

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 20 July 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Inexco Oil Company, a CASE
10 wholly owned subsidiary of the Louis- 9434
11 iana Land and Exploration Company, for
12 compulsory pooling, Lea County, New
13 Mexico.

14 BEFORE: Michael E. Stogner, Examiner

15 TRANSCRIPT OF HEARING

16 A P P E A R A N C E S

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1 MR. STOGNER: We'll call next
2 Case Number 9434.

3 MR. STOVALL: The application
4 of Inexco Oil Company, a wholly owned subsidiary of The
5 Louisiana Land and Exploration Company, for compulsory
6 pooling, Lea County, New Mexico.

7 MR. STOGNER: Call for appear-
8 ances.

9 MR. BRUCE: Mr. Examiner, my
10 name is Jim Bruce from the Hinkle Law Firm representing
11 Inexco Oil Company in this matter.

12 MR. CARR: May it please the
13 Examiner, my name is William F. Carr, with the law firm
14 Campbell & Black, P. A., of Santa Fe. I represent Amerind
15 Oil Company and I have one witness to present some very
16 brief testimony.

17 MR. STOVALL: Will all witnes-
18 ses rise and be sworn at this time?

19
20 (Witnesses sworn.)

21
22 MR. STOGNER: Please continue,
23 Mr. Bruce.

24
25

1 PAUL F. NIELSEN,

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

4
5 DIRECT EXAMINATION

6 BY MR. BRUCE:

7 Q Would you please state your full name
8 and city of residence, please?

9 A I'm Paul F. Nielsen. Last name is spel-
10 led N-I-E-L-S-E-N. Initial F, yes. Houston, Texas.

11 Q And what is your occupation and who are
12 you employed by?

13 A I'm a petroleum landman. My title is
14 Staff Landman for LL&E, The Louisiana Land & Exploration
15 Company. I might also say that I perform the same duties
16 for Inexco Oil Company, which is a wholly owned subsidiary
17 of LL&E.

18 Q Have you previously testified before the
19 OCD?

20 A No.

21 Q Would you briefly state your educational
22 and employment history?

23 A I have a BA, 1970, in political science,
24 University of Houston; a JD in 1972, University of Texas at
25 Austin. I'm a member of the State Bar of Texas since 1973.

1 I'm also a Certified Petroleum Landman
2 under the AAPL program.

3 I began work for Exxon Land Department
4 in 1973 and worked there until 1982 handling Offshore
5 United States and various duties of onshore Texas.

6 Since 1982 I've worked for LL&E in Hous-
7 ton, working Offshore Gulf of Mexico and coast of Texas,
8 Eastern New Mexico recently.

9 Q And are you familiar with the land
10 matters involved in this case?

11 A Yes, I am.

12 MR. BRUCE: Mr. Examiner, are
13 the witness' credentials acceptable?

14 MR. STOGNER: Mr. Nielsen's
15 qualifications are so accepted.

16 Q Mr. Nielsen, would you state what Inexco
17 seeks in this application?

18 A Inexco is seeking an order pooling all
19 mineral interests from the surface to the base of the
20 Strawn formation underlying the west half of the southeast
21 quarter of Section 35, Township 16 South, Range 37 East,
22 Lea County, New Mexico, to form a standard 80-acre spacing
23 and proration unit for any and all formations and pools
24 developed on 80-acre spacing within the wells vertical
25 range, and also including all acreage underlying the south-

1 west quarter of the southeast quarter of that Section 35,
2 to form a standard 40-acre spacing and proration unit for
3 any or all formations or pools developed on 40-acre spacing
4 within the well's vertical limits. Both units are to be
5 dedicated to a well to be drilled at a standard location.

6 I might say that the well name is the
7 Inexco Oil Company Shipp, S-H-I-P-P, No. 1 and I would like
8 to add, too, that we have recently received approval of our
9 drilling permit for that well.

10 I'd also like to say that we are pro-
11 ceeding on the basis of this being subject to the Shipp
12 Strawn Pool rules. You'll notice that the OCD has recently
13 moved to put the southeast quarter of Section 35 within
14 those rules but we notice we're within a mile of several
15 fields and the rules are basically the same for the Strawn.

16 Inexco also requests consideration of
17 the costs of drilling and completing the well and alloca-
18 tion of costs for it, as well as actual operating costs and
19 charges for supervision.

20 Inexco is asking that it be designated
21 as operator of the well and that a reasonable charge for
22 the risk involved in drilling the well be assessed.

23 Q Would you please now refer to Exhibit
24 One and describe its contents?

25 A Exhibit One is just a land plat of the

1 area that's involved in this application. There are a
2 couple of colors on there. In yellow is outlined the 160-
3 acre drillsite tract that we've performed title work on.
4 The eastern half of that 160 is the standup 80 that we're
5 looking at and that 80 acres is in in green, in the green
6 outline.

