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Working Interest Owners Meeting - 4/13/99

Permian Court Reporters, Inc.

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CONDENSED TRANSCRIPT AND CONCORDANCE

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NMOCD CASE #12171  
ENERGEN RESOURCES

EXHIBIT

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(1) And it probably would be helpful if the company  
 (2) represented is also is identified at that time. And  
 (3) speak up. I would like to back up a little bit. I  
 (4) referred to myself being the production manager for  
 (5) Gillespie Oil, Inc. We changed the name effective –  
 (6) or we're trying to get it effective April 1st of  
 (7) 1997. This is due to the fact that one of principals  
 (8) in Gillespie-Crow, Inc., is no longer with  
 (9) Gillespie. And the paperwork has been completed or  
 (10) should be completed. We're shooting for the  
 (11) effective date of April 1st, 1997. That's all that  
 (12) should mean.

(13) MR. HALL: Let me start. My name is  
 (14) Scott Hall, and I represent Energen. And I think the  
 (15) first thing we need to discuss is the agreement or  
 (16) nonagreement on the allocation of core volume to  
 (17) Tract 14 and the inclusion of Tract 15. I think  
 (18) there's not unanimity among the working interest  
 (19) owners about the concept as it's presently proposed  
 (20) now. So why don't I put that on the table and we  
 (21) can discuss that.

(22) MR. BRUCE: I'm Jim Bruce. I'm an  
 (23) attorney representing Gillespie Oil. Scott, if I can  
 (24) preface it by letting a few people who don't know  
 (25) what I did last week in on this. Mark and I worked

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(1) pleased that an application has been filed at all.  
 (2) And I don't think this is a problem that would  
 (3) prevent the matter from going to hearing at an early  
 (4) date. But it's certainly perfect to discuss it now.  
 (5) There's some question whether or not this really  
 (6) reflects what was agreed to, if there was agreement  
 (7) at the technical committee meeting. So I'll throw  
 (8) that open for discussion now.

(9) MR. BRUCE: Okay. And, of course, you  
 (10) know, maybe the ones to talk would be, like, Dave.  
 (11) And I don't know if it was Brett or Eric on the  
 (12) technical committee – Brett – and Mark and the  
 (13) other member from Energen. However, we need to  
 (14) revise that, that's fine.

(15) MR. MLADENKA: I was going to say  
 (16) that's –

(17) MR. BONEAU: This is Dave Boneau with  
 (18) Yates Petroleum. Scott, would you mind explaining  
 (19) your problem with it?

(20) MR. HALL: I might defer to the people  
 (21) from Energen that attended the technical committee  
 (22) meetings, but I don't believe there was total  
 (23) agreement that Tract 14's participation should be  
 (24) increased all the way up to three percent. And I  
 (25) think there's a site issue of how to account for the

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(1) to get together this formula, and it may not be  
 (2) exactly right. This was what I understood to be the  
 (3) technical committee proposal. And if there's  
 (4) changes, that's fine. What I did do to get the ball  
 (5) rolling was I took this proposal, and I did file –  
 (6) as Scott well knows – an application at the OCD to  
 (7) get it on the docket.

(8) It may well have to be continued – well, I  
 (9) know it will because none of the notices went out in  
 (10) time anyway or not all of them went out in time. And  
 (11) if we have to amend that – this proposal, that's  
 (12) perfectly fine. I just want everybody to know that.  
 (13) And, yeah, there are several issues. And, Scott,  
 (14) there is going to be a couple I want you to talk on  
 (15) including that gas injection.

(16) MR. HALL: All right.

(17) MR. BRUCE: But with that, I guess what  
 (18) you're looking at is that Article 13 of the unit  
 (19) agreement? Is that what you're talking about?

(20) MR. HALL: Yes. In the Exhibit A.

(21) MR. BRUCE: Yeah.

