

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

ORIGINAL

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

APPLICATION OF BRANEX RESOURCES, INC. CASE NO. 14284
FOR APPROVAL OF A UNIT AGREEMENT,
CHAVES COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
RICHARD EZEANYIM, Technical Examiner
TERRY G. WARNELL, Technical Examiner

March 19, 2009

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico
Oil Conservation Division, DAVID K. BROOKS, Legal Examiner,
RICHARD EZEANYIM, Technical Examiner, and TERRY G. WARNELL,
Technical Examiner, on Thursday, March 19, 2009, at the
New Mexico Energy, Minerals and Natural Resources Department,
1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
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Albuquerque, New Mexico 87102

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A P P E A R A N C E S

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1 MR. EZEANYIM: Well, then, on page 1, we first call
2 Case No. 14284. This is the Application of Branex Resources,
3 Inc. for Approval of a Unit Agreement, Chaves County,
4 New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
7 representing the applicant.

8 MR. EZEANYIM: Any other appearances, please? Do you
9 have any witnesses?

10 MR. BRUCE: I have one witness, Andrew Grooms.

11 MR. EZEANYIM: May the witness stand up, state your
12 name and be sworn in.

13 THE WITNESS: Yes, sir. My name is F. Andrew Grooms.
14 I'm the president of Branex Resources Incorporated.

15 MR. EZEANYIM: Will you stand up to be sworn.

16 F. ANDREW GROOMS

17 after having been first duly sworn under oath,
18 was questioned and testified as follows:

19 MR. EZEANYIM: Mr. Bruce?

20 MR. BRUCE: Thank you, Mr. Examiner.

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Grooms, where do you reside?

24 A. Ruidoso, New Mexico.

25 Q. And you said you are the president of the

1 applicant in this case?

2 A. Correct.

3 Q. By profession what are you?

4 A. I've been a petroleum landman for almost 30
5 years.

6 Q. Have you previously testified before the
7 Division?

8 A. Yes, I have.

9 Q. And were your credentials as an expert petroleum
10 landman accepted as a matter of record?

11 A. Yes, they were.

12 Q. Now, you have owned your own company or companies
13 for a number of years, have you not?

14 A. That's correct.

15 Q. And what types of duties did you perform at those
16 companies?

17 A. I owned an operating company for almost 18 years,
18 assembled all of our acreage for all the various drilling
19 prospects that we've had in Texas, as well as New Mexico. I've
20 been involved with assembling drilling deals from A to Z, from
21 start to finish, and done that several hundred times.

22 Q. As a result of that, have you familiarized
23 yourself with the geology and even the engineering in your
24 prospects?

25 A. Always.

1 MR. BRUCE: Mr. Examiner, I tender Mr. Grooms not
2 only as an expert petroleum landman, but as a practical oil
3 man.

4 MR. EZEANYIM: Mr. Grooms is so qualified.

5 Q. (By Mr. Bruce): Mr. Grooms, could you identify
6 Exhibit 1 for the Examiner?

7 A. Exhibit 1 is the unit agreement for development
8 and operation of the Thunderhead unit area. It's a
9 four-section unit that's put together in northern Chaves
10 County, New Mexico.

11 Q. And is this the standard form that is taken off
12 the State Land Office website for exploratory units?

13 A. Yes, sir, it is.

14 Q. Does this unit agreement provide for
15 establishment since -- let me take a step back.

16 What types of lands are involved? Federal, et
17 cetera?

18 A. The majority of it, just in rough numbers, about
19 1700 acres of federal lands, approximately 800 of State, and
20 approximately 40 of fee.

21 Q. And because federal land is involved, once wells
22 are drilled and production is established, the unit agreement
23 provides for formation of participating areas; is that correct?

24 A. That's correct.

25 Q. And does it also provide for automatic

1 elimination after five years?

2 A. Yes, it does.

3 Q. Does it also provide for subsequent joinder in
4 interest into the unit agreement?

5 A. Yes, it does.

6 Q. And who is the operator under this unit
7 agreement?

8 A. The operator under the unit agreement is going to
9 be one of our associated companies, Primero Operating
10 Incorporated out of Roswell, New Mexico.

