

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCE DEPARTMENT
3 OIL CONSERVATION DIVISION

4 IN THE MATTER OF:)
5 APPLICATION OF GRAND PRODUCTION COMPANY)
6 FOR COMPULSORY POOLING, LEA COUNTY, NEW) CASE NO. 10157
7 MEXICO)
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7 REPORTER'S TRANSCRIPT OF PROCEEDINGS

8 EXAMINER HEARING

9 BEFORE: DAVID R. CATANACH, Examiner

10 November 14
11 11:20 a.m.
12 Santa Fe, New Mexico

13 This matter came on for hearing before the Oil
14 Conservation Division on November 14, at 11:20 a.m. at the
15 Oil Conservation Conference Room, State Land Office
16 Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico,
17 before Susan G. Ptacek, a Certified Shorthand Reporter No.
18 124 and Notary Public in and for the County of Santa Fe,
19 State of New Mexico.
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22 FOR: OIL CONSERVATION BY: SUSAN G. PTACEK
23 DIVISION Certified Shorthand Reporter
24 CSR No. 1224
25

I N D E X

November 14
Examiner Hearing
Case No. 10157

APPEARANCES

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APPLICANT'S WITNESSES:

JOHN F. VAUGHAN

Direct Examination by Ms. Callahan
Examination by Examiner Catanach

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GEORGE W. VELOTTA, SR.

Direct Examination by Ms. Callahan
Examination by Examiner Catanach
Further Examination by Ms. Callahan

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REPORTER'S CERTIFICATE

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E X H I B I T S

Admtd

APPLICANT'S EXHIBIT

A Plat showing wells in area
B Tabulation of working interest owners
C Proposal letter for joinder
D AFE
E Confirmation of notice
F Structural map
G Isopach map

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
 General Counsel
 Oil Conservation Division
 State Land Office Building
 Santa Fe, New Mexico 87504

FOR THE APPLICANT: KELLAHIN, KELLAHIN & AUBREY
 Attorneys at Law
 BY: CANDACE HAMANN CALLAHAN, ESQ.
 117 North Guadalupe
 Santa Fe, New Mexico 87501

* * *

1 EXAMINER CATANACH: At this time we will call Case
2 10157.

3 MR. STOVALL: Application of Grand Production Company
4 for compulsory pooling, Lea County, New Mexico.

5 EXAMINER CATANACH: Are there any appearances in this
6 case?

7 MS. CALLAHAN: Yes, sir. I'm Candace Callahan with
8 the law firm of Kellahin, Kellahin & Aubrey in Santa Fe,
9 appearing for Grand Production Company. I have two
10 witnesses to be sworn.

11 EXAMINER CATANACH: Are there any other appearances?

12 Would the two witnesses please stand and be
13 sworn in?

14 JOHN F. VAUGHAN,
15 the Witness herein, having been first duly sworn, was
16 examined and testified as follows:

17 EXAMINATION

18 BY MS. CALLAHAN:

19 Q. Mr. Vaughan, would you please state your full
20 name?

21 A. John F. Vaughn.

22 Q. What is your occupation??

23 A. I'm land manager for Grand Production Company.

24 Q. Are you familiar with the application to
25 force-pool several mineral interest owners owning interests

1 equal to 1.5 percent or less?

2 A. Yes.

3 Q. And have you previously testified and been
4 qualified before the division --

5 A. Yes, I have.

6 Q. -- as a petroleum landman?

7 A. Yes.

8 MS. CALLAHAN: I tender Mr. Vaughn as an expert
9 petroleum landman.

10 EXAMINER CATANACH: He is so qualified.

11 Q. (By Mr. Callahan) Would you look at Exhibit A,
12 please, and describe this exhibit.

13 A. That's a plat showing the wells in the areas
14 surrounding our proposed unit. Our proposed unit is shaded
15 and the bottom part of the shaded unit is a small circle
16 which indicates our proposed location of our well.

