

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

28 November 1984

EXAMINER HEARING

IN THE MATTER OF:

Application of Inexco Oil Company
for a unit agreement, Chaves
County, New Mexico.

CASE
8410

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation
Division:

Jeff Taylor
Attorney at Law
Legal Counsel to the Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant:

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MR. STOGNER: Call next Case
Number 8410.

MR. TAYLOR: Application of
Inexco Oil Company for a unit agreement, Chaves County, New
Mexico.

This case has also been
requested to be continued.

MR. STOGNER: Case Number 8410
will also be continued to the Examiner Hearing scheduled for
December 19th, 1984.

(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 Con-
servation Division was reported by me; that the said tran-
script 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. 8410
heard by me on November 28 19 84.

Michael E. Laguerre Examiner
Oil Conservation Division

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

19 December 1984

EXAMINER HEARING

IN THE MATTER OF:

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|--------------------------------------|------|
| Application of Inexco Oil Company | CASE |
| for a unit agreement, Chaves County, | 8410 |
| New Mexico. | |

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

| | |
|--------------------------|---------------------------------|
| For the Oil Conservation | Jeff Taylor |
| Division: | Attorney at Law |
| | Legal Counsel to the Commission |
| | State Land Office Bldg. |
| | Santa Fe, New Mexico 87501 |

| | |
|--------------------|----------------------------|
| For the Applicant: | William F. Carr |
| | Attorney At Law |
| | CAMPBELL & BLACK P. A. |
| | P. O. Box 2208 |
| | Santa Fe, New Mexico 87501 |

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I N D E X

L. J. TACCONI

Direct Examination by Mr. Carr

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JOEL CARLISLE

Direct Examination by Mr. Carr

8

E X H I B I T S

Inexco Exhibit One, Unit Agreement

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Inexco Exhibit Two, Letter

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Inexco Exhibit Three, Geologic Report

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MR. QUINTANA: We'll call next
Case 8410.

MR. TAYLOR: The application of
Inexco Oil Company for a unit agreement, Chaves County, New
Mexico.

MR. CARR: May it please the
Examiner, my name is William F. Carr, with the law firm
Campbell and Black, P. A., of Santa Fe, appearing on behalf
of Inexco Oil Company.

I have two witnesses who have
previously been sworn and qualified.

I'd first call Mr. Tacconi.

L. J. TACCONI,
being called as a witness and having been previously sworn
and qualified as an expert witness, testified as follows,
to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Mr. Tacconi, have you prepared certain
exhibits for introduction in this case?

A Yes, I have.

Q And would you briefly state what Inexco
is seeking to accomplish here today?

A We're seeking approval of the unit agree-

ment and designation of Inexco as operator of the unit agreement for the development and operation of the Madewell Anticline Unit Area in Chaves County, New Mexico.

Q Will you please refer to what's been marked for identification as Inexco Exhibit Number One and explain what this is?

A Inexco Exhibit One is a unit agreement in rough draft form that has been approved previously by the OCD, by the State Land Office and by the BLM.

This unit agreement is different from the three that we've previously qualified, or have testified upon, in that this provides for two wells to be drilled on the unit area before validation of the unit.

Q Mr. Tacconi, would you now refer to Exhibit A to the unit agreement and review that for Mr. Quintana?

A Yes. Exhibit A is a plat showing the
unit area boundary outlined in diagonally striped line.

It shows the tract numbers encircled.

It shows the Federal acreage uncolored,
or blank.

It shows the State acreage cross hachured in blue and the patented, or fee acreage shaded in blue.

It also has a recapitulation of the unit
acreage and recapitulation of the percentages.

Q Would you please review those for Mr.
Quintana?

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2 A Yes. It does not show the total unit ac-
3 reage, so I'm going to refer to another exhibit to get that
4 for you.

5 The Federal acreage totals 28,765.65 ac-
6 res, being 73.23520 percent of the unit area.

7 State acreage comprises 6,283.07 acres,
8 or 15.99623 percent of the unit area.

9 Patented acreage totals 4,229.73 acres,
10 or 10.76857 percent of the unit area.

11 The total unit acreage is 39,278.45 ac-
12 res.

13 Q Would you now refer to Exhibit B to the
14 unit agreement and review that for Mr. Quintana?

15 A Exhibit B to the unit agreement is a
16 schedule of lands lying within the proposed Madewell Unit,
17 the Madewell Anticline Unit Area, showing the tract number,
18 the land description, and type of lands, whether they be
19 Federal, State, or fee, the number of acres, the serial num-
20 ber and expiration date of each lease, the basic royalty
21 ownership and the percentage thereof, the lessee of record
22 and percentage, the overriding royalty ownership, if any,
23 the working interest owner and percentage.