11 MR. EZEANYIM: Who is that?

12 THE WITNESS: Primero Operating Incorporated.

13 Q. (By Mr. Bruce): And are they a duly qualified
14 operator under the regulations of the Oil Conservation
15 Division?

16 A. Yes, they are.

17 Q. Let's move on to Exhibit 2. What does this
18 reflect?

19 A. Exhibit 2 is the Exhibit A of the map showing the
20 specific lands incorporated into the four-section unit, along
21 with the serial numbers of the federal as well as the State of
22 New Mexico oil and gas leases in the one 40-acre fee tract.

23 Q. Okay. And, again, this unit encompasses all of
24 Sections 3, 4, 9, and 10 in Township 40 South, Range 27 East?

25 A. That's correct.

1 Q. And this agreement also sets forth the exact
2 percentages of the federal, State, and fee lands in it; does it
3 not?

4 A. Yes, it does.

5 Q. Let's move on to Exhibit 3. What is this item?

6 A. Exhibit 3 is an Exhibit B, which breaks down the
7 exact descriptions of the leases described in the previous
8 exhibit showing the lessee of record and the percentage they
9 own, as well as the overriding royalty interest owners, et
10 cetera.

11 Q. Okay. And this is a voluntary agreement; is it
12 not?

13 A. That's correct.

14 Q. No one will be forced into this unit agreement?

15 A. That's correct.

16 Q. And what is the status of joinders in the unit in
17 so far as, say, working interests and overriding royalty and
18 fee royalty?

19 A. We have 100 percent commitment at this point in
20 time, save except one or two fee leases that are in the process
21 of being obtained at this point, which I understand are not a
22 problem.

23 Q. Okay. And Exhibits 4 and 5 are the letters of
24 preliminary approval from the Bureau of Land Management and the
25 Commissioner of Public Lands; are they not?

1 A. That is correct.

2 Q. So when you look at this overall, will Branex
3 have substantially in excess of 90 or 95 percent voluntary
4 joinder in the unit area?

5 A. Yes, sir, they will.

6 Q. And as a result, will Branex have effective
7 control of the unit area as required by the BLM and the Land
8 Office?

9 A. Yes, they will.

10 Q. Okay. Let's move on to the geology, Mr. Grooms.
11 What is Exhibit 6?

12 A. Exhibit 6 is an index map of the two cross
13 sections that we used as part of our mapping technique to take
14 a look at what we think is the gross strong package of sands
15 that are the subject of this exploratory unit.

16 Q. Okay. And is that -- where does the type log
17 come from?

18 A. The type log comes from a McClellan well that was
19 drilled in approximately 1982 in the NW/NW/4 of Section 3 -- of
20 15, rather, 4 South, 27 East.

21 Q. So that's immediately south of the unit area; is
22 that correct?

23 A. Yes. It's offset.

24 Q. And just for the purpose of future maps, what is
25 the primary prospective target in this unit area?

1 A. The prospective targets are going to be the
2 accumulation of Strawn Sands beneath a Strawn limestone marker,
3 which is commonly known in Southeast New Mexico as the Three
4 Brothers. It's a gross interval, roughly, about 6000 feet.
5 And change down to about 6800 feet of various zones of interest
6 in the gross interval.

7 Q. Now, in looking at this map, there are several
8 wells on this map. Are any of them currently producing?

9 A. The southern most well on cross Section A to A
10 Prime, I believe the Marathon well, is still actually producing
11 at this time.

12 Q. Okay. Were any of the other wells on this cross
13 section completed as producers?

14 A. There have been -- if you want to define
15 "completed" as producer for a short period of time, yes. But,
16 essentially, most of them have been plugged and abandoned
17 because of noncommercial rates of production later on.

18 Q. What is Exhibit 7, Mr. Grooms?

19 A. Exhibit 7 is a gross sand isopach of a sand that
20 we call the JL Sand, so named off of the McClellan type log
21 because of the fact that there were recoveries of oil and gas
22 from that particular porosity sand, which, again, occurs in the
23 gross sand package that is the Strawn Sand. And it's one of
24 our primary targets for this unit because of the down dip show
25 of oil that we recovered from the well -- or that Mr. McClellan

1 recovered from the well when he drilled it in 1982.

