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JEFF A. BOURGEOIS

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ANDREW T. O'HARE

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MR. QUINTANA: We'll call next
Case Number 8718.

MR. TAYLOR: The application of
TXO Production Corporation for compulsory pooling, Lea County,
New Mexico.

MR. QUINTANA: Are there any
appearances in this case?

MR. VANDIVER: Mr. Examiner, my
name is David Vandiver from Artesia, New Mexico, and I'm appearing
on behalf of TXO Production Corporation.

I have two witnesses.

MR. QUINTANA: Are there other
appearances?

(Witnesses sworn.)

JEFF A. BOURGEOIS,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. VANDIVER:

Q Would you state your name, please, sir?

A My name is Jeff Bourgeois.

1
2 Q And what's your occupation, Mr. Bour-
3 geois?

4 A Petroleum landman with TXO Production
5 Corp.

6 Q Have you in the recent past testified be-
7 fore the New Mexico Oil Conservation Division and have your
8 qualifications as a petroleum landman been accepted by the
9 Division and are they a matter of record?

10 A Yes, they are.

11 MR. VANDIVER: We tender Mr.
12 Bourgeois as an expert petroleum landman.

13 MR. QUINTANA: He is considered
14 an expert petroleum landman.

15 Q Are you familiar with the application of
16 TXO Production Corporation in Case Number 8718, Mr. Bour-
17 geois?

18 A Yes, I am.

19 Q What's the nature and purpose of that ap-
20 plication?

21 A Yes, I am. In Case Number 8718 TXO seeks
22 an order pooling all mineral interests underlying the south-
23 west quarter of the northwest quarter of Section 13, Town-
24 ship 20 South, Range 38 East, Lea County, New Mexico, all
25 mineral interests underlying this tract from the surface to
the base of the Abo formation, to be dedicated to a well to

1
2 be drilled on this tract at a standard location.

3 Also in this case TXO wishes to have con-
4 sidered the cost for drilling and completing this well and
5 operating costs and charges for supervision, and TXO also
6 seeks to be designated as operator and have a charge involved
7 for the risk involved in drilling our Kornegay No. 1 Well.

8 Q And is your proposed well at a standard
9 location in that subdivision?

10 A Yes, it is. The location is spotted at
11 1980 feet from the north line and 1980 feet from the west
12 line.

13 Q What is TXO Production Corporation's
14 leasehold interest in the land in question?

15 A TXO has leased or has commitments on ap-
16 proximately 95 percent of the mineral interest in this 40-
17 acre tract.

18 Q And are there other interest owners who
19 have not agreed to pool their interest?

20 A Yes. There are -- in our application
21 there are two parties who have yet to consent to the drill-
22 ing of this well.

23 They are Mr. Ronald J. Byers and the
24 other group is Mr. Ted Weiner Group listed on the applica-
25 tion.

Q And the other parties listed on the app-

1
2 plication have agreed to join in drilling the well or farm-
3 out at least to you, is that correct?

4 A Yes, they have and I wish at this time to
5 make notice that the other parties other than the Weiner and
6 Byers, their interest should not be affected by this case.

7 MR. VANDIVER: Mr. Examiner, I
8 have not marked it but I have an affidavit of mailing re-
9 flecting that notice was given to the other interest owners
10 in the subdivision. If you would like to have copies, I can
11 have it marked.

12 MR. QUINTANA: Mark it as an
13 exhibit, and we'll enter it. That would be Exhibit Number
14 Eight?

15 MR. VANDIVER: No, sir. How
16 many exhibits do we have altogether? Are there eleven or
17 twelve?

18 MR. O'HARE: Twelve.

19 MR. VANDIVER: Could we make it
20 Exhibit Thirteen?

21 MR. QUINTANA: That would be
22 fine.

23 MR. TAYLOR: Okay, Mr. Bour-
24 geois, is the Weiner interest represented somehow by Texas
25 Crude?

A Yes, it is. On the application Mr. Casey

1
2 Weiner is who I've corresponded with and the entire Weiner
3 family is tied to Texas Crude Oil Company.