17 Q. What is that location?

18 A. It's 510 feet from the south line and 510 feet
19 from the east line of the section.

20 Q. And the spacing unit is?

21 A. Is the east half southeast quarter of Section
22 10, 17 South, 37 East, Lea county.

23 Q. What formation is your primary objective in this
24 application?

25 A. Primary objective is the Strawn formation.

1 Q. Did you previously apply and have approved this
2 spacing unit for forced pooling?

3 A. Yes, we had made application last time I believe
4 about this same time, near the end of November, for
5 pooling.

6 Q. That application was approved?

7 A. Yes, it was.

8 Q. Can you just explain to us why it is that we are
9 here today rather than pursuing the prior application?

10 A. Basically there were budget constraints that
11 prevented us from commencing the well under the previous
12 order, and we're now in a position to commence the well and
13 therefore made this application.

14 Q. Would you look at Exhibit B, please?

15 A. Okay.

16 Q. Would you please describe this exhibit?

17 A. That's a tabulation of the working interest
18 owners underlying this unit that we're seeking to pool.

19 Q. What percentage of the working interest owners
20 have voluntarily joined so far?

21 A. Obviously Grand Production and then also Scott
22 Ritchie with a 25 percent. The balance of the owners have
23 not, so it's roughly 85 1/2 percent have joined. The 14
24 1/2 percent remainder have not.

25 Q. What attempts did you make to obtain the

1 voluntary joinder of those who have not yet voluntarily
2 joined?

3 A. I circulated a proposal letter back in May --

4 Q. Is that Exhibit C here?

5 A. Yes, Exhibit C. -- to each of the owners, each
6 was sent certified, and basically all of these owners are
7 small owners. I mean their interests are small. They
8 apparently are not very concerned about it inasmuch as none
9 of them have responded to my letter.

10 Q. And some of them you were unable to obtain
11 addresses for?

12 A. That's correct.

13 Q. What percentage are those?

14 MR. STOVALL: Can I interrupt you for a moment?

15 MS. CALLAHAN: Yes.

16 MR. STOVALL: You have indicated that this has already
17 been forced pool once; is that correct?

18 MS. CALLAHAN: Right. But the period has expired.

19 MR. STOVALL: I understand that. The question I've
20 got -- let me just ask your witness. Have there been any
21 changes in the ownership?

22 THE WITNESS: No, sir.

23 MR. STOVALL: Did you have a desire to incorporate
24 that record into here to substantiate attempts to
25 negotiate?

1 MS. CALLAHAN: Yes.

2 MR. STOVALL: Do you remember the case number by any
3 chance.

4 MS. CALLAHAN: Yes, I have it. It's Case 9835, order
5 No. 9077.

6 EXAMINER CATANACH: 9077?

7 MS. CALLAHAN: Yes.

8 MR. STOVALL: I take that as a motion to incorporate
9 that record.

10 MS. CALLAHAN: Yes, I so move. Thank you.

11 EXAMINER CATANACH: The record in Case 9835 will be
12 incorporated into this record.

13 MS. CALLAHAN: Thank you.

14 A. But to answer your question, approximately 7 1/2
15 percent or roughly half of the interests for pooling is
16 unlocatable.

17 Q. (By Ms. Callahan) And could you just briefly
18 describe what attempts you made to find addresses for these
19 people?

20 A. Grand initially acquired the interest in this
21 unit through a farm out from B.P., Bruce Petroleum. They
22 have actually done the initial work and had the initial
23 ownership reports taken, and made attempts to contact these
24 individuals. When we received the farm out from B.P., we
25 received their file and notes over the unit. Prior to the

1 last hearing, last year, I went to the Lea County -- to the
2 county courthouse in Lovington and made a personal
3 examination of the records in an attempt to obtain
4 addresses.

