

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

19 February 1986

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company for compulsory pooling and an unorthodox well location, Lea County, New Mexico.	CASE 8831
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BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Jeff Taylor
Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr
Attorney at Law
CAMPBELL & BLACK P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501

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I N D E X

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MACK AMES

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Direct Examination by Mr. Carr

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Cross Examination by Mr. Stogner

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JOEL CARLISLE

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Direct Examination by Mr. Carr

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E X H I B I T S

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Inexco Exhibit One, Plats

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Inexco Exhibit Two, Correspondence

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Inexco Exhibit Three, Letters

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Inexco Exhibit Four, AFE's

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Inexco Exhibit Five, Letters

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Inexco Exhibit Six, Structure Map

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Inexco Exhibit Seven, Cross Section

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MR. STOGNER: This hearing will
come to order again.

We will call next Case Number
8831.

MR. TAYLOR: The application
of Inexco Oil Company for compulsory pooling and an
unorthodox well location, Lea County, New Mexico.

MR. STOGNER: Call for
appearances.

MR. CARR: May it please the
Examiner, my name is William F. Carr with the law firm
Campbell & Black P. A. of Santa Fe. We represent Inexco Oil
Company and have two witnesses.

MR. STOGNER: Are there any
other appearances?

Will the witnesses please stand
to be sworn?

(Witnesses sworn.)

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

DIRECT EXAMINATION

BY MR. CARR:

Q Will you state your full name and place of residence?

A Mack Ames, Houston, Texas.

Q Mr. Ames, by whom are you employed and in what capacity?

A I'm employed by Inexco Oil Company in the capacity of area landman.

Q Have you previously testified before the Division and had your credentials accepted and made a matter of record?

A No, sir, I have not.

Q Would you summarize for Mr. Stogner your educational background and review your work experience?

A I received a business administration degree from the University of Oklahoma in 1980 and have been employed as a staff landman with Inexco Oil Company for the past five and a half years.

Prior to that, and after my graduation, I was employed as an oil and gas lease broker, working in the States of Oklahoma, Arkansas, and Texas.

Q Does your area of responsibility include that portion of New Mexico which is involved in this case?

A Yes, sir, it does.

1 Q Are you familiar with the application
2 filed in this case on behalf of Inexco?

3 A Yes, I am.

4 Q Are you familiar with the subject area?

5 A Yes, sir.

6 MR. CARR: We tender Mr. Ames
7 as an expert witness in petroleum land matters.

8 MR. STOGNER: He's so quali-
9 fied.

10 Q Mr. Ames, would you briefly state what
11 Inexco seeks with this application?

12 A Yes, sir. We seek to commit the unleased
13 mineral interests and the uncommitted working interests in
14 the southeast quarter of the northeast quarter of Section
15 14, 17 South, 27 East, down to the top of the Strawn forma-
16 tion and we seek to commit those same interests in the
17 Strawn formation in the south half of the northeast quarter
18 of Section 14.

19 Q So you want to pool acreage, being a 40-
20 acre tract, down to the top of the Strawn, which is the
21 spacing unit, to that depth and then the 80-acre unit below
22 that depth, being the south half of the southeast?

23 A South half of the northeast quarter.

24 Q Of the northeast is what you then seek to
25 pool in the Strawn formation.

1 A That's correct.

2 Q Have you prepared certain exhibits for
3 introduction in this case?

4 A Yes, sir, I have.

5 Q Would you refer to what has been marked
6 as Inexco Exhibit Number One, identify this, and first review
7 the plat on the left of this exhibit for Mr. Stogner?

8 A Yes, sir. This shows the existing pro-
9 ducing wells that Inexco now operates in the area, as well
10 as dry holes. In addition to that it shows our anticipated
11 proration unit for the subject well, as well as the location
12 for it and the total depth.

13 It also shows working interests of the
14 parties and the unleased mineral interests and as well as
15 the working interests of the surrounding units.

16 Q Now the unit we're talking about here, as
17 shown on this exhibit, is in the Strawn formation and it's
18 the south half of the northeast.

19 A Yes, sir, south half northeast quarter of
20 Section 14.

21 Q And the working interest ownership is
22 broken out in that -- within that spacing or proration unit.

23 A That is correct.

24 Q What interests in that unit have not at
25 this time voluntarily joined in the drilling of this well?

1 A There is a 2.0833 percent unleased miner-
2 al interest owned by Exxon Company, U.S.A., as well as a
3 6.25 percent working interest as yet uncommitted by Kastman
4 Oil Company. Kastman, that's K-A-S-T-M-A-N.

