

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BLDG.
SANTA FE, NEW MEXICO

14 November 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of J. M. Huber Cor-
poration for compulsory pooling
and an unorthodox location, Eddy
County, New Mexico.

CASE
8401

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

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3 MR. QUINTANA: We'll call next
4 case 8401.

5 MR. TAYLOR: The application of
6 J. M. Huber Corporation for compulsory pooling and an unorthodox location, Lea County, New Mexico.

7 MR. JENNINGS: I'm James T. Jennings of Jennings and Christy, Roswell, appearing on behalf
8 of the applicant, J. M. Huber Corporation, and we will have
9 two witnesses, Mr. Bill Lawrence and Mr. Bill Horn.
10

11 MR. QUINTANA: Are there other
12 appearances in Case 8401?

13 If not, will the witnesses
14 please stand up and be sworn in at this time.

15 (Witnesses sworn.)
16

17 MR. JENNINGS: Mr. -- I'll take
18 Mr. Lawrence first.

19 MR. QUINTANA: You might want
20 to state --

21 MR. JENNINGS: No, but I would
22 state for the record that on I believe it was October 17th
23 we had a hearing in this case and I don't recall the number.
24 I have it, but --

25 MR. QUINTANA: That was 8384.

MR. JENNINGS: 8384.

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2 MR. QUINTANA: So that unortho-
3 dox portion has been granted.

4 MR. JENNINGS: Yes, it was ad-
5 vertised, yes, but the unorthodox portion was -- has been
6 and is now pending final adjudication before the Commission,
7 but it is -- this well we're talking about is the same well.

8 MR. TAYLOR: What case number
9 was that?

10 MR. JENNINGS: 8384.

11 MR. QUINTANA: Sally, in this
12 case we're just going to deal with the compulsory pooling
13 portion of it. The unorthodox portion of it was heard in
14 Case 8384.

15 MR. REPORTER: Thank you, Mr.
16 Quintana.

17 MR. QUINTANA: We'll deal with
18 the compulsory pooling portion of it only. I don't know how
19 that got on the docket.

20 So the record will show that.

21 THE REPORTER: All right.

22 MR. QUINTANA: You may proceed,
23 Mr. Jennings.

24 BILL LAWRENCE,
25 being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you state your name and your occupation?

A My name is Bill Lawrence. I'm a landman for J. M. Huber Corporation in Midland, Texas.

Q How long have you been employed by J. M. Huber Corporation?

A Three years.

Q Have you heretofore testified as a landman before this Commission and particularly in Case Number 8384 which was held on or about October 17th?

A Yes, I have.

MR. JENNINGS: Are Mr. Lawrence's qualifications acceptable as a landman for J. M. Huber?

MR. QUINTANA: Mr. Lawrence's qualifications are acceptable.

Q Mr. Lawrence, are you familiar with the application which has been filed herein in connection with the south half of Section 12 -- or 32, Township 12 South, Range 36 East?

A Yes, sir, I am.

Q And what in general is the nature of that application?

A We are seeking to force pool a 1/24th mineral interest under the -- it would be the south half of

1 the southwest quarter of Section 32, Township 12 South, 36
2 East.

3 Q And that is for the well for which we had
4 the unorthodox location hearing and that's 1326 feet from
5 the west line and 669 feet from the south line of Section
6 32?

7 A That's correct.

8 Q Now, Mr. Lawrence, would you refer to
9 what has been marked as Huber Exhibit Number One and ident-
10 ify that and tell me and the Commission -- the Examiner bas-
11 ically what it reflects?

12 A Exhibit One is a -- it's a land plat de-
13 picting Huber's leasehold interest under our Tatum prospect,
14 which is located in Township 12 South, 36 East, Lea County,
15 New Mexico.

16 It contains Huber's -- it contains ap-
17 proximately 1300 net acres under these tracts.

18 Q Referring then particularly to Section
19 32, I notice that is cross hatched in -- in gold. Does that
20 have any significance?

