

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

IN THE MATTTTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

Application of V-F PETROLEUM for	Case No. 22284
Approval of a Nonstandard Spacing	Case No. 22285
and Proration Unit,	Case No. 22286
Lea County, New Mexico.	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

THURSDAY, NOVEMBER 4, 2021

EXAMINER HEARING

This matter came on for hearing before the New Mexico Oil Conservation Division, William Brancard, Esq. Hearing Examiner, Dean McClure Technical Examiner, on Thursday, Nobember 4, 2021, via Webex Virtual Conferencing Platform hosted by the New Mexico Department of Energy, Minerals and Natural Resources

Reported by: Mary Therese Macfarlane
New Mexico CCR #122
PAUL BACA PROFESSIONAL COURT REPORTERS
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A P P E A R A N C E S .

FOR V-F PETROLEUM:

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TAKEN UNDER ADVISEMENT:	

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1 (Time noted 10:55 a.m.)

2 EXAMINER BRANCARD: Okay. With that we will
3 move to Items 51, 52 and 53 on the worksheet, Case Nos.
4 22284, 22285, 22286, V-F Petroleum, Inc.

5 MS. HARDY: Yes, Mr. Examiner. Dana Hardy with
6 the Santa Fe office of Hinkle Shanor on behalf of V-F
7 Petroleum.

8 EXAMINER BRANCARD: Do we have any other
9 interested persons for Cases 22284, -85, or -86? (Note:
10 Pause.)

11 Hearing none, Ms. Hardy you may proceed.

12 MS. HARDY: Thank you. I am planning to present
13 these cases by affidavit but the witnesses are available
14 if there are questions for them.

15 In each case V-F seeks approval of 160-acre
16 spacing unit for a vertical Wolfcamp well that's currently
17 dedicated to a 40-acre spacing unit.

18 In Case -2284 V-F proposes to dedicate the
19 southeast quarter of Section 7, Township 15 South, Range
20 38 East in Lea County to the Denton 7 #1 well.

21 In case 2285 V-F proposes to dedicate the
22 northeast quarter of Section 7 to the DMT 7 Fee #2 well,
23 and the location of that well is unorthodox within its
24 current 40-acre unit. That location was approved by
25 Administrative Order NSL 7688. The location of the well

1 will be orthodox, though, within the proposed 160-acre
2 unit.

3 The Denton 7 #1 and #2 fee wells have been
4 completed and the DMT 17 (sic) is being drilled but has
5 not yet been completed.

6 As explained by V-F's affidavit the
7 160-acre units are necessary due to the geology in the
8 area.

9 I'm sorry, I don't think I summarized what
10 we are asking for in Case -2286, and that would be to
11 dedicate the northwest quarter of Section 7 to the DMT 7
12 FEE #3 well.

13 V-F's exhibits include the affidavit of
14 Jerry Gahr, the president and chief operating officer of
15 V-F. Mr. Gahr states that V-F controls 100 percent of the
16 interest in each proposed unit. He has provided maps of
17 the units and the surrounding area as Exhibit A-3.

18 Because V-F owns 100 percent of the
19 interest in these vertical spacing units there are no
20 affected parties that required Notice but out of an
21 abundance of caution we did notify the offset operator in
22 the southwest quarter of Section 7 by Certified Mail and
23 publication, and did not receive any objection.

24 Exhibit B is the affidavit of geologist
25 Dale Lubinski. Mr. Lubinski's exhibits include a Location

1 Map, Structure Map and Cross Section. He concludes the
2 160-acre units are necessary to allow the wells to be
3 drilled at locations that would maximize the recovery of
4 hydrocarbons and prevent waste.

5 With that, unless there are questions I
6 request that the exhibits be accepted into the record and
7 the cases be taken under advisement.

8 EXAMINER BRANCARD: Thank you.

9 Mr. McClure.

10 EXAMINER McCLURE: Thank you, I do have a few
11 questions here. And feel free to, out of any of the
12 witnesses that you -- if you think it's appropriate to
13 have one of your witnesses answer, just let them speak in,
14 whatever your thoughts are there.

15 I guess the first question I have: If
16 these are not granted, what is the status of the lease?
17 Is V-F Petroleum going to be required to drill additional
18 wells to hold all the acreage within the original lease
19 agreements, or what's going on there?

