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STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION  
CASE 10336

EXAMINER HEARING

IN THE MATTER OF:

Application of Grace Petroleum Corporation for  
Compulsory Pooling, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

June 27, 1991

## A P P E A R A N C E S

FOR THE DIVISION:      ROBERT G. STOVALL, ESQ.  
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FOR THE APPLICANT:      JAMES G. BRUCE, ESQ.  
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1	I N D E X	
2		Page Number
3	Appearances	2
4	RANDY UPCHURCH	
5	Examination by Mr. Bruce	4
6	Examination by Hearing Examiner	9
7	EDWARD DIHRBERG	
8	Examination by Mr. Bruce	11
9	Examination by Hearing Examiner	15
10	Certificate of Reporter	20
11	E X H I B I T S	
12	APPLICANT'S EXHIBITS:	
13	Exhibit 1	6
14	Exhibit 2	6
15	Exhibit 3	7
16	Exhibit 4	9
17	Exhibit 5	13
18	Exhibit 6	14
19		
20		
21		
22		
23		
24		
25		

1 EXAMINER STOGNER: Call next case, No.  
2 10336.

3 MR. STOVALL: Application of Grace  
4 Petroleum Corporation for compulsory pooling, Lea  
5 County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. BRUCE: Mr. Examiner, my name is Jim  
8 Bruce from the Hinkle Law Firm in Albuquerque,  
9 representing the Applicant. I have two witnesses to  
10 be sworn.

11 EXAMINER STOGNER: Are there any other  
12 appearances in this matter?

13 Will the witnesses please stand to be  
14 sworn.

15 (Thereupon, the witnesses were sworn.)

16 RANDY UPCHURCH

17 the witness herein, after having been first duly sworn  
18 upon his oath, was examined and testified as follows:

19 EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name for the  
22 record.

23 A. Randy Upchurch, U-P-C-H-U-R-C-H.

24 Q. And where do you reside?

25 A. In Oklahoma City.

1 Q. What is your occupation and who are you  
2 employed by?

3 A. I'm a petroleum landman of Grace Petroleum  
4 Corporation in Oklahoma City.

5 Q. Have you previously testified before the  
6 OCD as a landman?

7 A. No, I have not.

8 Q. Could you outline your educational and work  
9 experience, please?

10 A. I have a BBA from Central State University  
11 in Oklahoma. I have been employed in the oil and gas  
12 industry for 15 years, most recently with Grace  
13 Petroleum as a contract consultant since December.

14 Q. And during those 15 years have you been a  
15 landman with various companies?

16 A. Yes, I have.

17 Q. Does your area of responsibility with Grace  
18 include Southeast New Mexico?

19 A. Yes, it does.

20 Q. And are you familiar with the land matters  
21 involved in Case 10336?

22 A. Yes, I am.

23 MR. BRUCE: Mr. Examiner, is the witness  
24 considered acceptable?

25 EXAMINER STOGNER: Mr. Upchurch is so

1 qualified.

2 Q. Will you state briefly what Grace Petroleum  
3 seeks in this case?

4 A. We seek to pool the interest from the  
5 surface down through the Bone Springs. It's a 40-acre  
6 unit in the southeast-southeast quarter of Section 3,  
7 20 South, 33 East.

8 Q. Referring to Exhibit 1, what is the  
9 location of Grace's proposed well?

10 A. The actual location is 660 feet from the  
11 south line and 330 feet from the east line. That's a  
12 modification that we've discussed with the pooling  
13 respondent. There's also a minor typo error.

14 Q. How many interest owners do you seek to  
15 force pool?

16 A. Just one.

17 Q. Who is that?

18 A. It's Southern Union Exploration.

19 Q. Would you please discuss your efforts to  
20 get them to join? And I refer you to Exhibit 2.

21 A. We have sent them a formal proposal by  
22 certified mail, and I have discussed it with two  
23 parties in their office. Southern Union is in the  
24 process of selling their entire company, and they  
25 desire not to make an election or deal with us in any

1 fashion or form due to having not consummated a deal  
2 with the potential new owner.

