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

11 May 1983

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company
for compulsory pooling, Lea County,
New Mexico.

CASE
7864

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

W. Perry Pearce, Esq.
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

Brad Berge, Esq.
CAMPBELL, BYRD, & BLACK P.A.
Jefferson Place
Santa Fe, New Mexico 87501

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I N D E X

L. J. TACCONI

Direct Examination by Mr. Berge 3

Cross Examination by Mr. Stogner 14

JOEL C. CARLISLE

Direct Examination by Mr. Berge 17

E X H I B I T S

Applicant Exhibit One, Plat 5

Applicant Exhibit Two, Brochure of letters 7

Applicant Exhibit Three, Letters 8

Applicant Exhibit Four, Structure Map 18

1
2 MR. STOGNER: Call next Case Number
3 7864.

4 MR. MILLS: Case 7864, application
5 of Inexco Oil Company for compulsory pooling, Lea County,
6 New Mexico.

7 MR. BERGE: Good morning, Mr. Exa-
8 miner. My name is Brad Berge, Campbell, Byrd, and Black,
9 Santa Fe, on behalf of the applicant.

10 I have two witnesses to be sworn.

11
12 (Witnesses sworn.)

13
14 MR. BERGE: Call first Mr. Les
15 Tacconi.

16
17 L. J. TACCONI,
18 being called as a witness and being duly sworn upon his oath,
19 testified as follows, to-wit:

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21 DIRECT EXAMINATION

22 BY MR. BERGE:

23 Q. May I proceed, Mr. Examiner?

24 MR. STOGNER: Please.

25 Q. Would you state your name and place of

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residence?

A. My name is Leslie J. Tacconi and I live at 85 Crystal Lake Lane, The Woodlands, Texas.

Q. By whom are you employed, Mr. Tacconi?

A. Inexco Oil Company as an area landman.

Q. Have you previously testified before this Commission?

A. Yes, several times.

Q. How were you qualified at that time?

A. As a landman.

Q. Are you familiar with the application which has been filed on behalf of Inexco?

A. Yes, I am.

Q. Are you familiar with the subject area?

A. Yes, I am.

MR. BERGE: Mr. Examiner, are the witness' qualifications acceptable?

MR. STOGNER: They are.

MR. BERGE: Thank you.

Q. Mr. Tacconi, would you briefly state what Inexco seeks in this application?

A. Inexco seeks an order pooling all the mineral interests in the Strawn formation underlying the west half southwest quarter of Section 13, Township 17 South, Range 37

1
2 East, Lea County, New Mexico, to be dedicated to a well
3 drilled at an unorthodox location 1650 feet from the south
4 line, 330 feet from the west line of Section 13.

5 We would also like to be considered the
6 cost of drilling and completing the well, the allocation of
7 the cost thereof as actual operating costs and charges for
8 supervision, the designation of Inexco Oil Company as operator
9 of the well, and a charge for the risk factor involved in
10 drilling of said well.

11 Q Thank you, sir. Have you prepared certain
12 exhibits for this case?

13 A Yes. Not all the exhibits were prepared
14 by me but most of them under my direction.

15 Q Would you refer first to Exhibit One?

16 A Okay, Exhibit One is a plat of the South
17 Humble City Strawn Pool, showing the proposed 80-acre prora-
18 tion unit.

19 Q Okay.

20 A And the ownership, the south half of 13 is
21 also shown on that plat.

22 Q Does it show the proposed well?

23 A Yes, it shows the proposed well, the pro-
24 posed total depth of 11,800 feet, and the footage location
25 from the west and the south lines of the section, and it shows

1
2 the ownership of the surrounding or abutting proration units.

3 Q. What's the primary objective in this well?

4 A. The primary objective is 11,800 feet, or the
5 Strawn formation.

6 Q. Would you tell the Examiner what percentage
7 of the acreage in this spacing unit has been voluntarily com-
8 mitted?