2 Q. Do you expect the Strawn within the unit area to
3 be a gas well type or an oil well type, or is it difficult to
4 tell?

5 A. It's difficult to tell. But the McClellan well
6 swabbed oil at a rate of almost 60 barrels a day for a short
7 period of time. And we feel that was lost due to completion
8 techniques at the time -- kaolinite in the pore spaces, which
9 is a clay -- a number of different things.

10 And, frankly, we expect that we might be able to make
11 an oil producer out of it, although there are other lenses of
12 porosity within the gross thickness that could be productive of
13 gas as well.

14 Q. Again, when was the McClellan well drilled?

15 A. I want to say -- I think it was in 1982.

16 Q. Okay. So a substantial amount of time ago.

17 A. Yes.

18 Q. And completion may have changed since then?

19 A. Substantially.

20 Q. Let's move on to your next exhibit. What does
21 that reflect?

22 A. This is a gross sand isopach of the sand that we
23 call the MOC Sand, which is one other sand that occurs -- and
24 we had chosen the McClellan well as well. It's a nice thick
25 sand. We're also hopeful that we could get up-dip from that.

1 It is above what we call the JL Sand and the gross
2 thickness as well. We feel it's a prospective target on the
3 prospect in the unit area.

4 Q. Okay. And looking at Exhibits 7 and 8, your
5 plats show that the Strawn Formation, substantially, all of the
6 unit area is underlaid by the Strawn Formation.

7 A. Yes, yes.

8 Q. And, therefore, all of the unit area is
9 potentially productive in the Strawn?

10 A. That's correct.

11 Q. And, finally, what is Exhibit 9?

12 A. Exhibit 9 is just a structure map that's drawn on
13 top of the Strawn marker, which, once again, would just show
14 the structural. This map has been rendered both from
15 subsurface well control emanating from the two cross sections,
16 A Prime, D to D Prime, as well as older 2D seismic data that we
17 have in the area that we feel give us pretty good control.
18 It's a very mappable event.

19 Q. Okay. And, again, this structure map helps
20 justify the unit boundaries; does it not?

21 A. Yes, it does.

22 Q. Okay. In your opinion, will the formation of the
23 unit area help the orderly development of the prospective
24 formation in this area?

25 A. Yes, it will.

1 Q. And were Exhibits 1 through 9 either prepared by
2 you or under your supervision or compiled from Branex's company
3 records?

4 A. Yes, they were.

5 Q. In your opinion, is the granting of this
6 application in the interest of conservation and the prevention
7 of waste?

8 A. Yes, sir, it is.

9 MR. BRUCE: Mr. Examiner, I move the admission of
10 Branex Exhibits 1 through 9.

11 MR. EZEANYIM: Exhibits 1 through 9 will be admitted.

12 [Applicant's Exhibits 1 through 9 admitted into
13 evidence.]

14 MR. BRUCE: And I have no further questions of the
15 witness.

16 MR. EZEANYIM: Any questions?

17 MR. BROOKS: Well, I just guess since you're
18 qualified as a practical oil man, maybe you can tell me exactly
19 what a practical oil man is. I always wondered about that.

20 THE WITNESS: Well, practical oil man is -- well, I
21 think -- my definition of that, although I don't recall being
22 called that before, but -- what I would have to say is that's
23 somebody that's got to have a pretty complete knowledge of the
24 business, I guess, from A to Z. You just can't be involved
25 with putting these things together without having to totally

1 immerse yourself in both land, geological, as well as
2 engineering issues, to have a very good grasp on the business
3 as a whole.

4 MR. BROOKS: So he's the guy that puts all the pieces
5 together.

6 THE WITNESS: As much as possible, yes, sir.

7 MR. BROOKS: Well, I congratulate you on coming up
8 with a quick and comprehensive definition.

9 MR. BRUCE: I've never done that before,
10 Mr. Examiner. I'm relying on Mr. Carr's use of that term.

11 MR. EZEANYIM: Terry, do you have any questions?

12 MR. WARNELL: I have no questions.

13 MR. EZEANYIM: If I understand you correctly, you
14 said 100 percent of the interest owners have agreed to join?

15 THE WITNESS: Yes, sir. Save and except there's
16 probably 20 or so acres of that fee piece that we have verbal
17 agreements to get leased, but we don't have in yet.