21 A The cross hatched, it just strictly means
22 that it's not 100 percent Huber mineral interest. There are
23 some unleased interests under 32.

24 Q What -- under the proposed location and
25 the proration unit requesting the south half southwest quar-
ter, what efforts have you made to obtain any working inter-
est participation or farm-in the acreage?

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2 A We've acquired 40 acres under the 80-acre
3 proration unit from Harvey E. Yates Company for the farm-
4 out.

5 Q If you -- if you could, to expedite it,
6 what percentage of the acreage have you been successful in
7 acquiring?

8 A Approximately 95 percent.

9 Q And I believe there is some outstanding
10 and what is the nature of that interest?

11 A There's a 1/24th mineral interest which
12 would consist of approximately three acres under the prora-
13 tion unit which we have been unable to lease or the mineral
14 owner has not agreed to participate.

15 Q Do you feel that you have made a diligent
16 effort to lease all of the outstanding mineral interest?

17 A Yes, sir, I do.

18 Q Please refer to what has been marked as
19 Exhibit A -- I'm sorry, Exhibit Two, and please relate your
20 efforts in connection to the Exhibit Two in connection with
21 the Mr. Nygaard.

22 A Exhibit Two is just simply five separate
23 letters dating back to April 24th, '84, at which time we
24 proposed to lease Mr. Nygaard's interest.

25 We've made offers to start him with
3/16ths royalty, three year term, \$150 an acre.

We later offered to increase the royalty
to --

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Q On what date -- on what date was that?

A Okay. September 17th we wrote Mr. Nygaard again and increased the royalty to a quarter royalty; still no reply.

October the 5th we furnished Mr. Nygaard a copy of our AFE and requested that he consider joining in the proposed well.

October 30th Mr. Nygaard was furnished with a copy of our application for compulsory pooling and November 8th Mr. Nygaard again was furnished with a our copies of AFE's along with an operating agreement dated November 6th, '84.

Q Have you personally attempted to contact Mr. Nygaard?

A I have talked with both Mr. Nygaard and his wife on several occasions. He just flat indicated he did not lease any of his mineral interest, that if we would furnish him with an operating agreement and an AFE, he would take a look at it and consider his options.

I have talked with him -- when I called Monday, was the latest call, and his wife answered the phone and said that he was unavailable.

So I have not had a chance to discuss the agreement with him any further.

Q Mr. Lawrence, have you personally checked the records to determine that the ownership is as reflected in the office of the County Clerk of Eddy County in connec-

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tion with this particular interest?

A Yes, I have.

Q Who have you determined to be, the best you can determine, the owners of the interest?

A The best I can determine the owners are Thomas Max Nygaard, his wife, Shirley Nygaard, and daughter Alicia A. Nygaard.

Q Now these all are relatives of Mr. Nygaard?

A Yes. Shirley Nygaard is Mr. Nygaard's wife; Alicia is his daughter, and they all live in Dallas, Texas.

Q Is there a person by the name of Keith?

A Initially our records indicated that Daisy Keith had an interest under this --this tract, or to this specific acreage. She would have been, as I can determine, an aunt, but in one of my prior conversations with the Nygaard family Alicia told me that her aunt, or Mr. Nygaard's aunt had passed away. I have no idea at what date that might be.

Q Have you sought to get additional data from him?

A Yes, sir, I sure have. I've tried on several different occasions to track down either a probate or will or something to -- of record, but I have been unable to do so. They haven't been cooperative, I'll put it that way.

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Q To say the least?

A To say the least, you're right.

Q You spoke of the AFE which you sent to Mr. Nygaard.

A Yes, sir.

Q Is that what has been marked as Exhibit A -- or Exhibit Five?

A That's correct.

Q Mr. Lawrence, are you familiar with the order which was previously entered in Case Number 8047 and that is Order Number 7460 of this Commission, which was entered on March 7th of 1984?

A Yes, I am.