9 A. Okay. Now, as is shown in the south half
10 of 13, we show some unleased mineral interests there, Kirby
11 and Tenneco.

12 Kirby has committed to a lease since this
13 exhibit was prepared.

14 Tenneco has committed to either join or
15 lease.

16 And so the percentage committed is 66, appro-
17 ximately 66.6 percent of the mineral interests.

18 Q. Would you summarize for the Examiner the
19 efforts which have been made by Inexco to obtain joinder of
20 all working and mineral interest owners in the proposed unit?

21 A. Okay. This well is the fourth in a series
22 of wells that we have drilled in the area, beginning with the
23 Lottie York No. 1.

24 It was originally proposed well -- well,
25 more than a year ago, and then as our drilling in the area

1
2 either proved successful or unsuccessful, it was either
3 tabled or put off, and finally, then we re-proposed the well
4 again this year to all the parties as a serious effort on our
5 part to develop the South Humble City Strawn Pool.

6 There are quite a few of the owners, as you
7 can see under that plat, covered by various unleased mineral
8 interests, that we have hired private detectives to go through
9 Social Security records; there are states that range from
10 New York City, New Jersey, all the way to the State of Cali-
11 fornia, and people that we're attempting to locate. We have
12 names but we don't have current addresses, and we're trying
13 to contact everyone possible in attempting to lease or of-
14 fering them participation in the well. And this has been an
15 ongoing thing for, oh, at least six months on our part.

16 Q Would you refer next to Exhibit Two and
17 identify it?

18 A Okay. Exhibit Two is a brochure that shows
19 several different types of letters, beginning in April, where
20 we contacted the various owners.

21 Now, one of the letters is the type that
22 just proposed the drilling of the well and offered for the
23 owners either to join in the drilling, and that an AFE and
24 operating agreement would be furnished to them at a later date,
25 or offered to grant them a lease for a quarter royalty and a

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one year term.

We also showed that -- that we were going to force pool those owners that we couldn't locate or we were unsuccessful in striking a trade with.

The other type letter had an AFE in it and as you can see, we'll get into that later in the testimony, and those were basically to people who were covered by our operating agreement that covers for such an area.

Then there were other letters sent out by Mac Ames of our office under my direction that advised the owners of our unorthodox location and another type of letter sent out under my signature that advised of the unorthodox location and also to the last known addresses of those people that we show as various unleased mineral interests to either join in the drilling of the well or to grant a lease on the south half of Section 13.

Q. Would you turn next to Exhibit Three and identify that exhibit?

A. Okay. Exhibit Three are letters that were written by our attorneys, Campbell, Byrd, and Black, regarding forced pooling. They did not notify Tenneco, inasmuch as In-exco had notified Tenneco and had ongoing telephone conversations with Tenneco -- excuse me, Texaco -- inasmuch as we had ongoing negotiations with Texaco, who owns 22-1/2 percent

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2 under the wellsite. As of yet we have been unable to strike
3 a trade with Texaco. We feel that by the time the well is
4 spudded we will have. They have been notified as late as
5 May 9th of this hearing and the fact of our unorthodox loca-
6 tion and the fact that we intended to force pool the proration
7 unit.

8 Did you need me to spell the landman's name
9 for Texaco with whom I was in contact? It's Terry, T-E-R-R-Y,
10 Luttrell, L-U-T-T-R-E-L-L.

11 Q Thank you. Referring again to Exhibit Two,
12 would you state to the Examiner to whom the AFE's were -- or
13 the AFE's contained in the exhibit were mailed?

14 A Okay, the AFE's that are shown in the ex-
15 hibit were, of course, circulated in-house to Inexco; Texaco
16 was advised by our letter, and then subsequently given a copy
17 of our AFE under separate cover.

18 Amerada Hess, under their AH-1980 Program,
19 Inc.; David Petroleum; Colin R. McMillan; and Fred Schlicher
20 were also supplied with AFE's.

21 With the exception of Texaco, the afore-
22 mentioned companies and individuals are working interest
23 owners under a joint operating agreement.

