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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9934

EXAMINER HEARING

IN THE MATTER OF:

Application of Amerind Oil Company Limited
Partnership for Compulsory Pooling, Lea County,
New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

May 2, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE DIVISION:

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E X H I B I T S

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* * *

1 WHEREUPON, the following proceedings were had
2 at 2:10 p.m.:

3 EXAMINER CATANACH: At this time we'll recall
4 Case 9934.

5 MR. STOVALL: Application of Amerind Oil
6 Company Limited Partnership for compulsory pooling and
7 an unorthodox oil well location, Lea County, New
8 Mexico.

9 EXAMINER CATANACH: Appearances in this case?

10 MR. CARR: May it please the Examiner, my
11 name is William F. Carr with the law firm Campbell and
12 Black, P.A., of Santa Fe.

13 I represent Amerind Oil Company, and I have
14 two witnesses.

15 I would like the record to reflect that the
16 two witnesses testified in the previous hearing, that
17 they remain under oath and are qualified to testify as
18 a landman and a petroleum engineer, respectively.

19 MR. STOVALL: Mr. Examiner, I'd like to ask
20 Mr. Seltzer a question, mostly out of interest and
21 curiosity, more than anything.

22 Mr. Seltzer, are you a member of the AAPL?

23 MR. SELTZER: Yes.

24 MR. STOVALL: Okay, are you a Certified
25 Petroleum Landman?

1 MR. SELTZER: Yes.

2 MR. STOVALL: Okay. I just couldn't remember
3 from your past qualifications.

4 MR. SELTZER: Yes, I'm also a member of the
5 State Bar of Texas too.

6 (Off the record)

7 EXAMINER CATANACH: The record should so
8 reflect that the witnesses have previously been sworn
9 in and qualified.

10 BILL SELTZER,
11 the witness herein, having been previously duly sworn
12 upon his oath, was examined and testified as follows:

13 EXAMINATION

14 BY MR. CARR:

15 Q. Mr. Seltzer, would you briefly state what
16 Amerind seeks with this Application?

17 A. Amerind seeks an order pooling all the
18 interests from the surface to the base of the Strawn
19 Formation in the east half of the southwest quarter of
20 Section 35, Township 16 South, Range 37 East, Lea
21 County, New Mexico.

22 Q. Have you prepared certain exhibits for
23 presentation in this hearing?

24 A. Yes, we have.

25 Q. Would you refer to what has been marked as

1 Amerind Exhibit Number 1, identify the exhibit, and
2 review it for the examiner?

3 A. Exhibit Number 1 is a land plat showing the
4 proration unit which we are dedicating to this proposed
5 test, being the east half of the southwest quarter of
6 Section 35, Township 16 South, Range 37 East, and the
7 adjacent acreage and ownership around same.

8 Q. Would you now refer to what has been marked
9 as Amerind Exhibit Number 2?

10 A. Exhibit Number 2 is the form C-102 which is
11 the permit to drill.

12 Q. And does it show the exact footage location
13 for the proposed well?

14 A. Yes.

15 Q. And is that an unorthodox location?

16 A. This is an unorthodox location.

17 Q. What is the primary objective in the proposed
18 well?

19 A. To test the Strawn Formation.

20 Q. Would you now refer to Exhibit Number 3 and
21 identify that and review it for Mr. Catanach?

22 A. This is a list of the owners of the leasehold
23 interest in this proration unit, it being the east half
24 of the southwest quarter, together with one mineral
25 owner who is unleased and has not responded to my

1 inquiry as to purchase an oil gas lease, join or farm
2 out, who keeps saying, I'm going to call you back, but
3 he never does.

4 Q. And --

5 A. That is Mr. -- That's Pat Alson Ward. The
6 rest of the interests in there are leasehold
7 interests -- and let me add here -- that were acquired
8 back in the 1970's from the -- Oh, what was that unit?
9 This pool right here, right beside this thing. It's
10 the Strawn Mesa put together. What was that? Casey
11 Strawn.