Q Was that order -- did that order force pool this same land?

A Yes, sir, it did.

Q Being the -- and the applicant therein was Ray H. Haskins?

A Yes, sir.

Q Have you acquired the same leases or have leases on the same property that Mr. Haskins had?

A I sure do.

Q Do you know of your own knowledge that he had the same problems and did not -- was not able to obtain any lease or any cooperation whatsoever from this outstanding interest?

A That's correct. We've talked to him and

1
2 had the same problem with the Nygaards.

3 Q Were Exhibits Numbers One and Two either
4 prepared by you or correspondence written by you and
5 directed -- written by you in connection with the ordinary
6 course of business in connection with this matter?

7 A Yes, sir, they were.

8 MR. JENNINGS: We have nothing
9 further of this witness at this time.

10 CROSS EXAMINATION

11 BY MR. QUINTANA:

12 Q Mr. Lawrence, who did you say had force
13 pooled some -- pooled the Nygaards prior to you?

14 A Ray H. Haskins. He is an operator out of
15 Midland, Texas.

16 Q And he had the same exact problem that
17 you're --

18 A Exactly.

19 Q -- running into?

20 A Yes, sir.

21 MR. JENNINGS: Mr. Examiner, I
22 will request that that order be considered later. I have a
23 copy of it.

24 MR. QUINTANA: Is there any
25 further questions of Mr. Lawrence? If not, he may be
excused.

BILL HORN,

being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. JENNINGS:

Q Would you please state your name and place of residence and present occupation?

A My name is Bill Horn. I live in Midland, Texas, and I work as a petroleum engineer for J. M. Huber Corporation.

Q How long have you been employed by J. M. Huber Corporation, Mr. Horn?

A Just over four years.

Q What is your current job description?

A I'm titled a Senior Petroleum Engineer and I work with production, reservoir drilling.

Q What is your educational background?

A I received a Bachelor of Science degree from New Mexico State University in 1975 in civil engineering.

Q And immediately upon your graduation from New Mexico State by whom were you employed?

A I was employed by Texaco, Incorporated, in Hobbs, New Mexico.

Q What was the general nature of your

1 duties in connection with that employment?

2 A The immediate was field engineering and
3 area engineer concerning, again, production, reservoir, and
4 some drilling.

5 Q Basically all of your experience in the
6 Permian Basin in Texas and New Mexico?

7 A Yes, sir.

8 MR. JENNINGS: Are Mr. -- the
9 witness' qualifications acceptable as a petroleum engineer?

10 MR. QUINTANA: Mr. Horn, did
11 Texaco, they sent you to many training schools in field of
12 petroleum engineering?

13 A Yes, sir, they did.

14 MR. QUINTANA: And you worked
15 for them from 1975 to 1980?

16 A That's correct.

17 MR. QUINTANA: Then from 1980
18 to 1984 you worked for J. M. Huber Corporation.

19 A That's correct.

20 MR. QUINTANA: The witness'
21 qualifications are acceptable.

22 Q Mr. Horn, would you please refer to what
23 has been marked as Huber's Exhibit Number Three and tell
24 just what that is and explain and point out the wells that
25 are on production and the dry holes, if any?

A This is a structure map that covers the
prospect that we're concerned with today and it shows the

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2 structure of the top of the lower Wolfcamp Bursum, which is
3 our target zone in the proposed well, and on the map we have
4 the wells spotted from the Tatum Wolfcamp Field, which this
5 well is basically a north extension, and we also have shown
6 on there the cumulative production and current production
7 status of the wells within that field.

8 Q For the purpose of the transcript would
9 you kind of point out exactly the location of the wells and
10 the cumulative production and also the present status and
11 producing capabilities of the wells?

12 A Okay. The -- there is a well in Section
13 5. It would be Unit letter D, has produced 133,653 barrels
14 of oil and as of 5-84 was producing about 7 barrels of oil
15 per day and about 70 barrels of water per day.

