

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 Amerind Oil Com-
pany for compulsory pooling and
an unorthodox location, Lea County,
New Mexico.

CASE
8403

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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State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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BILL SELTZER

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ROBERT LEIBROCK

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3 MR. QUINTANA: We'll call next
4 Case 8403.

5 MR. TAYLOR: Application of
6 Amerind Oil Company for compulsory pooling and an unorthodox
7 location.

8 MR. BRUCE: Mr. Examiner, my
9 name is Jim Bruce from the Hinkle Law Firm in Santa Fe, re-
10 presenting the applicant and I have two witnesses to be
11 sworn.

12 MR. QUINTANA: Are there other
13 appearances in Case 8403?

14 If not, may the witnesses in
15 this case stand and raise your right hands, please?

16 (Witnesses sworn.)

17 BILL SELTZER,
18 being called as a witness and being duly sworn upon his
19 oath, testified as follows, to-wit:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q Would you please state your name, city of
23 residence, occupation, and relationship to the applicant?

24 A My name is Bill Seltzer. I live in Mid-
25 land, Texas, where I am an independent landman and I am a

land consultant for Amerind Oil Company.

Q And have you previously testified before the OCD and had your qualifications as a petroleum landman made a matter of record?

A Yes.

Q Are you familiar with Amerind's application in connection with this case and with the land ownership matters relating thereto?

A Yes.

MR. BRUCE: Mr. Examiner, is the witness considered qualified?

MR. QUINTANA: The witness is considered qualified.

Q Mr. Seltzer, would you please state for the record what Amerind seeks in this case?

A Amerind seeks an order pooling all the mineral interest and approving an unorthodox well location in the Pennsylvanian formation underlying the south half, the northwest quarter, Section 28, Township 16 South, Range 37 East.

Amerind also seeks consideration of the cost of drilling and completing the well; allocations of costs of the well; the actual operating cost, charges for supervision.

Also, Amerind seeks to be designated as operator and is to be allocated a cost for the risk involved in drilling the well.

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2 Q Would you please now refer to Exhibit
3 Number One and explain this to the Examiner?

4 A Exhibit Number One is a plat showing a 4-
5 section area with wells in that area noted on the plat as
6 well as the proposed well located in the south half of the
7 northwest quarter of this Section 28.

8 Please note that Amerind is also the
9 operator of the unit in the north half of the south -- of
10 the northwest quarter of 28 and controls the bulk of the ac-
11 reage in the northeast quarter of Section 28.

12 Q In your position as land consultant for
13 Amerind, are you advised as to Amerind's plans for the drill-
14 ing of the well in the area embraced in this application?

15 A Yes. Amerind proposes to drill a well in
16 the south half of the northwest quarter of this Section 28
17 at an unorthodox location to approximate depth of 11,600
18 feet in order to test the Pennsylvanian formation.

19 The well will be within the Northeast
20 Lovington Pennsylvanian Pool, which requires 80-acre spac-
21 ing.

22 Mr. Leibrock will testify further for the
23 reasoning of seeking this unorthodox location.

24 Q Mr. Seltzer, the Spate No. 2 Well could
25 conceivably be drilled at an orthodox location if the north-
west quarter of Section 28 was drilled on the basis of
stand-up units. Why is this not possible at this time?

A This is because the north half of the

1
2 northwest quarter of Section 8 was force pooled as a lay-
3 down unit by the ODC under Orders No. 7681 and R-7681-A, and
4 Amerind would be forced to pool the new stand-up units.

5 Since the No. 1 Spate Well in the north
6 half of the northwest quarter of 28 is a good producing
7 well, we believe this is not practical for Amerind to revise
8 the unit.

9 Q In other words, Amerind would have to go
10 through the whole process again.

11 A That's correct.

12 Q Would you please now refer to Exhibit
13 Number Two and describe what acreage control Amerind has in
14 this spacing unit?

15 A Amerind Number Two is a list of the
16 mineral owners, the leasehold owners, and the interest of
17 the parties as I have set out in the percentage for drilling
18 these wells.