5 Q And the primary objective in this pro-
6 posed well will be the Strawn formation.

7 A That's correct.

8 Q What pool will that be in?

9 A That will be in the Strawn-Humble City
10 Pool.

11 Q Now, you have indicated on Exhibit One
12 the proposed location for the well.

13 A Yes, sir.

14 Q What is that proposed location?

15 A That location is 1800 feet from the north
16 line of the section and 500 feet from the east line of the
17 section, and that is unorthodox to the field rules.

18 Q And there are special pool rules for this
19 field?

20 A Yes, sir, they stipulate that the well
21 should be drilled within a radius of 150 feet from the cen-
22 ter of a governmental quarter quarter section.

23 Q How much unorthodox is the proposed loca-
24 tion?

25 A We are 10 feet too far to the east and

1 approximately 30 feet too far to the north.

2 Q By moving to this location do you gain
3 structural position?

4 A Yes, sir, we believe we do.

5 Q Will Inexco also call a geological wit-
6 ness who will present a structure map?

7 A Yes, sir, we will.

8 Q Would you now go to the righthand portion
9 of Exhibit Number One and identify that and review that for
10 Mr. Stogner?

11 A Yes, sir. This shows the -- again, a
12 breakdown of the working interest in the subject unit as
13 well as the surrounding, adjacent units.

14 It also shows producing wells now oper-
15 ated by Inexco and the working interest thereunder.

16 Q What percentage of the acreage in the 80-
17 acre unit has been voluntarily committed to the proposed
18 well?

19 A We have 91-2/3rds percent working inter-
20 est now committed.

21 Q Would you now review for Mr. Stogner the
22 efforts that Inexco has made to obtain the voluntary joinder
23 of all interest owners in this proposed spacing and prora-
24 tion unit, and in so doing, would you refer to Exhibit Num-
25 ber Two, which is contained behind the first tab in the pac-

1 ket of exhibits?

2 A Yes, sir. Exhibit Number Two shows the
3 letters we've written to Kastman Oil Company and Exxon Oil
4 Company inviting their participation by joinder, farmout, or
5 lease, in the subject unit.

6 We have spoken with each of them by tele-
7 phone subsequent to mailing the letters and are currently in
8 negotiations with them.

9 Q What is the status of the negotiations
10 with each of these oil companies?

11 A Verbally both have offered to join the
12 unit, Exxon by joining as to their working interest; Kastman
13 by offering to farmout to the unit.

14 We do not as yet have executed agreements
15 with either of the companies.

16 Q In your opinion has Inexco Oil Company
17 made a good faith effort to obtain the voluntary joinder of
18 all interest owners in this well?

19 A Yes, sir, I believe we have.

20 Q And Inexco has drilled other Strawn wells
21 in the area.

22 A That's correct.

23 Q Would you now go to what has been marked
24 as Inexco Exhibit Number Three, which is behind the second
25 tab in the packet of exhibits, and identify this exhibit,

1 please?

2 A Yes, sir, these are letters that we wrote
3 to offset operators of adjacent properties advising them
4 that we were going to be drilling the well at a nonstandard
5 location. As indicated by the exhibits, we have received
6 waivers of objection to the unorthodox location from all of
7 those parties.

8 Q And when was the waiver received from Rio
9 Pecos Corporation?

10 A It was received yesterday by telecopy.

11 Q And you have given notice to each of the
12 offsetting operators required to receive notice by Oil Com-
13 mission rules?

14 A Yes, sir, we have.

15 Q Would you now go to what has been marked
16 as Exhibit Number Five, Inexco's Exhibit Number Five, which
17 is contained in the back pocket of the packet of exhibits,
18 and just identify this, please?

19 A Yes, sir. These represent the letters
20 written to the offset operators, as well as the uncommitted
21 working interests, advising them of the date of the hearing,
22 and these were sent by certified mail, return receipt re-
23 quested.

24 Q And do we have return receipts for each
25 of these letters?

1 A Yes, sir, they are attached.

2 Q Now, Mr. Ames, would you go to what has
3 been marked Inexco Exhibit Number Four, the AFE's which are
4 behind the last tab in the packet of exhibits, and review
5 those for Mr. Stogner?

6 A Yes, sir, these represent the executed
7 AFE's of our partners now committed to our operating agree-
8 ment in the area and, as indicated by each of the copies,
9 these have been signed on behalf of all of our partners with
10 the exception of Amerada Hess Corporation, who has indicated
11 to me verbally that they are in fact going to join the well.

12 Q What are the totals on the AFE's?

13 A The dry hole cost as shown in the AFE is
14 \$686,700, with the total well cost for a completed well
15 being \$1,115,100.

16 Q Are these costs in line with what has
17 been charged for other wells in this area?

18 A Yes, sir, they are.

19 Q Mr. Ames, have you made an estimate of
20 overhead and administrative costs for the well while drill-
21 ling and also while producing the well if it is successful?