16 There's a well to the east of that with a
17 cumulative production of 844 barrels of oil, which is plug-
18 ged and abandoned, and this well was not an economical well.

19 To the southwest of that well is another
20 well which is the best well in the field with a cumulative
21 production of 291,892 barrels of oil and this has been de-
22 pleted and is currently plugged and abandoned.

23 To the south, in Section 5, you can see
24 another well which was drilled in the field which was a dry
25 hole upon initial drilling.

26 And farther south, in Section 6, there's
27 a well with cumulative production of 185,818 barrels of oil,
28 which is, as of 5-84 was producing about 5 barrels of oil

1 per day.

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3 Also in this field you'll notice in Sec-
4 tion 6 at the extent of where that letter "A" shows on the
5 plat there's another dry hole that was drilled, and going
6 north, Section 31, there was a dry hole that was drilled
just recently.

7 And not shown on the map, there is also
8 another producer in Section 7 to the south which produced
9 but was not economical and next to that there's another dry
10 hole.

11 So the total for this field, there was
12 basically three producers that were economical and there was
13 about -- there were three, or two, I should -- there were
14 six wells that were drilled that could be classified as dry
15 holes that were not economical completions, and basically
16 that's -- that's the picture of that field right now. It's
basically depleted.

17 Q Mr. Horn, has your company, the J. M.
18 Huber Corporation, drilled wells such as the proposed well
19 to the -- to this same objective depth in this area or in
Lea County?

20 A Yes, sir, we have.

21 Q Recently?

22 A We drilled four such wells in 1984 in the
23 Morton Wolfcamp Field and just north of there one was in the
24 Morton North Field, and they were all to the same basic
25 depth, about 10,500 feet total depth.

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2 Q And you are familiar with these wells and
3 you've performed engineering duties in connection with the
4 wells.

5 A Yes, sir, I have.

6 Q Mr. Horn, would you now refer to what has
7 been marked as Huber's Exhibit Number Four and explain --
8 tell us what that is?

9 A This is a model form operating agreement
10 that Huber has drawn up for this particular well, which we
11 call the Whatley Trust No. 1.

12 Q And referring to this operating agree-
13 ment, would you advise the Commission as to the provisions
14 of the nonconsent clause of operations by less than all
15 operators?

16 A I believe that is 200 percent.

17 Q You might review them at the bottom of
18 page five, the last paragraph B on page five, line 69, to be
19 specific.

20 A Okay, I was incorrect. That's 300 per-
21 cent.

22 Q Is this the figure that Huber and other
23 (not clearly understood) would use in connection with their
24 nonconsent clauses at this time?

25 A Yes, sir.

Q Does it cover any more than that?

A Not to my knowledge.

Q Any more than 300 percent?

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A No, sir, not to my knowledge.

Q Would you also refer to the overhead expenditures reflected in the exhibit attached to this operating and examine that and state what the overhead expenditure during the time that the drilling the well is and also the overhead expenditure provided in the event the well is a producer?

A Yes. The drilling well rate is \$4000 and the producing well rate is \$400. And these are rates per month.

Q In your experience, Mr. -- in engineering in the field, do you have an opinion as to whether or not these figures are in line with what you've generally experienced in the past?

A Yes, sir.

Q Do you -- is there any -- do you have any other documents or basis for figures such as these for overhead expenses during drilling and producing?

A Basically we operate several leases within this area and this is consistent with what we use and what others have used in properties which are operated by others in which we have participated.

Q Do you feel that these -- in light of your experience, do you feel that figures such as this \$4000 during drilling -- a month during drilling, and \$400 a month during -- after production would be a realistic and reasonable figures in connection with this well?

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A Yes, sir.

Q Are these figures generally right in line with the Ernest and Williams publication reflecting cost in this area for wells of this depth?

A Yes, sir, they are.

Q Mr. Horn, please refer to Huber Exhibit Number Five and identify that for the Commission, if you would, please, and tell us what it is.