24 On the last page of Exhibit B there is a
25 recapitulation of the acreage by type, Federal, State, and
fee, and recapitulation of the working interest owners under
the proposed unit area and their percentages.

Q Is this a voluntary divided unit?

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A This is a voluntary divided interest unit.

Q Have you reviewed the proposed unit agreement with the major interest owners in the unit area?

A Yes, we have.

Q Do you anticipate sufficient joinder to afford Inexco effective control of unit operations?

A Yes, we do. As you can see by Exhibit B, that we own in excess of 70 percent and the -- we anticipate in excess of 75 percent or adequate control of the unit area for development.

Q Mr. Tacconi, would you now review Exhibit C to the unit agreement?

A Exhibit C is a Rocky Mountain Unit Operating Agreement form designed specifically for divided interest units.

In previous testimony I have offered this as an exhibit. The change in this one is in the Exhibit Two to the operating agreement, providing for two initial test wells in confirmation with Article IX of the unit agreement.

Q Has the form of the unit agreement been approved by the State Land Office as to form and content?

A Yes, it has.

Q And will you supply a copy of the letter of approval on receipt?

A Yes, I will.

Q Has the unit agreement been -- or the

1 unit area been designated by the BLM as an area logically
2 suited for unit development?

3 A Yes, it has, and we offer that as Exhibit
4 Two.

5 Q Is it Inexco's desire to be designated as
6 operator of the unit?

7 A Yes, it is.

8 Q Does the unit agreement provide for per-
9 iodic filing of plans of development?

10 A Yes, upon the establishment of commercial
11 production.

12 Q And do the -- will these plans of
13 development be filed with the Oil Conservation Division as
14 well as the State Land Office and the BLM?

15 A Yes, they will.

16 Q Will Inexco call an additional witness to
17 testify as to geological considerations?

18 A Yes, we will.

19 Q In your opinion will granting this appli-
20 cation and the operation of the subject area under the pro-
21 posed unit plan be in the best interest of conservation, the
22 prevention of waste, and the protection of correlative
23 rights?

24 A Yes, it will.

25 Q Was Exhibit Number One prepared by you?

A Yes, it was.

Q And Exhibit Two is a copy of the BLM let-

1 ter?

2 A Yes, it is.

3 MR. CARR: At this time, Mr.
4 Quintana, we would offer into evidence Inexco Exhibits One
5 and Two.

6 MR. QUINTANA: Exhibits One and
7 Two will be accepted into evidence.

8 MR. CARR: That concludes my
9 examination of Mr. Tacconi.

10 MR. QUINTANA: No further ques-
11 tions.

12 Is there any -- are there any
13 further questions of the witness?

14 If not, he may be excused.

15 MR. CARR: At this time I'd
16 call Mr. Carlisle.

17 JOEL CARLISLE,
18 being called as a witness and having been previously sworn
19 and qualified as an expert witness, testified as follows,
20 to-wit:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q Mr. Carlisle, will you please refer to
24 what's been marked for identification as Inexco Exhibit Num-
25 ber Three and identify this for the Examiner?

1 A Exhibit Three is a geologic report cover-
2 ing the proposed Madewell Anticline Unit.

3 Q Where is this unit located?

4 A In Chaves County, approximately eight
5 miles southwest of Roswell, New Mexico.

6 Q And how many acres does the unit contain?

7 A The unit contains 39,278.45 acres.

8 Q What is the primary objective in the
9 unit?

10 A The primary objective in this unit will
11 be the Abo and the Paleozoic section from beneath the San
Andres section down.

12 It will be tested by two 5500-foot or
13 Basement tests on the -- on the unit.

14 Q Mr. Carlisle, would you refer to Exhibit
15 Number Three and generally describe for Mr. Quintana the
16 geology of the area?