4 MR. TAYLOR: The family owns
5 the company?

6 A Yes.

7 Q Mr. Bourgeois, I'll hand you what's been
8 marked for identification as Applicant's Exhibit Number
9 Thirteen and ask you to identify that, please, sir.

10 A Exhibit Number Thirteen is the affidavit
11 of mailing showing the parties on the application have re-
12 ceived notice of this hearing and a copy of our application.

13 Q Mr. Bourgeois, if I could refer you to
14 Exhibit One in this case and ask you what that is.

15 A Exhibit Number One is a land plat showing
16 the proposed location of our Kornegay No. 1 well circled in
17 red.

18 The area outlined in yellow would be the
19 40-acre proration unit dedicated to this well.

20 Q And was that exhibit prepared by you or
21 under your direction and supervision?

22 A Yes, it was.

23 Q If I could refer you to Applicant's Exhi-
24 bit Number Two and ask you what that is, please, sir.

25 A Exhibit Number Two is copies of corres-
pondence to parties in an attempt to gain their participa-

tion or reach a lease or farmout agreement as the case may be for the drilling of this well.

Q And you corresponded with all the other parties listed in the application, is that correct?

A Yes, I have.

Q What -- and all except the ones you have described have responded that they will participate, is that correct?

A Yes.

Q What's the nature of your offer to the other parties?

A The offer consists of a lease or farmout to be delivered to TXO at 75 percent net revenue interest or their participation based on their interest in the proration unit.

Q So in other words they would be entitled to an override equal to the difference between 25 percent and existing burdens?

A That's correct.

Q And they have any right to working interest thereafter?

A Right.

Q After payout?

A No, no back-in was offered.

Q Is -- did you offer the same arrangement

1
2 to all parties?

3 A Yes, I did.

4 Q Do you feel that it was a reasonable offer and a reasonable effort to get them to agree to join in
5 drilling of this well?

6 A Yes, I do. I think that is evidenced by
7 the number of parties who have leased to us or farmed out to
8 us on those terms.

9 Q And all of the correspondence reflected
10 in Exhibit Number Two was either prepared by you or under
11 your direction or supervision, is that correct?

12 A Yes, it is.

13 Q If I could refer you to TXO's Exhibit
14 Number Three and ask you what that is, please.

15 A Exhibit Number Three is TXO's Authority
16 for Expenditure that we have prepared for the drilling and
17 completing of this well.

18 Dry hole costs are approximately
19 \$223,750. Total completed well costs will be \$462,250.

20 Q And there aren't any other working interest owners who have approved that AFE, is that correct?

21 A That's correct.

22 Q Because you have control of all the other
23 interest?

24 A Right. We have commitments or leases in
25

hand on 95 percent of the mineral interest.

Q Has TXO Production Corporation drilled other wells to the approximate depth of the proposed well in Lea County, New Mexico?

A Yes, we have drilled similar tests within the last year and feel that these costs are a fair estimate of expenditures necessary for this well.

Q And was this AFE prepared by you or under your direction or supervision?

A Yes, it was.

Q If I could refer you to Applicant's Exhibit Number Four and ask you what that is, please, sir?

A Exhibit Number Four is a copy of the operating agreement which TXO proposes to use to govern the operations for drilling, completing, and operating our Kornegay No. 1 Well.

If the Examiner will please refer to Exhibit A, it shows the contract area, the southeast quarter of the northwest quarter; the names and interests of the parties. TXO is shown with a little over 95 percent; Mr. Byers with 2.36 percent; and Ted Weiner Group with 2.5 percent.

Q Is there anything else significant about Exhibit Number Four?

A Yes. Exhibit C, the COPAS accounting

1
2 procedure attached to the operating agreement, on page three
3 of this exhibit TXO is requesting the overhead rates to be
4 used in this well at \$5375 per month for drilling well rate
5 and \$538 per month for producing well.