A This is an AFE worksheet which I prepared for the drilling of this well, the Whatley Trust No. 1, and it shows the total completed well cost of \$878,000 and a dry hole cost of \$410,000.

Q Is this the AFE which was submitted to all -- to the Nygaard group and to other operators?

A Yes, sir, it is.

Q In light of your experience do you feel that these are reasonable costs to be anticipated in connection with this well?

A Yes, sir.

Q Mr. Horn, in light of your past experience and in light of the -- your examination for the possible production in this area, what figure do you feel would be a reasonable risk factor to be allowed in this case?

A I believe the maximum risk factor would be effective for this.

Q What is it? What is that risk factor? Do you know?

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A It would be 300 percent.

Q By that you're referring to the actual cost plus 200 percent penalty.

A Yes, sir.

Q Mr. Horn, do you feel that granting of this application would be in the interest of conservation and protect the correlative rights of all the owners in this proration unit?

A Yes, sir.

Q Would it impair the correlative rights of any of the owners?

A No, sir.

Q Were Exhibits Three, Four, and Five prepared by you or under your supervision?

A Exhibit Five was prepared by myself. Which was Number Three?

Q That was a plat showing existing wells.

A Okay, this one was not prepared under my supervision.

Q Are you familiar with all the wells and production figures shown thereon?

A Yes, sir, I am.

Q And Number Four was the operating agreement which was prepared by J. M. Huber Corporation in the ordinary course of business.

A Yes, sir.

MR. QUINTANA: Are you ten-

dering?

MR. JENNINGS: We tender these, yes, sir.

MR. QUINTANA: Exhibits Three, Four, and Five will be admitted into evidence.

MR. JENNINGS: Mr. Examiner, do you have any further questions of this witness?

MR. QUINTANA: I have a couple.

MR. JENNINGS: Okay.

CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Horn, what is the expected initial production on this well?

A I'm anticipating initial production at approximately 140 barrels a day, and I would anticipate an average first year production of approximately 110 barrels per day.

Q What type of payout would you expect using these figures, in years?

A In years I would expect approximately two years on our payout calculation.

Q Are you familiar with the Case 8407 that was previously mentioned?

A Yes, sir.

Q For the previous force pooling of these same lands?

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A Yes, sir.

Q Isn't the risk penalty factor in that Case 8407 similar to the one that you ask for?

A I believe it was.

Q Now I have a question dealing with the AFE. In that previous force pooling case, are these costs for this AFE in line with the costs for that previous one?

A I don't recall what the other one was. I don't recall seeing the AFE costs on that particular well.

Q These costs of drilling this well are current costs in that area?

A Yes, sir.

Q Okay. That will be all.

MR. QUINTANA: Is there any further questions of Mr. Horn? If not, Mr. Horn, you may be excused.

A Thank you.

MR. JENNINGS: Mr. Examiner, I would like to move the Commission take judicial notice of the Order No. 7460 entered in Case Number 8047 on March 7th, 1984 covering this same acreage and I have a copy of it, of the order and would like to tender it or the Commission can take judicial notice of it.

MR. QUINTANA: Yes. Case Number 8047 will be -- notice will be taken of Case Number 8047.

And I'd like to comment for the

1
2 record that I've previously asked Mr. Lawrence about Case
3 8407 and I meant to say Case Number 8047.

4 Is there anything further?

5 MR. JENNINGS: We have nothing
6 further to offer in this case.

7 MR. QUINTANA: Is there any-
8 thing further in Case 8401?

9 If not, Case 8401 will be taken
10 under advisement.

11 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY
that the foregoing Transcript of Hearing before the Oil Con-
servaion Division was reported by me; that the said tran-
script is a full, true, and correct record of the hearing,
prepared by me to the best of my ability.

Sally W. Boyd CSR

FILED IN CASE NO. 8401,
DATE NOV. 14, 1984.
BY CLERK OF COURT

William P. Quintana Examiner
Oil Conservation Division