. Other wells  
23 are the Superior-Collat located in the southwest quarter of  
24 Section 1 which is completed in the Strawn and the second  
25 Pennzoil Well, the Gulf Federal in the southeast corner of

1 Section 1 and the marginal Morrow completion drilled by Morrow-  
2 Antwell in Section 6. Indicated production from the Morrow  
3 also in Section 31 but I have not received completion  
4 information on this well to date. That is indicated by a  
5 circle in the southwest corner of 31, 22 South, 27 East.  
6 Mr. Grace is currently drilling a well in Section 25 of 22  
7 South, 25 East. This well would be 660 from the south and  
8 1,980 from the east line. Further comments concerning the  
9 nature of the field indicate that these zones are erratic,  
10 that Texas Oil and Gas did drill a well in the southeast corner  
11 of Section 11. This well has, I understand, not been completed  
12 to date. They had what looked like a non-commercial show of  
13 gas on the Morrow which they attempted completion on and the  
14 Atoka zone which is a drill stem tested well. The current  
15 status of this well is not known to me at this time. I think  
16 that there will be some testimony regarding it in the future.  
17 I will confine my comments to the field proper and the nature  
18 of the gas accumulations.

19 Exhibit Number 2 is a well-cost estimate of drilling  
20 a well in the South Carlsbad Field showing both single and dual  
21 completions and I think, without going into each item, I think  
22 the cost of these wells can be agreed is quite high for the  
23 Permian Basin exploration in southeast New Mexico. The cost  
24 runs high. A lot of it is lost circulation which is encountered  
25 by most wells drilling in the area. A summary of my Exhibit

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1 Number 2 is at the bottom where I estimate a total cost for  
 2 dry hole at \$348,350.00 -- I'm sorry, \$268,950.00, and an  
 3 estimated single completion, that's just one zone, would be  
 4 \$348,350.00, actual completion total estimated well cost  
 5 \$389,350.00. I might say in regard to this exhibit these costs  
 6 are a lot lower or lower than the average cost in the field.  
 7 Pennzoil encountered, I think, the cheapest well they drilled  
 8 to date, about \$400,000.00 and I don't have the cost estimates  
 9 on Texas Oil and Gas Company well but they seem to always  
 10 exceed the AFE estimates because of the mechanics of drilling  
 11 in the area and the various problems of trying to complete from  
 12 these zones. So in summary, the costs are very high and I'd say  
 13 the risk, the commercial risk, is quite high when you realize  
 14 the high cost in drilling and completing the well and the  
 15 reserves are thin pays and it's highly risky in a commercial  
 16 sense.

17 Q When you say "thin pays," and referring to Exhibit  
 18 Number 1, are you saying further east and west you remove  
 19 yourself from the initial pilot wells which are located in  
 20 Section 1 and 12, that the higher the risk that may be involved?

21 A I think that is always the case, the further you move  
 22 from production the higher the risk factor for commercial  
 23 completion. You will notice even the three wells that for gas  
 24 well spacing are relatively close together, the three wells in  
 25 Section 1 and 12 have a lot happening stratigraphically in the

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1 pay section between these various completions. Example, the  
 2 Superior-Collat is not a commercial well in the Morrow. The  
 3 direct west offset, the Pennzoil Gulf Federal is not a  
 4 commercial well in the Strawn and the Mobil Discovery Well in  
 5 Section 12 had all these present. You can move a short  
 6 distance and stratigraphically pinch out your pay or even  
 7 enlarge the thickness or the sands are quite variable in their  
 8 development through here, especially in the Morrow. This is  
 9 the case generally throughout Southeast New Mexico. The  
 10 Morrow has proved to be quite erratic. The Strawn reservoir  
 11 is a new reservoir in this particular area. Of course, it  
 12 produces in the Lusk-Strawn Field and there are a few other  
 13 gas accumulations between the South Carlsbad Field and the  
 14 Lusk but it has an erratic nature also. It tends to develop  
 15 brieflike characteristics on structure and lose them off  
 16 structure. We are talking about a structure here in Section 12,  
 17 a small structure. It is a combination but I think the  
 18 structure is responsible for the stratographic variations in  
 19 the accumulation rather than be a controlling factor and rather  
 20 than have a blanket-type structure like the Devonian structure  
 21 would produce.

22 Q If the application of Michael Grace is granted in  
 23 this case, what would you recommend to be the cost of  
 24 supervision?

25 A I think the Commission has found in the past that a



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1 standard supervisory charge, administrative overhead charge, is  
2 \$150 per month per well.

3 Q Based on your study and your well-estimate cost, do  
4 you have an opinion as to what you would recommend the  
5 Commission to set as a penalty fee if the other leaseholder  
6 does not voluntarily enter into an operating agreement?

7 A Considering the high commercial risk involved in  
8 drilling the well, I'd recommend a maximum of 150% penalty  
9 clause.

10 Q That is the maximum the Commission can grant?

11 A Yes.

12 MR. LOPEZ: I have no further questions.

13 MR. NUTTER: Does anyone have any questions of  
14 Mr. LeMay?

15 MR. LOSEE: I have a couple of questions.

16 CROSS-EXAMINATION

17 BY MR. LOSEE:

18 Q Mr. LeMay, the proposed location is actually directly  
19 offset to the east by the best wells in the field?

20 A Would not be a direct offset to the east, the west  
21 half of Section 12 has not been drilled to date.

22 Q Isn't the spacing unit dedicated to the Pennzoil well  
23 in the north half of Section 12?

24 A That's true. The way the proration units are set up  
25 in there, the prorations are direct offsets to a proration unit.

1 Q And it's a diagonal offset to Pennzoil's Gulf Well?

2 A That's correct.

3 Q And it would be a direct offset to this Texas Oil  
4 and Gas-Pan Am State No. 1 well?

5 A If it's a well, I don't know the current status.

6 Q It's a direct offset?

7 A To the well, yes.

8 Q Do you know when the Graces propose to commence  
9 drilling operations?

10 A I wouldn't feel qualified to answer that. I think  
11 the next witness could.

12 MR. LOSEE: That's all the questions I have.

13 MR. LOPEZ: If there are no objections, I would like  
14 to introduce Exhibits 1 and 2 in evidence.

15 MR. NUTTER: Applicants' Exhibits 1 and 2 will be  
16 admitted in evidence in Case 4354.

(Whereupon Applicants' Exhibits  
1 and 2 were admitted in evidence.)

17  
18 MR. NUTTER: On your Exhibit 1, you have two little  
19 red dots --

20 A Yes sir.

21 MR. NUTTER: -- in your proration unit and they are  
22 identified as choices or standard locations. This means the  
23 proposed location would be one of those two dots?

24 A Those are the two standard locations that would be  
25

1 drilled if Mr. Grace was the operator of a well in the north  
2 half of 11.

3 MR. NUTTER: So the well would be in either "B" or  
4 "C" of Section 11?

5 A Yes, in my information to date, there are no plans  
6 for an unorthodox location in the north half of 11.

7 MR. LOPEZ: I believe the next witness will clarify  
8 this.

9 MR. NUTTER: As to whether these locations are  
10 permissible with respect to the airport and such as that?

11 MR. LOPEZ: Yes.

12 MR. NUTTER: Any further questions of Mr. LeMay?  
13 He may be excused.

14 MR. LOPEZ: At this time I would like to call  
15 Corinne Grace.

16 CORINNE GRACE,  
17 called as a witness, having been first duly sworn, was  
18 examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. LOPEZ:

21 Q Would you please state your name?

22 A Corinne Grace.

23 Q Are you the operator, Mrs. Grace, of your husband's  
24 drilling operations in Eddy County?

25 A Thus far, yes.

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1 Q Mrs. Grace, of course you are familiar with your  
2 husband's application for forced pooling in the north half of  
3 Section 11, Township 23 South, Range 26 East, in Eddy County?

4 A Yes.

5 Q Mrs. Grace, have you attempted to carry on any  
6 negotiations with the other leaseholder, Pan American, as  
7 regarding a voluntary operating agreement?

8 A Yes I did and we were -- my husband and I were in  
9 agreement with everything except their cost, their accounting  
10 procedure we thought that was astronomical. They didn't put  
11 down what their supervisor would get. It was sort of like  
12 signing a blank check we thought. Other than that we thought  
13 we were pretty much in agreement when we were informed they  
14 farmed it out to this other group.

15 Q Subsequent to these negotiations with Pan American,  
16 did you come to realize that Pan American had given farm-out to  
17 Texas Oil and Gas-John Hill Neelson Enterprises?

18 A Yes.

19 Q Did you attempt to negotiate with these farm-out  
20 people?

21 A Yes, through you. They were contacting you. They  
22 never contacted us, the Texas Oil and Gas group, so we asked  
23 you to ask them to send us their anticipated budget and their  
24 operating agreement with Pan American and -- I mean their  
25 farm-out agreement, I'm sorry, because that is what they wanted

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1 us to either farm out to them or carry ourselves. The answer  
2 I got back from you was that they had gone to drill in the south  
3 half. I called Pan American and they said they had not as yet  
4 signed a farm-out agreement with them. We had said we'd come  
5 out. I think we asked you to ask them on a Friday and you  
6 could get us the papers and we'd be out to talk to them on  
7 Wednesday. Later I met with Mr. Losee and he informed me that  
8 didn't give them enough time to move on. If he'd told me that  
9 I would have made myself available and my husband would have  
10 earlier. We didn't know he needed like a week to move his rig  
11 out.

12 Q Were you aware they have commenced drilling of a well  
13 in the south half of Section 11?

14 A Yes.

15 Q Are you familiar with the status of this well?

16 A My office is across the road from it and my husband  
17 and I have constantly watched this well much to our  
18 disappointment.

19 Q Did you receive any information as late as ten o'clock  
20 this morning as to the status of the well?

21 A It was flaming and there was no one watching it which  
22 is the usual story. We go out and it is burning but there is  
23 nobody there. I hear it's caved in. They promised to send you  
24 completion reports since the last meeting on August 5th. We  
25 have not received them. All during their drilling I would go by

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1 the well and the roustabouts told me they had never seen an  
2 engineer, never seen a geologist. They had one or two drill-  
3 stem tests that they told me neither one showed up for. I was  
4 extremely disappointed in their operations and I'd hoped my  
5 husband wouldn't farm out to them. I don't like having  
6 dealings with -- I think engineers and geologists are very  
7 important people when it comes to an oil well and are needed on  
8 the premises. That is my personal feeling. They had a pooling  
9 unit sitting out there since approximately the 1st of July.  
10 I understand it's gone now. I don't know what they paid for  
11 that pooling unit. I know what I paid them to sit there. It's  
12 quite expensive and my husband paid a lot for this lease and  
13 I hate to see it in the hands of someone like that who I don't  
14 think in this area has operated very prudently. If my husband  
15 had the money that he put in this lease in industrial bonds or  
16 blue chip stocks, I would be trying to handle just as carefully.

17 Q Then you do have an estimate of when you think they  
18 did bottom out?

19 A Approximately early July or end of June.

20 Q Is it true that you have been granted --

21 A I mean late June.

22 Q Is it true that you have filed an Intent to Drill  
23 Form C 101 as to the orthodox location in the northeast quarter  
24 of the northwest quarter?

25 A Yes.

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1 Q Considering the fact you propose to use 146 foot rig  
2 to drill to the bottom of the Pennsylvanian to test it, have you  
3 been granted approval by the FAA?

4 A Yes.

5 Q When do you intend to drill the well if your  
6 application is granted?

7 A As soon as possible.

8 MR. LOPEZ: No further questions.

9 MR. NUTTER: In other words, Mrs. Grace, this  
10 location which you have got Mr. LeMay's map in front of you,  
11 the two little red dots in the north half of Section 11, the  
12 one on the left is the location that you have filed a notice of  
13 Intent and the FAA has approved that location?

14 A Yes sir.

15 Q What about the Oil Conservation Commission, has it  
16 been filed with the OCC?

17 A I think so.

18 MR. NUTTER: But there is no objection as far as the  
19 airport is concerned to that location?

20 A No sir.

21 MR. NUTTER: Any other questions of Mrs. Grace?

22 CROSS-EXAMINATION

23 BY MR. LOSEE:

24 Q How much did your husband pay for the 80-acre lease,  
25 Mrs. Grace?

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1 A As I recall, that is part of one that is on the  
2 airport proper and as I recall it was in excess of \$100,000.

3 Q How much per acre, do you know?

4 A Well, I'd have to take a pencil and figure how many  
5 acres. It may be on this map -- \$226.62.

6 Q When Mr. Lopez conveyed to you the intention of Texas  
7 Oil and Gas to drill a well in the north half of Section 11, he  
8 did convey that intention to you, that you wanted to drill a  
9 well in the north half of 11?

10 A Yes he did.

11 Q Did he explain the necessity of obtaining FAA  
12 approval to any location?

13 A I don't recall but I am sure it was understood.

14 Q Did he also explain it would be necessary to  
15 communitize the leases for this spacing unit consisting of the  
16 north half of Section 11 and obtain approval of that agreement  
17 by the Commissioner of Public Lands?

18 A I don't remember about the approval, I suppose yes.  
19 If we just agreed then I suppose the Commission works pretty  
20 fast, don't they, if everybody is in agreement? We didn't have  
21 to go to a hearing did we?

22 Q Were you aware it was necessary to obtain a  
23 communitization agreement approved by the Commissioner of Public  
24 Lands?

25 A I am aware, yes, and I think usually, this is my



1 opinion, it may not be right, if everyone is in agreement it is  
2 sort of mechanical with the Commission in a matter of a few  
3 hours.

4 Q This Wednesday you testified you were proposing to  
5 come and meet with me and Mr. Lopez in Santa Fe, that was April  
6 15, was it not?

7 A I don't have my calendar in front of me.

8 MR. LOPEZ: I think we can agree it was April 15.

9 Q (By Mr. Losee) And the expiration date on lease  
10 K357 in Section 11 is noted there on the map, your Exhibit 1,  
11 as being April 18, 1970?

12 A That's right.

13 Q So you were aware the lease would expire on that  
14 Sunday?

15 A If that is a Sunday, I didn't realize it was.

16 Q It is.

17 A I see what you are building up to. Why didn't you  
18 tell us if you needed to act faster? I got one through in one  
19 day just within the last six weeks.