12 These interests here were under an operating
13 agreement: Conoco; Tom Brown; H.L. Brown, Jr.; his
14 mother, Elizabeth M. Brown; and Oryx, which was Sun at
15 the time.

16 If you'll notice, I have put the interest in
17 percentages, and then I said down at the bottom, if
18 Oryx elects to join and pay their proportion of part of
19 the proposed test well.

20 Let me explain. Originally, in the drilling
21 of the discovery well, or one of the wells in this
22 area, in Section 34, Sun had a mineral interest. And
23 they made a deal with Mesa at the time, who is now
24 Conoco, which they purchased Mesa's interest, to farm
25 out their interest, delivering a 75 percent NRI until

1 payout, come back for one-half interest at payout.

2 On subsequent wells, Sun had the option to
3 increase their royalty to 30 percent or join and pay
4 their proportionate part of their one-half interest,
5 which they retained. That's why I have those stars by
6 each one of those percentages at the right-hand side,
7 right-hand column.

8 At this time, Sun has been advised of this,
9 and you guys come along, didn't know it, and I advised
10 them of it, but they have not made an election either
11 to join or farm out.

12 Q. Mr. Seltzer, is the ownership as reflected on
13 Exhibit Number 3 consistent with the record title
14 owners in the county records of Lea County, New Mexico?

15 A. These are record title owners.

16 Q. Would you now refer to what has been marked
17 as Exhibit Number 4, identify that and review it for
18 the Examiner?

19 A. This is an AFE for the drilling of the
20 proposed test well.

21 Q. What are the dryhole and completed well costs
22 as reflected on this exhibit?

23 A. The dryhole is \$345,000. For a completed
24 well at two hundred and -- For completion costs at
25 \$290,000, or a total of \$635,000 for a completed well.

1 Q. In your position as a petroleum landman, have
2 you become familiar with the costs that are charged by
3 other operators for similar wells in the area?

4 A. Yes.

5 Q. Are the figures on this AFE in line with the
6 costs charged by other operators?

7 A. These figures are in line with the costs of
8 other operators.

9 Q. Could you summarize for the Examiner the
10 efforts that you have made to obtain the voluntary
11 joinder of all working-interest owners and the mineral-
12 interest owners in this proposed well? And in so
13 doing, you may want to refer to what is marked as
14 Amerind Exhibit Number 5, a set of letters that have
15 been sent to these owners.

16 A. Along with these certified letters that I
17 sent to each individual owner, return receipt
18 requested, I have talked to each one of these parties
19 personally, requesting them to join or farm out and pay
20 their proportionate cost in this test well.

21 Q. In your opinion, have you made a good-faith
22 effort to locate all owners and obtain their voluntary
23 participation in this project?

24 A. Yes, I have.

25 Q. Would you identify what is -- has been marked

1 as Amerind Exhibit Number 6, please?

2 A. This is an affidavit by Mr. Carr where he
3 gave notice of the hearing of this case.

4 Q. And attached to that, are there -- is there a
5 copy -- are there copies of the letters to those
6 interest owners?

7 A. Yes.

8 Q. At the back of this exhibit, is there also a
9 waiver that has been executed by Conoco?

10 A. Yes, sir, there's a waiver in there where
11 Conoco waived any objection to this unorthodox
12 location.

13 Q. And where is Conoco's ownership in
14 relationship to the proposed unorthodox location?

15 A. If you'll notice, this case was heard
16 previous in the -- in this hearing, and I forget the
17 case number, but it -- their proposed location of
18 Conoco's proration unit would have been the south half
19 of the northwest quarter of Section 35.

20 Q. Does Conoco also own the tract due west of
21 the proposed spacing unit?

22 A. Conoco and these parties cited here own the
23 same thing.

24 Q. And is the unorthodox location unorthodox by
25 being too close to the western boundary of the

1 proration unit?

