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June 27th, 1996 Examiner Hearing CASE NO. 11,554

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		APPEARA	NCES	
	FOR NEARBURG EXPLO and NEARBURG PRODU			
	CAMPBELL, CARR, BI Suite 1 - 110 N. (AN, P.A.	
	P.O. Box 2208	-		
	Santa Fe, New Mex: By: WILLIAM F. CA			
	-			
	ALSO PRESENT:			
	MIKE MCMILLAN			
	David Petroleum Co 116 West 1st	prporation		
	Roswell, New Mexic	co 88201		
		* * *		

1	WHEREUPON, the following proceedings were had at
2	8:43 a.m.:
3	
4	EXAMINER CATANACH: Okay, at this time we'll call
5	Case 11,554, the Application of Nearburg Exploration
6	Company for an unorthodox oil well location, Lea County,
7	New Mexico.
8	Are there appearances in this case?
9	MR. CARR: May it please the Examiner, my name is
10	William F. Carr with the Santa Fe law firm Campbell, Carr,
11	Berge and Sheridan.
12	We represent Nearburg Exploration Company in this
13	matter and Nearburg Producing Company, who would be the
14	operator of the well, and I have two witnesses.
15	EXAMINER CATANACH: Are there any additional
16	appearances?
17	MR. McMILLAN: Yes, Michael McMillan, making an
18	appearance for David Petroleum Corporation.
19	EXAMINER CATANACH: Mr. McMillan, will you have
20	any witnesses in this case?
21	MR. MCMILLAN: No.
22	EXAMINER CATANACH: Okay, will the witnesses
23	please stand to be sworn in?
24	(Thereupon, the witnesses were sworn.)
25	MR. CARR: At this time we call Mr. Shelton.

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1	ROBERT G. SHELTON,
2	the witness herein, after having been first duly sworn upon
3	his oath, was examined and testified as follows:
4	DIRECT EXAMINATION
5	BY MR. CARR:
6	Q. Would you state your name for the record, please?
7	A. Robert G. Shelton.
8	Q. Mr. Shelton, where do you reside?
9	A. In Midland, Texas.
10	Q. By whom are you employed?
11	A. By Nearburg Producing Company.
12	Q. And what is your current position with Nearburg
13	Producing Company?
14	A. I'm the land manager.
15	Q. Have you previously testified before this
16	Division?
17	A. Yes, I have.
18	Q. At the time of that testimony, were your
19	credentials as an expert witness in petroleum land matters
20	accepted and made a matter of record?
21	A. Yes, sir, they were.
22	Q. Are you familiar with the Application filed in
23	this case on behalf of Nearburg?
24	A. Yes, sir, I am.
25	Q. And are you familiar with the status of the lands

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1	in the area that is the subject of this Application?
2	A. Yes, sir.
3	MR. CARR: Are the witness's qualifications
4	acceptable?
5	EXAMINER CATANACH: They are.
6	Q. (By Mr. Carr) Mr. Shelton, could you briefly
7	summarize for Mr. Catanach what Nearburg seeks with this
8	Application?
9	A. Nearburg seeks approval of the Division for an
10	unorthodox Strawn oil well location, where the proposed
11	location is 2310 feet from the north line and 1200 feet
12	from the east line of Section 36, Township 16 South, Range
13	37 East, Lea County, New Mexico. The location will
14	encroach 330 feet to the south, which in this pool allows
15	for only 150 feet of encroachment from the center of the
16	quarter-quarter section.
17	Q. What acreage will be dedicated to the well?
18	A. The acreage dedicated to the well will be an 80-
19	acre unit which will be the south half of the northeast
20	quarter of Section 36, which is currently owned by
21	Nearburg.
22	Q. And in what pool are you projecting the well?
23	A. This is going to be the Shipp-Strawn field Pool.
24	Q. Now, Mr. Shelton, there is a laydown 80-acre unit
25	in the Shipp-Strawn Pool, comprised of the north half of

1	the southeast quarter of Section 36, is there not?
2	A. That is correct, we were here at the last hearing
3	for an unorthodox location in that 80-acre spacing unit
4	also, which has been approved.
5	Q. The location we're seeking approval of today is
6	330 feet off the common lease line between this unit and
7	the one on the south; is that right?
8	A. That is correct.
9	Q. And the location that has been approved in the
10	offsetting unit to the south is also 330 feet off that
11	common boundary between the two spacing units?
12	A. That is correct. So they're both equal distance
13	from each other.
14	Q. You're familiar with the rules for the subject
15	pool, are you not?
16	A. Yes, I am.
17	Q. And what are the spacing and well-location
18	requirements that are set forth in those rules?
19	A. 80-acre spacing.
20	Q. And what is a standard location?
21	A. Standard location is center of the quarter-
22	quarter section or within 150 feet of the center of the
23	quarter-quarter.
24	Q. Have you prepared exhibits for presentation here
25	today?