20 MS. HARDY: I don't know the answer to that
21 question, and I am hoping that Mr. Gahr may be able to
22 answer that.

23 MR. GAHR: Yes.

24 EXAMINER BRANCARD: Ms. Hardy, could you just
25 introduce your witnesses and we can have them sworn in.

1 MS. HARDY: Sure. Mr. Gahr would address the
2 land issues and our geology witness is Dale Lubinski.

3 EXAMINER BRANCARD: I see one person on the
4 screen there. Can you raise your right hand?

5 I think you're muted. Still muted. Try
6 now. You may need to get closer to the microphone.

7 We still can't hear you, Mr. Lubinski or
8 Mr. Gahr.

9 MR. Gahr: This is Jerry Gahr. I'm joining by
10 audio.

11 EXAMINER BRANCARD: All right.

12 JERRY GAHR,
13 having been duly sworn, testified as follows:

14 EXAMINER BRANCARD: All right. So I believe you
15 are the one up for this question.

16 THE WITNESS: Mr. Examiner, I will repeat the
17 question and be sure I understand it.

18 The status of the lease.

19 There is a continuous development provision
20 in the fee leases. The BMT 2 wells are fee leases. And
21 then the Devon State #1 is a state lease, and of course it
22 does not have a continuous development provision.

23 EXAMINATION

24 BY EXAMINER McCLURE:

25 Q. So if we were not to grant the spacing unit in

1 the northwest quarter, would you then have to drill
2 another well in that northwest quarter to maintain the
3 entirety of the acreage of that lease?

4 A. The geology and geophysics that we have operated
5 under thus far would indicate that the well that we have
6 drilled drains the reserves, so we would not drill another
7 well, most likely.

8 And of course the issue is, is that if the
9 boundary of the standard 40-acre unit is right on the line
10 of the 40-acre proration unit.

11 Q. I was going to say on your northwest quarter,
12 it's on the border with the east half of the northwest
13 quarter, but your west half of the northwest quarter would
14 not be able to bring it in as a standard spacing unit, I
15 guess.

16 A. That's correct.

17 Q. Okay. So then with the understanding, I guess,
18 that you have a continuing development plan, if your plan
19 does not include the drilling of a well at the west half
20 of the northwest quarter, then essentially that acreage
21 then would go back to the original -- to the mineral
22 owners. Correct?

23 A. That is correct.

24 Q. Okay. As far as the State lease in the
25 southeast quarter, I'm not sure how that lease agreement

1 is set up. Is that similar or would you maintain the
2 entire lease regardless of the spacing unit?

3 A. Yes, we would maintain the entirety of the 160
4 acres.

5 Q. Okay. Sounds very good.

6 Yeah, I was going to say on your northeast
7 quarter it looks like you are right in the border, so
8 that's actually a standard spacing unit. That's really
9 all we need to do is essentially withdraw the NSL on that
10 one and that it essentially goes to what you're requesting
11 there. So there's no issue there.

12 Not that there's a question related there.

13 I guess my next question goes for geology I
14 don't know if we want to swear another witness, what the
15 thought process is there.

16 MS. HARDY: I think we can see Mr. Lubinski.
17 Hopefully we can hear him.

18 EXAMINER BRANCARD: We are not hearing you, Mr.
19 Lubinski.

20 MS. HARDY: Mr. Lubinski, are you muted?

21 MS. SALVIDREZ: He's actually unmuted.

22 Maybe he wants to call in. It's on their
23 side.

24 MS. HARDY: Mr. Lubinski, can you call in to the
25 dial number on your phone, just use that?

1 EXAMINER BRANCARD: Call-in User No. 7.

2 MS. HARDY: You need to turn up the volume on
3 your computer.

4 We still can't hear you.

5 EXAMINER BRANCARD: Try calling in.

6 MS. HARDY: Can you try calling in, please?

7 EXAMINER BRANCARD: Mr. McClure do you have a
8 number of geology questions?

9 EXAMINER McCLURE: Uhm, I wouldn't say there's a
10 number of geology questions but it does kind of hit the
11 crux of their proposal here, though, so it's relatively
12 important.