2 A. Right.

3 Q. Have you made an estimate of overhead and
4 administrative costs to be incurred while drilling and
5 while producing this well if in fact it is a successful
6 well?

7 A. Yes.

8 Q. And what are those figures?

9 A. \$5000 per month for drilling well, \$500 per
10 month for a producing well.

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

13 A. Yes, it is.

14 Q. And do you recommend that these figures be
15 incorporated into the Order which results from today's
16 hearing?

17 A. I do.

18 Q. Does Amerind Oil Company Limited Partnership
19 seek to be designated operator of the proposed well?

20 A. Yes.

21 Q. Were Exhibits 1 through 6 either prepared by
22 you or compiled at your direction?

23 A. Yes.

24 MR. CARR: At this time, Mr. Catanach, we
25 move the admission of Amerind Exhibits 1 through 6.

1 EXAMINER CATANACH: Exhibits 1 through 6 will
2 be admitted as evidence.

3 MR. CARR: That concludes my direct
4 examination.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Seltzer, when were the -- According to
8 Exhibit Number 5, the various interest owners were
9 advised of your intentions initially on March 20th; is
10 that correct? By letter dated March 20th?

11 A. I think that's right.

12 Q. Had you previously had any verbal
13 communication with any of these parties?

14 A. I advised Conoco that we were going to drill
15 a -- proposed to drill a well in there.

16 They advised us that they were going to drill
17 one in that area too.

18 Q. Subsequently, you or your attorney sent
19 letters out dated April 10th where you advised them
20 that you were going to force-pool them. It gives the
21 parties about 20 days to make an election. Do you feel
22 that's enough time for an individual or a company to
23 make a decision on whether they're going to join in the
24 well?

25 A. Yes. In fact, these parties have called me.

1 Tom Brown called me and said, We're going to join. But
2 he hasn't signed an AFE.

3 I said, Tom, where's the AFE? And he said,
4 Well, I'll get around to it.

5 Sonny Brown's office -- That's H.L. Brown --
6 they're waiting on Sun to make an answer, make a
7 decision. Sun says, We haven't got time right now;
8 we'll get to it.

9 Conoco, Mike Boney called. I've had about
10 three conversations with him. And the last was, he
11 wanted me to call him back Monday. I called him back
12 Monday, he hadn't returned my call. He said that he
13 wanted to farm out.

14 And I said, That's fine, Mike, we'll accept
15 it.

16 Well, I don't have anything.

17 Q. None of the interest owners have communicated
18 to you that they did not have enough time to --

19 A. No, no.

20 MR. STOVALL: Except for Oryx, correct?

21 THE WITNESS: Well, Oryx -- I had to tell
22 them what they owned. They didn't know they owned it.

23 Q. (By Examiner Catanach) Mr. Seltzer, the AFE
24 that you've submitted as evidence in this case, is this
25 more or less in line with the one that you previously

1 submitted, in the previous case?

2 A. Yes, sir.

3 Q. No substantial differences?

4 A. No, there isn't.

5 EXAMINER CATANACH: I have no further
6 questions. The witness may be excused.

7 MR. CARR: At this time, we'd call Mr.
8 Leibrock.

9 ROBERT C. LEIBROCK,

10 the witness herein, having been previously duly sworn
11 upon his oath, was examined and testified as follows:

12 EXAMINATION

13 BY MR. CARR:

14 Q. Mr. Leibrock, did you prepare exhibits to be
15 presented in this hearing?

16 A. Yes, I have.

17 Q. And is that what has been marked as Amerind
18 Exhibit Number 7?

19 A. Yes.

20 Q. Before we get into the details of that
21 exhibit, let me ask you if you're familiar with the
22 rules that are -- that apply to this subject pool?