24 Q Are they all of the working interest owners
25 with the exception of Texaco?

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A. Yes.

Q. Would you state why the interest in the AFE does not coincide with those set out in Exhibit One?

A. Okay. When the AFE was originally prepared, we hadn't really finished title curative, and as we were going into the title, a lease that we thought we had that purported to cover an undivided one-eighth mineral interest, actually covered an undivided one-sixteenth. The other one-sixteenth was owned by Houston Royalty, which became Houston Oil and Minerals Company, which is now under the auspices of Tenneco, and as of Monday, we have struck a trade with Tenneco.

So that one-sixteenth is not reflected in the interest shown on the AFE, but it -- we did revise the ownership on our plat to reflect what we feel the current ownership is.

Q. And that's the plat that's been previously identified as Exhibit One?

A. Yes, sir.

Q. Okay. What does the AFE show to be the total cost for a completed well?

A. Okay. It shows the total well costs at \$1,137,950; the dry hole costs at \$690,950.

Q. Are these costs in line with what's being charged by other operators in the area?

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2 A. Yes. We feel, since this is our fourth
3 well in the area, this is an adequate representation for the
4 a well of that type.

5 Q. Have you had -- now speaking with respect
6 to the other four holes that you've drilled, have you had to
7 pool interest in each of those spacing units?

8 A. Yes. As, referring back to that original
9 plat, Inexco drilled the Lottie --

10 Q. Excuse me, the plat is again Exhibit One?

11 A. The Exhibit One.

12 Q. Thank you.

13 A. Inexco originally drilled the Lottie York
14 No. 1, and that's located in the east half southeast quarter
15 of Section 14, and that's a producing oil well.

16 Our second venture into the area was the
17 Daughtry in the northwest northwest of 24, and that was a dry
18 hole.

19 And then we drilled the Pruiett in the west
20 half northeast of 23 and we were forced into a situation to
21 pool the interest of Exxon. Exxon voluntarily joined and
22 prepaid prior to the commencement of the well all charges for
23 a dry hole and we eventually drilled a dry hole.

24 Then we came back to the Commission for an
25 unorthodox location for our Lottie York No. 2 Well in the

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west half southeast of Section 14, and the Norris now is our fifth attempt in the area; two dry holes and so far two producing wells.

Q. I note that Exhibit Two also contains letters about an unorthodox location. Can you tell us what responses you received from that?

A. The response has been very poor; it's been lack of response. All the interest owners under the operating agreement have responded in the affirmative.

Sabine, who is an unleased mineral interest owner, has concurred with the unorthodox location and waived.

Tenneco verbally has given me that and Exxon has given consent to the unorthodox location.

The Moore heirs said that their interest was so small that they neither opposed it or were in favor of it and they reserved the right to judgment until after this hearing.

And that's all we've heard from, unless some of our responses have been sent directly to the Commission here.

Q. Mr. Tacconi, have you made an estimate of the overhead and administrative costs while drilling this well -- this well, and also while producing if successful?

A. Our standard rates for the area are \$3600

1
2 a month for a drilling well; \$400 per month for a producing
3 well, and that's the -- what the adjusted COPAS would be un-
4 der our existing operating agreement.

5 We find that in negotiations with other
6 companies for similar depth wells, that our drilling rates
7 are either right at their drilling rates or lower, and that
8 our producing rates are normally lower than other operators.

9 Q Okay. Do you recommend that these figures
10 be incorporated into any order --

11 A Yes, I do.

12 Q -- which may result -- okay. Does Inexco
13 seek to designate -- seek to be designated operator of the
14 proposed well?

15 A Yes, we do.

16 Q Referring again to Exhibits One through
17 Three, were they prepared by you or can you testify as to
18 their accuracy?

