

**CASE 4428: Application of TEXAS
OIL & GAS FOR A NON-STANDARD GAS
SPACING UNIT, EDDY COUNTY, N.M.**

Case Number

4428

Application
Transcripts.

Small Exhibits

ETC.

dearnley-meier reporting service, inc.

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO

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;

and

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

Case No. 4428

Case No. 4354

BEFORE: Daniel S. Nutter, Examiner

TRANSCRIPT OF HEARING



dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-5691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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.

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 249-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

1 (Whereupon, the witnesses were
2 sworn.)

3 WILLIAM J. LEMAY,
4 called as a witness, having been first duly sworn, was
5 examined and testified as follows:

6 DIRECT EXAMINATION

7 BY MR. LOPEZ:

8 Q Would you please state your name?

9 A William J. LeMay.

10 Q Your occupation?

11 A Consulting geologist, Santa Fe, New Mexico.

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

14 A Yes.

15 MR. LOPEZ: Are his qualifications acceptable?

16 MR. NUTTER: Yes they are.

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

21 A Yes I am.

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

24 A Yes I have.

25 Q Referring to Exhibit Number 1, would you please

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting services

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6891 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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 \$389,850.00. 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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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.

17 (Whereupon Applicants' Exhibits
18 1 and 2 were admitted in evidence.)

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

21 A Yes sir.

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

25 A Those are the two standard locations that would be

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.

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG., EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 200 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

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.

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?

dearnley-meier reporting services

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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?

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87108
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-4691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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.

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.

deanley-meier reporting service

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

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6601 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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 Then 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.

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.

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

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 200 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

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 DIRECT EXAMINATION

5 BY MR. LOSEE:

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

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

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

13 A Yes.

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

18 A Yes.

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

21 A Yes it did.

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

25 A Yes sir.

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87109
FIRST NATIONAL BANK BLDG., EAST • ALBUQUERQUE, NEW MEXICO 87108

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

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

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 from 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

dearnley-meier reporting service

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
200 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG., EAST ALBUQUERQUE, NEW MEXICO 87108

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.

dearnley-meier

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092, PHONE 243-6691, ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST, ALBUQUERQUE, NEW MEXICO 87108

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.

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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.

dearnley-meier recording

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-0691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

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

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.

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-outees.

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,

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG. • P.O. BOX 1092 • PHONE 243-6091 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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. LOSEE: 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

dearnley-meier reporting service

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
 209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
 FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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

dearnley-meier reporting

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS
209 SIMMS BLDG., P.O. BOX 1092 • PHONE 243-6691 • ALBUQUERQUE, NEW MEXICO 87103
FIRST NATIONAL BANK BLDG. EAST • ALBUQUERQUE, NEW MEXICO 87108

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
14
15
16
17
18
19
20
21
22
23
24
25

1	<u>I N D E X</u>	
2	<u>WITNESS</u>	<u>PAGE</u>
3	WILLIAM J. LEMAY	
4	Direct Examination by Mr. Lopez	3
5	Cross-examination by Mr. Losee	8
6	CORINNE GRACE	
7	Direct Examination by Mr. Lopez	10
8	Cross-examination by Mr. Losee	14
9	Redirect Examination by Mr. Lopez	22
10	MICHAEL P. GRACE	
11	Direct Examination by Mr. Lopez	25
12	W. B. MACEY	
13	Direct Examination by Mr. Losee	28
14	Cross-examination by Mr. Lopez	33
15		
16		
17		
18	<u>EXHIBIT</u>	<u>OFFERED AND ADMITTED</u>
19	Applicants' 1 and 2	9
20	Protestant's 1	20
21		
22		
23		
24		
25		

dearnley-meier reporting service

SPECIALIZING IN: DEPOSITIONS, HEARINGS, STATEMENTS, EXPERT TESTIMONY, DAILY COPY, CONVENTIONS

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

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

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

11 *Soveida Gonzales*
12 Court Reporter
13
14
15
16
17
18
19
20
21

22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the hearing held on 9/16/70 at 4428-4354
25 New Mexico Oil Conservation Commission

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. Nutter.

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.

-2-

CASES Nos. 4354 and 4423
Order No. R-4033

(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.

-3-

CASES Nos. 4354 and 4428
Order No. R-4033

(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

-4-

CASES Nos. 4354 and 4428
Order No. R-4033

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, NMPM, 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

-5-

CASES Nos. 4354 and 4428
Order No. R-4033

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 reasonable well costs exceed reasonable well costs.

That the operators are hereby authorized to withhold the 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

-6-

CASES Nos. 4354 and 4428
Order No. R-4033

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.

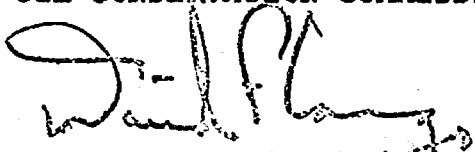
(14) That jurisdiction of this cause is retained for the entry of such further orders as the Commission may deem necessary.