(22) MR. HALL: The language is – the  
 (23) amendment to Section 13 of the unit agreement – it  
 (24) would be Paragraph 3C, and that's what we should  
 (25) address. By the way, on behalf of Energen, we're

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(1) inclusion of Tract 15.  
 (2) I understand there is some interest in  
 (3) trying to make Hanley whole in some form or fashion  
 (4) because it appears that Tract 15 won't be – the  
 (5) lease, at least, of Tract 15 won't be in effect as of  
 (6) the proposed April 1, 1999, expansion date. I  
 (7) understand that's what the technical committee tried  
 (8) to address. I don't know if this language reaches  
 (9) what was agreed to.

(10) MR. CROMWELL: Mark, this is Dave  
 (11) Cromwell with Energen. I think – being a member of  
 (12) the technical committee, I think our understanding  
 (13) was that we were trying to give Hanley the interest  
 (14) as was allocated by the pore volume map and the  
 (15) formula we came up with on both Tracts 15 and 14.  
 (16) And, then, I think the way you have it worded in your  
 (17) letter is as though all of the three percent that was  
 (18) due Hanley comes from Tract 14. And I don't believe  
 (19) that was our understanding at the meeting. ✓

(20) We were – now, if there is some legal way  
 (21) that you want to represent that that I don't  
 (22) understand, I think – is that –

(23) MR. BRUCE: I took the first stab at  
 (24) drafting this so any fault was mine, but I'm still  
 (25) not clear on what you're saying.

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- (1) MR. CROMWELL: When we did the  
 (2) calculations, Hanley's interest in both Tract 15 and  
 (3) 14 came up to roughly three percent.  
 (4) MR. BRUCE: Okay.  
 (5) MR. CROMWELL: Both roughly a percent  
 (6) and a half to each tract.  
 (7) MR. BRUCE: Based on HBP?  
 (8) MR. CROMWELL: And the well factor as  
 (9) well.  
 (10) MR. MLADENKA: Can I back up just a  
 (11) little bit? The way we came up with the two adding  
 (12) up to three percent was – the process of the  
 (13) technical committee was, number one, determine  
 (14) whether or not the EC Com and the C-4 were  
 (15) communicating with the unit. We did that very  
 (16) quickly. The HPV map was agreed upon very quickly.  
 (17) The next step was determining the parameters. At  
 (18) that point – and you can correct me on this – but  
 (19) we had several suggestions of different parameters  
 (20) throughout this process.  
 (21) Energen would only consider two parameters,  
 (22) oil in place and well bore factor. And they  
 (23) proposed – or they had a spreadsheet with several  
 (24) percentages, 90/10 oil in place well factor; 80/20,  
 (25) which is what we've got here; 70/30; and maybe

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- (1) another one or two. Immediately or relatively  
 (2) quickly representatives from Hanley Petroleum  
 (3) required a three percent interest. The technical  
 (4) committee pointed out that the 80/20 based on  
 (5) Hanley's ownership – assumed ownership in Tract 15  
 (6) added up very close to the three percent. And we  
 (7) decided to pursue that until we found out there may  
 (8) be some problems on bringing a tract on a – what  
 (9) would you say?  
 (10) MR. BRUCE: Unleased tract.  
 (11) MR. MLADENKA: You know, move the date  
 (12) backwards.  
 (13) MR. BRUCE: Retroactive.  
 (14) MR. MLADENKA: Retroactiveness. That  
 (15) is the reason – since the retroactive was probably  
 (16) not feasible – the date was moved forward to April  
 (17) 1st, 1999. And the interest that Tract 15 would lose  
 (18) –  
 (19) MR. BRUCE: That Hanley would lose.  
 (20) MR. MLADENKA: – that Hanley would  
 (21) lose not owning Tract 15 then would be allocated by  
 (22) owner – if I'm correct, by owner to bring Tract 14  
 (23) up to three percent to make up for that difference in  
 (24) Tract 15.  
 (25) MR. HALL: Scott Hall again. Wasn't