19 Q And it shows who has joined and who has
20 not joined --

21 A It shows that --

22 Q -- in the unit.

23 A I just might go down the list here.

24 Amerind has 82.8136 percent.

25 Black Bear Oil and Gas Corporation has
joined, has 3.125 percent.

J. H. VanZant II has joined; has .78125
percent.

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2 The other parties that are shown there,
3 Sohio, with 9.375; J. R. McGinley, Jr., J. R. McGinley, R.
4 A. McGinley, Cleroy, Inc., Lanroy, Inc., and Dorothy Jean
5 VanZant Sanders, have refused to answer to my invitation to
6 join and drill this proposed location.

7 Q And would you briefly discuss on a party
8 by party basis how you -- your dealings with Sohio and the
9 other parties?

10 A On October the 30th I forwarded to Sohio,
11 McGinley's group, Cleroy and Lanroy group, an AFE, operating
12 agreement, and requested them to join us in drilling this
13 proposed location.

14 On October the 24th Mrs. Sanders advised
15 me that she did not desire to lease but send her an AFE and
16 she would advise me whether or not she would like to join in
17 drilling this well.

18 On the 24th I forwarded her an AFE and
19 asked her to join or give us a lease, as she had done so in
20 the north half of the northwest quarter, and as yet I have
21 not heard from any of these parties.

22 Q So in short, even though all these par-
23 ties are locatable, they just refuse to answer your request.

24 A They have refused to answer my request to
25 join.

Q Thank you. Would you please now refer to
what is marked as Exhibit Number Three and describe that for
the Examiner?

1 A Exhibit Number Three is an AFE for this
2 -- this No. 2 Well, and estimated costs for the completed
3 producing well is \$720,000.

4 Q And does Amerind wish to be named as
5 operator of the proposed well?

6 A Yes.

7 Q Do you have a recommendation as to the
8 charge for risk involved which should be granted to Amerind
9 for drilling this well?

10 A Yes, I recommend the maximum allowed by
11 New Mexico statute, which I understand is 200 percent.

12 Q And is that amount in line with noncon-
13 sent provisions in joint operating agreements currently
14 being used in this area?

15 A Yes, it is in line with all those agree-
16 ments.

17 Q And is the proposed expense of the wells
18 reflected on Exhibit Three in line with expenses normally
19 expected in drilling wells to this depth in this area?

20 A Yes. Those proposed expenses are well in
21 line with the cost of other wells drilled to this depth in
22 the general area.

23 Q Do you have a recommendation as to the
24 amount which should be paid for supervision and administra-
25 tive expenses?

26 A Yes. It is my recommendation that \$4000
per month be allowed for a drilling well and \$400 per month

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be allowed for a producing well.

This is the amount stated in the accounting procedure, which is marked Exhibit Four.

Q And are the amounts in Exhibit Four, which you have just recommended, in line with amounts normally charged by Amerind and other operators for wells of this type in this area?

A Yes, these fall directly in line with the amounts normally called for in the joint operating agreements covering wells of this type in this general area.

These are the same charges used by Amerind for its other wells in the Northeast Lovington Pennsylvanian Pool.

Q In your opinion will the granting of this application be in the interest of conservation, the prevention of waste, and the protection of correlative rights?

A Yes.

Q Were Exhibits One through Four prepared by you or under your direction?

A Exhibits One, Two, and Four were prepared by me and Exhibit Three was prepared by Mr. Bob Leibrock, Vice President of Amerind.

Q All right.

MR. BRUCE: At this time, Mr. Examiner, I move the admission of Exhibits One through Four.

MR. QUINTANA: Exhibits One through Four will be admitted into evidence.

MR. BRUCE: I have no further questions of this witness.

CROSS EXAMINATION

BY MR. TAYLOR:

Q Do you have any copies of the correspondence, especially relating to giving them notice of this hearing?

A Yes, I have it.

Q Do you have copies of it?

A We can make copies of it.

MR. BRUCE: I could make copies and deliver them to you later today.

MR. QUINTANA: I have another question, Mr. Seltzer.

A Yes.

Q Excuse me, also, if those were certified copies?

A Yes, they were certified.