7 As we mentioned, the well was going to
8 be a standard location for both 40 and 80-acre units in
9 here. The 40-acre unit, incidentally, would be the south-
10 east quarter of that 160, which would be the southwest
11 quarter of the southeast quarter of Section 35.

12 I have the exact location of the well
13 and it does appear on the AFE, but if you'd like I could
14 read that into the record.

15 The Inexco Shipp No. 1 location we have
16 is 1850 feet from the east line and 600 feet from the south
17 line of said Section 35.

18 Q Who are the working interest owners in
19 the west half southeast quarter of Section 35?

20 A We have an original title opinion and we
21 have some curative outstanding but we're assured that the
22 ownership will not change and we have contacted the follow-
23 ing parties as the working interest owners: Mesa Operating
24 Limited Partnership, Amerind Oil Company, Sun Exploration
25 and Production Company, Standard Oil Production Company,

1 which is also sometimes referred to as SOHIO, Tom Brown,
2 Inc., H. L. Brown, Jr., and Elizabeth M. Brown.

3 Some of these parties we have been able
4 to deal with in the meanwhile and might drop out. Tom
5 Brown, Inc., after we signed this application in the
6 meanwhile has signed our operating agreement and AFE and so
7 they will not be subject to the order.

8 I'd also say that Sun has confirmed that
9 they are the party in interest even though their lease is
10 in the record in the name of W. Wesley Perry, a lease
11 broker.

12 Amerind has done likewise as to their
13 lease in the name of Bill Seltzer.

14 Q So basically you seek to force pool at
15 this time everybody except Tom Brown, Inc.?

16 A That is correct, although we will be
17 trading, perhaps, with some of the other parties so that
18 eventually they will not be subject to the order.

19 Q Would you please describe your efforts
20 to get these interest owners to join in the well?

21 A Yes. I've made notes on my brief chron-
22 ology.

23 On May 20th, 1988, we over my signature
24 mailed out a letter to all the working interest parties
25 that I've mentioned after contacting them to make sure who

1 the right party representative was.

2 We sent that out certified mail, return
3 receipt requested and we did receive an indication that all
4 were received.

5 Our AFE, incidentally was submitted with
6 that letter. That AFE is going to be introduced as Exhibit
7 Two today.

8 And also we sent out a joint operating
9 agreement with that covering the 160 acres that are outlin-
10 ed in yellow on Exhibit One.

11 By June 8th, 1988, I had called all the
12 parties involved and talked to most of them and at least
13 left a return call to follow up on our original proposal.

14 By June 21st, '88, Mesa had made an of-
15 fer to sell Inexco the borehole rights, as they call it,
16 for the proposed well for \$90,000.

17 We looked at their offer in detail. We
18 rejected that as unsatisfactory on June 23rd, 1988. We were
19 not able to enter into our usual farmout or a purchase of
20 Mesa's leases, so that this action will apply against Mesa.

21 On June 22nd, 1988, I sent out a letter
22 to all the working interest parties indicating that -- that
23 due to our timing for drilling the well we had to push for-
24 ward and go to a forced pooling hearing on July 20th, 1988,
25 and asked for their written replies as soon as possible.

1 On June 23rd, 1988, Amerind responded by
2 indicating they wanted to farmout to Inexco but not on the
3 terms that we'd originally proposed. Those terms were to
4 allow Amerind to reserve an overriding royalty in the dif-
5 ference between 25 percent and the royalty burdens conver-
6 tible at pay out to a 30 percent back in working interest.
7 They had indicated they wanted 40 percent working interest.
8 We looked at that and Inexco felt it was unreasonable and
9 we rejected that proposal on June 29th, 1988.

10 On June 24th, 1988, Inexco had an offer
11 from Standard Oil, or SOHIO, to sell Inexco its two leases.
12 Inexco accepted that offer on June 29th, 1988. We have
13 left Standard subject to this action because that transac-
14 tion has not been completed; however, it is expected to be
15 completed, so Inexco would acquire the two leases from
16 Standard.

17 On July 6th, 1988, as I mentioned be-
18 fore, Tom Brown, Inc., has executed our operating agreement
19 and AFE so they will be dropping out of this action.

20 And on July 12th, 1988, I heard by tele-
21 phone from Sun that Sun would be participating. Sun has
22 signed our AFE but has not executed the operating agree-
23 ment. I don't believe they have any problem with the terms.
24 I believe they just want to see what interest everybody is
25 going to have. So they've been left subject to action.