20 Q Were you aware that our lease was expiring?

21 A Yes, I was aware your lease was expiring.

22 Q Mrs. Grace, let me hand you a copy of a letter dated  
23 August 28, 1970, which was addressed to Mr. Lopez and ask if  
24 you have seen a copy of this letter?

25 A Yes I have.

1 Q Are the facts stated in that letter correct?

2 A Well, I'd have to read the letter again.

3 Q Please do so.

4 A As I recall, when I first read it I didn't think they  
5 were. Well, I think in paragraph 2 on the first page in order  
6 to perpetuate one of the expiring leases you commence drilling  
7 in the south half. I think had you told us that you instead of  
8 running off drilling you had to, you needed longer than what  
9 most people consider time to file a paper in Santa Fe, we would  
10 have made ourselves available. We were in the middle of a  
11 six million dollar settlement of a matter in New Jersey but  
12 I guess we would have walked away and come up here or you could  
13 have come up there and met with us.

14 Q Anything else that bothers you about the letter?

15 A Yes, you say on page 2, the second paragraph from the  
16 bottom, that you had heretofore furnished us with a copy of  
17 Pan American's contract. I don't know what you furnished  
18 Mr. Lopez, but you did furnish to me through another attorney  
19 an agreement that completely cut me apart, as if I didn't even  
20 know how to read. You sent me an agreement between Pan American  
21 and a man in Dallas in regard to the north half which was  
22 completely null and void because you were drilling at that  
23 moment in the south half.

24 Q When did you receive that copy of that farm-out  
25 contract from Mr. Durrett?

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1 A I guess in May or June, maybe May or June. The day  
2 I went to see you everything I asked you you said you didn't  
3 know. I asked, "Who can I talk to that does know something?"  
4 You never furnished me anyone that knew anything. It's been  
5 constantly that way. I went to the well and there was no one  
6 there who knew anything. I heard you furnished erroneous  
7 reports in regard to your well. I understand it is caved in  
8 and I haven't found our dealings to be very happy.

9 Q Back to my letter, Mrs. Grace then, the only two  
10 objections you raise, you don't feel like we advised you or  
11 Mr. Lopez advised you that time was critical as far as we were  
12 concerned in drilling in the north half of Section 11 --

13 A When we sent --

14 Q Excuse me, let me finish.

15 A I'm sorry.

16 Q And the second thing was that you don't feel that the  
17 farm-out that was furnished to you first in May of this year  
18 because it covered the north half was the farm-out from Pan  
19 American?

20 A Well, we'll take the last question first if you don't  
21 mind. I felt all our dealings and negotiations have sort of  
22 been cute like that as if we couldn't read or couldn't be told  
23 any answers to our questions. I still don't know who your  
24 field supervisor is or will be or what your anticipated budget  
25 would be if you drilled a well in the north half and your first

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1 question was -- would you repeat that?

2 Q My first question was, and it was only one question,  
 3 that there were two things that you disagreed with in the letter,  
 4 first, that the second paragraph on page 1 implies that you  
 5 knew of the urgency of the situation as far as commencement of  
 6 the well when you state you did not, and the second question is  
 7 that you did not feel you received an accurate copy of the Pan  
 8 American farm-out. Otherwise, the letter is correct?

9 MR. LOPEZ: Could we have the reporter repeat the  
 10 question?

11 THE REPORTER: "My first question was, and it was only  
 12 one question, that there were two things that you disagreed with  
 13 in the letter, first, that the second paragraph on page 1  
 14 implies that you knew of the urgency of the situation as far  
 15 as commencement of the well when you state you did not, and  
 16 the second question is that you did not feel you received an  
 17 accurate copy of the Pan American farm-out. Otherwise, the  
 18 letter is correct?"

19 A You are an attorney. We couldn't enter into any  
 20 negotiations with you until we were furnished an estimated  
 21 budget or the terms of the operating or farm-out agreement that  
 22 you were offering us and we haven't received either.

23 Q (By Mr. Losee) Would you please answer my question  
 24 Mrs. Grace?

25 A The urgency, if you had any urgency, you would have

1 gotten those papers to us and I never got them, and I still  
2 don't have an estimated budget and the day I met with you in  
3 your office and I met with you and you said you didn't have  
4 time and I said just have someone, or wherever he is, with the  
5 organization give me an actual cost of this past well and maybe  
6 we can judge what the future one would cost and I haven't  
7 gotten that.

8 Q You have seen a copy of this letter, have you not,  
9 Mrs. Grace?

10 A This letter, yes.

11 MR. LOSEE: I move the introduction of this letter  
12 as protestant's Exhibit 1 in Case 4428.

13 MR. HATCH: We are on Case 4354.

14 MR. NUTTER: This would be protestant's Exhibit 1 in  
15 Case 4354 then. Without objection, the letter will be admitted  
16 in evidence.

17 (Whereupon Protestant's Exhibit 1  
18 was admitted in evidence.)

19 Q (By Mr. Losee) What is the -- and probably you  
20 testified to this -- what is the footage location you propose  
21 on your 80-acre tract, do you have that? I realize there are  
22 some dots on the map that doesn't have --

23 MR. LOPEZ: If Mr. Losee doesn't object, I believe  
24 those figures may not be real fresh to Mrs. Grace but they are  
25 1980 from the west and 660 from the north.

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1 Q (By Mr. Losee) You say you propose to commence the  
2 well immediately if the Commission sees fit to grant the order?

3 A I said as soon as possible, yes.

4 Q Would that be within fifteen days after the order is  
5 entered?

6 A If possible. People have to negotiate for rigs and  
7 no one knows at what date the Commission would enter their  
8 order to start negotiating in advance.

9 Q Well, surely if you thought we could start a well in  
10 four days from our lease expiration on the north half, you  
11 would be able to start one within fifteen days after the  
12 Commission entered their order?

13 A Sir, I had nothing to do with when you started your  
14 well. I was waiting for documents. I still don't have them  
15 and that's since April and this is September.

16 Q How many wells, Mrs. Grace, have you as operator  
17 drilled to the Pennsylvanian or deeper formation in Southern  
18 New Mexico?

19 A Oh, I'd have to count them. I have drilled a few.

20 Q Would you please give us an estimate?

21 MR. LOPEZ: I object to the question because I don't  
22 believe it is relevant to the problem at hand.

23 MR. LOSEE: I'd kind of feel like her experience as  
24 operator of wells as opposed to the formation proposed by this  
25 forced pooling offer would be relevant.

1 MR. LOPEZ: Mr. Losee, you are aware they are  
2 drilling a well about a section removed from this location  
3 presently.

4 MR. NUTTER: The Commission's record speaks for  
5 itself as to how many wells an operator in the State has  
6 drilled.

7 MR. LOSEE: I have no further questions.

8 REDIRECT EXAMINATION

9 BY MR. LOPEZ:

10 Q Mrs. Grace, I have just one question. You are  
11 opposed, are you not, to the application of Texas Oil and Gas  
12 in Case 4428 to a non-standard 240 location?

13 A I certainly am. One of my reasons, if my husband  
14 would be left out and if this were granted by the Commission  
15 and it is State land, the Commission would be swindling  
16 themselves if they cared about an eighth override on my  
17 husband's acreage, plus the fact I was told once the ruling is  
18 in regard to that sort of thing that should my husband desire  
19 to join them at a later time he could but we would have to  
20 swallow their accounting and the way I have watched from my  
21 approximate half-mile perch from their location, I wouldn't  
22 care to be a part of any operation they would do. I don't feel  
23 they have been prudent operators of this well, maybe in other  
24 places, certainly not in this location.

25 Q Then it is your final opinion that there is really

1 no room at present, at least for any negotiations for a  
2 cooperative and voluntary agreement with Texas Oil and Gas?

3 A Well, sir, I tried. I drove to Artesia when I was  
4 very busy on my own well and I tried to talk to Mr. Losee for  
5 two hours and I got no answers to anything, not even to who  
6 I could look to that was managing this well.

7 Q When your answer is no?

8 A Well, I walked away from his office feeling that  
9 I couldn't work with this man.

10 Q Fine.

11 MR. LOPEZ: No further questions Mr. Examiner.

12 MR. NUTTER: Mrs. Grace, in the event the Commission  
13 should enter an order pooling this acreage you have requested,  
14 what do you feel is a reasonable time for the drilling of the  
15 well? How long would it take to get started and how long  
16 would it take to get finished?

17 A To start it, I think we could start as soon as we  
18 could get a drilling rig which would probably be immediately.  
19 There are rigs available. Drillers drive a pretty hard  
20 bargain in this area and sometimes you have to do a little  
21 negotiating, but I shouldn't think it would take them too long.  
22 The well that has taken the least time that I know of in this  
23 area was this Antwell well which I understood forty days to  
24 reach bottom. They had very good luck but you know, having  
25 some bad luck, it might take sixty days.



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1 MR. NUTTER: The reason I ask the question, Mrs.  
2 Grace, the other people in the other case which is  
3 consolidated are seeking a non-standard unit and I am going to  
4 ask them the same question, how long it will take to get the  
5 well started and get it drilled.

6 A Right.

7 MR. NUTTER: In the event we had acreage pooled and  
8 then have considerable delay, it would prevent the other people  
9 from having their acreage developed.

10 A I don't think there should be any undue delay.

11 MR. NUTTER: If the Commission should stipulate  
12 requiring a period of time in which the well would have to be  
13 drilled or completed or the order would become null and void,  
14 what would you recommend as to the period of time?

15 A Before it was commenced?

16 MR. NUTTER: We will start with commencing the well.

17 A Could I think a minute?

18 MR. LOPEZ: If you don't mind, perhaps I have another  
19 witness that would be better prepared to answer that question  
20 if I can swear him for the purpose of answering your question  
21 regarding when he could agree to commence the well and how long  
22 it would take to complete it. I think you have Mrs. Grace's  
23 testimony that the least amount of time has been forty days.  
24 Also, you are aware of Texas Oil and Gas Well that was  
25 commenced in April and still not completed. It is variable.

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1 MR. NUTTER: If there should be some necessity for  
2 extension of the time, this could be done after a hearing,  
3 I presume. Any time a well is started we have no guarantee it  
4 can be drilled in any particular time.

5 MR. LOPEZ: I would like to put Mr. Grace on for  
6 that.

7 MR. NUTTER: Any questions of Mrs. Grace? She may be  
8 excused.

9 MR. LOPEZ: At this time I would like to call Mr.  
10 Grace.

11 MICHAEL P. GRACE,  
12 called as a witness, having been first duly sworn, was  
13 examined and testified as follows:

14 DIRECT EXAMINATION  
15 BY MR. LOPEZ:

16 MR. NUTTER: Now Mr. Grace, you heard the question  
17 I asked Mrs. Grace. If I ask you the same question, if the  
18 Commission should decide to put some kind of limit in the  
19 order that the well should be commenced or completed by some  
20 particular date, what would be a reasonable time?

21 A I think what my wife said was correct that we would  
22 start it immediately. The only thing I mentioned to Mr. Lopez  
23 is that we have a lot of applications before the Commission and  
24 we have a large amount of eastern funds. They are getting very  
25 angry. They want their money drilled by January 1st and it's

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1 becoming almost impossible to get their money into tax  
 2 position, so I did want to have Mr. Lopez more or less state  
 3 that we don't want to be in a position of guaranteeing a lot of  
 4 wells where we are being held up and our financing is being  
 5 heavily embarrassed in going elsewhere. A lot of these things  
 6 we drill ourselves and we think they are very very good, and  
 7 when we think they are favorable we take eastern funds. As far  
 8 as starting the well, it would be started right away. There is  
 9 no doubt about it. As far as I know, you go from forty days  
 10 with Mr. Antwell's well which is going to produce ten million  
 11 cubic feet of gas, and you go from, I don't know how long they  
 12 have been drilling, four or five months, that they have been  
 13 drilling and all these people in my humble opinion are competent  
 14 operators. I hope this doesn't become a policy of the  
 15 Commission on our pending hearings because we are kind of stuck  
 16 with the wells that do come up to use the eastern funds on.

17 MR. NUTTER: As far as I know it has never and isn't  
 18 now a part of the Commission's policy, Mr. Grace. However,  
 19 there are very few forced pooling operations where the other  
 20 operators sought authority to drill the well and if you allow  
 21 one operator then you have prevented the other operator from  
 22 developing the acreage, and if there is a sizable delay, then  
 23 the operator who is denied the right to operate the acreage is  
 24 withheld from profiting on his lease.

25 A Yes. It wasn't necessary for me to be a witness

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1 because I thought she had answered we would commence  
2 immediately and that the only thing I hope was that we didn't  
3 get conditions on the other wells.

4 MR. NUTTER: And continue drilling diligently?

5 MR. LOPEZ: This applies to this case specifically  
6 and not other cases pending. Could I ask a question,  
7 Mr. Examiner.

8 Q (By Mr. Lopez) If the order were granted by the  
9 Commission by the end of this month, would you say that  
10 drilling operations could be commenced before the first of the  
11 year?

12 A Very definitely. I think Mr. Losee indicated  
13 something like fifteen days. I think the likelihood would be  
14 in fifteen days. As I recollect, the City of Carlsbad lease,  
15 the Gulf farm-out and City Service farm-out which Mr. Lopez so  
16 ably consummated in something like eight hours, I recollect we  
17 were drilling within twenty-four hours of Mr. Lopez's fabulous  
18 work.

19 MR. LOPEZ: I have no objection to that.

20 MR. NUTTER: Are there further questions of Mr. Grace?  
21 He may be excused.

22 MR. LOPEZ: We have no further questions or evidence.

23 MR. NUTTER: Do you have anything Mr. Losee in the  
24 consolidated case?

25

1 W. B. MACEY,  
2 called as a witness, having been first duly sworn, was  
3 examined and testified as follows:  
4

5 DIRECT EXAMINATION

6 BY MR. LOSEE:

7 Q Would you state your name, residence and occupation?

8 A My name is W. B. Macey. I am president of Neelson  
9 Enterprises, a partner with John H. Hill and Texas Oil and Gas  
10 in the drilling of Pan American State No. 1 in the southeast  
11 quarter of Section 11, Township 23 South, Range 26 East.

12 Q Is Texas Oil and Gas the actual operator under the  
13 acreage?

14 A Yes.

15 Q Was the acreage that was farmed out by Pan American,  
16 did it include all of State Lease K357 and all of State Lease  
17 K2511 in the south half of Section 11 and the north half of  
18 Section 11?