3 Q. You mailed the proposal letter dated April  
4 4th, is that correct?

5 A. Yes.

6 Q. Since then you've had several phone  
7 discussions with Southern Union?

8 A. Yes, that's correct.

9 Q. And you followed that up with a letter  
10 dated June 21, 1991?

11 A. Yes. I also discussed it with them by  
12 phone as recently as Tuesday of this week. Still no  
13 change.

14 Q. And because of the sale they just don't  
15 want to join?

16 A. Yes.

17 Q. Does Grace request that it be named  
18 operator of this well?

19 A. Yes, we do.

20 Q. Referring to Exhibit 3, what is the cost of  
21 the proposed well?

22 A. Dry-hole cost estimated at \$602,550, with a  
23 total completed well cost of \$1,058,450.

24 Q. Now, the AFE which was submitted as Exhibit  
25 3, states that the location is 330 feet from the south

1 line. That has been amended since then?

2 A. Yes, it has.

3 Q. Do you have a recommendation about the  
4 amounts which Grace should be paid for supervision and  
5 administrative expenses?

6 A. It's recommended that the amount for  
7 drilling well rate would be \$4,800 per month, and for  
8 the producing well rate, \$480 per month.

9 Q. What is the depth of the proposed well?

10 EXAMINER STOGNER: Is that reflected on  
11 Exhibit 3, if I might, upper right-hand corner of the  
12 exhibit?

13 A. It's approximately 9,400 feet to the Bone  
14 Springs. Is that correct? I'm sorry, that was 9,750  
15 feet to the Bone Springs.

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

17 Q. Are these supervision rates that you've  
18 just recommended, in line with wells normally drilled  
19 to this depth in this area of Lea County?

20 A. Yes, they are.

21 Q. What penalty do you recommend against the  
22 nonconsenting interest owner?

23 A. We recommend and request a cost plus a 200  
24 percent penalty.

25 Q. Okay. Were Exhibits 1 through 3 prepared



1 by you or compiled from company records?

2 A. From company records of archaeologists and  
3 engineers.

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

7 A. Yes, it will.

8 MR. BRUCE: Mr. Examiner, I move the  
9 admission of Exhibits 1 through 3.

10 EXAMINER STOGNER: Exhibits 1 through 3  
11 will be admitted into evidence.

12 MR. BRUCE: Also Exhibit 4, which is a copy  
13 of my Affidavit regarding notice.

14 MR. STOVALL: Mr. Bruce, does that name  
15 everybody in Lea County, New Mexico?

16 MR. BRUCE: Yes. There's only one person  
17 in Lea County.

18 [Discussion off the record.]

19 EXAMINER STOGNER: If I didn't say it,  
20 Exhibit 4 is also admitted into evidence at this  
21 time.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. Mr. Upchurch, your overhead charges, are  
25 they in line with other wells in this area to this

1 depth for an oil well, as reflected on the Ernst &  
2 Young report?

3 A. I believe our people feel that they are.  
4 Those were just recently revised company-wide in  
5 April, to fall in line with other operators in the  
6 industry, in this particular area.

7 Q. Have you used these figures in other wells  
8 in Lea County?

9 A. Yes.

10 Q. And Southern Union's interest, I'm  
11 referring now to Exhibit 2, is 6.389 percent?

12 A. That's correct.

13 Q. You show Meridian?

14 A. Meridian oil owns about 18 percent, and we  
15 have an agreement with them, I believe they're going  
16 to participate, and Grace Petroleum owns the remaining  
17 interest in the lease, 75 percent, I believe.

18 Q. So the Meridian interest has been signed?

19 A. Yes.

20 Q. When did negotiations begin with Southern  
21 Union, or when did you first approach them?

22 A. I discussed it with them by phone. Their  
23 landman is Craig Neilson. It would have been about  
24 the last week of March, and we followed up with a  
25 letter the first part of April, a formal proposal.

1 Q. This well is on federal acreage, is that  
2 right?

3 A. That's correct.

4 Q. I want to refer to your Exhibit 1. Section  
5 3, is that all the same lease and has the same  
6 undivided interest as you show on your Exhibit 2?

7 A. Yes, it does, along with the north half of  
8 Section 11 that we operate.

9 EXAMINER STOGNER: Are there any other  
10 questions of Mr. Upchurch?

11 MR. STOVALL: I have none.

12 EXAMINER STOGNER: If there are none, he  
13 may be excused. Mr. Bruce?

14 MR. BRUCE: Call Mr. Dihrberg to the  
15 stand.

16 EDWARD DIHRBERG

17 the witness herein, after having been first duly sworn  
18 upon his oath, was examined and testified as follows:

19 EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name for the  
22 record.

23 A. Edward Dihrberg.

24 Q. How do you spell your last name?

25 A. D-I-H-R-B-E-R-G.

1 Q. What is your occupation?

2 A. I am a geologist.

3 Q. Who do you work for?

4 A. I work for Grace Petroleum in Oklahoma  
5 City.

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

8 A. No, I have not.

9 Q. Would you outline your educational  
10 background and work experience?

11 A. I have a Bachelor of Science degree in  
12 geology from Penn State University, a Master of  
13 Science degree in geology from the University of  
14 Oklahoma. I have been working for Grace Petroleum  
15 since 1988.