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- (1) there some discussion about the possibility of  
 (2) renominating Tract 15 and bringing it back into the  
 (3) unit and assigning those interests to Hanley as a way  
 (4) of keeping them whole?  
 (5) MR. MLADENKA: I believe that's right.  
 (6) I know the unit would renominate it or Hanley would.  
 (7) And that's something that we need to probably  
 (8) address. The technical committee probably was not  
 (9) educated enough to do that, I guess.  
 (10) MR. BRUCE: I suppose that one problem  
 (11) with that is, you know, what if somebody other than  
 (12) the unit or Hanley buys Tract 3 at estate sale?  
 (13) MR. BONEAU: This is Dave Boneau  
 (14) again. With all apologies, I think that 3C says  
 (15) exactly what we meant to do, in my opinion. I mean,  
 (16) I guess it says exactly what I meant to do, but it's  
 (17) only my opinion.  
 (18) MR. BRUCE: And as long as we get up to  
 (19) that level – go ahead Brett.  
 (20) MR. BRACKEN: Brett Bracken with  
 (21) Hanley.  
 (22) MR. BONEAU: Can I continue a minute?  
 (23) I'm sorry, Brett.  
 (24) MR. BRACKEN: Just ditto.  
 (25) MR. BONEAU: I think what we intended

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- (1) to do was to get Hanley to approximately three  
 (2) percent. And we didn't say exactly how, but I kind  
 (3) of like what you did because they clearly own 14.  
 (4) And if you attribute it all to 14, then they clearly  
 (5) own it. And whatever the one and a half percent that  
 (6) is to Tract 15 – I mean, I'm trying to say what I  
 (7) understand is going to happen. And I want, you know,  
 (8) people to tell me where it's wrong, but I'm trying to  
 (9) say what I understand this says and we thought was  
 (10) going to happen.  
 (11) The one and a half percent attributed to  
 (12) Tract 15 would be added to Tract 14, and that would  
 (13) cause everybody else to lose a little. That 1.6 just  
 (14) doesn't materialize. It has to come out, and  
 (15) everybody else is proportionately losing a little.  
 (16) Then, it's Tract 15 unleased that has one and a half  
 (17) percent that nobody owns. Then, if the unit buys  
 (18) Tract 15, then it can be redistributed out to the  
 (19) same people that lost – exactly make that up.  
 (20) If the unit – if somebody other than the  
 (21) unit buys Tract 15 when it goes back up on the lease,  
 (22) then that new third party or tenth party or whatever  
 (23) you want to call it then backs one of our friends who  
 (24) owns one and a half percent of the unit. That's what  
 (25) I thought we intended to do. And I think that's

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- (1) mean, what we could do is -- and I don't know if Bill  
 (2) has told you, but I think all of the pending matters  
 (3) have been shipped back down to the division level,  
 (4) including the various reservoir shut-in applications,  
 (5) et cetera -- have the de novo hearings shipped back  
 (6) down to the soonest division hearing and just hear  
 (7) that one issue. I mean, these are all just -- let's  
 (8) see what Bill Carr can do.  
 (9) MR. BONEAU: Essentially, the lawyers  
 (10) need to decide what's the most doable way to get  
 (11) things done.  
 (12) MR. HALL: It's going to depend a lot  
 (13) on what the Land Office says.  
 (14) MR. BRUCE: Yeah.  
 (15) MR. ROGERS: Jim Rogers, Hanley  
 (16) Petroleum. As I understand, what you're saying is --  
 (17) or what we're talking about is we will consider the  
 (18) bringing in of Tracts 14 and 15 with a tract  
 (19) participation factor of twenty-nine-hundredths of one  
 (20) percent effective 11-1-97. And, then, with this new  
 (21) configuration as of 4-1-99, then the interest would  
 (22) increase to where Tracts 14 and 15 would have three  
 (23) percent. Now, is that right what we're talking  
 (24) about?  
 (25) MR. GRAY: Ken Gray with Energen.