19 A Yes.

20 Q Now did the farm-out contract originally cover only  
21 the north half of Section 11?

22 A Yes it did.

23 Q And you were aware, were you not, that State Lease  
24 K357, as shown on Applicant's Exhibit 1, expired on Sunday,  
25 April 19, 1970?

A Yes sir.

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1 Q And in order to perpetuate this lease, it would be  
2 necessary to have a well-drilling on the expiration date and if  
3 it were not located on that lease that it be communitized under  
4 agreement approved by the Commissioner of Public Lands?

5 A Yes sir, that is necessary.

6 Q Now when you received this farm-out from Pan American,  
7 did you and the other partners authorize me to contact Mr. Lopez  
8 with respect to participation with the Graces in drilling a well  
9 in the north half of Section 11?

10 A Yes sir.

11 Q Were you advised by me that on Tuesday, April 14, or  
12 Wednesday, April 15, that the Graces were willing to come to  
13 Santa Fe and meet with me preparatory to working out an  
14 agreement which either, one, the Graces would farm out to this  
15 group, or, two, they would participate in the well and that  
16 they would make that election within two weeks?

17 A Yes sir.

18 Q Did you authorize me to continue with those  
19 negotiations on that Wednesday, April 15?

20 A We didn't have time.

21 Q Would you explain what needed to be done from that  
22 date to the expiration of the lease?

23 A In order for the well to be drilling timely to  
24 validate the expiring lease, we felt we had to be drilling by  
25 midnight of the 18th, and in order to be able to drill, we

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1 first of all had to communitize the leases involved, getting  
2 the signatures of the owners on those leases, get the  
3 communitization agreement approved by the Commissioner, had the  
4 FAA approve the location because it was within the landing zone  
5 on the Carlsbad northwest-southeast runway and also move the  
6 rig in to the location and we had to have the rig moved in by  
7 Friday because of limitations on highways on weekends, we just  
8 didn't have time.

9 Q Would you advise the Commission the period of time it  
10 took Texas Oil and Gas to reach total depth on its Pan American  
11 State No. 1 well?

12 A Approximately seventy-four days.

13 Q And would you explain the results of this drilling  
14 operation or the present status of the well?

15 A The well was -- I won't go into all the minute  
16 details on drilling of the well -- after reaching total depth,  
17 we ran the lines to cover the pay zones, cemented them,  
18 perforated the Morrow and Atoka zones, separated these two  
19 zones with a permanent production packer, and attempted  
20 completion in the Morrow. The last stimulation was a frack job  
21 and following the frack job we mudded up to handle the Atoka  
22 zone and went in and perforated and acidized the Atoka zone in  
23 subsequent stimulations. We have produced the Atoka zone and  
24 the well is making about a million and a half with some  
25 approximately three barrels of water per hour from the Atoka

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1 zone. We do not think it will flow by itself in its present  
2 form very long. After testing the Atoka, we tied into the  
3 Morrow zone with permanent production packer and are now  
4 flowing. The Morrow indicates it will make a million and a  
5 half. It is a little early to know how well it will produce  
6 because we haven't got our lode water back but, substantially,  
7 we feel we have a producer in the Morrow, a questionable  
8 producer in the Atoka, and we intend to produce the Morrow for  
9 a period of time to see how it will do and maybe apply for a  
10 commingling on the Atoka and Morrow in order to produce the  
11 Atoka zone.

12 MR. NUTTER: That three barrels an hour it is making  
13 the Atoka, this is lode water or formation water?

14 A Formation. It may be in part some lode water but  
15 basically formation water.

16 Q Now in connection with the farm-out from Pan American,  
17 how long do you have after completion of your well on the south  
18 half to commence drilling operations on the well on the north  
19 half?

20 A We have ninety days.

21 Q Mr. Macey, in view of the fact that the proposed  
22 location by Mrs. Grace in the north half is offset to the east  
23 by the best well in the field, it's diagonally offset to the  
24 northeast by a Morrow well, Pennzoil No. 2, and it is a direct  
25 offset to the north from this Pan American State No. 1 about



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1 which you have testified. Do you have any recommendation to  
2 the Commission in the forced pooling completion as to the risk  
3 factor for this development well?

4 A We feel the well is definitely a development well  
5 with two offsets, one diagonal, four potential producing zones,  
6 and we feel the risk factor ought to be twenty-five per cent.

7 MR. LOSEE: I have no further questions.

8 MR. NUTTER: Mr. Macey, in the event that the  
9 Commission should approve the non-standard unit which Texas Oil  
10 and Gas Corporation is seeking in Case 4428, how long would it  
11 take before the well could be commenced and what is your  
12 estimated time for completion of the well?

13 A I feel that we could probably get the communitization  
14 through within a week or two without any trouble. We would have  
15 to only have nominal signatures, I'd say a week and up to the  
16 commissioners.

17 MR. NUTTER: The commissioners already have  
18 communitized the two leases to the south half.

19 A Exactly, but as to the south half acreage only but  
20 we would have to go through the same paper work and we would  
21 only take a week at the most if Mr. Losee is very efficient.

22 MR. NUTTER: If he is half as efficient as Mr. Lopez,  
23 eight days.

24 A Could probably get a contract in there in a week or  
25 two, so I'd say three weeks. We could start in three weeks.

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1 MR. NUTTER: Are there any questions of Mr. Macey?

2 CROSS-EXAMINATION

3 BY MR. LOPEZ:

4 Q When did you plan to take your point four test in the  
5 current well in the south half of 11?

6 A In the Morrow zone, which is the only one we would  
7 test to start with, I would think that we should be in a  
8 position to test it in a week from now. It depends on how much  
9 water continues to be producing. If it keeps making lode water,  
10 we should be down to zero, and if it's still making water, it  
11 makes the test very inaccurate, very difficult.

12 Q Do you have a bottom hole pressure for the Morrow?

13 A I have a pressure that was on the drill stem test.  
14 It was like forty-eight or forty-nine hundred pounds, somewhere  
15 in that bracket.

16 Q I am not sure I understood you correctly, when do you  
17 plan to complete the well or do you estimate you would complete  
18 the well?

19 A I think we would be able to take a back pressure test,  
20 four point test in about a week, I'd guess.

21 MR. NUTTER: Depending on the rate of production of  
22 Morrow water?

23 A And this would be only in the Morrow zone because  
24 I don't think we will test the Atoka until we see what the  
25 Morrow does.

1 Q (By Mr. Lopez) When do you suggest the gas in the  
2 Morrow zone will decrease?

3 A It's decreasing, and for all practical purposes it's  
4 lode water, water we put in the hole. It is not lode water.

5 Q When was your original farm-out with Pan American  
6 signed by all the parties involved?

7 A I have to check and see if I have that information  
8 with me.

9 Q All parties did sign it, though, yourself and Mr.  
10 Hill and whoever is responsible, Mr. Young I believe, for  
11 Texas Oil and Gas?

12 MR. LOSEE: Mr. Hill signed the farm-out and signed  
13 it to Neelson Enterprises and Texas Oil and Gas by a letter.

14 A The farm-out was dated the 13th of April to Hill.

15 MR. BUELL: Jerry, I believe both Mr. and Mrs. Hill  
16 signed it. The Hills and Pan American were the only signatory  
17 parties to the agreement.

18 Q (By Mr. Lopez) You say this was signed by the 13th  
19 and your lease was running out by the 19th. The farm-out was  
20 signed by the 13th of April and the lease was running out on the  
21 19th?

22 A I can't say that the farm-out was signed on the 13th,  
23 the document, when it was actually physically signed by Mr. and  
24 Mrs. Hill, I don't have that information.

25 MR. LOPEZ: No further questions.

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1 MR. NUTTER: Any other questions of Mr. Macey?

2 You may be excused.

3 Does anyone have anything they would like to offer in  
4 4428 and 4354?

5 MR. BUELL: I have a short statement, Mr. Examiner.

6 MR. NUTTER: Go ahead.

7 MR. BUELL: Guy Buell for Pan American Petroleum  
8 Corporation. The contract negotiations, Mr. Examiner, were  
9 pretty much as Mr. Macey outlined it. At the time we were  
10 attempting to protect our State lease which had the expiration  
11 date that has been mentioned many times of April 19.  
12 Fortunately, this lease had acreage both in the north half and  
13 south half. The reason the original farm-out contract was  
14 drawn on the north half was that in the eyes of all persons at  
15 that time, that was the most logical place to drill the first  
16 well in Section 11. It was much nearer production in the south  
17 half of Section 11. When we were advised that our farm-outtees  
18 were encountering difficulty in putting in a unit together  
19 consisting of the north half, we then in a further attempt to  
20 save our State lease offered them the opportunity to drill in  
21 the south half which would, since Pan American controlled all  
22 that acreage with the State, there would be no difficulty in  
23 forming a unit. In order to offer them an incentive to get  
24 this further step out, we agreed if they drilled in the south  
25 half, we would give them an option in drilling a well in the

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1 north half after they had completed the well in the south half.  
 2 As has been stated, they have ninety days after completion to  
 3 exercise that option. When this Commission enters a forced  
 4 pooling, if they do, as a result of this hearing, the only two  
 5 parties they are forced pooling is, it's not Texas Oil and Gas,  
 6 it's not John Hill, it's not Neelson Enterprises, it's Pan  
 7 American Petroleum Corporation in the state of New Mexico,  
 8 because at this time all the farm-outtees have is simply an  
 9 option to, if they exercise the option, drill a well. For that  
 10 reason, I would recommend to the Commission that if they do  
 11 enter an order forced pooling the north half that they  
 12 certainly put a time limitation on the commencement of drilling  
 13 operations by the applicants, Mr. and Mrs. Grace.

14 If a forced pooling order is issued without a time  
 15 limit, the Graces simply by not initiating drilling, could  
 16 preclude Texas Oil and Gas from ever exercising their option.  
 17 If a well isn't started within ninety days as far as our  
 18 contract with the farm-outtees are concerned, they are through.  
 19 They have had it. Since they did in good faith drill what  
 20 I would consider an extremely wide stepout well in order to  
 21 protect our lease, naturally our sympathy is with them. For  
 22 that reason, we would recommend to the Commission that if an  
 23 order is issued, that it contain a provision requiring drilling  
 24 operations to commence within at least forty-five days. Both  
 25 Texas Oil and Gas and Mr. Grace have talked about fifteen.

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1 I think forty-five is certainly reasonable in view of all the  
2 testimony we have had today. That would then give Texas Oil  
3 and Gas an opportunity to exercise their option within their  
4 ninety-day contract period.

5 I would also recommend to the Commission and, I know  
6 it's a little unusual for Pan American to recommend a non-  
7 standard unit at this time, I would also recommend to the  
8 Commission in the event a forced pooling order is issued with a  
9 forty-five-day commencement clause and with the terms that the  
10 order becomes null and void if the well isn't started and  
11 diligently drilled to total depth, that they then approve the  
12 240-acre unit that Texas Oil and Gas is applying for, such that  
13 the interest owners in the north half of Section 11 can be  
14 protected through a well drilled by the Graces or through a  
15 well drilled by our farm-outtees.

16 MR. NUTTER: Thank you.

17 MR. LOPEZ: My comments are very short, Mr. Examiner.  
18 I think the evidence produced today, that is, the Graces have  
19 attempted to negotiate with the farm-out people and originally  
20 with Pan American and these results were negative. They have  
21 and are willing to drill a well located in the northwest to the  
22 northeast quarter of Section 11 and have so stated that they  
23 would commence the operations immediately. I believe that a  
24 penalty of 150% is called for because of the risky nature, the  
25 spotty nature of the zones involved and the fact that the well,

1 the minimum cost, would probably at least amount to \$400,000.  
 2 Again I reiterate our objection to any non-standard unit.

3 MR. BUELL: I didn't direct myself to the penalty  
 4 provision and I would like to, if you would give me the  
 5 opportunity to state, to me since we have drilled this well in  
 6 the south half which certainly appears to be productive that a  
 7 well in the north half is simply a development well and the  
 8 maximum of 150% is way way too high.

9 MR. LOSER: Mr. Examiner, as pointed out in letter of  
 10 August 28, my clients have offered to let the Graces participate  
 11 with us in the drilling of a well in the north half and paying  
 12 their one-fourth share under joint operating agreement  
 13 identical with all other parties in the south half. It's the  
 14 page 2. We have offered, if they don't wish to participate  
 15 with us in the drilling of the well, to accept the farm-out on  
 16 the same terms as the farm-out from Pan American, a copy of  
 17 which Mrs. Grace received in May. This offer has at this date  
 18 not been accepted and it would be obvious, I think, from the  
 19 testimony here of the inability of the applicants in both cases  
 20 to negotiate where they would actually join with each other.  
 21 We actually would propose to the Commission if the Graces wish  
 22 to drill this well bad enough and in fact carry us or Pan  
 23 American for three-quarters interest, that they be permitted to  
 24 do so with a penalty of 25% as this is a development well in  
 25 the field offset by two direct wells and one diagonal, upon the

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1 condition that they start that well within forty-five days after  
 2 entry of the order or completion, earlier completion, of our  
 3 Pan American State No. 1 well, whichever first occurs, because  
 4 that is when our ninety-day period with Pan American commences  
 5 and that they thereafter diligently drill the well to a depth  
 6 sufficient to test all of the prospective producing formations  
 7 in the Pennsylvanian; that if they do not commence the well, or  
 8 after commencing it do not diligently proceed in the drilling to  
 9 the total depth, that the forced pooling order terminate and  
 10 that at that point the Commission accept our application for the  
 11 240-acre unit comprising the east half northeast, southwest-  
 12 northeast, southeast-northwest, west half northwest, so that we  
 13 can drill the well under the terms of the farm-out from Pan  
 14 American and protect our correlative rights of our gas under  
 15 the location.

16 MR. NUTTER: Mr. Losee, do you have any idea where  
 17 the well would be drilled in the event your non-standard unit  
 18 were approved?

19 MR. LOSEE: Our application is prepared as to an  
 20 orthodox location which would be in either of the two 40-acre  
 21 tracts below the Graces. Obviously from a production standpoint,  
 22 the southwest to the northeast would be the best but it's very  
 23 close to our Pan American State No. 1 well and we would  
 24 recognize if it were not in an orthodox location by the terms of  
 25 the order we would have to seek your consent or the approval to



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1 any unorthodox location.