16 Q. What are your duties at Grace Petroleum?

17 A. I'm a petroleum geologist, working  
18 primarily right now in New Mexico.

19 Q. Are you familiar with the geology involved  
20 in this case?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I tender the  
23 witness as an expert petroleum geologist.

24 EXAMINER STOGNER: Your witness is so  
25 qualified.

1           Q.       Mr. Dührberg, looking at Exhibit 5, could  
2 you describe its contents and outline the elements of  
3 risk in the drilling of this proposed well?

4           A.       Yes. The target is the middle zone of the  
5 First Bone Springs Sand. It's an isopach map. It's  
6 outlined in yellow. The well we are proposing to  
7 drill is in red. It's in the southeast quarter of  
8 Section 3.

9                   Production so far, the discovery well was  
10 the 1-Smith Ranch well in the northwest quarter of  
11 Section 11. The second well was the Smith Ranch 2-11  
12 well, and within the last month, BTA has completed the  
13 4-Gem well in the south part of Section 2.

14                   What we're proposing to do is to step away  
15 from the existing production and try to extend the  
16 production into the southwest corner of Section 3.  
17 The risk involved is primarily stratigraphic risk.  
18 The sand, the porosity, does diminish as you go to the  
19 west as noted in the Siete 1-Tonto Federal well in  
20 Section 10. And if the channel is moving in a more  
21 north/south direction than we have indicated here, we  
22 could be out of the channel, or just barely in it,  
23 where we would have marginal permeability.

24           Q.       I notice the potash buffer zone. Are there  
25 any problems with drilling this particular well

1 because of the potash areas?

2 A. No, not this well.

3 Q. Okay. Would you please move on to Exhibit  
4 6 and discuss its contents for the Examiner?

5 A. Exhibit 6 shows a cross-section going from  
6 the Smith Ranch 2-11 well to the well we're  
7 proposing. The two logs are from the same well. The  
8 top is the resistivity log, the bottom log is the  
9 porosity log.

10 You can see in the Smith Ranch 2-11 well,  
11 we hit the thick part of the sands, and as we're  
12 moving towards our location, the sand is thinning.  
13 Again this shows the fact that there is some risk  
14 involved and the sand is thinning to the west where  
15 we're moving to put the well. However we do hope to  
16 encounter about 28 feet of pay.

17 Q. Referring back to Exhibit 5, the 5-Gem  
18 well, has that reached total depth yet?

19 A. No, it has not. It's drilling right now.

20 Q. What penalty do you recommend against the  
21 nonconsenting interest owner?

22 A. A reasonable penalty, I believe, would be  
23 cost plus 200 percent.

24 Q. That's based on the risk factors which  
25 you've just discussed?

1 A. Yes, sir.

2 Q. Were Exhibits 5 and 6 prepared by you or  
3 under your direction?

4 A. Yes, they were.

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

8 A. Yes, I do.

9 MR. BRUCE: Mr. Examiner, I move the  
10 admission of Exhibits 5 and 6.

11 EXAMINER STOGNER: Exhibits 5 and 6 will be  
12 admitted into evidence.

13 EXAMINATION

14 BY EXAMINER STOGNER:

15 Q. Mr. Dührberg, there are other zones of  
16 interest in this application. Did you do any review  
17 on any of the potential producing horizons above the  
18 Bone Springs?

19 A. The only significant potential producing  
20 horizons would be in the Delaware sands. It's  
21 basically based on a log analysis of some of the  
22 existing wells. We're not really sure whether there's  
23 that much potential or not right now. We haven't  
24 actually tested them.

25 Q. How about the Seven Rivers formation? Is

1 it productive in the area?