1 July 18th, 1988, H. L. Brown, Jr., and
2 Elizabeth Brown, their representative indicated that they
3 would like to farm out to Inexco and on the terms that In-
4 exco has proposed in its offer to the parties. That matter
5 has -- is still pending, hasn't been disposed of, and so
6 formally they're left subject to the action.

7 In summary, I'll state that it's my
8 opinion that Inexco has made every reasonable effort to in-
9 clude all parties within this as participating parties, and
10 also has made quite an effort to include them as -- by
11 trade other than participation.

12 Q Thank you. At this time how much, as a
13 percentage, how much of the acreage in the west half south-
14 east quarter of Section 35 does Inexco own or control?

15 A When we brought this action we had a
16 76.875 percent working interest under our leases. When we
17 complete the purchase of SOHIO's, or Standard's, two
18 leases, that will bring us up to 79.79167 percent working
19 interest. I've indicated that H. L. Brown, Jr., and Eliza-
20 beth Brown, desire to farmout; if that matter is concluded,
21 that would bring our interest up to 80.45833 percent work-
22 ing interest.

23 Q Would you please refer to Exhibit Number
24 Two and discuss the cost of the proposed well?

25 A Exhibit Number Two is Inexco's AFE,

1 which I mentioned was sent out with our May 20th, 1988,
2 offer to the parties to participate. In summary, the esti-
3 mated cost per AFE of \$493,000 for a dry hole and \$780,100
4 for a completed well.

5 Q Is the proposed well cost in line with
6 those normally encountered in drilling wells of this depth
7 in Lea County?

8 A Yes, it is.

9 Q And do you have a recommendation as to
10 the amount which Inexco should be paid for supervision and
11 administrative expenses?

12 A Yes. Our recommendation is that \$4,250
13 per month be allowed for the drilling well overhead rate
14 and that \$425 per month be allowed for a producing well
15 rate.

16 Q And are these amounts that you have just
17 recommended in line with amounts normally charged by Inexco
18 and other operators for wells of this type?

19 A Yes, they are. My research indicates
20 that they are in line or actually perhaps lower than in
21 other agreements and actually I have also looked at the
22 Ernst and Whinney survey of overhead rates, and they appear
23 to be under both the mean and average rates looking at
24 their survey, the last one I have, 1987 survey.

25 Q And what type of operating agreement

1 is Inexco proposing for this well, and I refer you to Exhi-
2 bit Number Three?

3 A Yes. Exhibit Number Three is the com-
4 plete letter I sent out to which the AFE and operating
5 agreement were attached. The operating agreement itself is
6 only the AAPL Form 16-1982. That's Form 16-1982, Model
7 Form Operating Agreement. It does then have some modifica-
8 tions that are usual and have been accepted with no problem
9 on projects that I've worked.

10 I would say, also, regarding this exhi-
11 bit, a couple things have been marked on there. I have
12 marked, they're not of substance, but I've marked from LL&E
13 and shown that the well is going to be styled Inexco Oil
14 Company rather than LL&E Shipp No. 1, and also there was a
15 minor correction of a telephone number that was in error on
16 that Exhibit A.

17 Q Thank you, Mr. Nielsen. What penalty do
18 you recommend against nonconsenting interest owners?

19 A We recommend the penalty of 200 percent
20 in addition to recovery of actual costs.

21 This is a figure that -- that we find is
22 typical in operating agreements for this part of New Mex-
23 ico. We also have a second witness today, our geologist,
24 who will discuss the reasonableness of the penalty.

25 Q And were Exhibits One through Three pre

1 pared by you or compiled from company records?

2 A Yes, they were.

3 Q And in your opinion will this -- will
4 the granting of this application be in the interest of con-
5 servation, the prevention of waste, and the protection of
6 correlative rights?

7 A Yes.

8 MR. BRUCE: Mr. Examiner, at
9 this time I move the admission of Exhibits One through
10 Three.

11 MR. STOGNER: Are there any
12 objections?

13 MR. CARR: No objection.

14 MR. STOGNER: Exhibits One
15 through Three will be admitted into evidence at this time.

16 MR. BRUCE: And, Mr. Examiner,
17 at this time I would also move the admission of Exhibit
18 Number Four, which is my affidavit regarding mailing of no-
19 tification of the hearing to all working interest owners.

20 MR. CARR: And we have no ob-
21 jection.

22 MR. STOGNER: Exhibit Number
23 Four will be admitted into evidence at this time.

24 Mr. Carr, your witness.

25

1 CROSS EXAMINATION

2 BY MR. CARR:

3 Q Mr. Nielsen, as I understand it, it is
4 your duty and responsibility to identify the interest own-
5 ers in the acreage to be pooled.