Q Copies of that on the back? All right.

CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Seltzer, you recommended a 200 percent penalty after payout of the well. On what do you base that?

A That is in line with the other compulsory

1 poolings that we did on the unit right north of it, and then
2 we did the same thing on the two units right north of that
3 in Section 21, where we had unknown mineral owners.

4 Q Is there some geologic or engineering
5 reason why you would suggest the maximum penalty?

6 MR. BRUCE: Mr. -- our next
7 witness will testify also on that.

8 MR. QUINTANA: All right.

9 Are there further questions of
10 Mr. Seltzer?

11 If not, Mr. Seltzer, you may be
12 excused.

13 A Thank you.

14 ROBERT LEIBROCK,
15 being called as a witness and being duly sworn upon his
16 oath, testified as follows, to-wit:

17
18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q Would you please state your name and city
21 of residence?

22 A My name is Robert C. Leibrock. I live in
23 Midland, Texas.

24 Q And what is your occupation?

25 A I'm Vice President, responsible for ex-
ploration and field development for Amerind Oil Company.

1 I'm one of the principal owners of the company.

2 Q And have you previously testified before
3 the New Mexico OCD as a geologist?

4 A No, I have not.

5 Q Would you please give a summary of your
6 educational and work background?

7 A I have an engineering degree from the
8 University of Texas at Austin. I have four years experience
9 with Amerind Oil Company in geology, exploration, reservoir
10 engineering, field development and production.

11 I have worked primarily in the Permian
12 Basin of West Texas and southeast New Mexico, as well as the
13 Williston Basin of North Dakota and Montana, and also have
14 some experience in the Gulf Coast area.

15 My experience is primarily with carbonate
16 reservoirs, such as the type that we're dealing with this
17 morning.

18 I'm a member of the Society of Petroleum
19 Engineers and the West Texas Geological Society.

20 Q Are you familiar with Case 8403 and the
21 geological matters involved therein?

22 A Yes.

23 MR. BRUCE: Mr. Examiner, is
24 the witness qualified to testify as a geologist on behalf of
25 the applicant?

MR. QUINTANA: Mr. -- is it
Leibrock?

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A Yes.

MR. QUINTANA: Mr. Leibrock,
what was your engineering degree in?

A It was mechanical engineering.

MR. QUINTANA: What year was
that, please?

A 1970.

MR. QUINTANA: Do you have ex-
perience with some large majors of some type.

A No, I have not.

MR. QUINTANA: Most of your ex-
perience has been just with Amerind?

A Yes, sir.

MR. QUINTANA: Actual field ex-
perience working in the field dealing with every day things?

A Right, yes, all phases of the business.

MR. QUINTANA: Mr. Leibrock is
considered as an expert witness in matters of petroleum en-
gineering.

Q Mr. Leibrock, would you please describe
Exhibit Five for the Examiner?

A Exhibit Five is a Form C-102 showing the
proposed unorthodox location and also the nearest orthodox
location.

The proposed location is 1980 feet from
the north line, 1350 feet -- excuse me, 1980 from the west
line, 1350 from the north line.

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2 The proration unit is the south half of
3 the northwest quarter of Section 28.

4 Q Will you please explain the reason for
5 seeking this unorthodox location and in connection therewith
6 will you please describe Exhibit Number Six?

7 A Exhibit Six is a structure map covering
8 Township 16 South, Range 37 East, contoured on top of the
9 Lower Strawn Lime.

10 By way of background, the Strawn reser-
11 voirs in this trend, which includes the Northeast Lovington
12 Penn Field and the Casey Strawn Field, are algal ridges or
13 mounds with highly unpredictable porosity development.

14 The trapping mechanism is attributable
15 primarily to the porosity pinchout up-dip to the southwest.
16 Although porosity development is unpredictable, it does ap-
17 pear to be associated to some extent with the development of
18 structural nosing, which may be considered indicative of the
19 presence of these mounds or ridges.

20 An example of this may be seen in several
21 producing areas on this map in Sections 18, 20, and 34. You
22 can see the nosing associated with the producing area.