2 MR. LOPEZ: One comment, I think there is a third  
3 alternative that hasn't been explored. If the Graces'  
4 application for forced pooling with them as operators is not  
5 granted, then rather than grant a 240-acre non-standard, there  
6 is also the alternative the Commission could forced pool the  
7 north half of 11 and make Texas Oil and Gas the operator and  
8 granting the same penalty, of course. I just pointed out the  
9 alternative.

10 MR. NUTTER: That is an alternative. Does anyone  
11 else wish to offer anything? If not we will take the case  
12 under advisement and the hearing is adjourned.  
13  
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I N D E XWITNESSPAGE

WILLIAM J. LEMAY

Direct Examination by Mr. Lopez

3

Cross-examination by Mr. Losee

8

CORINNE GRACE

Direct Examination by Mr. Lopez

10

Cross-examination by Mr. Losee

14

Redirect Examination by Mr. Lopez

22

MICHAEL P. GRACE

Direct Examination by Mr. Lopez

25

W. B. MACEY

Direct Examination by Mr. Losee

28

Cross-examination by Mr. Lopez

33

EXHIBITOFFERED AND ADMITTED

Applicants' 1 and 2

9

Protestant's 1

20

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

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

*Soveida Gonzales*  
Court Reporter

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Foregoing hearing of Case No. 4428-4354  
heard by me on 7/16, 1970.  
*[Signature]*, President  
New Mexico Oil Conservation Commission

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
August 5, 1970

EXAMINER HEARING

IN THE MATTER OF:

Application of Michael P. Grace and  
Corinne Grace for compulsory pooling,  
Eddy County, New Mexico.

Case 4354

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING

DEARNLEY-MEIER REPORTING SERVICE

MR. UTZ: Case 4354.

MR. HATCH: Case 4354, (Continued from the July 1, 1970 Examiner Hearing). Application of Michael P. Grace and Corinne Grace for compulsory pooling, Eddy County, New Mexico.

MR. LOSEE: We have agreed among interested parties that the last case on the docket we request the Examiner to grant a continuance of the case, if you would listen shortly to our motion and if you would agree to it, it would let some of us get out of here.

MR. UTZ: How many of you are interested in this case?

MR. LOSEE: Mr. Lopez represents the Graces, who are the applicant in the case and I represent Texaco Oil and Gas, Mr. Buell, Pan American, but I don't know whether they are or are not going to appear in it.

MR. BUELL: We are also interested in the next to the last case..

MR. LOSEE: Our request is to continue until the first hearing in September, which I think is the next continuance.

MR. UTZ: Do you agree?

MR. LOPEZ: I am Owen Lopez of Montgomery, Federici, Andrews, Hannahs and Morris, Santa Fe and I represent the Graces and Mr. Kelly represents Mrs. Grace.

MR. KELLY: I join in the motion.

MR. LOPEZ: I concur in Mr. Losee's motion to  
continue this hearing until the Examiner hearing in September.

MR. UTZ: Case 4354 will be continued to September 16,  
1970 at 9:30 a.m.

STATE OF NEW MEXICO )  
 ) ss  
COUNTY OF BERNALILLO )

I, SOVEIDA GONZALES, Court Reporter, do hereby  
certify that the foregoing and attached Transcript of  
Hearing before the New Mexico Oil Conservation Commission  
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record of the said proceedings, to the best of my knowledge,  
skill and ability.

  
COURT REPORTER

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BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
July 1, 1970

EXAMINER HEARING

-----  
IN THE MATTER OF: )

Application of Michael P. Grace and ) Case No. 4354  
Corinne Grace for compulsory )  
pooling, Eddy County, New Mexico. )  
-----

BEFORE: Elvis A. Utz, Examiner

TRANSCRIPT OF HEARING



MR. HATCH: 4354, application of Michael P. Grace and Corinne Grace; the Commission has received a request from the applicant and opponent in that case that it be continued to August 5th, 1970.

MR. UTZ: Case 4354 will be continued to August 5th.

STATE OF NEW MEXICO )  
 )  
COUNTY OF BERNALILLO )

I, PETER A. LUMIA, Certified Shorthand Reporter in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

Peter A. Lumia  
CERTIFIED SHORTHAND REPORTER

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 4354, heard by me on July 1, 1970.  
Michael P. Grace, Examiner  
New Mexico Oil Conservation Commission

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1

BEFORE THE  
NEW MEXICO OIL CONSERVATION COMMISSION  
Santa Fe, New Mexico  
May 13, 1970

EXAMINER HEARING

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IN THE MATTER OF: )

Application of Michael P. Grace )  
and Corinne Grace for compulsory )  
pooling, Eddy County, New Mexico. )  
-----

Case No. 4354

BEFORE: Daniel S. Nutter, Examiner.

TRANSCRIPT OF HEARING

MR. NUTTER: The examiner hearing will come to order and we will take a fifteen minute recess and reconvene at five after ten.

(Whereupon, a fifteen-minute recess was taken.)

MR. NUTTER: The hearing will come to order, please. We will call first Case 4354.

MR. HATCH: Case 4354. Application of Michael P. Grace and Corinne Grace for compulsory pooling, Eddy County, New Mexico.

Mr. Examiner, the Commission has received a request from the Applicant that this case be continued to the first examiner hearing in July, which I believe is July 1, 1970.

MR. NUTTER: Case No. 4354 will be continued to the examiner hearing to be held in the Oil Conservation Commission Conference Room, State Land Office Building, Santa Fe, New Mexico, at nine o'clock A.M., July 1, 1970.

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STATE OF NEW MEXICO )  
 ) ss  
COUNTY OF BERNALILLO )

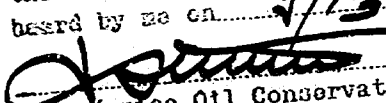
I, GLENDA BURKS, Notary Public in and for the County of Bernalillo, State of New Mexico, do hereby certify that the foregoing and attached Transcript of Hearing before the New Mexico Oil Conservation Commission was reported by me; and that the same is a true and correct record of the said proceedings, to the best of my knowledge, skill and ability.

  
NOTARY PUBLIC

My Commission Expires:

March 12, 1973

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 4954 heard by me on 5/13, 1970.

  
Examiner  
New Mexico Oil Conservation Commission

Docket No. 21-70

DOCKET: REGULAR HEARING - WEDNESDAY - SEPTEMBER 16, 1970

OIL CONSERVATION COMMISSION - 9 A.M. - MORGAN HALL, STATE LAND OFFICE BUILDING,  
SANTA FE, NEW MEXICO

**ALLOWABLE:** Consideration of the allowable production of gas for October, 1970, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico. Consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba and Sandoval Counties, New Mexico, for October, 1970.

CASE 4367: (De Novo)

Application of Mobil Oil Corporation for a waterflood expansion, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Bridges State Waterflood Project, Vacuum Grayburg-San Andres Pool, by the injection of water into the Grayburg San Andres formations through two additional injection wells to be drilled at locations in Township 17 South, Range 34 East, Lea County, New Mexico, as follows:

A well to be drilled at a standard location 2310 feet from the North line and 860 feet from the West line of Section 25; and

A well to be drilled at an unorthodox location 100 feet from the South line and 1980 feet from the West line of Section 26.

Upon application of Mobil Oil Corporation this case will be heard De Novo under the provisions of Rule 1220.

CASE 4368: Application of Mobil Oil Corporation for a waterflood expansion and amendment of rules governing same, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Bridges State Waterflood Project, Vacuum Grayburg-San Andres Pool, to the conversion of water injection of 13 additional wells at standard locations in Sections 25, 26, and 27, Township 17 South, Range 34 East, Lea County, New Mexico. Applicant further seeks the amendment of the rules governing said project to permit expansion of the project administratively without a showing of well response.

Upon application of Mobil Oil Corporation this case will be heard De Novo under the provisions of Rule 1220.

THE FOLLOWING CASES WILL BE HEARD BEFORE DANIEL S. NUTTER, EXAMINER,  
OR ELVIS A. UTZ, ALTERNATE EXAMINER, IN THE OIL CONSERVATION COMMISSION  
CONFERENCE ROOM ON THE SECOND FLOOR OF SAID BUILDING AT 9:30 A.M.

CASE 4413: (Continued from the August 19, 1970, Examiner Hearing)  
In the matter of the hearing called by the Oil Conservation Commission upon its own motion to permit Stanley Leonard Jones dba Francisca Corporation and all other interested parties to appear and show cause why the Francisca Corporation Beeman Well No. 1 located 1980 feet from the South and West lines of Section 2, Township 24 South, Range 28 East, Eddy County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

- CASE 4416: (Continued for the September 2, 1970, Examiner Hearing)  
Application of Robert L. Parker Trust for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a cooperative waterflood project in the Langlie Mattix Pool on its George L. Erwin Lease by the injection of water through its Erwin Well No. 2 located in Unit L of Section 35, Township 24 South, Range 37 East, Lea County, New Mexico.
- CASE 4424: Southeastern New Mexico nomenclature case calling for an order for the extensions of certain pools in Lea, Eddy, Chaves and Roosevelt Counties, New Mexico:
- a) Extend the Blinebry Oil Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 21 SOUTH, RANGE 36 EAST, NMPM  
SECTION 25: SE/4
- b) Extend the Bluitt-San Andres Associated Pool in Roosevelt County, New Mexico, to include therein:
- TOWNSHIP 8 SOUTH, RANGE 38 EAST, NMPM  
SECTION 17: SE/4
- c) Extend the South-Carlsbad Morrow Gas Pool in Eddy County, New Mexico, to include therein:
- TOWNSHIP 23 SOUTH, RANGE 26 EAST, NMPM  
SECTION 1: W/2
- d) Extend the Double L-Queen Pool in Chaves County, New Mexico, to include therein:
- TOWNSHIP 14 SOUTH, RANGE 29 EAST, NMPM  
SECTION 25: SE/4 SW/4  
SECTION 36: NE/4 NW/4
- e) Extend the Eagle Creek-San Andres Pool in Eddy County, New Mexico, to include therein:
- TOWNSHIP 17 SOUTH, RANGE 25 EAST, NMPM  
SECTION 22: E/2 NE/4
- f) Extend the Lusk-Morrow Gas Pool in Lea County, New Mexico, to include therein:
- TOWNSHIP 19 SOUTH, RANGE 32 EAST, NMPM  
SECTION 32: All

(Case 4424 continued)

- g) Extend the Midway-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 37 EAST, NMPM  
SECTION 16: SW/4

- h) Extend the West Sawyer-San Andres Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 9 SOUTH, RANGE 37 EAST, NMPM  
SECTION 34: S/2

- i) Extend the North Vacuum-Abo Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM  
SECTION 11: SW/4

- j) Extend the North Vacuum-Morrow Gas Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 17 SOUTH, RANGE 34 EAST, NMPM  
SECTION 14: N/2  
SECTION 15: E/2

- k) Extend the Vada-Pennsylvanian Pool in Lea and Roosevelt Counties, New Mexico to include therein:

TOWNSHIP 8 SOUTH, RANGE 35 EAST, NMPM  
SECTION 34: NW/4

TOWNSHIP 8 SOUTH, RANGE 36 EAST, NMPM  
SECTION 27: SE/4  
SECTION 28: NE/4

TOWNSHIP 9 SOUTH, RANGE 33 EAST, NMPM  
SECTION 24: All  
SECTION 25: NE/4

TOWNSHIP 9 SOUTH, RANGE 34 EAST, NMPM  
SECTION 19: N/2 and SW/4

TOWNSHIP 9 SOUTH, RANGE 35 EAST, NMPM  
SECTION 16: SE/4

CASE 4425: Application of Eastern Petroleum Company as agent for Southern Gulf Production Company for an unorthodox gas well location, San Juan County, New Mexico. Applicant, in the above-styled cause, seeks as an exception to the gas well location requirements of the Commission Rules and Regulations, approval for the Southern Gulf

(Case 4425 continued)

Production Company Navajo Tocito Well No. 4 at an unorthodox gas well location 2023 feet from the South line and 1157 feet from the West line of Section 10, Township 26 North, Range 18 West, undesignated Pennsylvanian gas pool, San Juan County, New Mexico.

CASE 4426: Application of Texaco Inc. for salt water disposal, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation in the open-hole interval from 11,150 feet to 11,750 feet in its Peery Federal Well No. 4 located in Unit A of Section 29, Township 15 South, Range 30 East, Little Lucky Lake-Devonian Pool, Chaves County, New Mexico.

CASE 4427: Application of David F. Fasken for the creation of a new gas pool and special pool rules therefor, and a non-standard gas spacing unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Morrow gas pool for his well located 3630 feet from the South line and 660 feet from the East line of Section 1, Township 21 South, Range 25 East, Eddy County, New Mexico, and for the promulgation of special rules therefor, including a provision for 640-acre spacing units. Applicant further seeks approval of a 854.62-acre non-standard gas spacing unit comprising all of said Section 1 to be dedicated to the above-described well.

CASE 4428: Application of Texas Oil and Gas Corporation for a non-standard gas spacing unit, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks approval of an approximately 240-acre non-standard gas proration unit comprising the E/2 NE/4, SW/4 NE/4, W/2 NW/4, and SE/4 NW/4 of Section 11, Township 23 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico, to be dedicated to a well to be drilled at a standard location in the N/2 of said Section 11 to test any and all formations from the surface of the ground down to and including the Morrow formation.

CASE 4354: (Continued from the July 1, 1970, Examiner Hearing) and the August 5, 1970, Examiner Hearing.  
Application of Michael P. Grace and Corinne Grace for compulsory pooling, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico, said acreage to be dedicated to a well to be drilled in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11. 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.