6 Q What is the basis for those charges?

7 A TXO feels that these rates are justified
8 in that the recent well drilled in the interval which TXO
9 uses for these overhead rates, which is 4000/12,000 feet,
10 we've had parties consent to these rates and also in the re-
11 cent case heard before this -- before the Examiner on Sep-
12 tember 11th, Case Number 8698, in which Order No. R-8043 was
13 recently entered into by the Division, these rates were ap-
proved for a well to be drilled to a similar depth.

14 Q Okay, and, Mr. Bourgeois, if I could re-
15 fer you to TXO's Exhibit Number Five and ask you what that
16 is.

17 A Exhibit Number Five is an interoffice
18 memorandum prepared by our Dallas Accounting Office, showing
19 the overhead rates to be used by respective districts in TXO
20 and our district is the West Texas District.

21 This particular well is in the
22 4000/12,000 foot interval and it shows the rates which are
23 to be used for contract generating concerning this interval.

24 Q And if I could refer you to TXO's Exhibit
25 Number Six and ask you what that is.

1
2 A Exhibit Number Six is a copy of an operating agreement in which TXO drilled a well that fell within
3 the 4000/12,000 foot interval and used the overhead rates
4 we're requesting here.
5

6 I may point out that the overhead rates
7 are identical to the rates on Exhibit Five, except for the
8 2.7 percent increase that is shown on this interoffice memorandum.
9

10 Q And do you feel that the overhead rates
11 which you're requesting the Division to approve are fair and
12 reasonable and justified in this case?

13 A Yes, I do.

14 Q Do you have anything further to add to
15 your testimony?

16 A No, I don't.

17 MR. VANDIVER: I will pass the
18 witness, Mr. Examiner.

19 MR. QUINTANA: Do you wish to
20 enter these --

21 MR. VANDIVER: Yes, sir, I'll
22 move the admission of Exhibit Number Thirteen and Exhibits
23 One through Seven -- One through Six, Mr. Examiner.

24 MR. QUINTANA: Exhibits One
25 through Six and Exhibit Thirteen will be entered as evidence.

CROSS EXAMINATION

BY MR. QUINTANA:

Q Mr. Bourgeois, this memorandum from -- that you've entered as Exhibit Number Five showing overhead rates, is that based on a company study?

A Yes, it -- yes, it is. It's the Dallas Accounting Department did a survey concerning the overhead necessary for a company of our size to drill these wells and these are figures they -- they came up with.

And COPAS is the Council of Petroleum Accountants Societies and that is also the form of accounting procedure that is prepared this COPAS group, and they approved this 2.7 percent increase.

Q Thank you.

MR. QUINTANA: Any questions of the witness?

Oh, yes, it might have slipped by me.

Q Why did you say that these two parties had not agreed to the pooling?

A At the current time they -- the Weiner Group has the AFE circulating among parties for approval and review. At this time we have not received any written confirmation.

1
2 And Mr. Byers has informed me that he is
3 also reviewing and will probably end up joining but as of
4 today we have no written confirmation.

5 Q So basically you're pooling because the
6 rig schedule allows for you to drill at a specific time and
7 you can't take the chance that they would not join, right?

8 A Yes. We'd like to have these interests
9 tied up so they have (not clearly understood) before we have
10 some farmout agreements that we've already had to request
11 extensions on in order to gain the interest necessary to
12 drill the well.

13 Q Thank you.

14 MR. QUINTANA: I have no fur-
15 ther questions of the witness. He may be excused.

16 You may proceed.

17 ANDREW T. O'HARE,

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

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21 DIRECT EXAMINATION

22 BY MR. VANDIVER:

23 Q Would you state your name, please, sir?

24 A My name is Andrew T. O'Hare.
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Q And what's your occupation, Mr. O'Hare?

A I'm a petroleum geologist for TXO Production Corporation in Midland, Texas.