5 And in addition to that all of these interest
6 owners acquired their interests through a company by the
7 name of Harding Oil. These were investors of Harding Oil.
8 I contacted the principal of Harding Oil to request
9 addresses for these individuals, and he did not have
10 current addresses for them, and did not know where they
11 were. And I also contacted the owners that I did have
12 addresses to inquire if they just happened to know who they
13 were, and I think I was successful on one event which I do
14 have their address now.

15 Since that time I have hired another landman
16 just recently to go to the records, to Lea County to verify
17 that there has been nothing filed of record that would
18 indicate that these people -- with an updated address or
19 whatever.

20 Q. I'd like you now to look at Exhibit D. Would
21 you describe this exhibit for us?

22 A. That is Grand's AFE for the drawing of our
23 proposed well.

24 Q. And this AFE is dated what date?

25 A. November the 9, 1990.

1 Q. And the AFE that you sent with your letter
2 proposing joinder to the various working interest owners is
3 about a year --

4 A. Yes, it was dated November 1st.

5 Q. -- prior to this?

6 A. Yes.

7 Q. However, would you please tell us what the
8 estimated dry hole costs and producing costs are for both
9 of these AFE's?

10 A. \$395,800 for a dry hole cost.

11 Q. And producing cost?

12 A. \$650,640.

13 Q. So there has been no change?

14 A. Their has been no change. I just had our
15 engineer review the AFE to make sure the costs are still
16 relevant.

17 Q. Are these costs within the range that other
18 operators in the area use for a comparable well?

19 A. Yes, they are.

20 Q. Did you prepare an operating agreement for this
21 well?

22 A. Yes, I did.

23 Q. Can you tell us what the overhead rates in that
24 operating agreement were?

25 A. They were \$5,000 a month for a drilling well,

1 \$500 a month for a producing well.

2 Q. And those rates are within the average for rates
3 -- for wells of that depth according to the Ernst & Young
4 survey?

5 A. Yes.

6 Q. And are those the rates that you would recommend
7 that the division accept for this order --

8 A. Yes.

9 Q. -- if it is granted?

10 A. And I might add those are the same rates that we
11 used in the previous order.

12 Q. And does Grand Production Company ask to be
13 designated as operator for this well?

14 A. Yes.

15 MS. CALLAHAN: At this time I would also like the
16 record to reflect that Exhibit E is the certificate of
17 mailing in compliance with order R-8054 prepared by our law
18 firm, Kellahin, Kellahin & Aubrey.

19 I have no further questions of this witness.

20 EXAMINER CATANACH: We will enter Exhibits A through E
21 at this time.

22 (Applicant's Exhibits A through E
23 were admitted in evidence.)

24 EXAMINATION

25 BY EXAMINER CATANACH:

1 Q. Mr. Vaughan, can you identify on Exhibit B which
2 entities you were not able to locate?

3 A. Yes. Running down the list, beginning with E.
4 J. Eckels, Jr., and all parties listed below his name are
5 the ones that were unlocatable.

6 Q. You believe you've made an adequate attempt to
7 find the current addresses of these interest owners?

8 A. Yes, I have.

9 Q. Have you had any response from the other
10 interest owners who are not participating?

11 A. No, sir. No response whatsoever. In fact,
12 there were quite a few more owners that we were able to
13 require that obviously are not pooling today. I can just
14 say that most of those people didn't even know they owned
15 an interest. It's just a small interest that it's almost
16 -- seemed irrelevant to them. I received no response
17 whatsoever from any of the balance.

18 EXAMINER CATANACH: I have no further questions of the
19 witness.

20 GEORGE W. VELOTTA, SR.,
21 the Witness herein, having been first duly sworn, was
22 examined and testified as follows:

23 EXAMINATION

24 BY MS. CALLAHAN:

25 Q. Mr. Velotta, would you please give your full

1 name and occupation?