J. O. SETH (1883-1963)

A. K. MONTGOMERY  
WM. FEDERICI  
FRANK ANDREWS  
FRED C. HANNAHS  
RICHARD S. MORRIS  
SUMNER G. BUELL  
SETH D. MONTGOMERY

FRANK ANDREWS III  
OWEN M. LOPEZ

MONTGOMERY, FEDERICI, ANDREWS, HANNAHS & MORRIS

ATTORNEYS AND COUNSELORS AT LAW

350 EAST PALACE AVENUE

SANTA FE, NEW MEXICO 87501

September 21, 1970

SEP 23 11 02 AM '70

POST OFFICE BOX 2307

AREA CODE 505

TELEPHONE 982-3876

New Mexico Oil Conservation Commission  
State Land Office  
Santa Fe, New Mexico 87501

Re: Application of Texas Oil & Gas Corporation  
for a non standard unit, Eddy County,  
New Mexico, Case #4428; Application of  
Michael P. and Corrine Grace for compulsory  
pooling, Eddy County, New Mexico Case #  
4354;

Gentlemen:

You will recall that the two above referenced cases were consolidated for hearing on Wednesday, September 16, 1970. You will also recall that on behalf of Michael P. Grace, I opposed the non standard unit application of Texas Oil and Gas and represented Mr. Grace in his forced pooling application. Both cases involved the N $\frac{1}{2}$  of Section 11, Township 23 S, Range 26 E, Eddy County, New Mexico.

You also may recall that when I made my closing statement in the above two cases, I urged approval of the forced pooling application which I filed for Mr. Grace and urged that his wife be made operator of said unit. Further, I urged that the non standard application of Texas Oil and Gas Corporation not be approved. I further pointed out that there existed a third alternative, an order compulsory pooling the entire half section and designating the other working interest owners as operator. I did not mean to recommend the adoption of this latter alternative but only meant to recommend that the 50% penalty should apply either way. At this time, I wish to state that my client, Mr. Grace, did not suggest nor authorize this third alternative and that he is very much opposed to the approval of same.

New Mexico Oil Conservation  
Commission

-2- September 21, 1970

Very truly yours,

*Uwe M. Lopez*

OML:cn

cc Mr. Guy Buell  
Pan American Petroleum Corp.,  
P.O. Box 1410  
Fort Worth, Texas

Mr. A. J. Losee  
Attorney at Law  
P.O. Drawer 239  
Artesia, New Mexico 88210

Mr. and Mrs. Michael P. Grace  
P.O. Box 100  
Grants, New Mexico 87020

Mr. and Mrs. Michael P. Grace  
P.O. Box 1418  
Carlsbad, New Mexico 88220

Mr. and Mrs. Michael P. Grace  
P.O. Box 2062  
Santa Fe, New Mexico 87501



## OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

P. O. BOX 2088 - SANTA FE

87801

GOVERNOR  
DAVID F. CARGO  
CHAIRMAN

LAND COMMISSIONER  
ALEX J. ARMijo  
MEMBER

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

October 5, 1970

Mr. A. J. Losee  
Attorney at Law  
Post Office Box 239  
Artesia, New Mexico 88210

Re: Case No. 4354 & 4428

Order No. R-4033

Applicant:

Michael P. Grace & Corinne Grace  
and Texas Oil and Gas Corp.

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. Owen Lopez

AFFIDAVIT

STATE OF NEW MEXICO :  
: ss.  
COUNTY OF EDDY :

C. Frances McCausland being first duly sworn upon his oath  
deposes and says: I have personally, physically viewed the hereinafter  
described premises and state that a well known as Panagra # 1 with Michael  
P. and Corinne Grace as operators had been commenced on November 15, 1970,  
at the hour of 8 o'clock A. M. in the North Half ( $N\frac{1}{2}$ ) of Section 11,  
Township 23 South, Range 26 East, N.M.P.M., Eddy County, New Mexico,  
at a point 990 feet from the North line of said section and 1980 feet from the  
East line of said section. I further state that I am no wise interested in the  
drilling of said well, economically or otherwise. Further Affiant saith not.

C. Frances McCausland

STATE OF NEW MEXICO :  
: ss.  
COUNTY OF EDDY :

The foregoing instrument was acknowledged before me this 15th  
day of November, 1970, by Ruth S. Ground.

Ruth S. Ground  
Notary Public

My Commission Expires:  
MY COMMISSION EXPIRES 3-26-73

Docket No. 18-70

DOCKET: EXAMINER HEARING - WEDNESDAY - AUGUST 5, 1970

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

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The following cases will be heard before Elvis A. Utz, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 4385: (Continued from the July 15, 1970 Examiner Hearing)

Application of King Resources Company for a unit agreement, Otero County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Brokeoff Mountain Unit Area comprising 37,747 acres, more or less, of Federal, State and Fee lands in Townships 24, 25, and 26 South, Ranges 19 and 20 East, Otero County, New Mexico.

CASE 4388: Application of Humble Oil & Refining Company for an exception to Order No. R-3221, as amended, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221, as amended, which order prohibits the disposal of water produced in conjunction with the production of oil on the surface of the ground in Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico. Said exception would be for applicant's Florence B. Lusk, DeSmet Federal, and Hesse Federal leases located in Sections 6 and 7 of Township 15 South, Range 30 East, Double L Queen Pool, Chaves County, New Mexico. Applicant seeks authority to dispose of salt water produced by wells on said leases in unlined surface pits located in the vicinity of said wells.

CASE 4389: Application of Coastal States Gas Producing Company for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Upper Pennsylvanian formation through the perforated interval from 9789 to 9924 feet in its State "27" Well No. 2 located in Unit F of Section 27, Township 14 South, Range 32 East, Tulk-Pennsylvanian Pool, Lea County, New Mexico.

CASE 4390: Application of Murphy H. Baxter for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the North E-K Queen Unit Area comprising 978 acres, more or less, of State lands in Township 17 South, Range 33 East, and Township 18 South, Ranges 33 and 34 East, E-K Yates-Seven Rivers-Queen Pool, Lea County, New Mexico.

Examiner Hearing - August 5, 1970.

Docket No. 18-70

-2-

- CASE 4391: Application of Murphy H. Baxter for a waterflood project, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in its North E-K Queen Unit Area by the injection of water into the Queen formation through 4 wells located in Units A, D, F, and G of Section 7, Township 18 South, Range 34 East, E-K Yates-Seven Rivers-Queen Pool, Lea County, New Mexico. Applicant further seeks a procedure whereby said project may be expanded administratively without a showing of well response.
- CASE 4392: Application of Southwestern Natural Gas, Inc. for the assignment of back allowable, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks the assignment of back allowable to its Mershon Gas Comm Well No. 1 located in Unit A of Section 21, Township 22 South, Range 23 East, Indian Basin-Upper Pennsylvanian Gas Pool, Eddy County, New Mexico, for the period from the date of completion of said well on September 22, 1969, to the date of connection of said well on June 4, 1970.
- CASE 4393: Application of Mobil Oil Corporation for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Devonian formation in the open-hole interval from 12,240 feet to 12,463 feet in its Santa Fe Pacific Well No. 3 located in Unit M of Section 26, Township 9 South, Range 36 East, Crossroads-Devonian Pool, Lea County, New Mexico.
- CASE 4394: Application of Phillips Petroleum Company for a unit agreement, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of the Plata Deep Unit Area comprising 5,600 acres, more or less, of Federal and State lands in Sections 8, 9, 10, 11, 14, 15, 16, 22 and 23 of Township 20 South, Range 32 East, Lea County, New Mexico.
- CASE 4395: Application of Consolidated Oil & Gas, Inc. for salt water disposal, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to dispose of produced salt water into the Abo formation in the perforated interval from 8915 to 8926 feet in its Shipp Well No. 1-17 located in Unit H of Section 17, Township 17 South, Range 37 East, Midway Abo Pool, Lea County, New Mexico.

Examiner Hearing - August 5, 1970

Docket No. 18-70

-3-

CASE 4396: Application of Klabzuba, Munson and Seaman for a dual completion and salt water disposal, Chaves County, New Mexico. Applicants, in the above-styled cause, seek authority to dually complete its (Varel) Avalanche Journal Well No. 1 located in Unit N of Section 18, Township 10 South, Range 28 East, Chaves County, New Mexico, in such a manner as to produce gas from the San Andres formation in the perforated interval from 2186 to 2204 feet of the Race Track (San Andres) Pool through the casing-tubing annulus and dispose of produced salt water through tubing into the San Andres formation of said pool in the perforated interval from 2262 to 2289 feet.

CASE 4397: In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Rio Trust and all other interested persons to appear and show cause why the following Rio Trust wildcat wells located in Section 2, Township 1 North, Range 2 East, Rio Arriba County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program:

Little Chama Valley Co. Well No. 1  
located 660 feet from the North line  
and 1380 feet from the West line;

Sargent Well No. 1 located 925 feet  
from the West line and 1445 feet from  
the South line.

CASE 4267: (Reopened)

In the matter of Case No. 4267 being reopened by the Oil Conservation Commission on its own motion to permit Edward M. Kriss and all other interested parties to appear and show cause why the Edward M. Kriss Little Chama Valley Company Well No. 1, a wildcat well, located 545 feet from the North line and 1530 feet from the West line of Section 2, Township 1 North, Range 2 East, Rio Arriba County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program.

CASE 4398: Application of Michael P. Grace and Corinne Grace for compulsory pooling and unorthodox gas well locations, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the N/2

Examiner Hearing - August 5, 1970

Docket No. 18-70

-4-

(Case 4398 continued)

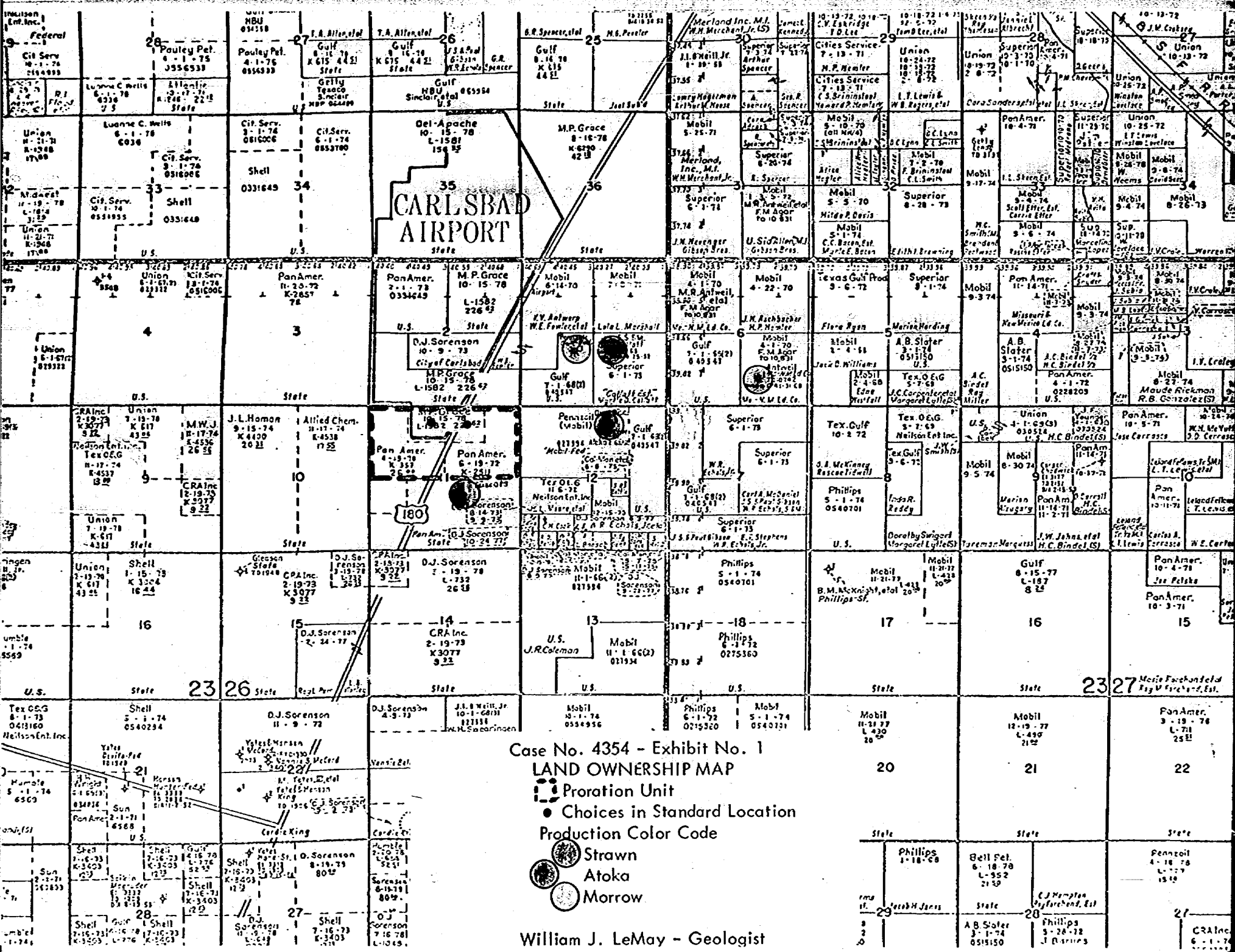
and the S/2 of Section 2, Township 23 South, Range 26 East, Eddy County, New Mexico, to form two 320-acre proration units for the production of gas from any or all zones of the Pennsylvanian formation. Said N/2 and S/2 to be dedicated to wells to be drilled respectively, at unorthodox locations 2500 feet from the North line and 330 feet from the East line of said Section 2 and 990 feet from the South line and 660 feet from the East line of said Section 2.

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

← CASE 4354: (Continued from the July 1, 1970, Examiner Hearing)

Application of Michael P. Grace and Corinne Grace for compulsory pooling, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico, said acreage to be dedicated to a well to be drilled in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11. 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.