Q And have you in the recent past testified before the New Mexico Oil Conservation Division and had your qualifications as an expert petroleum geologist accepted by the Division and are your qualifications a matter of record in the Division?

Q Yes. Just recently on September 11th.

MR. VANDIVER: Mr. Examiner, I tender Mr. O'Hare as an expert petroleum geologist.

MR. QUINTANA: I can remember him well. You may proceed.

A Hmmm.

MR. QUINTANA: That wasn't meant in a bad way.

He's considered an expert witness. You may proceed.

Q Okay. Mr. O'Hare, have you made a geological study of the area surrounding Section 13 in Township 20 South, Range 38 East, where the proposed well will be located?

A Yes, I have.

Q If I could refer you to Applicant's Exhibit Number Seven and ask you what that is, please, sir.

1
2 A Exhibit Number Seven is a production map
3 of the local area surrounding the proposed location.

4 In that area 27 wells have been drilled
5 and of those 27 wells 22 wells have been drilled to the
6 depth of the Drinkard formation, which is the primary objec-
7 tive in this proposed location, and of those 22 wells 4
8 wells were producers.

9 The Abo formation also had one producer
10 in the area and the San Andres formation, the secondary ob-
11 jective, had six producers in the area.

12 Q Did you -- did you mention the Abo forma-
13 tion?

14 A Uh-huh.

15 Q Mr. O'Hare, I'll refer you to Applicant's
16 Exhibit Number Eight and ask you what that is.

17 A Exhibit Number Eight is a structure map
18 on top of the San Andres formation. In the general vicinity
19 six wells, which are denoted in green, have been completed
20 in the San Andres formation.

21 Three wells had significant DST's done
22 during the time of drilling, which would indicate the zone
23 as being capable of production.

24 Those two wells are -- those three wells
25 are the Amoco House No. 1, the Amoco House No. 1-B, as well
as the Amoco Arnold No. 1.

1
2 It appears to my investigation that the
3 porosity in the San Andres producing interval, thus desig-
4 nated, pinches out to the south and east, which would be de-
5 signated as an area east of the Amoco House 1-B. and there-
6 fore mainly in Section 14.

7 Our proposed location will be down dip
8 structurally from the closest producer and I feel as if
9 we'll be off the major porosity trend; therefore making the
10 secondary objective a risky proposition.

11 Q If I could refer you, Mr. O'Hare, to
12 TXO's Exhibit Number Nine and ask you what that is, please,
13 sir.

14 A Exhibit Number Nine is a structure map on
15 top of the Drinkard formation. The twelve wells that were
16 completed in the Drinkard formation are designated in blue.

17 The Drinkard reservoir, the primary ob-
18 jective of this well that we are proposing, is a
19 strat/structural combination trap. To complete a favorable
20 well one must be both in a sufficient position structurally
21 as well as obtaining sufficient porosity development in the
22 Drinkard reservoir, in excess of 5 percent.

23 The line of cross section next to be dis-
24 cussed is designated by the line from A to A'.

25 Q And if I could refer you, Mr. O'Hare, to
TXC's Exhibit Number Ten and ask you what that is.

1
2 A Exhibit Number Ten, cross section A-A',
3 runs from the structural trough in the Burnet Dewey Well to
4 the south and the east, through our proposed location,
5 through the Charles Reed Crown No. 1 Well, further north to
6 the Texas Crude Hester 2-12, and continuing north through
7 two relatively recent Amoco Production Company wells, the
8 Cone B No. 2 and the Cone B No. 3.

9 As is structurally indicated on Exhibit
10 Number Nine, our proposed location is on the southern flank
11 of the closed structure of the House Drinkard Field, and is
12 just north of a mapped trough.

13 The porosity in the Burnet Dewey Well
14 proved insufficient for production and I also feel that the
15 structural position of that well was insufficient, as well.

16 Moving further north through the other
17 two wells designated, the Charles V. Reed and Texas Crude
18 Hester 2-12, they were both economic producers from the
19 Drinkard formation.

