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Exam No. \_\_\_\_\_

**593-046 Oil & Gas Contracts & Operations  
Fall Semester 2006**

**UNM School of Law  
Final Examination  
Three Credits**

**Prof. Conine  
Thurs., Dec. 14, 2006  
3 Hours**

**Examination Format  
Essay Answers**

**Laptop** computer users: Start the Secureexam program entering your examination number, course name, professor's name, and date of examination. Click "proceed" to enter the program. Type START in the next window that is displayed but do NOT press the enter key until the proctor says to begin the exam.

**Bluebooks** for writing: write on every other line and only on the front page of each sheet. On the front of each bluebook used record the course name, professor's name, date of exam, and your examination number. Also, make sure to number each bluebook in order. DO NOT WRITE YOUR NAME ON BLUEBOOKS.

A five minute warning will be given prior to the conclusion of the examination. When time is called, stop immediately. If you are handwriting, lay down your pen and close the bluebook immediately. If using a laptop, save and exit the program.

Go to the exam check-in table at the conclusion of the exam and fill out an examination receipt.

**Professor's Instructions**

This test is administered pursuant to the Law School's honor code. However, as announced in the course syllabus, during the examination, you are permitted to refer to the assigned text and supplement for the course (with or without personal annotations) and any notes or outlines you have personally prepared. No other materials, such as commercial outlines, nutshells or hornbooks, are permitted.

The exam consists of a single problem scenario and three (3) related sets of questions. Use the facts presented in the scenario to answer each of the questions. A recommended allocation time has been indicated for each set of questions as a guideline only. (A spare

thirty (30) minutes is available in the recommended time allocations for use as you think best.) However, you should allocate your time as you choose, depending on how difficult you think the questions are and how much time you need to analyze the questions and write your answers.

**NOTE:** You may assume that all instruments described were properly executed, acknowledged, delivered, joined in by the spouse where appropriate, executed by authorized officers or partners of business organizations and duly recorded in the order of execution. You may also assume that all conservation laws and regulations have been properly complied with.

Analyze each question, organize your answer and provide a clear, concise and logical response using the information and concepts studied during the course. Good luck!

### **PROBLEM SCENARIO**

Four oil companies (Acme, Baker, Cedar, and Dameron) executed a Joint Operating Agreement (the "JOA") using AAPL Form 610-1982, which appears under Tab "M" in the Course Supplement. Each of these parties contributed an oil and gas lease located in the State of New Mexico to create the Contract Area in the JOA. Acme was designated as Operator.

After the JOA was executed by all parties, Cedar entered into a farmout agreement (the "FOA") with Dameron. Under the FOA, Cedar agreed to assign to Dameron its working interest in the oil and gas lease it had contributed to the Contract Area. Cedar was entitled to reserve a one-sixteenth overriding royalty interest in the lease. The FOA went on to provide that the assignment would become null and void if Dameron did not complete a well on the lease by March 1, 2006. Upon both parties signing the FOA, Cedar executed and delivered to Dameron the required assignment (reserving a 1/16<sup>th</sup> overriding royalty to Cedar), which was made expressly subject to the terms of the FOA and the JOA.

Soon after receiving the assignment from Cedar, Dameron proposed to Acme and Baker that the parties to the JOA drill a well on the acreage covered by the Cedar lease to a depth of 5000 feet beneath the surface. The company also sent Acme and Baker an Authorization for Expenditure (the "AFE") for the proposed well, indicating a total cost of \$400,000 to drill and complete the well under a drilling contract paying the drilling contractor \$50.00 per foot.

After Acme, Baker and Dameron each signed the AFE, Acme executed a drilling contract with Roadrunner Drilling Company after obtaining competing bids from several other contractors in the area. The drilling contract form used was essentially identical to the IADC contract form under Tab "C" in the Course Supplement. However, paragraph 15

of the contract form was deleted and Roadrunner Drilling was made expressly responsible for surveying, staking and preparing the drillsite location for its operations.

When Roadrunner's drilling foreman first arrived at the proposed site, he found that the precise spot prescribed in the drilling contract was at an inaccessible location at the base of a two-hundred foot cliff. Without informing Acme, the foreman authorized his surveyor to move the drilling location three-hundred feet to the east at the top of the cliff. Roadrunner's drilling crew proceeded to drill the well at the new location.

When the well was at a depth of 4000 feet, Acme discovered that the well had been relocated. It immediately informed Baker, Cedar and Dameron. Baker objected and declared that it would not pay any invoices Acme issued for the cost of the well. Dameron, having heard nothing from Cedar, told Acme it would go along with anything Acme decided to do about the matter.

Acme decided to take a wait-and-see attitude. When the well reached 5000 feet, tests indicated the well could be completed as a producing well at that depth. Upon receiving this information, Acme sent written instructions to Roadrunner to set production casing and complete the well. Acme then assumed control over production operations.

As a result of all this, several lawsuits were filed among the parties.

## QUESTIONS

### QUESTION 1 – Recommended Time Allocation – 50 Minutes

Acme refused to pay Roadrunner for drilling the well, and Roadrunner sued Acme, Baker, and Dameron for damages. Is Roadrunner entitled to recover? If so, how should the damages be calculated and from whom can Roadrunner recover? Explain and justify your answers.

### QUESTION 2 – Recommended Time Allocation - 50 Minutes

Cedar points out that the well was completed in the upper part of a fault that ran along the face of the cliff. Its geologists had wanted to complete the well in the lower part of the fault at the base of the cliff, as required by the FOA, where the recoverable reserves would be greater. Cedar sues Dameron for breach of the FOA seeking damages in the amount it would have cost to drill the well in the correct location. Will Cedar's suit succeed? Why or why not?

**QUESTION 3 – Recommended Time Allocation - 50 Minutes**

Acme sues Baker for its share of the drilling and completion costs and sues Dameron, claiming Acme is entitled to half of the interest assigned by Cedar under the FOA on the theory that it constituted an acreage contribution. Assess the likely outcome of each of these lawsuits. Assuming Acme has a valid claim against Baker, are there any other actions it can take to recover Baker's share of costs besides bringing a suit for damages?

**[End of Exam]**