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- (1) That's the way that makes sense to me. If you're  
 (2) trying to justify bringing in 15, you're going to  
 (3) have to use the old maps to justify it. If you use  
 (4) the new maps, you have other stuff that's going to  
 (5) enter in. So I agree with what he says. That  
 (6) makes -- that seems reasonable.  
 (7) MR. ROGERS: Jim Rogers with Hanley  
 (8) Petroleum again. I need counsel of Counselor Carr,  
 (9) and we will get that. But we will pursue that and  
 (10) see where -- now, do we have -- would everybody be  
 (11) agreeable to that approach? Anybody not agree with  
 (12) that?  
 (13) MR. GRAY: I think that comes back to  
 (14) what he said when I was trying to get you to agree a  
 (15) while ago. We agree to the extent that we can.  
 (16) MR. ROGERS: That's all any of us can  
 (17) do.  
 (18) MR. BRUCE: Let Scott and -- you're  
 (19) going to be at the OCD on Thursday, right?  
 (20) MR. HALL: Yes.  
 (21) MR. BRUCE: Let's get together with  
 (22) Bill before then and talk about it.  
 (23) MR. McLAIN: Monty McLain with ADIA  
 (24) Enterprises. With the new map that you're talking  
 (25) about the HPV or whatever you're calling it, if the

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- (1) two Tracts 14 and 15 are in, do they calculate --  
 (2) does Hanley calculate out to be three percent, or are  
 (3) we giving them extra?  
 (4) MR. BONEAU: Dave Boneua. No. 2.98 or  
 (5) something like that.  
 (6) MR. MLADENKA: Just under three, which  
 (7) they'd accept, I'm sure.  
 (8) UNIDENTIFIED SPEAKER: 1.6 and 1.3.  
 (9) MR. BRUCE: Well, then, Scott and I  
 (10) will work on that with Bill. We'll also have Bill  
 (11) Carr check on whether an April 1, 1999, effective  
 (12) date would save that lease. And, then, Scott and Ken  
 (13) will work on, as the fallback position, revising the  
 (14) language to Section 3C of that Article 13, take care  
 (15) of any concerns that Energen has regarding setting a  
 (16) precedent for other tracts.  
 (17) MR. GRAY: Ken Gray here. Did you say  
 (18) April 1 would hold that lease?  
 (19) MR. BRUCE: No. No. I'm saying we're  
 (20) going to have Bill Carr, the Yates/Hanley attorney,  
 (21) check on whether or not that would work. And it may  
 (22) or it may not, but it's worth checking in to.  
 (23) MR. CHARUK: Lynn Charuk, Charles  
 (24) Gillespie. If you put a tract like that up for  
 (25) lease, can you make a stipulation on it that if

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- (1) someone else other than the unit owners buy that  
 (2) tract, that -- can we stipulate that they must join  
 (3) the unit?  
 (4) UNIDENTIFIED SPEAKER: Yes.  
 (5) MR. HALL: Make that a stipulation to  
 (6) the sale? I don't know that that's possible with the  
 (7) State. The State tells me that some deference may be  
 (8) given to the unit operator if the unit operator  
 (9) nominates them. I'm not sure about their ability to  
 (10) do that, but that's what they told me. I don't think  
 (11) you can amend the State lease by stipulations.  
 (12) MR. ROGERS: Jim Rogers, Hanley  
 (13) Petroleum. I think I've seen that language in  
 (14) federal lease sales where you have to join the unit  
 (15) if you buy the lease.  
 (16) MR. BONEAU: You're right, Jim. The  
 (17) lease says you have to do whatever the BLM says on  
 (18) any subject.  
 (19) MR. BRUCE: Anything else on this  
 (20) point, then, on the Section 13 -- proposed Section 13  
 (21) of the unit operating agreement?  
 (22) MR. GRAY: Ken Gray with Energen. I'd  
 (23) like to clarify, what date would it have to be  
 (24) retroactive to for sure for it to be included? How  
 (25) could it not expire -- for it not to expire?