6 A That is correct.

7 Q It is also your responsibility to at-
8 tempt to obtain voluntary joinder from these interests.

9 A That's correct.

10 Q When did you start actually working on
11 this prospect?12 A I was assigned this prospect in, prob-
13 ably in early May of '88.14 Q Other than the offer to farm-in with 30
15 -- or farmout of a 30 percent back-in, the counter proposal
16 from Amerind, has there been any other negotiation on your
17 part with Amerind concerning their participation in this
18 well?19 A Well, as far as -- I believe that is it.
20 We made our offer to all parties and not just to Amerind to
21 farmout. That was the alternative proposal and they came
22 back with, as I recall, just the only difference being 40
23 percent instead of 30.24 Q What was the basis for the 30 percent
25 back-in proposal or offer, do you know?

1 A Yes. Actually there was some discussion
2 in-house and I was quizzed on the fact of why it should be
3 30 instead of 25. I was given the impression that 25 might
4 be a more usual deal. I made it 30, or I suggested to man-
5 agement that it be 30 simply because Amerind had made a
6 prior proposal to the parties in this area by letter dated
7 May 2nd, 1988, in which they indicated that they were will-
8 ing to give the other parties basically the same deal, in
9 other words, reserved override difference between the quar-
10 ter for 25 percent of the burdens and converted that to a
11 30 percent payout at -- 30 percent working interest at pay-
12 out.

13 And so basically what I wanted to do in
14 making our offer is to say, well, look, we'll give every-
15 body the same offer that another party proposing this same
16 well has done, so I got management approval for that, and
17 made that offer not only to -- to Amerind but to all the
18 parties.

19 Q Do you have any lease expirations in the
20 area that put you on a tight timeframe in terms of going
21 forward with this?

22 A Are you talking about all the leases or
23 just ours?

24 Q Is there any lease expiring in the spac-
25 ing unit which causes you to be on a fast time track to get

1 this done?

2 A Not like the first of next month or a
3 month or two. I would have to review all those leases. I
4 do have all those leases here but we have set this up to
5 drill, say to spud by mid-August, even considering the ef-
6 fect of the hearing and notice procedure, and if we do so,
7 then there's no -- no problem.

8 Q Why was the mid-August date selected?

9 A We had wanted to drill it earlier in the
10 year than that, just for our own budgetary reasons but it
11 was not because of any imminent expiration; however, with
12 leases expiring all the time, it does allow you more time
13 to drill. You notice we have more acreage than just the
14 stand-up 80. We have another 80 to take care of.

15 Q And that is the 80 acres immediately to
16 the west that was originally included in the proposal?

17 A That is correct. The proposal that I
18 mentioned, of course, did cover the entire 160 and not just
19 this stand-up 80 that is the subject of this hearing.

20 Q Is the ownership identical in that other
21 80?

22 A Yes. Our attorney's title opinion indi-
23 cates that it's uniform across there. Some of the leases
24 involve more acreage than the 160, but within the 160 it's
25 uniform (unclear).

1 MR. CARR: That's all.

2 MR. STOGNER: I have no fur-
3 ther questions of this witness.

4 Are there any other questions
5 of Mr. Nielsen? He may be excused.

6 Mr. Bruce?

7 MR. BRUCE: Call Mr. Caughey
8 as a witness.

9
10 CHARLES A. CAUGHEY,
11 being called as witness and being duly sworn upon his oath,
12 testified as follows, to-wit:

13
14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q Mr. Caughey, would you please state your
17 full name and city of residence?

18 A My name is Charles A. Caughey, and I
19 re-side in Spring, Texas, a suburb of the city of Houston.

20 Q And what is your occupation and who are
21 you employed by?

22 A I'm a exploration geologist employed by
23 Louisiana Land and Exploration Company.

24 Q And have you previously testified before
25 the OCD as a geologist and had your credentials accepted as

1 a matter of record?

2 A Yes, I have, sir.

3 Q And are you familiar with the geology in
4 Case Number 9434?

5 A Yes, I am.

6 MR. BRUCE: Mr. Examiner, are
7 the witness' credentials acceptable?

8 MR. STOGNER: Are there any
9 objections?

10 MR. CARR: No. objection.

11 MR. STOGNER: Mr. Caughey is
12 so qualified.

13 Q Mr. Caughey, would you please refer to
14 Exhibit Number Five and describe its contents for the Exa-
15 miner?

16 A Exhibit Number Five is a structure map
17 on the top of the Strawn Lime. It's on a scale of an inch
18 to 1000 feet. It covers the overall area that we're talk-
19 ing about.

20 Located in the center part of the map is
21 a yellow square labeled prospect outline, which is the same
22 160-acre block that was outlined on I believe it was Exhi-
23 bit One.

24 On this map Strawn penetrations are
25 shown with a circle and I call to your attention that there

1 are shallower wells in here that were removed so that the
2 map would not be so cluttered, and the depth (unclear) on
3 the top of the Strawn is prominently labeled beside each of
4 these, and underlined.