22 A Yes, we have.

23 Q And what are those figures?

24 A We are going to charge \$5000 a month for
25 a drilling well rate and \$500 a month for a producing well

1 rate.

2 Q Are these costs in line with what other
3 operators have charged in the area?

4 A Yes, sir, they are.

5 Q And what has been charged for other
6 Inexco-operated wells in the area?

7 A Yes, sir.

8 Q Do you recommend that these figures be
9 incorporated into any order which results from this hearing?

10 A I do.

11 Q Does Inexco seek to be designated opera-
12 tor of the proposed well?

13 A Yes, sir, we do.

14 Q Mr. Ames, were Exhibits One through Five
15 prepared by you or compiled under your direction and super-
16 vision?

17 A Yes, they were.

18 MR. CARR: Mr. Stogner, at this
19 time we would offer into evidence Inexco Exhibits One
20 through Five.

21 MR. STOGNER: Exhibits One
22 through Five will be admitted into evidence.

23 MR. CARR: That concludes my
24 direct examination of Mr. Ames.

25

CROSS EXAMINATION

BY MR. STOGNER:

Q Mr. Ames, what was the overhead charge again?

A \$5000 per month for a drilling well rate and \$500 a month for a producing well rate.

Q Are these charges in line with what's normally charged in this area for a well at this depth?

A Yes, sir, they are.

Q Has Inexco in any past hearing that was made in the last three years have obtained an overhead charge from this Commission of that amount?

A No, sir, I don't believe so, but these reflect our current rates as indicated to us by our accounting people.

Q Has Inexco volunteered in any other groups having overhead charges of this amount, with somebody else being the operator of the well?

A No, sir, not to my knowledge.

Q Let's go to your Exhibit Number One so I can better understand it.

Who is the operator of the proration unit offsetting to the north of this proposed well?

A Being the north half northeast quarter of Section 14?

1 Q Yes.

2 A We would be the operator under our oper-
3 ating agreement.

4 Q How about the 80 acres to the direct
5 east?

6 A Inexco is also the operator of that unit.

7 Q Okay. So I can better understand, are
8 the interest owners the same regardless of the 40 acres or
9 an 80-acre unit?

10 A Yes, sir, as to the southeast northeast
11 of 14 and southwest northeast of 14, that's true.

12 Q Okay. Who haven't you obtained?

13 A We have not yet obtained executed instru-
14 ments from Exxon Company, U.S.A., or Kastman Oil.

15 They are shown as the last two on the
16 breakout.

17 Q When was Kastman and Exxon first ap-
18 proached?

19 A The letter was written January 21st, re-
20 ceived by them January 23rd.

21 Q Has -- have you heard any -- what kind of
22 correspondence have you got back from Kastman?

23 A Only verbal, Mr. Examiner, they have in-
24 dicated to us that they are going to farmout to the unit on
25 terms that Inexco is going to recommend that we accept to

1 our partners. We do not yet have acceptance from our part-
2 ners of those terms.

3 MR. STOGNER: Okay, I have no
4 further questions of this witness.

5 Are there any other questions
6 of Mr. Ames?

7 If not, he may be excused.

8 Mr. Carr.

9 MR. CARR: At this time I'd
10 call Joel Carlisle.

11

12 JOEL CARLISLE,
13 being called as a witness and being duly sworn upon his
14 oath, testified as follows, to-wit:

15

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q Will you state your full name and place
19 or residence?

20 A Joel Carlisle, from Houston, Texas.

21 Q Mr. Carlisle, by whom are you employed?

22 A Inexco Oil Company.

23 Q And in what capacity?

24 A I'm exploration geologist for West Texas
25 and New Mexico.

1 Q Have you previously testified before this
2 Division and had your credentials as a geologist accepted
3 and made a matter of record?

4 A Yes, I have.

5 Q Are you familiar with the application
6 filed in this case on behalf of Inexco?

7 A Yes.

8 Q And have you studied the subject area?

9 A Yes.

10 MR. CARR: Are the witness'
11 qualifications acceptable?

12 MR. STOGNER: They are.

13 Q Mr. Carlisle, have you prepared certain
14 exhibits for introduction in this case?

15 A Yes, I have.

16 Q Would you please refer to what has been
17 marked for identification as Inexco Exhibit Number Six,
18 identify this, and review the information contained thereon?

19 A Exhibit Six is a structure map on top of
20 the Strawn covering the Humble City Field and the South Hum-
21 ble City Field area.

22 The purpose of this map is to show the
23 structural relationships of the wells which we have cur-
24 rently completed in the South Humble City Field, and their
25 relationships to the other wells in the immediate vicinity.