17 A Well, the Madewell Anticline Unit is lo-
18 cated, as I indicted a moment ago, southwest of the town of
19 Roswell approximately eight miles, and it is located on a
20 prominent surface feature that has been mapped but never
drilled.

21 This area is all Basement controlled
22 faulting within here, and in the vicinity of the (not clear-
23 ly understood due to rattling of papers) fault.

24 One of the --

25 Q Just a minute. Would you review or re-

1 state the names of the buckles?

2 A Okay. I said was located in the vicinity
3 of the Border Buckle, the Six Mile Buckle, and the YO
4 Buckle, which have been designated on previous surface map-
5 ping in the area.

6 The Madewell Unit, as shown on the top of
7 the Glorieta structure map appended to the Exhibit Three, is
8 on the southeast side of Six Mile Buckle and the area is
9 outlined in red and basically conforms to the 3200-foot
10 closing contour against the YO Buckle on the Glorieta struc-
11 ture map.

12 The two proposed tests and their loca-
13 tions are indicated by red circles within the confines of
14 the proposed unit.

15 Our acreage, that being Inexco's acreage,
16 is designated by yellow on this map within the unit outline.

17 There is a cross section also attached
18 with this in which -- it runs basically in a north/south di-
19 rection and will demonstrate the anticipated geologic sec-
20 tion to be encountered in the vicinity by the drilling of
21 these two wells, and as you can see, it will be coming
22 through the upper Permian section of all the San Andres-
23 Glorieta-Yeso, and through the Wolfcamp section into the
24 Pennsylvanian on down into the PrePennsylvanian section.

25 And again emphasize that objectives in
here will be not only the Abo Sands or carbonates, because
there is very little control in this area to define the

1 lithologic units that are anticipated for not only the Abo
2 but for the underlying sections.

3 One of the things that we hope to
4 encounter, based on our work in the area, will be the Lower
5 Paleozoic section on what is anticipated to be a faulted
6 anticlinal feature, again indicated on your Glorieta
7 structure map and we believe that surface mapping supports
8 faulting on the northwest side of the proposed unit and that
9 this faulting will offer traps for the Lower Paleozoic
10 section and perhaps some of even the Lower Permian section.

11 In the back of this report there is a
12 well prognosis which will give our anticipated geologic
13 section to be encountered in the prospect, ranging from the
14 Glorieta, the Yeso, Tubb, Abo, Wolfcamp, Cisco,
15 Mississippian, Montoya, Ellenburger, Granite Wash, and
PreCambrian tops as we expect to see these.

16 That is followed then by an AFE prepared
17 by our engineers, giving an estimated completed well cost of
18 \$352,500 for the 5500-foot Basement test in the area.

19 Actually there are two, two of these
20 AFE's.

21 Also included in the report, I'm going to
22 back up just a minute here, is the Abo Sand Isolith, greater
23 than 10 percent, and you look at that map you can see how
limited the control actually is in this area.

24 There have been very few wells anywhere
25 within the vicinity that have actually been drilled.

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2 The Magnolia Well to the southwest, which
3 is on cross section A-A' included in the report, is perhaps
4 the -- well, the only really deep test that has gone to
5 Basement within the immediate vicinity of the area.

6 We think this is extremely high risk ven-
7 ture. It's out in the rank wildcat area but it is con-
8 sidered well worth doing because it is a large surface ano-
9 maly, the largest within the general area on which there has
10 never been a well drilled on the Abo.

11 Q Mr. Carlisle, in your opinion will the
12 granting of this application and the operation of the sub-
13 ject area under the proposed unit plan be in the best inter-
14 est of conservation, the prevention of waste, and the pro-
15 tection of correlative rights?

16 A Yes, it will.

17 Q And was Exhibit Three prepared by you?

18 A It was.

19 MR. CARR: At this time, Mr.
20 Quintana, we would offer into evidence Inexco Exhibit Number
21 Three.

22 MR. QUINTANA: Exhibit Three
23 will be admitted into evidence.

24 MR. CARR: And that concludes
25 my presentation in this case.

MR. QUINTANA: Any further
questions of the witness?

If not, he may be excused.

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2 Case 8410 will be taken under
3 advisement.

4 (Hearing concluded.)
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C E R T I F I C A T E

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heard by me on Dec. 19 1984
Gilbert P. Quintana Examiner
Oil Conservation Division