13 MS. HARDY: I apologize for the technical
14 difficulties.

15 MS. SALVIDREZ: I see a Caller 9 and you are
16 unmuted.

17 EXAMINER BRANCARD: Mr. Lubinski, have you
18 tried to call in?

19 MS. HARDY: it looks like he's calling in.

20 Ms. SALVIDREZ: Looks like he is Call-In User 7
21 or 8, and they are both unmuted. He is trying to speak on
22 one of them but I still can't hear him, so I don't know if
23 he wants to just get off the video and all the phone calls
24 and call in.

25 MS. HARDY: Mr. Lubinski, it's fine if you want

1 to shut down your video on the computer and just try to
2 use the phone with the dial-in number.

3 EXAMINER BRANCARD: Mr. Lubinski, can you hear
4 us and can you try your phone?

5 MS. HARDY: I can try to give their office a
6 call, if you can hold on a minute here.

7 (Note: Pause.)

8 MS. SALVIDREZ: We have Call-In User 10. Let's
9 unmute them now. Maybe that would help.

10 MR. LUBINSKI: Can you hear me now?

11 EXAMINER BRANCARD: If you have your computer on
12 or something that's also listening at the same time, you
13 can turn them off so you just have the phone.

14 MR. LUBINSKI: Okay.

15 EXAMINER BRANCARD: Oh, much better.

16 MS. HARDY: Thank you.

17 MR. LUBINSKI: All right. Go ahead.

18 EXAMINER BRANCARD: Mr. McClure.

19 EXAMINER McCLURE: Do we need to swear him in?
20 I mean, I can ask questions. I didn't know if we had or
21 not, I guess.

22 EXAMINER BRANCARD: Okay.

23 DALE LUBINSKI,

24 having been duly sworn, testified as follows:

25 EXAMINER BRANCARD: Thank you. Mr. McClure, do

1 you want to go ahead with the questions?

2 EXAMINER McCLURE: Yes, sir.

3 EXAMINATION

4 BY EXAMINER McLURE:

5 Q. I guess where we're looking at it seems like
6 what you're stating is that the setback should be greater
7 than 330 feet for this pool. Is that kind of correct?

8 A. Yes.

9 Q. All right. And so is your thought process is
10 that there needed to be a special pool rule in place for
11 this pool then to extend the setback?

12 A. Well, we have Proprietary Seismic over this
13 area, and to have the best structural stratigraphic
14 location that we drilled we ended up with pay zone in the
15 Abo end in the Wolfcamp. And because of the seismic, like
16 I said, we picked the best locations, and these anomalies
17 are not located like in the other areas that are just
18 Wolfcamp completions.

19 Q. I guess as far as trying to determine the
20 distance, the area from which you're actually drawing
21 production, do you have -- I guess what did you do to make
22 that determination and what was your determination?

23 A. Like I said, it's the best location that we had
24 and that we think we can drain the area with our present
25 wells.

1 Q. Well, yes. But what I mean is: Do you have an
2 extent? Do you know the extent of the reservoir from
3 which you're drawing? If that makes sense, I guess.

4 A. Yes, it just, uh, really is kind of localized,
5 and, uh, the different size. But we hit again like the
6 best structural and stratigraphic location on the anomaly.

7 Q. Oh, yes. And, see, I'm not disputing or asking,
8 I guess, as to whether when you drilled your wells was the
9 best position, I'm sure they are. What I'm trying to
10 determine is your proposal here in this application is
11 that you're drawing from the entire quarter, and I'm
12 trying to figure out upon what basis, I guess, you're
13 making that determination.

14 A. Again with the seismic, uh, it looks like it
15 would, uh, only cover, you know, maybe 3/4 or 1/2 of each
16 160-acre spacing unit.

17 Q. So are you saying that the reservoir is
18 continuous for only 160 acres of (inaudible) well --

19 A. It is --

20 Q. -- or...

21 A. Uh, to have the Abo as a secondary zone, it
22 isn't all the way through each 160 acres.

23 Q. It is not continuous through every 160 acres.
24 I'm sorry, could you -- I apologize, could you say that
25 one more time? I'm sorry, I misheard you.