5 This is an area of quite active drilling
6 and in some cases LNR is shown as a label. That means log
7 not released, information not available to me.

8 The overall configuration of the map
9 shows the top of the Strawn Lime and this appears as an un-
10 derlaying surface with a number of noses and -- (unclear)
11 in between them. The base of this unit, however, is rela-
12 tively flat and dips gently to the east. The difference
13 between that and the noses and the synclines shown here are
14 variations in the thickness of the Strawn Lime which varies
15 from thicknesses on the order of 250 or more feet to thin
16 areas in the synclines of about 150 feet. The thick areas
17 are porous and productive. The thin areas are tight and
18 nonproductive and we can see, then, a rough coincidence of
19 the production, and I call to your attention Casey Field in
20 the lower part of Section 34 and the south part of the
21 overlying section in the northwest corner of the map, where
22 distribution of production more or less coincides with the
23 structural nose itself.

24 Moving to the south you can see the same
25 overall relationship in Shipp Field itself in the southern

1 part of Section 34 and the northern part of Section 3
2 with the broad nose, with a number of producing wells shown
3 here by the green dots. Now, the dots that are shown with
4 no color are dry in the Strawn, and although there are --
5 some of these are also up on the nose, as I called to your
6 attention, these -- the production itself is confined to
7 the nose area, to the thick Strawn areas.

8 So in the vicinity of our prospect and
9 the vicinity of the square yellow box, you can see that we
10 interpret a structural nosing and we feel like that is per-
11 fected for the Strawn based on the structural information
12 shown here.

13 In addition to that, you'll see a very
14 tight grid of seismic lines across there and and we use
15 seismic to a great extent in upgrading prospects and sel-
16 ecting locations.

17 I'd like to call to your attention two
18 things. One, that even though the nosing is the area where
19 we do find production, we're looking at secondary porosity
20 and it is not uniform, and so we can find offset wells that
21 are dry and this is a significant hazard in this area. If
22 you'll count the well spots on this map you'll notice that
23 there are 19 completed wells in the Strawn and 22 Strawn
24 failures. So there is a significant dry hole hazard in
25 here, number one, in picking the structural optimum places

1 to begin with and number two, even within those broad
2 noses.

3 The second hazard that I would call to
4 your attention is even a greater financial hazard, and that
5 is in some cases Strawn production is found in some very
6 poor quality. I can speak from experience about the Yates
7 No. 1 Burton AER Well shown in the southern part of Section
8 26, which directly overrides Section 35 here. Shown as a
9 green dot, the well was drilled in October of last year;
10 was brought under production this year and it's new enough
11 so that production data is not available; however, the
12 production is on the general order of about three barrels
13 of oil and six barrels of salt water a day; a financial
14 disaster.

15 And so we have a situation where we have
16 a significant dry hole hazard and even in the event that
17 production is found, in some cases it is not economic pro-
18 duction.

19 Q And do you have a recommendation as to a
20 penalty which should be assessed against nonconsenting
21 interest owners?

22 A My recommendation is that a penalty of
23 200 percent in addition to the cost of the well be
24 assessed.

25 Q And was Exhibit Five prepared by you?

1 A Yes, It was.

2 Q And in your opinion is the granting of
3 this application in the interest of conservation, the pre-
4 vention of waste, and the protection of correlative rights?

5 A Yes, it is.

6 MR. BRUCE: Mr. Examiner, at
7 this time I move the admission of Exhibit Five.

8 MR. STOGNER: Exhibit Number
9 Five will be admitted into evidence at this time, if there
10 are no objections.

11 MR. CARR: There are no ob-
12 jections.

13 MR. STOGNER: Mr. Carr, your
14 witness.

15 MR. CARR: I have no questions
16 at this time.

17 MR. STOGNER: I have no
18 questions of this witness.

19 Are there any questions of Mr.
20 Caughey?

21 He may be excused.

22 Mr. Carr?

23 MR. CARR: At this time we
24 call Mr. Leibrock.

25

1 ROBERT C. LEIBROCK,
2 being called as a witness and being duly sworn upon his
3 oath, testified as follows, to-wit:

4

5

CROSS EXAMINATION

6

BY MR. CARR:

7

Q Will you state your full name, please?

8

A My name is Robert C. Leibrock.

9

Q Mr. Leibrock, where do you reside?

10

A I reside in Midland, Texas.

11

Q By whom are you employed and in what

12

capacity?

13

A With Amerind Oil Company as a Vice Pres-

14

ident and petroleum engineer.

15

Q Have you previously testified before the

16

Division and had your credentials as a petroleum engineer

17

accepted and made a matter of record?

18

A Yes, I have.