## WELL COST ESTIMATE

August 4, 1970

## PROJECT

SOUTH CARLSBAD AIRPORT TEST (12,000 feet)

LEASE	WELL NO.	SECTION	BLOCK/TOWNSHIP	SURVEY/RANGE	STATE
State			T-23-S	R-26-E	New Mexico
COUNTY	FIELD	PERCENT OF COST	DATE WORK TO BEGIN	EST. DATE OF COMPLETION	
Eddy	So. Carlsbad	100%	1970	1970	
REASON WORK NECESSARY OR BENEFITS TO BE DERIVED					

DRILLING VENTURE TO EVALUATE PRODUCTIVE POSSIBILITIES OF (4) Pennsylvanian gas zones

WORK DETAIL	CASH OUTLAY NECESSARY		IF DRY HOLE DEDUCT AMOUNTS IN THIS COLUMN	ACTUAL COST
INTANGIBLES	Single	Dual(add)		
LOCATION and ROAD				
Survey and Permit	150.			
Road and Location Preparation	500.		250.	
Surface Damages	1,500.			
Fencing - Filling Pits - Cleanup	1,200.			
DRILLING TURNKEY				
_____ ft. at _____ per foot				
90 days Rig time at \$1,600/day	144,000			
_____ days Rig time at _____				
Drill Pipe - Tool Rental				
25 Bits at 200.	5,000			
_____ Bits at _____				
Reamer Cutters				
Core Barrel - Core Head Rental				
CASING CEMENTING	10,000	5,000	3,500.	
SQUEEZE CEMENTING OR PLUGGING				
LOGGING - SIDEWALL CORING Log Suite	7,500			
CORE ANALYSIS				
FORMATION TESTING 5 D.S.T.'s	6,000			
PERFORATING	1,500	1,000	1,500.	
ACIDIZING and FRAC	16,000	14,000	16,000.	
SPECIAL RIG COMPLETING	5,000	4,000	5,000.	
OTHER SERVICES Welding, etc.	750			
TRUCKING	1,200		300.	
GEOLOGY	1,500			
Engineering	1,500	300	750.	
Labor	700	300	400.	
Logging Unit	4,000			
TOOL and EQUIPMENT RENTAL				
WATER and FUEL	2,000			
CASING SUPPLIES	2,200	3,000	800.	
DRILLING MUD and CHEMICALS	55,000			
COMPANY SUPERVISION (\$750. per mo.)	2,250		500.	
CONTINGENCIES 5%	13,500	1,300		
For Dual Completion - add \$28,900.				
Single Completion TOTAL INTANGIBLES	282,950.			
Dual Completion TOTAL INTANGIBLES	311,850		29,000	
TANGIBLES				
CASING, CONDUCTOR				
CASING, SURFACE 350' of 13 3/8"	2,000			
CASING, PROTECTION 5300' of 9 5/8"	17,000		8,000.	
CASING, PRODUCTION 12,000 of 5 1/2"	29,000		29,000.	
CASING, OTHER				
TUBING 12,000 of 2 1/16"	9,000	9,000	9,000.	
PACKER	700	700	700.	
Flow Lines	500	100	500.	
WELL HEAD EQUIPMENT	5,000	2,000	2,000.	
SUBSURFACE EQUIPMENT	2,200	800	1,200.	
Single Completion TOTAL TANGIBLES	65,400	12,600	50,400.	
Single Completion TOTAL ESTIMATED WELL COST	(a) 348,350.		(a)	(c)
TOTAL ESTIMATED DRY HOLE COST	268,950.		79,400.	

Case No. 4354  
Exhibit No. 2  
WELL COST ESTIMATE  
William J. LeMay - Geologist

REQUEST FOR ABOVE PROJECT  
MADE BY:

William J. LeMay

PROJECT RECOMMENDED BY:

Michael P. Grace

PROJECT APPROVED BY:

PROJECT APPROVED BY:

PARTNER

DUAL COMPLETION TOTAL ESTIMATED WELL COST (\$348,350 + 79,400) = \$427,750.

28 August 1970

BEFORE EXAMINED

OIL CONSERVATION COM.

Recd EXHIBIT NO. 131

CASE NO. 4354

Mr. Owen M. Lopez  
Montgomery, Federici, Andrews,  
Hannahs & Morris  
P. O. Box 2307  
Santa Fe, New Mexico 87501

Mr. William B. Kelly  
White, Gilbert, Koch & Kelly  
P. O. Box 787  
Santa Fe, New Mexico 87501

Re: N/2 Sec. 11, T-23-S, R-26-E, N.M.P.M.,  
Eddy County, New Mexico

Gentlemen:

It is my understanding that Mr. Lopez represents Mr. Michael P. Grace and Mr. Kelly represents Corinne Grace, the owners of a State of New Mexico oil and gas lease embracing, among other lands, NE/4 NW/4 and NW/4 NE/4 of Section 11. I represent Texas Oil & Gas Corp., the operator under an option farmout contract from Pan American Petroleum Corporation, covering the remaining 240 acres in the N/2 of said Section 11.

The purpose of this letter is to confirm in writing an oral offer made by my clients to Mr. Lopez, then attorney for both of the Graces, by telephone on or about April 7, 1970. This offer was first made when my client proposed to drill its first well in the Carlsbad Field at a location in the N/2 of said Section 11, and such offer has remained open and unaccepted down to the date hereof. When the offer was not timely accepted by your clients, Texas Oil & Gas Corp., in order to perpetuate one of the expiring leases in Section 11, commenced drilling its Pan American State No. 1 well in the NW/4 SE/4 of Section 11 and presently is in the process of attempting completion of said well in the Atoka and Morrow formations.

Messrs. Owen M. Lopez and William B. Kelly

28 August 1970

-2-

In the event my client accepts the option farmout contract from Pan American Petroleum Corporation by electing to drill a development well in the Carlsbad Field at an orthodox location in the N/2 of Section 11, my client would still either:

- 1) Accept a farmout contract from Michael P. and Corinne Grace on the identical terms of its farmout from Pan American Petroleum Corporation.
- 2) Enter into a joint operating agreement on the same form of agreement (A.A.P.L. form 610) as now exists between Texas Oil & Gas Corp. and the other non-operators in Section 11, whereby your clients would pay their one-fourth share of drilling the development well and the entire N/2 of Section 11 would be dedicated to the well.

I have heretofore furnished you with a copy of the Pan American contract which provides, in part, for the reservation to the owner of a 17-1/2% overriding royalty interest. Although there has been some indication at one time or another since this offer was first made that your clients would accept one or the other of the above proposals, such indication has never been evidenced in writing and has, to the best of my knowledge, been subsequently withdrawn.

Your clients' application, Case No. 4354 for compulsory pooling, and my client's application for a non-standard unit, are both set for hearing before an examiner on September 16, 1970. In the event your clients elect to accept either of the above offers, we should appreciate receiving confirmation of such fact in writing, on or before the date set for such hearings.

Very truly yours,

A. J. Losee

AJL:jw

cc: Mr. Guy Buell  
Mr. Bob Young  
Mr. John Hill  
Mr. W. B. Macey



western union

# Telegram

KA125

(330)•

K AYA260 SW PD-ALBUQUERQUE NMEX 23 259 PMDT=

MR A L PORTER JR SEC DIRECTOR =

1970 JUN 23 PM 3 47

NMEX OIL CONSERVATION COMMISSION STATE LAND OFFICE  
BLDG SANTA FE NMEX=

RE: NMOCC CASE # 4354 THIS TELEGRAM WILL ADVISE THAT I  
HEREBY WITHDRAW AS ATTORNEY FOR THE APPLICANTS IN THE  
ABOVE CASE FORMAL PLEADING TO FOLLOW =

J M CURRETT JR ATTORNEY AT LAW=

D

DOCKET MAILED

Date

9-2-70

JUN 23 PM 3 47

Case 4354

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

APPLICATION OF MICHAEL  
P. GRACE and CORINNE  
GRACE, for Compulsory  
Pooling, Eddy County,  
New Mexico

Case No. 4354

ENTRY OF APPEARANCE

The undersigned hereby enters an appearance on  
behalf of the applicants MICHAEL P. GRACE and CORINNE GRACE  
in the above matter.

MONTGOMERY, FEDERICI, ANDREWS,  
HANNAHS & MORRIS

BY: *Oliver M. Lopez*

Post Office Box 2307  
Santa Fe, New Mexico 87501

Attorneys for Applicants

CERTIFICATE OF MAILING

I certify that I caused to be mailed a true and  
correct copy of the foregoing ENTRY OF APPEARANCE to Guy  
Buel, Esq., Attorney for Pan American Petroleum Corporation,  
Post Office Box 1410, Fort Worth, Texas, this 9<sup>th</sup> day of  
July, 1970.

*Oliver M. Lopez*  
One of Attorneys for Applicants

DOCKET MAILED

Date 9-2-70

DOCKET MAILED

Date 7/23/70

10 JUL 9 PM 4 49

*SMK*  
*file*  
*Case 4354*

J.M. DURRETT, JR.  
Attorney at Law  
1814 San Mateo NE  
Albuquerque, New Mexico  
Box 3001

268-2466

June 25, 1970

*MA*

New Mexico Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Case No. 4354 - Application of  
Michael P. and Corinne Grace for  
Compulsory Pooling, Eddy County, N.M.

Gentlemen:

I am enclosing my withdrawal as attorney for the  
applicants in the above case.

Very truly yours,

*JM Durrett Jr*

J.M. DURRETT, JR.

JMD:dn  
encl.

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

Application of

MICHAEL P. GRACE and  
CORINNE GRACE,

Case No. 4354

for Compulsory Pooling,  
Eddy County, New Mexico

WITHDRAWAL OF ATTORNEY

J.M. Durrett, Jr. hereby withdraws as Attorney for the  
applicants, Michael P. Grace and Corinne Grace, in the above  
case.



J. M. DURRETT, Jr.  
Attorney at Law  
1814 San Mateo NE  
Albuquerque, New Mexico

I certify that a copy of the  
foregoing pleading was mailed  
to Michael P. Grace and Corinne  
Grace the 25th day of June, 1970.





J. O. SETH (1883-1963)

A. K. MONTGOMERY  
WM. FEDERICI  
FRANK ANDREWS  
FRED C. HANNAHS  
RICHARD S. MORRIS  
SUMNER G. BUELL  
SETH D. MONTGOMERY  
FRANK ANDREWS III

MONTGOMERY, FEDERICI, ANDREWS, HANNAHS & MORRIS  
ATTORNEYS AND COUNSELORS AT LAW  
350 EAST PALACE AVENUE  
SANTA FE, NEW MEXICO 87501

POST OFFICE BOX 2307  
AREA CODE 505  
TELEPHONE 982-3876

June 25, 1970

JUN 26 10 18 AM '70

*Int  
file - Case  
4354*

Mr. George M. Hatch  
New Mexico Oil Conservation Commission  
Post Office Box 2088  
Santa Fe, New Mexico 87501

Re: Application of Michael P. Grace and  
Corinne Grace for Compulsory Pooling,  
Eddy County, New Mexico  
Case No. 4354

Dear George:

Pursuant to our telephone conversation today and in  
accordance with my conversation with Mr. A. J.  
Losee, it is the desire and request of our clients,  
Mr. and Mrs. Grace that the above case set for  
hearing on July 1, 1970, be continued until the first  
hearing before your Commission in August.

Thank you very much for your cooperation.

Sincerely,

*Arthur M. Lopez*

OML:peg

DOCKET MAILED

Date \_\_\_\_\_

JOEL M. CARSON

LAW OFFICES  
A. J. LOSEE

CARPER BUILDING - P. O. DRAWER 2326  
ARTESIA, NEW MEXICO 88210

AREA CODE 505  
746-3508

25 June 1970

JUN 26 AM 8 15

Mr. George M. Hatch, Attorney  
Oil Conservation Commission  
P. O. Box 2088  
Santa Fe, New Mexico 87501

Re: Application of Michael P. Grace and  
Corinne Grace for a Compulsory Pooling  
Order, Case 4354  
Our File No. 2504-70

Dear George:

We hereby join in the request of the applicants to continue  
the above case until the August 5, 1970, examiner's hearing.  
This request is made on behalf of the parties receiving  
copies of this letter.

Very truly yours,

*A. J. Losee*

A. J. Losee

AJL:jw

cc: Mr. Bob Young, Texas Oil & Gas Corp.  
Mr. W. B. Macey, Nielson Enterprises, Inc.  
Mr. John H. Hill

DOCKET MAILED

Date \_\_\_\_\_

*Not  
file - Case 4354*

DOCKET: EXAMINER HEARING - WEDNESDAY - JULY 1, 1970

9 A.M. - OIL CONSERVATION COMMISSION CONFERENCE ROOM,  
STATE LAND OFFICE BUILDING - SANTA FE, NEW MEXICO

The following cases will be heard before Elvis A. Utz, Examiner, or Daniel S. Nutter, Alternate Examiner:

CASE 4354: (Continued from the May 13, 1970, Examiner Hearing)

Application of Michael P. Grace and Corinne Grace for compulsory pooling, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico, said acreage to be dedicated to a well to be drilled in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11. 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 4165: (Reopened):

In the matter of Case No. 4165 being reopened pursuant to the provisions of Order No. R-3795, which order established 160-acre spacing units and an 80-acre proportional factor of 4.77 for the East Bagley-Pennsylvanian Pool, Lea County, New Mexico. All interested parties may appear and show cause why the said pool should not be developed on less than 160-acre spacing units and to show cause why the 80-acre proportional factor of 4.77 should or should not be retained.

CASE 4173: (Reopened):

In the matter of Case No. 4173 being reopened pursuant to the provisions of Order No. R-3811, which order established 80-acre spacing units and a limiting gas-oil ratio of 4000 cubic feet of gas per barrel of oil for the Hobbs-Drinkard Pool, Lea County, New Mexico. All interested parties may appear and show cause why the said pool should not be developed on 40-acre spacing units and why the limiting gas-oil ratio should not revert to 2000 to one.

**CASE 4371:** Application of Betty Oil Company for a waterflood expansion and amendment of Order No. R-2966, as amended, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its Justis-McKee Unit Waterflood Project, Justis-McKee Pool, by the conversion to water injection of four additional wells in Units B and H of Section 24, Township 25 South, Range 37 East, and Units D and M of Section 19, Township 25 South, Range 38 East, Lea County, New Mexico. Applicant further seeks the amendment of Order No. R-2966, as amended, to permit administrative approval for the drilling or conversion of additional injection wells at orthodox or unorthodox locations without a showing of well response.

**CASE 4372:** Application of International Hydrocarbons Incorporated for an unorthodox gas well location, Lea County, New Mexico. Applicant, in the above-styled cause, seeks approval of an unorthodox gas well location for a well to be drilled 990 feet from the North and West lines of Section 8, Township 26 South, Range 33 East, Red Hills-Wolfcamp Gas Pool, Lea County, New Mexico.

**CASE 4373:** Application of Benson-Montin-Greer Drilling Corporation for pool redelineation, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks the redelineation of certain pool boundaries to include the deletion of the following-described acreage from the East Puerto Chiquito-Mancos Oil Pool, Rio Arriba County, New Mexico.