1 A. Yeah. The Abo is a secondary zone in each of
2 those wells and it would not cover the whole 160 acres.

3 **Q. I guess in regards to the Wolfcamp, though, what**
4 **are you looking at there?**

5 A. Well, with the vertical wells from, uh, my B-2
6 map there, a lot of these other wells that are vertical do
7 not get the reserves that we are getting with the Abo and
8 the Wolfcamp together, and even some of the horizontal
9 Wolfcamp wells are not that good. So drilling another
10 well on the other part of the tract in the vertical well
11 would possibly be uneconomic.

12 **Q. Okay. So currently these wells are only**
13 **completed into the Wolfcamp, correct?**

14 A. The other wells, yes, in the area. The three
15 V-F wells there are the only wells that encountered the
16 Abo pay.

17 **Q. But it's not currently completed into the Abo.**
18 **Or am I incorrect there?**

19 A. The State No. 1 and the DMT No. 2 are already
20 completed, and the No. 3 is drilled and waiting on
21 completion.

22 **Q. Do we -- I was going to say because the Abo**
23 **isn't included in this Wolfcamp pool. Or am I incorrect**
24 **there?**

25 A. Well, the take -- (Note: Sound frozen due

1 to low band width.)

2 (Note: Pause for reporter to call in.)

3 (Note: The record was read.)

4 BY EXAMINER McCLURE:

5 Q. At any rate the pool, and perhaps -- I don't
6 know if that is considered to be 320 spacing -- or excuse
7 me, 160 spacing or if that is a 40 spacing, as well. We
8 might have to take a look at that. Potentially if they
9 are two separate pools, then you need to have a --

10 A. There is some adjacent to one another here. You
11 know, one runs right into the other. The Abo pay zone is
12 right on top of what you call the top of the Wolfcamp, so
13 it really acts as one reservoir.

14 Q. See, my only concern is I just don't know if our
15 current pool rule has them segregated or if they are all
16 together. I am not sure, I did not look into that, and I
17 definitely don't know that off the top of my head. But
18 that is something we will have to review, which needs --
19 you don't need to make a big deal of this, it just needs
20 downhole commingle if they are considered two separate
21 pools, which is just a different process.

22 I guess where -- I'm trying to back up my
23 question a little bit. I guess where my interest is here
24 is like looking at the northwest quarter, I guess what I'm
25 trying to figure out is if your well in that quarter is

1 not drawing from the entire quarter, whether it would be
2 feasible that somebody else would need to drill a well in
3 that west half of that quarter in order to draw all the
4 production, or if we are going to have potentially
5 stranded acreage if there were to not be a well there.

6 That's kind of where my concern is.

7 A. Uh-huh. Well, our seismic does indicate the
8 anomaly that we drilled on does not really go into that
9 northwest of the northwest. And again, like I said, it
10 would possibly, like a like a lot of the other Wolfcamp
11 wells, be noneconomic.

12 Q. Yes. So potentially there would be no wells
13 being drilled in there. Is what you're saying?

14 A. Right.

15 Q. But having said that, if that is the case, then
16 is there any detriment to anybody involved for your lease
17 there to essentially be split, I guess?

18 Does that make sense?

19 A. I thought we owned that quarter section
20 entirely, so there's no other interest owner in there.

21 Q. Correct. But --

22 MR. LUBINSKI: Is that right, Jerry?

23 MR. GAHR: Yes. Mr. Examiner, this is Jerry
24 Gahr.

25 As Mr. Lubinski mentioned, the common

1 ownership for the minerals and the working interest owners
2 is common throughout the north half, which would include
3 the northwest and the northeast quarters.

4 MR. McCLURE: Oh, yes. And I understand that.
5 But if you were not to drill a well in the west half of
6 the northwest quarter you had already stated that
7 essentially that acreage would be withdrawn from your
8 current lease, correct? Without this spacing unit
9 being --

10 MR. GAHR: Mr. Examiner, that is correct.

11 EXAMINER McCLURE: I guess what I'm getting at
12 is where our concern is, is that we are going to be
13 stranding that 80 acres if we were to make it so a well
14 does not get drilled there. That's kind of my concern,
15 and what I'm kind of hearing is your thought process is
16 maybe there isn't recoverable oil in that west half where
17 drilling a well there would not make any difference
18 anyway.