1 It also shows the relationship of the
2 proposed location, the Lea Farms No. 2, south half of the
3 northeast quarter of Section 14, and the outlined unit for
4 that well and it's relationship to the nearest producing
5 well to the east, being the Ashland No. 1.

6 Q Mr. Carlisle, by moving the well to the
7 proposed location, does Inexco gain structural advantage?

8 A Yes. We would gain structural advantage.
9 We would also, as you will -- I would draw your attention to
10 the blue outline on this map, which infers what I believe to
11 be the limits of the Strawn Reef in this local area.

12 The field is a solution gas drive field
13 and by moving up dip we will drain or protect those reserves
14 in an up dip position that would not be obtained for those
15 mineral owners in 14 if we do not drill a well there.

16 Q How many wells in this area has Inexco
17 actually drilled?

18 A We've drilled nine wells to date.

19 Q And of those nine wells how many of them
20 have been commercial successes?

21 A We have five completions, which equates
22 to 50 -- roughly a 55 percent success ratio. We've drilled
23 three dry holes, four dry holes in this area at this point.

24 Q Would you identify those, please?

25 A The first two were to the south of the

1 field, the Inexco No. 1 Pruitt in the northeast quarter of
2 23; in the northwest quarter of Section 24 was the Inexco
3 No. 1 Dougherty; over in Section 13 north of our Norris No.
4 2 Well, we drilled the Norris 3, which was also a dry hole;
5 and also north of the York No. 2 in Section 14 we drilled
6 the Lea Farms No. 1, which was a dry hole in the southwest
7 of our present location. That well missed the reef.

8 Q Now, Mr. Carlisle, there is a trace on
9 this cross section -- or structure map for a subsequent
10 cross section.

11 A Right.

12 Q Would you now refer to that cross sec-
13 tion, which is marked Inexco Exhibit Number Seven, and re-
14 view that for the examiner?

15 A All right.

16 Q This cross section, marked A-A', A' being
17 to the east and A to the west, up dip structurally, the pur-
18 pose of this cross section was to show the relationship of
19 what I expect in the Strawn through the porosity interval.

20 If you'll look in the No. 1 Ashland Well,
21 the most recent well that we completed, we show the porosity
22 on the density log and that's through the cross hatched por-
23 tion in the Strawn.

24 In the up dip well to the west, the Lea
25 Farms No. 1, we show a very small amount, only a few feet of

1 porosity existing in that well, and it was not effective;
2 the permeability was too low. The porosity was not suffi-
3 cient to make a commercial well.

4 We believe that that well was on the bare
5 fringes of the reef and that the proposed location will be
6 more centrally located to the little reef mound in the area
7 and therefore expect a well developed porosity within the
8 Strawn section.

9 Q Now, Mr. Carlisle, is it possible that a
10 well at this proposed location could miss the reef and would
11 therefore not be a commercial success?

12 A Yes, it is. As I indicated previously,
13 we have had approximately a 55 percent success ratio to this
14 point in the drilling of this field to the south; however,
15 we have, as already noted, missed the reef in several occa-
16 sions, using the same techniques and all that we're using
17 here.

18 I might add that the old field to the
19 north has experienced even greater risk in drilling where
20 there's only been about a 27 percent success ratio in the
21 drilling for the Strawn Reef in that area.

22 Q Now, Mr. Carlisle, are you prepared to
23 make a recommendation to the examiner as to the risk penalty
24 that should be assessed against any interest owner who does
25 not voluntarily participate in the well?

1 A Yes.

2 Q And what risk penalty are you recommend-
3 ing?

4 A We are recommending that we would get the
5 maximum under the regulations.

6 Q In your opinion will granting this appli-
7 cation be in the best interest of conservation, the preven-
8 tion of waste, and the protection of correlative rights?

9 A Yes, it would.

10 Q Were Exhibits Six and Seven prepared by
11 you?

12 A They were.

13 MR. CARR: At this time, Mr.
14 Stogner, we offer into evidence Inexco Exhibits Six and
15 Seven.

16 MR. STOGNER: Exhibits Six and
17 Seven will be admitted into evidence.

18 MR. CARR: That concludes my
19 direct examination of Mr. Carlisle.

20 MR. STOGNER: I have no further
21 questions of Mr Carlisle.

22 Is there any other questions of
23 this witness?

24 If not, he may be excused.

25 Anything else further in this

1 case, Mr. Carr?

2 MR. CARR: No, sir.

3 MR. STOGNER: Does anybody else
4 have anything further in Case Number 8831?

5 If not, this case will be taken
6 under advisement.

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8 (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 the foregoing Transcript of Hearing before the Oil
Conservation Division (Commission) was reported by me; that
the said transcript is a full, true, and correct record of
the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 8831.
heard by me on 19 February 1986.

Michael E. Boyd Examiner
Oil Conservation Division