TOWNSHIP 26 NORTH, RANGE 1 EAST

Section 20: W/2  
Section 29: All  
Section 32: All  
Section 33: W/2

TOWNSHIP 25 NORTH, RANGE 1 EAST

Section 4: W/2  
Section 5: All  
Section 8: All  
Section 9: W/2  
Section 17: All  
Section 20: All  
Section 29: W/2

and for the extension of the West Puerto Chiquito-Mancos Oil Pool to include the above-described acreage and the following-described acreage in said county:

(Case 4373 continued)

TOWNSHIP 24 NORTH, RANGE 1 WEST  
Sections 1 through 36 - All

TOWNSHIP 24 NORTH, RANGE 1 EAST  
Section 6: All  
Section 7: All  
Section 8: W/2  
Section 17: W/2  
Section 18: All  
Section 19: All  
Section 20: W/2  
Section 30: All

CASE 4374: Application of Benson-Montin-Greer Drilling Corporation for expansion of a unit area, Rio Arriba County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand the Canada Ojitos Unit Area, authorized by Order No. R-2544, to include some 20,480 additional acres, more or less, of Federal, State and Fee lands in Township 24 North, Ranges 1 East and 1 West, Township 25 North, Ranges 1 East and 1 West; and Township 26 North, Range 1 East, Rio Arriba County, New Mexico.

CASE 4366: (Readvertised)  
Application of Mobil Oil Corporation for down-hole commingling, Lea County, New Mexico. Applicant, in the above-styled cause, seeks authority to commingle production from the Vacuum-Wolfcamp and Vacuum-Upper Pennsylvanian Pools in the well-bore of its Bridges State Well No. 109, a triple completion, located in Unit N of Section 24, Township 17 South, Range 34 East, Lea County, New Mexico.

CASE 4375: Application of Pan American Petroleum Corporation for an exception to Rule 104 C. I, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception Rule 104 C. I of the Commission Rules and Regulations to permit the completion within 660 feet of another producing

CASE 4375 - Continued from Page 3 -

well of its Byers "A" Well No. 1 which is being directionally drilled in Unit C of Section 5, Township 19 South, Range 38 East, Hobbs Pool, Lea County, New Mexico, pursuant to Order No. R-3973.

CASE 4376: Application of Pan American Petroleum Corporation for an exception to Order No. R-3221, as amended, Chaves County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221, as amended, which order prohibits the disposal of water produced in conjunction with the production of oil on the surface of the ground in Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico. Said exception would be for applicant's Lusk "A" Lease comprising the NE/4 of Section 6, Township 15 South, Range 30 East, Double L-Queen Pool, Chaves County, New Mexico. Applicant seeks authority to dispose of salt water produced by wells on said lease in an unlined surface pit.

CASE 4377: Application of Champlin Petroleum Company for a unit agreement, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks approval of the State 32-7-33 Unit Area comprising 640 acres, more or less, of State lands in Section 32, Township 7 South, Range 33 East, Chaveroo-San Andres Pool, Roosevelt County, New Mexico.

CASE 4378: Application of Champlin Petroleum Company for a waterflood expansion and amendment of Order No. R-3550, Roosevelt County, New Mexico. Applicant, in the above-styled cause, seeks authority to expand its State 32 Waterflood Project, Chaveroo-San Andres Pool, by the conversion of water injection of one additional well located in Unit B of Section 32, Township 7 South, Range 33 East, Roosevelt County, New Mexico. Applicant further seeks the amendment of Order No. R-3550 to permit administrative approval for the drilling or conversion of additional injection wells without a showing of well response.

CASE 4379: Application of Hal M. Stierwalt for an exception to Order No. R-3221, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, for himself and as agent for Southern Union Production Company, seeks an exception to Order No. R-3221, as amended, which order prohibits the disposal of water produced in conjunction with the production of oil on the surface of the ground in Lea, Eddy, Chaves and Roosevelt Counties, New Mexico. Said exception would be for eight of Stierwalt's wells and four of Southern Union Production Company's wells located in Sections 1 and 2 of Township 16 South, Range 30 East, West Henshaw-Grayburg Pool, Eddy County, New Mexico. Applicant seeks authority to dispose of salt water produced by said wells in unlined surface pits located in the vicinity of said wells.

CASE 4380: Application of Shenandoah Oil Corporation for a waterflood project, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks authority to institute a waterflood project in the Shugart Pool, Eddy County, New Mexico, by the injection of water into the Yates and Queen formations through its Shugart "B" Well No. 1 located in the SW/4 SE/4 of Section 33, Township 18 South, Range 31 East.

OIL CONSERVATION COMMISSION

P. O. BOX 2088

SANTA FE, NEW MEXICO 87501

May 13, 1970

DOCKET MAILED

Mr. A. J. Losee  
Attorney at Law  
P. O. Drawer 239  
Artesia, New Mexico

Date 6-18-70

Re: Application of Michael P. Grace and  
Corinne Grace for a Compulsory Pool-  
ing Order, Case 4354  
Your File No. 2504-70

Dear Jerry:

The subject case has been continued to the  
July 1, 1970, Examiner Hearing.

A copy of the docket will be mailed to you  
a few days prior to the hearing.

Very truly yours,

GEORGE M. HATCH  
Attorney

GMH/esr

C  
O  
P  
Y



JOEL M. CARSON

LAW OFFICES  
**A. J. LOSEE**  
CARPER BUILDING - P. O. DRAWER 239  
ARTESIA, NEW MEXICO 88210

AREA CODE 505  
746-3508

12 May 1970

13 MAY 1970 AM 8 17

*Joel*

*JW*

Mr. Bob Young, Attorney  
Texas Oil & Gas Corp.  
2520 Fidelity Union Tower  
Dallas, Texas 75201

Re: Application of Michael P. Grace and Corinne Grace  
for a Compulsory Pooling Order, Case No. 4354  
Our File No. 2304-70

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Dear Bob:

Mr. George Hatch, Attorney for the Commission, confirmed to me on the telephone today that the applicants had requested a continuance of the above case until the first Examiner's hearing in July of 1970. Mr. Hatch advised that in all events, the Commission, when the case is called for hearing tomorrow, will continue it and notify us of the continued date for hearing.

Very truly yours,

*A. J. Losee*  
A. J. Losee

AJL:jw

cc: Mr. Guy Buell  
Mr. John Hill  
Mr. Bill Macey  
Mr. George Hatch

JOEL M. CARSON

LAW OFFICES  
A. J. LOSEE  
CARPER BUILDING - P. O. DRAWER 239  
ARTESIA, NEW MEXICO 88210

AREA CODE 505  
746-3508

8 May 1970

Mr. James M. Durrett, Jr. **DOCKET MAILED**  
Attorney at Law  
P. O. Box 3001  
Albuquerque, New Mexico  
Date 6-18-70

RE: Application of Michael P. Grace and  
Corinne Grace for a Compulsory Pooling  
Order, Case No. 4354

Dear Jim:

This will confirm our telephone conversation of this date, in which you were advised that I represent the interest owners in the N/2 of Section 11, to whom a carbon copy of this letter is being furnished. At the date of this writing I have not yet contacted Mr. Young with Texas Oil and Gas Corporation, but I am authorized to state on behalf of all of the other parties that we join in your request to continue this case until the first examiner hearing scheduled for July 1970.

I will contact Mr. Young on Monday and, unless you hear from me to the contrary on that date, you will know that Texas Oil and Gas Corporation also has no objection to this continuance. I also understand that if you do not receive satisfactory telephone assurance from George Hatch, that the case will be so continued, you will call and advise me of this fact by telephone on Monday.

With kind regards, I remain

Very truly yours,

  
A. J. Losee

AJL/gar

C  
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Y

Mr. James M. Durrett, Jr.  
-2-

8 May 1970

cc: Mr. W. B. Macey, Nielsen Enterprises, Inc.  
Mr. Bob Young, Texas Oil & Gas Corp.  
Mr. John Hill  
Mr. Guy Beall, Pan American Petroleum Corporation  
Mr. George M. Hatch, Oil Conservation Commission

DOCKET No. 12-70

DOCKET: REGULAR HEARING - WEDNESDAY - MAY 13, 1970

OIL CONSERVATION COMMISSION - 9 A.M. - MORGAN HALL, STATE LAND OFFICE  
BUILDING, SANTA FE, NEW MEXICO

- ALLOWABLE: (1) Consideration of the oil allowable for June, 1970;
- (2) Consideration of the allowable production of gas for June, 1970, from fifteen prorated pools in Lea, Eddy, Roosevelt and Chaves Counties, New Mexico; also presentation of purchaser's nominations for said pools for the six-month period beginning July 1, 1970; consideration of the allowable production of gas from nine prorated pools in San Juan, Rio Arriba and Sandoval Counties, New Mexico, for June, 1970.

THE FOLLOWING CASES WILL BE HEARD BEFORE DANIEL S. NUTTER,  
EXAMINER, OR ELVIS A. UTZ, ALTERNATE EXAMINER:

CASE 4354: Application of Michael P. Grace and Corinne Grace for compulsory pooling, Eddy County, New Mexico. Applicants, in the above-styled cause, seek an order pooling all mineral interests from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range 26 East, South Carlsbad Field, Eddy County, New Mexico, said acreage to be dedicated to a well to be drilled in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11. 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 4355: Application of Pan American Petroleum Corporation for pool consolidation, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the consolidation of the North Bagley-Upper Pennsylvanian and North Bagley-Lower Pennsylvanian Pools, Lea County, New Mexico, into one pool. Applicant further requests the Lower Pennsylvanian Allowable Factor be applied to the consolidated pool.

CASE 3727 (Reopened):

In the matter of Case 3727 being reopened pursuant to the provisions of Order No. R-3428, which order established 640-acre spacing units for the Rock Tank-Upper Morrow and Rock Tank-Lower Morrow Gas Pools, Eddy County, New Mexico, for a period of one year after first pipeline connection in either of the pools. All interested persons may appear and show cause why said pools should not be developed on 320-acre spacing units.

CASE 4356: Southeastern nomenclature case calling for an order for the creation, abolishment, extension and contraction of certain pools in Lea, Eddy, Chaves and Roosevelt Counties, New Mexico.

(a) Create a new pool in Lea County, New Mexico, classified as a gas pool for Morrow production and designated as the Baum-Morrow Gas Pool. The discovery well is the RK Petroleum Corporation State No. 1 located in Unit B of Section 27, Township 13 South, Range 32 East, NMPM. Said pool would comprise:

TOWNSHIP 13 SOUTH, RANGE 32 EAST, NMPM  
SECTION 27: N/2

(b) Create a new pool in Lea County, New Mexico, classified as a gas pool for Queen-Penrose production and designated as the East Querecho Plains-Queen Gas Pool. The discovery well is Robert N. Enfield's Hudson Federal No. 1 located in Unit 0 of Section 30, Township 18 South, Range 33 East, NMPM.

TOWNSHIP 18 SOUTH, RANGE 33 EAST, NMPM  
SECTION 30: SE/4

(c) Abolish the Bluitt-San Andres Pool in Roosevelt County, New Mexico, described as:

TOWNSHIP 8 SOUTH, RANGE 38 EAST, NMPM  
SECTION 7: All  
SECTION 8: All  
SECTION 17: All  
SECTION 18: All

(d) Extend the Bluitt-San Andres Associated Pool in Roosevelt County, New Mexico, to include therein:

TOWNSHIP 8 SOUTH, RANGE 38 EAST, NMPM  
SECTION 8: S/2  
SECTION 17: W/2

(e) Contract the Bagley-Pennsylvanian Pool in Lea County, New Mexico, by the deletion of the following described area;

TOWNSHIP 12 SOUTH, RANGE 33 EAST, NMPM  
SECTION 4: NE/4

Regular Hearing - May 13, 1970  
-3-

Docket No. 12-70

(Case 4356 continued)

(f) Extend the North Bagley-Upper Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 11 SOUTH, RANGE 33 EAST, NMPM  
SECTION 33: E/2

TOWNSHIP 12 SOUTH, RANGE 33 EAST, NMPM  
SECTION 4: NE/4

(g) Extend the Cerca-Upper Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 13 SOUTH, RANGE 34 EAST, NMPM  
SECTION 34: NW/4

TOWNSHIP 14 SOUTH, RANGE 34 EAST, NMPM  
SECTION 8: NW/4

(h) Extend the Double L-Queen Pool in Chaves County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 29 EAST, NMPM  
SECTION 12: E/2 NE/4

(i) Extend the Hobbs-Blinbry Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 18 SOUTH, RANGE 38 EAST, NMPM  
SECTION 33: NE/4

(j) Extend the Lea-Bone Springs Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 19 SOUTH, RANGE 34 EAST, NMPM  
SECTION 35: SE/4

TOWNSHIP 20 SOUTH, RANGE 34 EAST, NMPM  
SECTION 2: E/2

(k) Extend the Rock Tank-Lower Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 24 EAST, NMPM  
SECTION 12: All

Regular Hearing - May 13, 1970

-4-

Docket No. 12-70

(l) Extend the Rock Tank-Upper Morrow Gas Pool in Eddy County, New Mexico, to include therein:

TOWNSHIP 23 SOUTH, RANGE 24 EAST, NMPM  
SECTION 12: All

(m) Extend the Tulk-Pennsylvanian Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 14 SOUTH, RANGE 32 EAST, NMPM  
SECTION 34: NE/4

(n) Extend the Tulk-Wolfcamp Pool in Lea County, New Mexico, to include therein:

TOWNSHIP 15 SOUTH, RANGE 32 EAST, NMPM  
SECTION 9: NE/4

CASE 4301: (Continued from the March 25, 1970, Examiner Hearing)

In the matter of the hearing called by the Oil Conservation Commission on its own motion to permit Robert T. Smith and all other interested persons to appear and show cause why the following Robert T. Smith wells located in Section 32, Township 20 North, Range 9 West, McKinley County, New Mexico, should not be plugged and abandoned in accordance with a Commission-approved plugging program:

State Well No. 1 located 487 feet from the North line and 990 feet from the East line;

State "A" Well No. 1 located 400 feet from the North line and 990 feet from the East line;

State Well No. 3 located 330 feet from the North line and 330 feet from the West line;

State Well No. 6 located 220 feet from the North line and 1485 feet from the East line;

State Well No. 6-Y located approximately 5 feet West of the above-described Well No 6;

State Well No. 8 located 1155 feet from the North line and 2475 feet from the East line.