19 Is that kind of correct?

20 MR. GAHR: That is correct. Our position is
21 that we have analyzed in the exploration effort the
22 geology and geophysics, and it doesn't appear to extend
23 all the way over into that northwest of the northwest.
24 The drainage on those wells, of course, is unknown,
25 because, as Mr. Lubinski said, we can only rely on the

1 geophysics to get some sort of idea what the (inaudible)
2 might be.

3 EXAMINER McCLURE: Now as far as -- I'm sorry.
4 Keep going.

5 MR. GAHR: That's fine. Proceed, please.

6 EXAMINER McCLURE: Okay. I guess, see, my main
7 only other question, I guess, is: As far as the actual
8 lessor or the mineral owner that you have the lease from,
9 do you know if they are in support of essentially having
10 the one well in the northwest quarter and the one well in
11 the northeast quarter?

12 MR. GAHR: What I can represent is that we have
13 the lease permit has a continuous development provision,
14 and there has been no discussion about the number of wells
15 that are going to be drilled or have been drilled. It's
16 entirely up to us, based on the geological expertise that
17 we have where they are going to be located.

18 But the direct answer is no, we have not
19 had a conversation with them.

20 EXAMINER McCLURE: Okay. All right. I'm
21 thinking that that there is all my questions, at this
22 particular juncture anyway, for these cases. Thank you,
23 sirs.

24 EXAMINER BRANCARD: Thank you.

25 Mr. Gahr, could you just spell your name

1 for the court reporter, please.

2 MR. GAHR: Yes, sir. G-a-h-r. First name is
3 Jerry, J-e-r-r-y.

4 EXAMINER BRANCARD: Thank you.

5 Ms. Hardy, did you have any follow-up to
6 these questions?

7 MS. HARDY: I have one follow-up question for
8 Mr. Lubinski, just quickly.

9 CROSS EXAMINATION

10 BY MS. HARDY:

11 Q. Mr. Lubinski, I believe Mr. McClure asked you
12 earlier about whether you thought the setbacks for this
13 entire pool should be different, and I think your answer
14 was yes. And I wanted to clarify. My understanding of
15 your testimony is that you're only giving opinions about
16 the spacing units for these wells. Is that correct?

17 A. Yes.

18 MS. HARDY: Okay. Thank you. That was it.

19 EXAMINER BRANCARD: Mr. McClure, was there any
20 additional information that you needed from the
21 Applicants?

22 EXAMINER McCLURE: No. No, I don't think so. I
23 don't think there's anything at this time. I guess upon
24 further review perhaps additional questions could come up,
25 but not at this time.

1 Or, excuse me, yeah, maybe additional
2 information upon further review, but at this juncture I
3 can't think of anything I need them to submit at this
4 time.

5 (Note: Reporter inquiry about sound drop)

6 EXAMINER BRANCARD: All right. We might have
7 been thinking and pondering something.

8 So, Ms. Hardy, are you done with your
9 presentation, then?

10 MS. HARDY: Yes. Thank you, Mr. Examiner.

11 EXAMINER BRANCARD: All right. Once again, are
12 there any interested persons in Cases 22284, -85 or -86?

13 Hearing none, we will admit the exhibits
14 into the record and take Cases 22284, 22285 and 22286
15 under advisement.

16 MS. HARDY: Thank you. And thank you for your
17 patience with our technical issues. We appreciate it.

18 (Time noted 11:30 a.m.)

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1 STATE OF NEW MEXICO)

2 : ss

3 COUNTY OF TAOS)

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5 REPORTER'S CERTIFICATE

6 I, MARY THERESE MACFARLANE, New Mexico Reporter
7 CCR No. 122, DO HEREBY CERTIFY that on Thursday,
8 November 4, 2021, the proceedings in the Above-captioned
9 matter were taken before me; that I did report in
10 stenographic shorthand the proceedings set forth herein,
11 and the foregoing pages are a true and correct
12 transcription to the best of my ability and control.

13 I FURTHER CERTIFY that I am neither employed by
14 nor related to nor contracted with (unless excepted by the
15 rules) any of the parties or attorneys in this case, and
16 that I have no interest whatsoever in the final
17 disposition of this case in any court.

18

19 /s/Mary Macfarlane_____

20 MARY THERESE MACFARLANE, CCR
21 NM Certified Court Reporter No. 122
License Expires: 12/31/2021

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