-7-


CASES Nos. 4354 and 4428
Order No. R-4033

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

STATE OF NEW MEXICO
OIL CONSERVATION COMMISSION


DAVID P. CARGO, Chairman


ALEX J. ARMIJO, Member


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


esr/

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 1970

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,

Oliver 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

JOEL M. CARSON

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

27 August 1970

10 8 31 AM AUG 27

AREA CODE 505
746-3508

Mr. A. L. Porter, Jr., Secretary-Director
New Mexico Oil Conservation Commission
P. O. Box 2008
Santa Fe, New Mexico 87501

Case 4428
[Signature]

Gentlemen:

Enclosed, please find original and two copies of the application of Texas Oil & Gas Corp. for a non-standard unit, Eddy County, New Mexico.

We understand that this case will be set for hearing before an examiner on September 16, 1970.

With a carbon copy of this letter, we are furnishing Mr. Owen Lopez, attorney for Michael P. Grace, and Mr. Booker Kelly, attorney for Corinne Grace, the other operators owning interests in the half-section in which the non-standard unit is situated and which acreage is not included in said non-standard unit, with copies of this application.

Very truly yours,

[Signature]
A. J. Losee

AJL:jw
Enclosures

cc: Mr. John Hill w/enclosure
Mr. Bob Young, Attorney, Texas Oil & Gas w/enclosure
Mr. Bill Macey w/enclosure
Mr. Owen Lopez w/enclosure
Mr. Booker Kelly w/enclosure
Mr. Guy Buell w/enclosure

DOCKET MARKED

Date 7-2-70

BEFORE THE OIL CONSERVATION COMMISSION

STATE OF NEW MEXICO

IN THE MATTER OF THE APPLICATION
OF TEXAS OIL & GAS CORP. FOR A
NON-STANDARD GAS PRORATION UNIT,
EDDY COUNTY, NEW MEXICO.

APPLICATION

COMES TEXAS OIL & GAS CORP. by its attorney, A. J.

Losee, and states:

1. Applicant, pursuant to the terms of an option farmout contract from Pan American Petroleum Corporation, is the operator of the E/2 NE/4, SW/4 NE/4, SE/4 NW/4 and W/2 NW/4 of Section 11, Township 23 South, Range 26 East, N.M.P.M., Eddy County, New Mexico.

2. Applicant proposes to drill a development well in the Carlsbad field to the Pennsylvanian Age at an orthodox location in either the SW/4 NE/4 or the SE/4 NW/4 of said Section 11, and to dedicate to said well the 240 acres in the N/2 of said Section 11 that are described in paragraph No. 1 of this application.

3. The non-standard unit consists of quarter-quarter sections that are contiguous by a common bordering side and lie wholly within a single governmental half-section.

4. The approval of this non-standard unit as an exception to the acreage requirements of Rule 104 is necessary to prevent waste.

WHEREFORE, Applicant prays:

A. That this matter be set for hearing September 16, 1970, before an examiner duly appointed by the Commission and that due public notice be given as required by law.

10 AUG 31 AM 8 10

low

Case 4428

B. That an order be entered approving a non-standard unit comprising the E/2 NE/4, SW/4 NE/4, SE/4 NW/4, W/2 NW/4, Section 11, Township 23 South, Range 26 East, for the drilling of a well in the Carlsbad field to the Pennsylvanian Age or older in exception to the acreage requirements of Rule 104, and for such other relief as may be just in the premises.

DATED this August 26, 1970.

TEXAS OIL & GAS CORP.

By: 

A. J. Losee

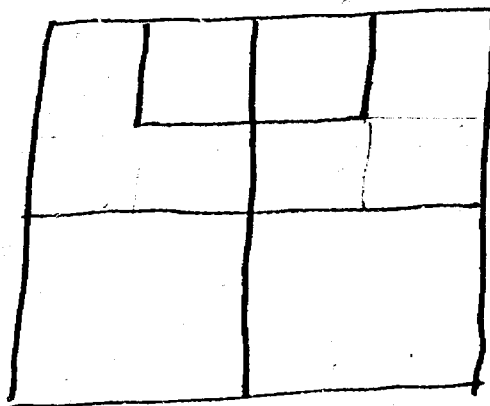
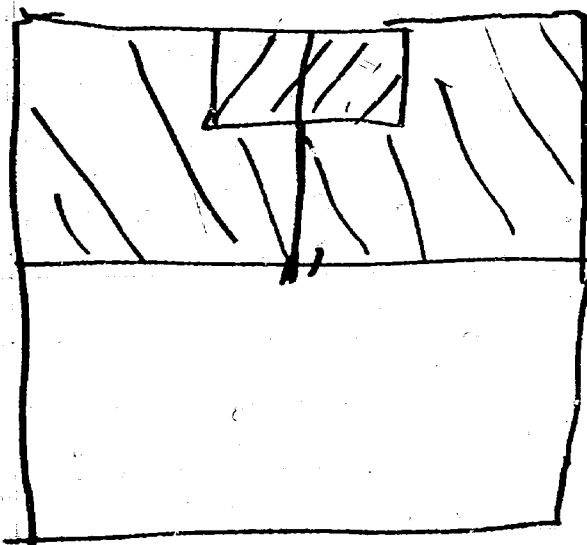
Attorney at Law

P. O. Drawer 239

Artesia, New Mexico 88210

→ Sept - 16 →

Sec 11 - 23S - R26E



Application for NSP

E/2 NE/4

SW/NE/4

W/2 NW

SE/NW

Sec 11, T23S - R26E -

Texas Oil and Gas Corp. -

- 1980 F North and East Lines -

- Morrow →

- down to and including the Morrow formation -

- 1980 from the North & West Line -

at an orthodog location -