CASE 4337: (Continued from the April 15, 1970, Examiner Hearing)  
Application of Petroleum Corporation of Texas for an exception to Order No. R-3221, as amended, Eddy County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221, as amended, which order prohibits the disposal of water produced in conjunction with the production of oil on the surface of the ground in Lea, Eddy, Chaves, and Roosevelt Counties, New Mexico. Said exception would be for applicant's Dexter Hanagan Graridge Federal Well No. 1 located in Unit J, Section 22, Township 17 South, Range 30 East, Jackson-Abo Pool, Eddy County, New Mexico. Applicant seeks authority to dispose of salt water produced by said well in an unlined surface pit in the vicinity of said well.

CASE 4336: (Continued from the April 15, 1970, Examiner Hearing)  
Application of Byron McKnight for an exception to Order No. R-3221, as amended, Lea County, New Mexico. Applicant, in the above-styled cause, seeks an exception to Order No. R-3221, as amended, which order prohibits the disposal of water produced in conjunction with the production of oil or gas on the surface of the ground in Lea, Eddy, Chaves and Roosevelt Counties. Said exception would be for applicant's lease comprising all of Section 19, W/2 of Section 20, NW/4 Section 29, and NW/4 Section 30, Township 19 South, Range 34 East, undesignated Yates-Seven Rivers gas pool, Lea County, New Mexico. Applicant seeks authority to dispose of salt water produced by wells on said leases in unlined surface pits on the leases.

CASE 4084: (Reopened) (Continued from the April 15, 1970, Examiner Hearing).  
In the matter of Case No. 4084 being reopened pursuant to the provisions of Order No. R-3732, which order established 160-acre spacing units and an 80-acre proportional factor of 4.77 for the Feather-Wolfcamp Pool, Lea County, New Mexico. All interested parties may appear and show cause why the said pool should not be developed on less than 160-acre spacing units and to show cause why the 80-acre proportional factor of 4.77 should or should not be retained.



CASE 4351: (Continued from the April 29, 1970, Examiner Hearing)  
Application of Humble Oil & Refining Company for well reclassification and simultaneous dedication of acreage, Lea County, New Mexico. Applicant, in the above-styled cause, seeks the reclassification of its New Mexico "G" State Well No. 5 from an oil well in the Eumont Pool to a gas well in said pool. Applicant further seeks the dedication of a standard 640-acre gas proration unit comprising all of Section 23, Township 21 South, Range 36 East, Lea County, New Mexico, to said Well No. 5 and to applicant's New Mexico "G" State Well No. 9, located, respectively in Units E and G of said Section 23, and authority to produce the allowable assigned to said unit from either of said wells in any proportion.

CASE 4352: (Continued from the April 29, 1970, Examiner Hearing)  
Application of Jack L. McClellan for the creation of a new gas pool or, in the alternative, the establishment of pool rules for two existing pools, Chaves and Lea Counties, New Mexico. Applicant, in the above-styled cause, seeks the creation of a new Queen gas pool comprising the following-described acreage:

CHAVES COUNTY, NEW MEXICO

TOWNSHIP 15 SOUTH, RANGE 29 EAST

Section 11: SE/4  
Section 12: SW/4  
Section 13: NW/4  
Section 14: E/2  
Section 23: NE/4 and SW/4

In the alternative applicant seeks the promulgation of special rules for the Sulimar-Queen Pool, Chaves County, and Double L-Queen Pool, Chaves and Lea Counties, New Mexico, as separate or as consolidated pools, including provisions for the classification of oil and gas wells, spacing and well location requirements for oil and gas wells, and an allocation formula for withdrawals by oil wells and gas wells.

J. M. DURRETT, JR.  
Attorney at Law  
1814 San Mateo NE  
Albuquerque, New Mexico  
Box 3001

06  
AM 8  
MAY 11 1970

268-2466

May 8, 1970

*SA*

New Mexico Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Case No. 4354, Application of Michael P. Grace  
and Corinne Grace for Compulsory Pooling,  
Eddy County, New Mexico

Gentlemen:

Michael P. Grace and Corinne Grace, applicants in the above case, respectfully request that this case be continued to the ~~next~~ examiner hearing in July, 1970. Texas Oil and Gas Corp. is presently drilling a well in the S/2 of Sec. 11, T23 S, R26E, South Carlsbad Field, Eddy County, New Mexico, and it is our understanding that this well should be completed in the first part of July. The applicants believe it would be in the best interest of all parties concerned, if the compulsory pooling case was heard after the well in the S/2 of Sec. 11 is completed. The applicants also need additional time to confer with city, county and federal authorities concerning the drilling of a well on the applicants' acreage.

At the time the application was filed, the applicant was informed that there was at least one standard location available on the applicants' acreage which would conform with all governmental regulations. The applicants have subsequently been advised that this information may not be correct.

Very truly yours,

*Jm Durrett Jr*  
J. M. Durrett, Jr.

JMD:ap

APR 22 PM 4 34

J. M. DURRETT, JR.  
Attorney at Law  
1814 San Mateo NE  
Albuquerque, New Mexico  
Box 3001

268-2466

*Case 4354*

New Mexico Oil Conservation Commission  
Box 2088  
Santa Fe, New Mexico 87501

Attention: Mr. A. L. Porter, Jr.

Re: Application of Michael P. Grace and Corinne Grace  
for Compulsory Pooling, Eddy County, New Mexico

Gentlemen:

I am enclosing an original and two copies of the above application. Will you please docket this application for your next regularly scheduled examiner hearing.

Thank you for your consideration.

Very truly yours,

*JM Durrett Jr*

J. M. Durrett, Jr.

JMD:ap  
encl.

DOCKET MAILED

DOCKET MAILED

Date 4-30-70

Date 6-18-70

*Docket to Pan Am. - John Hill  
74. Worth 3108 Southland Center  
Dallas, Texas 75201*

APR 22 PM 4 34

BEFORE THE OIL CONSERVATION COMMISSION  
OF THE STATE OF NEW MEXICO

Application of

MICHAEL P. GRACE and  
CORINNE GRACE,

for Compulsory Pooling,  
Eddy County, New Mexico

Case No. 4354

A P P L I C A T I O N

COMES NOW the applicants, Michael P. Grace and  
Corinne Grace, by and through their attorney, J. M. Durrett, Jr.,  
and respectfully state:

I.

The applicants are the owners of the NE/4 NW/4 and  
the NW/4 NE/4 of Sec. 11, Township 23 South, Range 26 East, NMPM,  
Eddy County, New Mexico.

II.

The applicants propose to drill a well on their acreage  
to test all formations down to and including the Morrow Sand of the  
Lower Pennsylvanian Formation and to dedicate the N/2 of Sec. 11  
to the proposed well.

III.

The owner or owners of the other separately owned  
tract or tracts within the proposed spacing unit have not agreed to  
pool their interests with the applicants.

IV.

The applicants submit that they should be designated operator of the proposed well and spacing unit.

V.

The applicants are prepared to advance the costs of development and operation and request the Commission to make provision for any owner, or owners, who elects not to pay his proportionate share in advance including a reasonable charge for supervision and the risk involved in drilling the well.

WHEREFORE, the applicants request the Commission to:

(1) Enter a compulsory pooling order pooling the N/2 of Sec. 11, Township 23 South, Range 26 East, NMPM, Eddy County, New Mexico, into a drilling and spacing unit for all formations down to and including the Morrow Sand of the Lower Pennsylvanian Formation.

(2) Authorize the applicants to drill a well in the NE/4 NW/4 or the NW/4 NE/4 of Sec. 11, Township 23 South, Range 26 East, NMPM, Eddy County, New Mexico, and dedicate the N/2 of said Sec. 11 to the proposed well.

(3) Designate the applicants as the operator of said well and make provision for any owner, or owners, who elects not to pay his proportionate share in advance including a reasonable charge for supervision and the risk involved in the drilling of the well.

Respectfully submitted,



J. M. Durrett, Jr.

DRAFT

GMH/esr  
September 21, 1970

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.  
~~CASE NOS.~~ 4354 and 4428

Order No. R- 4032

APPLICATION OF MICHAEL P. GRACE  
AND CORINNE GRACE FOR COMPULSORY  
POOLING, EDDY COUNTY, NEW MEXICO.

APPLICATION OF TEXAS OIL AND GAS  
CORPORATION FOR A NON-STANDARD GAS  
SPACING UNIT, EDDY COUNTY, NEW MEXICO.

ORDER OF THE COMMISSION

BY THE COMMISSION:

9:30  
This cause came on for hearing at 9 a.m. on September 16, 1970,  
at Santa Fe, New Mexico, before Examiner Daniel S. Nutter.

NOW, on this \_\_\_\_\_ day of September, 1970, 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 Michael P. Grace and Corinne Grace filed an applica-  
tion with the Commission April 22, 1970, seeking an order pooling  
all mineral interests from the surface of the ground down to and  
including the Morrow formation underlying the N/2 of Section 11,  
Township 23 South, Range 26 East, NMPM, South Carlsbad Field,  
Eddy County, New Mexico, said acreage to be dedicated to a gas  
well to be drilled at a standard location in either the NE/4 NW/4  
or the NW/4 NE/4 of said Section 11.

(3) That Texas Oil and Gas Corporation filed an application  
with the Commission August 31, 1970, seeking approval of a 240-acre

non-standard gas proration unit comprising the E/2 NE/4, SW/4 NE/4, W/2 NW/4, and SE/4 NW/4 of said Section 11 to be dedicated to a well to be drilled at a standard location in the N/2 of said Section 11 to test any and all formations from the surface of the ground down to and including the Morrow formation.

(4) That the aforesaid matter came on for hearing on September 16, 1970, as consolidated cases.

(5) That Michael P. Grace and Corinne Grace have the right to drill and propose to drill a well at a standard location in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11, to test any and all formations from the surface of the ground down to and including the Morrow formation.

(6) That Texas Oil and Gas Corporation has the right to drill and proposes to drill a well at a standard location in the N/2 of said Section 11 to test any and all formations from the surface of the ground down to and including the Morrow formation *and to dedicate the acreage as described in Finding No (3), above.*

(7) That there are interest owners in the N/2 of said Section 11 who have not agreed to pool their interests.

(8) That to avoid the drilling of unnecessary wells, to protect correlative rights, and to afford to the owner of each interest in the N/2 of said Section 11 the opportunity to recover or receive without unnecessary expense his just and fair share of the gas underlying said half section, all mineral interests, whatever they may be, from the surface of the ground down to and including the Morrow formation underlying the N/2 of said Section 11 should be pooled to form a 320-acre unit dedicated to a well to be drilled in either the NE/4 NW/4 or the NW/4 NE/4 of said Section 11, provided the operator of said unit commences the drilling of said well on or before the 15<sup>th</sup> day of *November,* ~~October~~, 1970, and ~~shall~~ thereafter continue the drilling of

said well with due diligence to a depth sufficient to test the Morrow formation.

(9) That Michael P. Grace and Corinne Grace should be designated the operators of the pooled unit and the well to which said unit is dedicated.

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

(11) 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 plus an additional 37 1/2 % thereof as a reasonable charge for the risk involved in the drilling of the well.

(12) 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.

(13) 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 operators any amount that reasonable well costs exceed estimated well costs and should receive from the operators any amount that paid estimate well costs exceed reasonable well costs.

(14) That \$ 100<sup>00</sup> per month should be fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operators should/authorized to withhold from production the proportionate share of such supervision charge attributable to each non-consenting working interest, and in addition thereto, the operators should be 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.

(15) 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.

✓ (16) That upon the failure of the operators of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 15, 1970, the order pooling said unit should become null and void and of no effect whatsoever.

✓ (17) That upon the failure of the operators of said pooled unit to commence drilling of the well to which said unit is dedicated on or before November 15, 1970, the non-standard gas proration unit described in Finding No. (3) above, should be approved.

IT IS THEREFORE ORDERED:

(1) That all mineral interests, whatever they may be, from the surface of the ground down to and including the Morrow formation underlying the N/2 of Section 11, Township 23 South, Range *South Culebra Field* 26 East, NMPM, Eddy County, New Mexico, are hereby pooled to form a 320-acre gas spacing unit to be dedicated to a well to be drilled at a standard location in either the NE/4 NW/4 or NW/4 NE/4 of said Section 11;

✓ PROVIDED HOWEVER, that the operators of said unit shall commence the drilling of said well on or before the <sup>13th</sup> ~~November~~ November 15, day of ~~January~~ November, 1970, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test the Morrow formation;

PROVIDED FURTHER, that in the event said operators do not commence the drilling of said well on or before the 15th ~~October~~ <sup>November</sup>, 1970, Order (1) of this order shall be null and void and of no effect whatsoever;

PROVIDED FURTHER, that should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, ~~on or before~~ 1970, said operators shall appear before the Commission and show cause why Order (1) of this order should not be rescinded.

(2) That Michael P. Grace and Corinne Grace are hereby designated the operators of the subject well and unit.

(3) That the operators shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of estimated well costs within 30 days following the date of this order.

(4) That within 30 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 operators 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 operators shall furnish the Commission and each known working interest owner in the subject unit an itemized schedule of actual well costs within 30 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 completion of the well, 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 30 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 operators his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operators his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) That the operators are 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 estimated well costs within 30 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, 37½ % 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 30 days from the date the schedule of estimated well costs is furnished to him.

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

(9) That \$100<sup>se</sup> per month is hereby fixed as a reasonable charge for supervision (combined fixed rates) for the subject well; that the operators are 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 operators are 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 operators shall notify the Commission of the name and address of said escrow agent within 90 days from the date of this order.

(13) That upon the failure of the operators of the above-described pooled unit to commence the well to which said unit is dedicated on or before 15th day of ~~October~~ <sup>November</sup>, 1970, a non-standard gas proration unit comprising the E/2 NE/4, SW/4 NE/4, W/2 NW/4, and SE/4 NW/4 of Section 11, Township 23 South, Range 26 <sup>South Coalsburg Field</sup> East, NMPM, Eddy County, New Mexico, is hereby established and dedicated to a well to be drilled at a standard location in the N/2 of said Section 11 <sup>to test any and all formations from the surface of the ground down to and including the Marlow formation</sup>

(14) 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.