2 A. George W. Velotta, Sr. I am a geologist in
3 Oklahoma City for Grand Production Company.

4 Q. Are you familiar with the Grand Production
5 Company application to force pool in this matter?

6 A. Yes.

7 Q. And have you undertaken a study of the geology
8 in this area?

9 A. Yes, I have.

10 Q. And you stand ready to offer an opinion on the
11 geology in this area?

12 A. This proposed location --

13 Q. I'm just asking if you are ready --

14 A. Oh, excuse me. Yes.

15 Q. -- to render an opinion.

16 A. Yes.

17 Q. Have you previously testified before the
18 division?

19 A. No.

20 Q. Would you please briefly describe your
21 education?

22 A. Yes, I received my bachelor of science degree
23 from the University of Kentucky in 1947. Subsequent times
24 I've worked for Phillips Petroleum Company for
25 approximately seven years, Sohio, Standard Oil Company of

1 Ohio, for 20 years, Kerr McKee Corporation for couple of
2 years, consulting for about 16 and with Grand for the last
3 three years approximately. Various parts of the United
4 States from Oklahoma to the Appalachian area. I have done
5 extensive coal exploration work for Standard Oil of Ohio's
6 coal subsidiary in the Rocky Mountain area. That's about
7 it as far as a brief resume.

8 MS. CALLAHAN: Mr. Examiner, are this witness'
9 qualifications acceptable as an expert geologist?

10 EXAMINER CATANACH: Yes, they are. Would you spell
11 your last name for us?

12 THE WITNESS: V-e-l-o-t-t-a.

13 EXAMINER CATANACH: Thank you.

14 Q. (By Ms. Callahan) Mr. Velotta, do you have an
15 opinion regarding the geologic risk involved in drilling a
16 dry hole or obtaining a producing well that does ultimately
17 pay out?

18 A. Yes.

19 Q. Is that a significant geological risk?

20 A. Yes. It exists in every well you drill,
21 regardless whether you're wildcatting or offsetting
22 production.

23 Q. Okay. In terms of the maximum statutory risk
24 factor penalty of 200 percent to be assessed against any
25 nonconsenting working interest owners and to be recovered

1 out of their share of production, do you have an opinion,
2 is that 200 percent justified in this case?

3 A. I think that would be a minimum penalty to be
4 applied.

5 Q. I'd like you to look at Exhibit F, please.
6 Would you please describe this exhibit for us?

7 A. Exhibit F is a structural map prepared on top of
8 the Lower Strawn carbonate. This map is prepared as a
9 combination subsurface and seismic. The seismic line
10 running north-south on the east side of Sections 10 and 15
11 as shown by the small circles that break the section line.
12 In addition, an east-west line running across the north
13 side of Sections 10 and 11, continuing east is also
14 prepared.

15 Q. Would you feel more comfortable using Exhibit A
16 or this exhibit to talk about the dry holes surrounding
17 your proposed test?

18 A. Either one.

19 Q. Would you please tell us --

20 A. Possibly one of -- the other map, the porosity
21 map, would probably have more bearing on the Strawn than
22 the structure map.

23 Q. Okay. Then do you want to look at Exhibit G,
24 and would you please describe this exhibit for us?

25 A. This is the gross isopach of the Lower Strawn,

1 which includes the gross intervals potentially productive.
2 This does not get into the net aspects of the formation.
3 Porosity is the determining factor, one of the main
4 determining factors, in the production of the Strawn.

5 Q. Is your proposed test surrounded by any dry
6 holes --

7 A. Yes.

8 Q. -- out of the primary objective for this test?

9 A. Yes. There are dry holes to the east, southeast
10 and south that penetrated the Strawn section.

11 Q. These wells that are now dry, did they produce
12 for a substantial amount of time?

13 A. These were never completed. They were dry
14 holes. You're talking about the abandoned producers to the
15 north and west?

16 Q. Right.

17 A. Yes. I believe that north produced some seven
18 years.

19 Q. And your concern is, in terms of risk, that
20 these wells may have drained a substantial amount of oil
21 from the objective zone?

22 A. Yes. That is a distinct possibility. Suffered
23 partial drainage anyway. Hopefully we can find an area
24 that has not really been affected.