23 A. Yes.

24 Q. Are there special pool rules in effect?

25 A. Yes.

1 Q. And what are the well-location requirements
2 as set forth in those rules?

3 A. The rules require that a well be located
4 within a 150-foot radius of the center of any 40-acre
5 unit.

6 Q. And this well is located too close to the
7 westernmost boundary of the dedicated acreage; is that
8 correct?

9 A. Yes, and it's also north of -- farther north
10 than the 150-foot allowance.

11 Q. All right. At this time would you refer to
12 what has been marked as Amerind Exhibit Number 7,
13 identify this and then review the information on that
14 exhibit for the Examiner.

15 A. Exhibit Number 7, on the left-hand side,
16 shows an isopach of the Strawn limestone, and in the
17 middle two cross-sections which I will refer to in a
18 moment, and then on the right-hand side with a Strawn
19 structure map contoured on top of the Strawn lime.

20 The structure map on the right-hand side
21 shows certain closed contours. However, as I've
22 testified earlier, we consider these stratigraphic
23 traps with porosity pinching out updip, which is
24 generally to the west.

25 And then on the left-hand end, the isopach

1 map shows that the prospect area should have a total
2 Strawn lime thickness of about 200 or slightly more
3 feet, which we think is needed for good reservoir
4 development in this area.

5 Now, if I can refer first to the south-north
6 cross-section, which begins on the south with the
7 Amerind State "2" Number 1 going through the Chevron
8 Holt and the Mesa Alcorn and our proposed location in
9 the center there, and I'd like to use this to
10 demonstrate the risk involved in drilling a Strawn well
11 in the area.

12 You'll notice that both the -- Or, you won't
13 notice; I'm telling you that both the Strawn 2 and the
14 Chevron Holt drilled on seismic anomalies, and both
15 have about the same Strawn lime thickness and
16 structural position.

17 But the reservoir sizes differ greatly. The
18 Amerind State "2" has already been plugged after
19 producing not quite 27,000 barrels of oil, whereas the
20 Hold has produced over 106,000 barrels in a year's time
21 and is still making the allowable, whereas, you know,
22 from our seismic interpretation we would not have
23 predicted anything like that kind of difference.

24 So certainly there's risk from that
25 standpoint, and we're assuming that our location, while

1 showing a seismic anomaly, we cannot directly predict
2 what the size of the reservoir may be.

3 Now, the east-west cross-section, beginning
4 on the west with the Mesa Petroleum Number 1 Knowles,
5 going through the Conoco West Knowles Number 11, both
6 of these were referred to this morning by Conoco in
7 Case 9912.

8 And then going east and terminating with the
9 Inexco Shipp Number 1, I've indicated there in green
10 shading where the reservoir exists in the Conoco West
11 Knowles Number 11, and this is an interesting well from
12 several standpoints. It has about some of the best
13 total Strawn lime thickness and some of the best
14 porosity development of any well in the area.

15 But the well was completed and has produced
16 mostly water. So it's anomalous in the sense of
17 producing at a high water cut, whereas in structural
18 position it should be in a favorable structural
19 position.

20 In that regard, the Amerind State "2" and the
21 Chevron Holt I referred to a moment ago, neither of
22 those made any water, any formation water at all.

23 So in addition to the risk of -- the risk
24 inherent in seismic interpretation, there's some risk
25 here, some substantial risk involved in the reservoir

1 fluid and what may be encountered there.

2 And I think that's the main things I have to
3 say on that.

4 Q. Could you summarize just briefly for the
5 Examiner the reason that you are proposing to move this
6 well approximately 80 feet --

7 A. Right.

8 Q. -- from a standard location to the proposed
9 unorthodox location?

10 A. The testimony presented by Tom Sheline this
11 morning and Conoco on the Case 9912, I would agree
12 almost verbatim with the testimony he gave regarding
13 the importance of well location in this area.

14 And while an orthodox location should
15 certainly be within the reservoir, we think we should
16 put it in the best possible location, considering all
17 factors here, and we think in that regard, in our
18 judgment the best location is the one that we have
19 selected.