23 Amerind has drilled four producing wells
24 in the Northeast Lovington Penn Field, three in Section 21,
25 and most recently the Spate No. 1 Well in the northwest of
the northwest of Section 28.

Before we drilled the Spate No. 1 the
proration units were set up as laydown eighties, as shown on

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2 both exhibits. At that time our plan was to drill the No. 2
3 Well to the south of the No. 1 Well, however, the No. 1 Well
4 came in some 36 feet higher on top of the Lower Strawn Lime
5 than we had projected.

6 In one respect we considered this to be
7 encouraging in that it supports the presence of a nose in
8 the north half of Section 28, and as we have contoured it on
9 this map.

10 On the other hand, we do not think it is
11 advisable to drill too far up dip on a nose. This can be
12 supported by the Cities Service dry hole in the northeast of
13 the northeast of Section 30 and the Texaco Carter dry hole
14 in Section 33, both of which are just up dip to good reser-
15 voirs.

16 For these reasons we think the orthodox
17 location to the south of the Spate No. 1 is undesirable and
18 even the orthodox location 1980 from the west line and 1980
19 from the north line of 28, we consider to be subject to more
20 risk than a prudent operator would consider appropriate be-
21 cause it would require a longer step out from the known pro-
22 ducing well than the proposed location.

23 Now, if we had anticipated in advance the
24 structural position of the No. 1 Well, we would have estab-
25 lished the proration units as stand-up eighties. This would
26 have permitted the drilling of the No. 2 Well at an orthodox
27 location in the northeast of the northwest of 28.

28 Since it is not practical to change the

1
2 proration units at this time for reasons pointed out by Mr.
3 Seltzer, we think that the proposed unorthodox location is
4 the only reasonable solution.

5 Q Do you have a recommendation as to the
6 charge for risk involved that should be granted to Amerind
7 for drilling this well?

8 A Yes, I recommend 200 percent.

9 Q And what is that based upon?

10 A Although we think this is a good loca-
11 tion, there is a considerable element of risk in drilling at
12 this location.

13 Q In your opinion will the granting of this
14 application be in the interest of conservation and the pre-
15 vention of waste and prevent the drilling of unnecessary
16 wells?

17 A Yes.

18 Q Were Exhibits Five and Six prepared by
19 you?

20 A Yes.

21 MR. BRUCE: Mr. Examiner, at
22 this time I move the admission of Exhibits Five and Six.

23 MR. QUINTANA: Exhibits Five
24 and Six will be admitted into evidence.

25 MR. BRUCE: I have no further
questions of this witness.

CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Leibrock, would you please reiterate your reasons for asking for the 200 percent penalty?

A We, from the history of the development of this area, due to the highly unpredictable nature of the -- of encountering the porosity in the Pennsylvanian formation, we think that this -- this is definitely a justifiable amount.

Q Do you have good faith in the contouring that was exhibited on this map?

A Yes, we do. As I pointed out, we did come in higher on the No. 1 Well than we expected but there is considerable well control in the area and so we do have good faith in the way this is contoured.

Q The dry holes that exist in the southwest south -- in the southeast of the proposed well, to what depth were they drilled? Were they drilled to the same -- same proposed depth as your Well No. 2?

A Yes, same formation.

Q Did these wells exhibit some type of porosity pinchout or --

A The -- you're referring specifically to the well in 29 or --

Q Yes, the wells in 29 and the lower half of 28, over the ridge.

A Yes. The two wells in -- the two dry

1
2 holes in 29 had essentially zero porosity and we figure this
3 is primarily due to being too far up dip or too far south-
4 west on this map.

5 Also, in Section 28 this was true of the
6 Yates Burton and the Shell Homestake Well, which we feel
7 more than likely are on the -- on the south side of this
8 presumed nose here.

9 MR. QUINTANA: Are there fur-
10 ther questions of the witness?

11 If not, Mr. Leibrock will be
12 excused.

13 Is there any further in Case
14 8403?

15 If not, the case will be taken
16 under advisement.

17 (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. 8403 heard by me on Nov. 14 1984.
William P. Puntano Examiner
Oil Conservation Division