19 A They were either prepared by me or under
20 my direction.

21 Q Thank you, Mr. Tacconi.

22 MR. BERGE: That's all the questions
23 of this witness.

24 We would move the admission of Ex-
25 hibits One through Three.

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2 MR. MILLS: Would Mr. Tacconi testi-
3 fy to their accuracy? He didn't really respond to that.

4 A. Yes.

5 MR. MILLS: Thank you.

6 MR. STOGNER: Applicant's Exhibits
7 One through Three will be admitted --

8 A. May I qualify that? As amended by my testi-
9 mony, because the AFE, I did in testimony say was in error.

10 MR. MILLS: Yes, thank you.

11 MR. BERGE: Call Joel Carlisle,
12 please.

13 MR. STOGNER: Excuse me.

14
15 CROSS EXAMINATION

16 BY MR. STOGNER:

17 Q. Mr. Tacconi.

18 A. Yes, sir.

19 Q. Before you step down I need some questions
20 here.

21 Let's go back to Exhibit Number One. I'd
22 like --

23 A. Okay.

24 Q. -- for the record to get some things
25 straight on the -- how many of the interest owners have agreed

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to -- to the pooling here.

A. Okay, Texaco has not.

Q. Texaco has not.

A. Kirby has. The first four, the working interest owners as shown there have.

Q. Okay.

A. Either verbally or by signed AFE.

Q. All right.

A. Texaco has not, and I think we will strike a trade within the next fifteen days.

Kirby has agreed to lease.

Sabine has not committed one way or the other yet.

Rebel Oil is owned by Ellie Speer out of Hobbs and she hasn't answered any of our correspondence. The last time I talked to her on the phone she said she had cata-racts and she doesn't even read her mail.

Q. All right.

A. Okay? Tenneco has agreed in principle to either join or lease.

Now the various mineral interests that we show, we are trying to strike trades with either their heirs, successors, or assigns as we find them.

What happened with some of this interest,

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2 some of the people disappeared as far back as 1935, and they're
3 out of Oklahoma City, and we're attempting to establish
4 their heirships by private investigators. That would be,
5 like, a Roach interest, and May Lee, and there are other in-
6 terests that the estates have been probated in New York, and
7 we're trying to attempt to follow the succession so we can
8 figure out where the mineral interest ownership is.

9 Some of these interests are, like, you know,
10 four zeros and a one in decimal interests, in a -- like,
11 thirty fourteen sixtieths of one thirty-second, and we've been
12 working six months in trying to establish what the ownership
13 is. We have an idea of what it was a year ago record title-
14 wise, but so many of these people have died.

15 In the succession of that small interest
16 there was a royalty company that went bankrupt in the thirties
17 and to satisfy their investors, they gave an undivided interest
18 to this property to, it was like thirty-five people, and then
19 the successions go from there.

20 And at this point in time when -- when the
21 division was made, many of these people were in their fifties
22 and sixties, so the title to a real small interest of less
23 than three percent, or about three percent, is just one that
24 we're going to have to dig out as we go along, and we've con-
25 tacted trust banks in San Angelo. We've contacted banks in

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2 Dallas, and what our policy is now, that if it's less than
3 one net acre, we're giving them \$75.00 to sign a lease and a
4 3/16ths lease, and we're taking leases at that, with a maximum
5 of 1/4 royalty.

6 If it's in excess of one acre, if we ever
7 find the succession to two people that we know own two undi-
8 vided acres each, then it will be \$100 per acre and a quarter
9 royalty for each net mineral acre they own.

10 Q Thank you, Mr. Tacconi.

11 MR. STOGNER: Any further questions
12 of this witness? If not, he may be excused.

13 MR. BERGE: Thank you, Mr. Examiner.
14 Call Joel Carlisle, please.

15
16 JOEL C. CARLISLE,
17 being called as a witness and being duly sworn upon his oath,
18 testified as follows, to-wit:

19
20 DIRECT EXAMINATION

21 BY MR. BERGE:

22 Q Would you state your name and place of resi-
23 dence, please?

24 A Joel Carlisle. I live at 101 Prince of
25 Wales, Conroe, Texas.

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Q. By whom are you employed and in what capacity?