19

Q Are you familiar with the application

20

filed in this case on behalf of Inexco?

21

A Yes.

22

Q Are you familiar with the subject area

23

--

24

A Yes.

25

Q -- and the proposed well?

1 A Yes, sir.

2 MR. CARR: Are the
3 witness' qualifications acceptable?

4 MR. STOGNER: Are there any
5 objections?

6 MR. BRUCE: No, sir.

7 MR. STOGNER: Mr. Leibrock is
8 so qualified.

9 Q Mr. Leibrock, would you state briefly
10 what Amerind seeks by appearing in this case?

11 A We seek to obtain an equitable deal for
12 farming out our interest to Inexco, LL&E.

13 Q Would you refer to what has been marked
14 as Amerind Exhibit Number One, and initially just identify
15 for Mr. Stogner what is shown on this exhibit?

16 A Exhibit One is a map on the scale of
17 1-to-2000, showing the Shipp Strawn Field area, in general
18 the same area shown by Mr. Caughey on his exhibit, and I've
19 shown the area in two different stages of development.

20 The top, number one, being the stage of
21 development at the time the Amerind State 3 was drilled,
22 indicated by the red arrow. This was in early '87.

23 And then at the bottom I've showing the
24 current stage of development with all of the activity in
25 the last 18 months shaded by green.

1 Q And these are all Strawn wells that have
2 been drilled in the last 18 months?

3 A Strawn penetrations, yes, sir.

4 Q All right, what is indicated by the blue
5 arrows on the lower plat?

6 A Okay, these -- the first, in Section 35,
7 indicates the Inexco Shipp location and then the blue arrow
8 to the west indicates the TXO Hightower, which I'll discuss
9 later.

10 Q When were you first approached by Inexco
11 concerning this prospect?

12 A We were first approached on the same day
13 indicated by Mr. Nielsen, I believe, in his letter of May
14 20th.

15 Q Then you heard Mr. Nielsen's response
16 that you contacted them and proposed a higher back in, --

17 A Yes.

18 Q -- is that correct?

19 A Yes.

20 Q You were proposing 40 percent?

21 A That's correct.

22 Q Other than that response from Amerind,
23 what contacts have you had from Inexco concerning the deve-
24 lopment of this project?

25 A I believe that's all of it.

1 Q What response did you receive to your 40
2 percent back-in proposal?

3 A We received response in their letter of
4 June 29th, stating that our counter-offer was unacceptable
5 and they furthermore withdrew their offer to farm-in.

6 Q Would you refer to Exhibit One and ex-
7 plain to Mr. Stogner the basis for your 40 percent recom-
8 mendation?

9 A Okay. First of all, referring back to
10 Exhibit One, Map No. 1 at the top, indicating the Strawn
11 development at the time the State 3 No. 1, highlighted by
12 the red arrow, was drilled.

13 Again this is brought up because we
14 drilled this on a farmout from LL&E on the basis of a 30
15 percent working interest after payout. LL&E evidently
16 feels that this same back-in is appropriate in this case on
17 their well for those who choose not to join in drilling.

18 Amerind contends that the situations are
19 in fact quite different, as I'll show by the other map.

20 Q All right, if you would go to that map
21 now and then I'd like you to reference the Hightower 1-A
22 Well, the circumstances surrounding that, and then also
23 relate them to the proposed well.

24 A Okay. Let me just show one other thing
25 first about the Amerind State 3 location. As you will note

1 there we were not directly offsetting any Strawn production
2 at that time, the closest production being the Pennzoil
3 Myers in the northwest of the northwest of the same Section
4 2, and as you will note at that time there was no Strawn
5 production or tests at all to the east and almost two miles
6 to production to the south. So clearly there was consider-
7 able risk involved in drilling that State 3 No. 1, and as
8 Mr. Caughey testified, there is considerable risk in the
9 area in general.

10 Now, referring down to Map 2, again in
11 green showing the extensive number of Strawn tests in the
12 last 18 months. You'll note that many wells have now been
13 drilled east and south of the State 3 No. 1 and, in fact,
14 many locations have also been drilled in several directions
15 from the proposed Inexco Shipp No. 1 location, indicated by
16 the blue arrow in Section 35.

17 Now, getting over to the TXO Hightower
18 location to the west, indicated by the other blue arrow,
19 this was just recently completed as a Strawn producer and
20 it is a direct offset or was directly offset to three
21 Strawn wells, one to the north, northeast, and to the east.
22 TXO noted in due course that the Hightower location would
23 be an obvious spot to drill a well and they offered to farm
24 in our interest, Amerind's interest, for 25 percent back-
25 in, which, after hearing before you here, TXO subsequently

1 agreed to a farm-in with a 40 percent back-in.