20 The more recent Amoco Cone B and Cone --
21 Cone B NO. 2 and Cone B No. 3, recently drilled, completed
22 in 1978, appear to have been drained locations. They are
23 both in favorable structural positions and as will be indi-
24 cated on my next exhibit, had sufficient porosity develop-
25 ment but I feel as if they were drained by production on the
northeast part of the field, which is reason for us stepping

1
2 further south in our proposed location rather than drilling
3 a location 1980 off the west line and 660 off the north
4 line, we feel to avoid potential drainage on the proposed
5 location we'd step out further to the south; therefore in-
6 ccurring slightly more risk in obtaining sufficient porosity
7 development for production, but avoiding the question of
8 possible drainage of the reservoir.

9 I refer you now to Exhibit Number Eleven
10 which is a porosity map compiled with all data available
11 from porosity logs in the area.

12 There are several wells indicated with
13 symbols of "ND" next to them, which indicate that there was
14 no porosity log available on the electric log or resistivity
15 log; therefore, in order to remain and to make my map cred-
16 ible, I used only wells that have porosity logs on them.

17 As mapped, it indicates that we expect
18 approximately 20 feet of Drinkard porosity and we would hope
19 that there would be more but due to the contoured nature of
20 the porosity thick that is all, the sufficient amount that I
21 can map in the area.

22 Q And if you'd refer to Exhibit Number
23 Twelve and tell the Examiner what that it is, what is it?

24 A Exhibit Number Twelve is a structure map
25 on the Abo formation which, if you refer to Exhibit Number
26 Nine, the structure is very similar on both the Drinkard and

1
2 the Abo horizons.

3 The Abo formation in this area has had
4 one producer, designated in gray on the map, and of that,
5 that well produced only 5000 barrels from the Abo.

6 Again our structural location for our
7 proposed location would be south and at the southern extension
8 of that high, and I also believe that this will be a
9 risky objective.

10 Q Mr. O'Hare, so in your opinion there will
11 be risk involved in attempting to obtain commercial production
12 from your proposed location.

13 A Yes, I do.

14 Q Have you formed a professional opinion as
15 to the reasonable charge that should be imposed on noncon-
16 senting working interest owners?

17 A Yes, I have.

18 Q And what's that opinion?

19 A Due to the nature of the prospect, which
20 is admittedly an attempt to extend the House Drinkard Field
21 further south, and again reemphasizing our position of moving
22 one location south to avoid drainage, and as previously
23 discussed, we expect because of that a slightly thinner por-
24 osity zone, I feel that it would be sufficient to ask for
25 the full 200 percent penalty.

Q And, Mr. O'Hare, in your opinion will the

1
2 approval of this application afford TXS the opportunity to
3 produce its just and equitable share of oil and gas, prevent
4 economic loss caused by drilling unnecessary wells, avoid
5 augmentation of risk arising from the drilling of an exces-
6 sive numberr of wells, and otherwise prevent waste and pro-
7 tect correlative rights?

8 A Yes, I do.

9 MR. VANDIVER: I'll pass the
10 -- I will move, first of all, the admission of Exhibits
11 Seven through Twelves and pass the witness.

12 MR. QUINTANA: Exhibits Seven
13 through Twelve will be entered as evidence.

14 Any questions of the witness?
15 Mr. Bourgeois, as you know, last time I grilled you --

16 A Mr. O'Hare.

17 MR. QUINTANA: Oh, excuse me,
18 Mr. O'Hare, the last time, you know, I grilled you on risk
19 factor. I'd like to state that you did a fine job on show-
20 ing risk here.

21 No further questions.

22 A Thank you.

23 MR. QUINTANA: You may be ex-
24 cused.

25 Is there anything further in
Case 8718?

If not, the case will be taken
under advisement.

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. 8718
heard by me on October 9, 1981

David Cotton, Examiner
Oil Conservation Division