A. Employed by Inexco Oil Company as a geologist.

Q. Have you previously testified before this Commission or one of its examiners?

A. Yes, I have.

Q. Were you qualified at that time?

A. Yes, I was qualified as a geologist.

Q. Are you familiar with the application which has been filed by Inexco in this case?

A. Yes, I am.

Q. Are you familiar with the subject area?

A. Yes.

MR. BERGE: Mr. Examiner, are the witness' qualifications acceptable?

MR. STOGNER: He is.

MR. BERGE: Thank you.

Q. Have you made a study, Mr. Carlisle, of this area?

A. Yes, I have.

Q. Would you refer to what's been marked as Exhibit Four and identify it, please, and tell us what it shows?

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2 A. Exhibit Four is a structure map on top of
3 the Strawn, showing the structural attitude encountered in
4 the area in the various wells drilled to date. This map was
5 submitted in the February hearing and has since been revised
6 to reflect the new data acquired through drilling of the In-
7 exco Lottie York No. 2.

8 Q. Does this exhibit show the reason for the
9 unorthodox location?

10 A. Yes, it does. As you will note, the pro-
11 posed location will be structurally low, based on our inter-
12 pretation of the geology of the area, to both the Lottie York
13 No. 1 and the Lottie York No. 2.

14 Q. Okay. Mr. Carlisle, does the quality of
15 the Strawn reservoir vary greatly throughout the subject area?

16 A. Yes, it does. It's highly variable where
17 you encounter the porosity and the amount of porosity that
18 you encounter in any one given well.

19 Q. Are you prepared to make a recommendation
20 to the Examiner as to the risk penalty that should be assessed
21 against nonconsenting working interest owners or mineral in-
22 terest owners in this spacing unit?

23 A. Yes, I am. I believe it should be the max-
24 imum 200 percent.

25 Q. What's the basis for this recommendation?

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2 A. This is based on the variations of the
3 quality of the reservoir within the area and, again, calling
4 your attention back to the map, you will note in our immediate
5 area of interest we have drilled two dry holes, neither of
6 which encountered any porosity or reservoir quality rock.

7 As you look at the general area and to the
8 Humble City Field proper to the north, again you will note
9 the numerous wells that have been drilled, of which only five
10 were completed as Strawn producers.

11 Q. Is the 200 percent also consistent with
12 that risk penalty provided for in the operating agreement?

13 A. Yes, I feel that it is justified.

14 Q. Do you believe there's a chance to drill a
15 dry hole or a noncommercial well at this location?

16 A. Yes, I do. This can be supported again by
17 variations of reservoir quality in the area and looking at
18 our Daughtry and the Pruiett, both of which were offsets,
19 direct offsets to our discovery, both being dry holes and
20 having no porosity whatsoever developed, and combining that
21 with the data we've obtained from Lottie York 2, we feel
22 definitely there is a substantial degree of risk.

23 Q. Mr. Carlisle, in your opinion will the
24 granting of this application be in the best interest of con-
25 servation, the prevention of waste, and the protection of

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correlative rights?

A. I do. We feel that by granting this location we will reduce to some degree the risk involved in drilling an additional hole while the development of the South Humble City Field Pool, and also improve the drainage of the reservoir itself.

Q. Was Exhibit Four prepared by you?

A. Yes, it was.

Q. Thank you, Mr. Carlisle.

MR. BERGE: I have no other questions.

We move the admission of Exhibit Four.

MR. STOGNER: Exhibit Four will be admitted into evidence.

I have no questions of Mr. Carlisle. Does anybody have any questions of this witness? If not, he may be excused.

MR. BERGE: Thank you, Mr. Examiner. That concludes our presentation.

MR. STOGNER: Case Number 7864 will be taken under advisement.

(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 Conservation Division 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. 7864, heard by me on May 11 1983.
Michael E. Steiner, Examiner
Oil Conservation Division

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