25 Q. What is the closest producing well from your

1 primary objective?

2 A. It would be in Section 10, well denoted No. 5,
3 which was approximately the south half of the northeast of
4 the southeast of Section 10-17-37. And the west offset in
5 the southwest of the southeast, Section 10-17-37, was a
6 strong producer.

7 Q. I'm sorry. I didn't make myself clear. I meant
8 a current producing well.

9 A. No current producing well offsetting this tract.
10 They have produced but they are abandoned.

11 Q. What is the closest producing well from that
12 now?

13 A. Closest producing well at this time is Section
14 11, the northwest of the southeast.

15 MS. CALLAHAN: I have no further questions. I'd like
16 to offer into evidence Exhibits F and G --

17 Q. (By Ms. Callahan) I would like to first ask my
18 witness were these exhibits prepared by you or at your
19 direction?

20 A. Both, in conjunction with seismic.

21 EXAMINER CATANACH: Exhibits F and G will be admitted
22 as evidence in this case.

23 (Applicant's Exhibits F and G were
24 admitted in evidence.)

25

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Velotta, the wells shown on your isopach,
Well No. 5 --

A. Yes.

Q. -- that has been drilled and produced from the
Strawn formation?

A. Yes.

Q. And what's the status of that well?

A. It's P&A. May I -- I have abandonment dates on
the same plat in my briefcase, if I may refer to it.

Q. Okay.

A. That well was P&A'd in 1979.

Q. How long did it produce for?

A. It was completed initially in '72, 1972.

Q. So by drilling a well in the southeast-southeast
quarter you hope to recover oil which may not have been
recovered by that No. 5 well?

A. Yes.

Q. You believe that to be a substantial amount?

A. I think the seismic indication of both
structural position and possibly showing a build-up of the
Strawn carbonate justify the risk involved.

Q. Has your company ever drilled a Strawn well in
this area?

1 A. We have just set pipe probably yesterday in
2 Section 5 of 17-37 just west of here a couple of miles.

3 EXAMINER CATANACH: I believe those are all the
4 questions I have. The witness may be excused.

5 MS. CALLAHAN: I have one further question of the
6 witness.

7 FURTHER EXAMINATION

8 BY MS. CALLAHAN:

9 Q. Mr. Velotta, is it your opinion that approval of
10 this application will be in the interest of conservation of
11 oil and gas, prevention of waste and protection of
12 correlative rights?

13 A. Yes.

14 EXAMINER CATANACH: Anything further in this case?

15 MS. CALLAHAN: Nothing further.

16 EXAMINER CATANACH: Case 10157 will be taken under
17 advisement.

18 (Whereupon, the hearing was concluded.)

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1 STATE OF NEW MEXICO)
) ss.
 2 COUNTY OF SANTA FE)

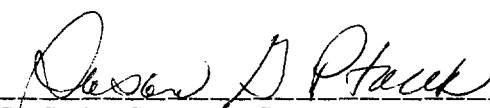
3 REPORTER'S CERTIFICATE

4
 5 I, Susan G. Ptacek, a Certified Shorthand Reporter and
 6 Notary Public, do HEREBY CERTIFY that I stenographically
 7 reported the proceedings before the Oil Conservation
 8 Division, and that the foregoing is a true, complete and
 9 accurate transcript of the proceedings of said hearing as
 10 appears from my stenographic notes so taken and transcribed
 11 under my personal supervision.

12 I FURTHER CERTIFY that I am not related to nor
 13 employed by any of the parties hereto, and have no interest
 14 in the outcome thereof.

15 DATED at Santa Fe, New Mexico, this 10th day of
 16 December, 1990.

17
 18 My Commission Expires:
 19 December 10, 1993



 SUSAN G. PTACEK
 Certified Shorthand Reporter
 Notary Public

20
 21
 22 I do hereby certify that the proceedings
 23 heard by me on November 14, 1990 at 10157
 24 David R. Catland, Examiner
 25 Oil Conservation Division