2 Amerind thinks that the current case is
3 very similar to the TXO Hightower case in that the Inexco
4 Shipp is a direct offset to two Strawn wells and therefore
5 this case is quite different from the Amerind State 3 situ-
6 ation.

7 So Amerind thinks its counter-offer of a
8 40 percent back-in is quite reasonable and that we were not
9 given any attempt to negotiate that reasonable conclusion.

10 Q Now, Mr. Leibrock, Mr. Nielsen explained
11 that earlier this year there was a proposal from Amerind
12 concerning this well with a 30 percent back-in proposal.
13 Will you explain how that situation --

14 A Yes.

15 Q -- differs today from the time at which
16 you made that proposal?

17 A Our offer was made soon after the SOHIO
18 State 2 was completed in the northeast of Section 2 and
19 even though we had a minority interest, we were ready to go
20 ahead and drill a location on that basis at that time,
21 which was rejected by LL&E; however, subsequent to our of-
22 fer, SOHIO completed a second well, which is also a direct
23 offset to their proposed location, that being in the south-
24 east of the southeast of 35.

25 Q So is it your testimony that there is

1 reduced risk in this well because of additional develop-
2 ment since your proposal?

3 A That's correct.

4 Q Now, in your opinion is a 30 percent
5 back-in in line with what is being done in this area at
6 this time for a well located as the proposed well is lo-
7 cated?

8 A We don't think so, based on our exper-
9 ience.

10 Q Do you believe a good faith effort has
11 been made to obtain the voluntary joinder of Amerind in
12 this prospect?

13 A No, we do not.

14 Q Do you have a recommendation to make to
15 the Examiner?

16 A We recommend that -- that the case be
17 disapproved until such time as our offer is accepted.

18 Q Are you prepared to continue negotiation
19 with LL&E or Inexco?

20 A Yes, we are.

21 Q Was Exhibit One prepared by you?

22 A Yes.

23 MR. CARR: At this time, Mr.
24 Stogner, we would move the admission of Amerind Exhibit
25 Number One.

1 MR. STOGNER: Are there any
2 objections?

3 Exhibit One will be admitted
4 into evidence.

5 MR. CARR: I have nothing fur-
6 ther of Mr. Leibrock.

7 MR. STOGNER: Thank you, Mr.
8 Carr.

9 Mr. Bruce, your witness.

10 MR. BRUCE: Yes, could I have
11 a minute with my witness?

12 MR. STOGNER: Mr. Bruce?

13 MR. BRUCE: Just a few ques-
14 tions, Mr. Examiner.

15

16

CROSS EXAMINATION

17 BY MR. BRUCE:

18 Q Looking at your Exhibit One, Mr. Lei-
19 brock, regarding the Hightower Well, that's basically off-
20 set in three directions, is it not, by producing wells?

21 A Yes, sir.

22 Q Whereas the proposed Inexco Shipp well
23 is only offset in, say, one direction, to the east, is that
24 correct?

25 A Well, it depends on how you look at it.

1 We just -- we look at it as two direct offsets regardless
2 of which direction.

3 Q But in these pools, the Shipp Strawn,
4 Northeast Lovington Penn and Casey Strawn, other similar
5 pools, Amerind has quite a few wells out here, does it not?

6 A Yes.

7 Q And you can move a couple hundred, a few
8 hundred feet from a good well, directly offsetting a good
9 well, and have dry hole, can you not?

10 A Yes.

11 Q Now other than your 40 percent offer to
12 Inexco, have you made any other offers?

13 A No.

14 MR. BRUCE: I have nothing
15 further at this time.

16 MR. STOGNER: Thank you, Mr.
17 Bruce.

18 Mr. Carr, any rebuttal?

19 MR. CARR: No.

20

21

CROSS EXAMINATION

22 BY MR. STOVALL:

23 Q Do you have any opinion as to if -- if
24 the Division were to grant the application, any opinion as
25 to the appropriate risk penalty that should be assigned?

1 A We think the penalty that Mr. Mielsen
2 stated is appropriate.

3 Q But your -- your basis for requesting
4 that the application be denied is that you've not reached
5 an agreement, is that correct?

6 A Not -- yeah, that's correct, that we
7 have not reached a reasonable agreement.

8 MR. STOGNER: I have no fur-
9 ther questions of this witness.

10 Are there any other questions
11 of Mr. Leibrock at this time?

12 If not, he may be excused.

13 Mr. Bruce, do you wish to call
14 a witness again?

15 MR. BRUCE: Yeah, I'd like to
16 call Mr. Caughey for a couple of brief questions.

17

18 REDIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q Mr. Caughey, you've previously testified
21 that in the area on your map I believe there are 19 Strawn
22 completions and 22 dry holes, is that --

23 A That's correct.

24 Q Do you have any data regarding what
25 might be called offsetting development wells in this area

1 as compared to the general offset development in Lea Coun-
2 ty, and the success rates for those wells?