18 But the owners of the leases, which is Yates
19 Petroleum, owns the 1700-plus or -minus acres of the federal
20 leases, and the State leases are all owned by us. So out of
21 2580-some-odd-acre unit, that's a little bit over 2500. And,
22 yes, we do have 100 percent agreement as to that. Yes, sir.

23 MR. EZEANYIM: Maybe the attorneys can enlighten me
24 here. I don't know why we go to hearing to do this if 100
25 percent of you agree. We could do this administratively.

1 MR. BRUCE: Well, it's -- Mr. Examiner, I got into
2 that argument with the Commission a few months ago.

3 At this point, there's a couple of reasons. At this
4 point, the Division's rules at this point still provide for a
5 hearing for approval of unit agreements. That's why we're at
6 the hearing. At least all I've seen is people coming to
7 hearing.

8 Now, sometimes it's been done by affidavit, but as a
9 practical matter, one reason that we come to hearing is that
10 the Land Office defers the decision until the Division acts,
11 number one. Number two, while the Bureau of Land Management
12 and the State Land Office can look after themselves -- they're
13 big boys -- no one looks after the interests of the interests
14 of the fee royalty owners, and that's been more or less
15 relegated to the Division's actions.

16 So there are -- even though it's voluntary, even
17 though no one can be forced in, just as a practical matter and
18 probably as a historical matter, these unit agreements have
19 always come before the Division for their approval.

20 MR. BROOKS: Well, I think we have talked about
21 making it an administrative procedure. There would be some
22 advantages in that. Because it's very perfunctory the way it's
23 actually been conducted.

24 As Mr. Bruce says, we don't have a rule that allows
25 us to do that at this time.

1 MR. EZEANYIM: Okay. Now, I've seen some of these
2 cases that you want confidentiality.

3 THE WITNESS: Personally, I see -- we have no hang-up
4 about confidentiality about this, sir. We've got the acreage
5 that we really want in the area, and we don't have any hang-up
6 about confidentiality here.

7 MR. EZEANYIM: So we can make it public?

8 THE WITNESS: Sure. It's fine.

9 MR. EZEANYIM: Yeah, because all this is public
10 information.

11 THE WITNESS: Yeah. That would be no problem at all.

12 MR. EZEANYIM: Okay. Anything further?

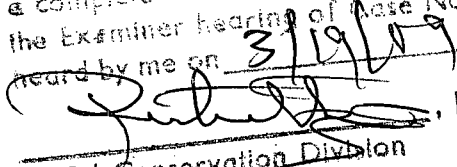
13 MR. BROOKS: Nothing further.

14 MR. WARNELL: Nothing further.

15 MR. EZEANYIM: At this point, Case No. 14284 will be
16 taken under advisement.

17 THE WITNESS: Thank you.

18 * * *

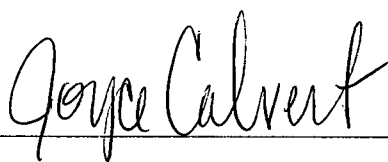
19
20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. 14284
23 heard by me on 3/19/09
24 , Examiner
25 Oil Conservation Division

1
2 **REPORTER'S CERTIFICATE**
3

4 I, JOYCE D. CALVERT, Provisional Court Reporter for
5 the State of New Mexico, do hereby certify that I reported the
6 foregoing proceedings in stenographic shorthand and that the
7 foregoing pages are a true and correct transcript of those
8 proceedings and was reduced to printed form under my direct
9 supervision.

10 I FURTHER CERTIFY that I am neither employed by nor
11 related to any of the parties or attorneys in this case and
12 that I have no interest in the final disposition of this
13 proceeding.

14 DATED this 19th day of March, 2009.
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23 License Expires: 7/31/09
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1 STATE OF NEW MEXICO)
2 COUNTY OF BERNALILLO)

3
4 I, JOYCE D. CALVERT, a New Mexico Provisional
5 Reporter, working under the direction and direct supervision of
6 Paul Baca, New Mexico CCR License Number 112, hereby certify
7 that I reported the attached proceedings; that pages numbered
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9 stenographic notes. On the date I reported these proceedings,
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 19th day of
12 March, 2009.

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