2 A. It's not productive in this area. Just to  
3 the south there's some Seven Rivers production, I  
4 believe.

5 Q. Did you research the geology in your part  
6 of the area in the Seven Rivers formation?

7 A. No, we have not looked at it heavily.

8 Q. Aren't there some plugged and abandoned  
9 wells within the Section 3 that you're going to be  
10 drilling in?

11 A. In Section--the map here we show, we've  
12 just shown the Bone Springs penetrations. There are  
13 numerous shallow Yates-producing wells in the area,  
14 and there may be some in Section 3, but that's not a  
15 zone of interest to us.

16 Q. Then why are you force pooling it?

17 MR. BRUCE: If I can answer, Mr. Examiner,  
18 it's just typical practice to force pool from the  
19 surface to the base, just in case something does show  
20 up.

21 Q. Pursuant to New Mexico Oil and Gas General  
22 Rules and Regulations, this is not a wildcat well in  
23 the Yates or the Seven Rivers formation, but you were  
24 aware of that, weren't you, Mr. Dihrberg?

25 A. The offsetting production that we're



1 looking at is the Bone Springs. We have not examined  
2 the Yates production as a target. As a matter of  
3 fact, we didn't even log the Yates on the 2-11 Smith  
4 Ranch.

5 Q. I take it that was because, while you were  
6 drilling, no returns, or your geologist on site did  
7 not think it was worth looking at?

8 A. The Yates production in the area, I  
9 believe, is mostly in the north half of Section 14, a  
10 little bit in the south half of 11, and we--I don't  
11 think there's been any established Yates production up  
12 further north where we are.

13 Q. But your well is within a mile of an  
14 established pool, is it not?

15 A. Perhaps. I'm not sure.

16 Q. Let's go to Exhibit 5. You show a potash  
17 development buffer zone. Let's elaborate a little bit  
18 on that. Where did you get the information? How did  
19 you come up with this particular outline?

20 A. The information we received, I received  
21 from our land department, who has been in touch with,  
22 I believe, Noranda. Is that correct? They're the  
23 company that has been doing potash mining. In areas  
24 to the south of that line, you need to get a waiver  
25 from Noranda to proceed.

1           Q.       Is this also reflected on the BLM's  
2 documentation of LMR, that's the lack of mine reserve  
3 area?

4           A.       I'm not sure.

5           MR. BRUCE: The landman would have more  
6 knowledge on that, Mr. Examiner.

7           EXAMINER STOGNER: Mr. Upchurch, I'll turn  
8 that question to you.

9           MR. UPCHURCH: Yes. That outline is the  
10 northwestern extremity of the LMR, as we believe it.  
11 It's kind of an arbitrary line as far as the potash  
12 company is concerned, Noranda. They only have two  
13 core holes in Section 11. We were involved in Section  
14 11 as far as a new proposal or new location down  
15 there, and we were able to get just north of the line  
16 in Section 11 and receive the waiver from Noranda, and  
17 they assured us that anything north of there they  
18 don't even own. In fact, in Section 3 they don't even  
19 own a potash lease.

20           EXAMINER STOGNER: How does the well  
21 application, what's its status with the BLM at this  
22 time?

23           MR. UPCHURCH: It's a permitted location.  
24 It's approved, yes.

25           EXAMINER STOGNER: I have no other

1 questions of this witness. Are there any other  
2 questions of Mr. Dhrberg or Mr. Upchurch? If not,  
3 they may be excused.

4 Does anybody else have any questions of  
5 these three?

6 If not, Case No. 10336 will be taken under  
7 advisement.

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1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 COUNTY OF SANTA FE ) ss.

5  
6 I, Carla Diane Rodriguez, Certified  
7 Shorthand Reporter and Notary Public, HEREBY CERTIFY  
8 that the foregoing transcript of proceedings before  
9 the Oil Conservation Division was reported by me; that  
10 I caused my notes to be transcribed under my personal  
11 supervision; and that the foregoing is a true and  
12 accurate record of the proceedings.

13 I FURTHER CERTIFY that I am not a relative  
14 or employee of any of the parties or attorneys  
15 involved in this matter and that I have no personal  
16 interest in the final disposition of this matter.

17 WITNESS MY HAND AND SEAL June 30, 1991.

18  
19 CARLA DIANE RODRIGUEZ  
20 CSR No. 91

21 My commission expires: May 25, 1995

22 I do hereby certify that the foregoing is  
23 a complete record of the proceedings before  
24 the Examiner hearing of 10336  
25 heard by me on 27 June 1991.

*Michael E. Hunicutt* Examiner  
Oil Conservation Division