3 A Yes, I do. In January of this year I've
4 compiled all of the production information at that time,
5 that is through December, 1987, for the Lovington Strawn
6 trend and the Lovington Strawn included all of the fields
7 from Shoe Bar east to Northeast Lovington and south to Hum-
8 ble City, and so I think that that is a definition that
9 most people working the trend would agree with, and I found
10 that in that area there were -- excuse me for just a mo-
11 ment, I'd rather not speak from memory about statistics.
12 There were 115 wildcats and 124 development wells drilled
13 from the initial discovery, which was made in 1951, through
14 December of 1987. And what I found was that in development
15 wells which in this particular area I define only as direct
16 offsets, I call this a development well because it does di-
17 rectly offset production, that 52 percent of the Strawn de-
18 velopment wells were successful in the Strawn and all the
19 remainder were unsuccessful from the Strawn.

20 Q And what is the general success rate of
21 development wells in Lea County?

22 A The well status report of Lea County,
23 which was compiled by one of the service organizations, and
24 they reported that last year it was 80 percent success rate
25 in development wells in Lea County.

1 Q And is the success rate on development
2 wells, Strawn wells in this area, significantly greater
3 than the success rate for exploration wells?

4 A The overall success rate is not a great
5 deal greater. Dealing with specific -- with these kind of
6 things, I'd prefer to go to hard numbers.

7 What I have is from the same data base,
8 Strawn exploratory tests. Now these are non-offsets. I
9 don't know what was in a man's head when he drilled a well,
10 but I do know which wells offset production, and I have 115
11 wildcats drilled from initial discovery through the end of
12 1987. 34 percent of those were completed in the Strawn with
13 some lagniappe, with some additional pays discovered
14 slightly deeper or shallower, the overall success rate was
15 52 percent, with 48 percent of them dry and abandoned.

16 And with development wells, as I pre-
17 viously testified, 52 percent of these, and these are
18 strictly offsets, were successful in the Strawn. There are
19 also wells, a little bit of up-hole and deeper completions,
20 but since these are development wells, not nearly as much,
21 the overall success rate is 59 percent in all horizons in
22 the Strawn and a 48 P & A factor for exploratory to only 41
23 percent for development.

24 These figures are taken from an overall
25 study and the study was done for a professional talk which

1 presented at the National AAPG meeting. The thesis of that
2 presentation was we are having an unacceptably difficult
3 time developing the Strawn.

4 Q Thank you, Mr. Caughey, I have nothing
5 further.

6 MR. STOGNER: Mr. Carr, your
7 witness.

8 MR. CARR: I have no questions
9 of this witness. I will, however, have just a very brief
10 statement.

11 MR. STOGNER: Okay, are there
12 any other witnesses to be presented?

13 MR. BRUCE: No. sir.

14 MR. STOGNER: Fine, then we're
15 ready for closing statements.

16 Mr. Carr, you may go first.

17 MR. CARR: I don't have a
18 lengthy closing. I just want to make it clear that Amerind
19 is not quarreling with the risk penalty that's being sought
20 by Inexco in this matter, but there is a -- we're talking
21 about something entirely different and that is a require-
22 ment we believe must be met before pooling is appropriate,
23 and that is a good faith effort must be made to reach vol-
24 untary joinder and our point in this case is simply that at
25 this time a good faith effort has not been made to obtain

1 voluntary joinder at this time.

2 MR. STOGNER; Mr. Bruce?

3 MR. BRUCE: Mr. Examiner, we
4 believe Inexco has made a good faith effort over a two
5 months period to obtain joinder of all the parties in the
6 well and several parties have or will be joining, other
7 than Amerind.

8 Inexco's witness testified
9 that Amerind's proposal was not acceptable to it and, of
10 course, that is, on all these items like this, is based on
11 internal company economics and things like that.

12 We do not believe it's the
13 OCD's job to make a deal between the parties and further-
14 more, in this case Inexco's offer was mirrored by a similar
15 deal, or similar proposal made by Amerind approximately two
16 weeks before Inexco sent out its initial letter. I can only
17 say that if Amerind thinks this is a good proposition, they
18 can pay their share and not worry about the farm-ins.

19 And furthermore, this risk
20 does have something to do -- obviously Inexco thinks that
21 the risk is such that it should be -- that a 40 percent
22 back-in is not appropriate in this case, and therefore we
23 would request the approval of this application.

24 MR. STOGNER: Thank you, Mr.
25 Bruce.

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Anything further in this case?

This case 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 (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. 9434 heard by me on 20 July 1955.
Michael H. Hooper, Examiner
Oil Conservation Division