20 Q. If the well was drilled at this proposed
21 unorthodox location, do you believe you will maximize
22 your chances to obtain a good well in developing this
23 property?

24 A. Yes.

25 Q. And by placing it at this particular

1 location, will you be able to most efficiently and
2 effectively produce the reserves that are underlying
3 this tract?

4 A. We think so.

5 Q. What percentage penalty would you recommend
6 be imposed upon those interest owners who did not
7 voluntarily join in the drilling of this well?

8 A. Two hundred percent.

9 Q. And in your opinion, based on the technical
10 data that you have and your experience in the area, is
11 it still possible that you could drill a well at this
12 location that would not be a commercial success?

13 A. Definitely.

14 Q. Was Exhibit Number 7 prepared by you?

15 A. Yes.

16 MR. CARR: At this time, Mr. Catanach, we
17 move the admission of Amerind Exhibit Number 7.

18 EXAMINER CATANACH: Exhibit Number 7 will be
19 admitted as evidence.

20 MR. CARR: That concludes my direct
21 examination of Mr. Leibrock.

22 MR. STOVALL: Mr. Carr, if I might ask, Mr.
23 Leibrock has referred a couple of times to the Conoco
24 case this morning, and --

25 MR. CARR: Yes.

1 MR. STOVALL: -- I think Mr. Seltzer did as
2 well. Would it be advisable to incorporate that record
3 into this case?

4 MR. CARR: At this time, Mr. Stovall, we
5 would move that the record made in Case 9912 be
6 incorporated into the record of this proceeding.

7 And we should note in that regard, it
8 involves a proposed well that is immediately
9 offsetting, and the testimony in that is consistent
10 with but provides information in addition to that,
11 which has been provided today by Amerind.

12 EXAMINER CATANACH: The record in Case -- Was
13 it 9912?

14 MR. CARR: 9912.

15 EXAMINER CATANACH: -- will be incorporated
16 into this case.

17 MR. CARR: That concludes my direct
18 examination of this witness.

19 EXAMINATION

20 BY EXAMINER CATANACH:

21 Q. Mr. Leibrock, this particular structure that
22 you're drilling in this 80-acre unit, that was
23 determined from seismic information?

24 A. Primarily, although as you can see, there's
25 quite a bit of subsurface control too.

1 Q. Uh-huh. Now, encroaching 80 feet to the
2 west, do you feel that you have that structure mapped
3 that specifically --

4 A. Yes, we --

5 Q. -- that you need to move 80 feet to the west?

6 A. Yes, we do. I grant you, that's not very
7 much, and there's probably other uncertainties here
8 that we're not aware of. But in our experience in the
9 area and using all the data available, we think that
10 that's the most prudent location.

11 Q. Has Amerind's experience also been that it's
12 best to drill in the center of these structures?

13 A. Yes, in general. This one just happens to
14 fall more or less symmetrically with the 80-acre unit.
15 That's not usually our experience. This one just
16 turned out that way.

17 Q. So the reason you're moving more toward the
18 west is what, basically?

19 A. Well, basically the seismic interpretation,
20 that we think moving -- If we were to leave it in the
21 orthodox location to the east, that there would be more
22 risk there, in our opinion.

23 I might say, if we were trying to crowd a
24 lease line, we would have moved it even farther west,
25 as Conoco moved their West Knowles Number 12 location

1 much closer to a lease line -- or to a proration unit
2 line than we are

3 Q. But in terms of moving it a distance of 80
4 feet, do you expect to encounter -- what? Greater
5 porosity by moving to the west there?

6 A. Yes.

7 EXAMINER CATANACH: That's all the questions
8 I have of the witness. You may be excused.

9 MR. CARR: We have nothing further in this
10 case.

11 EXAMINER CATANACH: There being nothing
12 further in this case, Case 9934 will be taken under
13 advisement.

14 (Thereupon, these proceedings were concluded
15 at 2:33 p.m.)

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