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Yes, sir, I have. 1 Α. Let's go to what has been marked Nearburg Exhibit 2 ο. Number 1, and I'd ask you to identify this and review it 3 4 for the Examiner. This is a locator map of the general area which 5 Α. shows the 80-acre spacing unit anticipated to be dedicated 6 7 to the well. It also shows the approximate location of the well in the south half of the northeast quarter of Section 8 36. 9 Let's go now to Exhibit Number 2. Will you 10 0. 11 review that? Exhibit Number 2 is an ownership map. It shows 12 Α. the south half of the northeast quarter of Section 36, 13 which again will be the 80 acres dedicated to the well. It 14 shows the offsetting acreage to the south, which is the 15 acreage that's being encroached upon, and it shows the 16 17 surrounding sections. 18 The offset acreage to the south is owned by 19 Nearburg -- is under -- subject to an operating agreement, 20 which Nearburg Producing Company is the operator. The leasehold estate is owned by Nearburg Exploration Company, 21 McMillan Production Company and David Petroleum Corp. 22 And that is the tract on which this well is 23 ο. encroaching? 24 That is correct. 25 Α.

1	Q. Accordingly, there are Since you're the
2	operator of the offsetting tract, there are no interest
3	owners to whom notice is required pursuant to OCD rules; is
4	that correct?
5	A. That is correct.
6	Q. Will Nearburg be calling a geological witness to
7	review the technical portions of this case?
8	A. Yes, sir, we will.
9	Q. Were Exhibits 1 and 2 prepared by you?
10	A. They were prepared by me.
11	MR. CARR: Mr. Catanach, at this time we would
12	move the admission into evidence of Nearburg Exhibits 1 and
13	2.
14	EXAMINER CATANACH: Exhibits 1 and 2 will be
15	admitted as evidence.
16	Q. (By Mr. Carr) Mr. Shelton, one last question.
17	Who is going to actually be the operator of this well?
18	A. The operator of the well is Nearburg Producing
19	Company, will be the operator.
20	MR. CARR: That concludes my direct examination
21	of Mr. Shelton.
22	EXAMINATION
23	BY EXAMINER CATANACH:
24	Q. Mr. Shelton, who owns the interest in the
25	proposed proration unit?
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1	A. The leasehold ownership in that proration unit is
2	the same as in the southeast quarter: McMillan, David and
3	Nearburg.
4	Q. In the same proportions?
5	A. Yes, that's correct.
6	Q. So it's all common interest?
7	A. Yes, sir.
8	Q. Does that include the whole northeast quarter?
9	A. Yes, sir, it does.
10	Q. So essentially the whole east half is the same
11	common interest?
12	A. That is correct, yes, sir.
13	Nearburg acquired the interest in the northeast
14	quarter from various parties, and the other two companies,
15	McMillan and David Petroleum, have elected to participate
16	in that acquisition for their proportionate share. Those
17	assignments have not been made of record yet, but they are
18	subject to agreements which allow them to acquire their 40-
19	percent interest, and that election to acquire their
20	interest has been made.
21	Q. There has been a well drilled in the southeast
22	quarter?
23	A. No, it has not been drilled yet, no, sir. The
24	location exception was approved at the last OCD hearing, or
25	at least it was approved the order was issued between

1	the last hearing and this hearing.
2	Q. Do you know if McMillan and David will be
3	participating in both the wells?
4	A. No, they will not be.
5	Q. They will not?
6	A. Huh-uh.
7	EXAMINER CATANACH: Mr. McMillan, do you have any
8	questions of the witness?
9	MR. MCMILLAN: No.
10	EXAMINER CATANACH: Okay. The witness may be
11	excused.
12	MR. CARR: Mr. Catanach, at this time we would
13	call Jerry Elger.
14	JERRY B. ELGER,
15	the witness herein, after having been first duly sworn upon
16	his oath, was examined and testified as follows:
17	DIRECT EXAMINATION
18	BY MR. CARR:
19	Q. Would you state your name for the record, please?
20	A. Jerry Elger.
21	Q. And where do you reside?
22	A. In Midland, Texas.
23	Q. By whom are you employed?
24	A. By Nearburg Producing Company.
25	Q. What is your position with Nearburg?

1	Α.	Senior Exploration Geologist.
2	Q.	Mr. Elger, you've previously testified before
3	this Divi	sion, have you not?
4	Α.	Yes, I have.
5	Q.	At the time of that testimony, were your
6	credentia	ls as an expert witness in petroleum geology
7	accepted	and made a matter of record?
8	Α.	Yes, they were.
9	Q.	Are you familiar with the Application filed on
10	behalf of	Nearburg in this case?
11	Α.	Yes, I am.
12	Q.	Have you made a geological study of the area
13	surroundi	ng the proposed well?
14	Α.	Yes, I have.
15	Q.	And are you prepared to present the results of
16	that study	y to Mr. Catanach?
17	А.	Yes.
18		MR. CARR: Are the witness's qualifications
19	acceptable	e?
20		EXAMINER CATANACH: Yes, they are.
21	Q.	(By Mr. Carr) What is the primary objective in
22	this well	?
23	Α.	The primary objective is a porosity that's
24	developed	in association with algal mounds which occurred
25	and develo	oped during Strawn time.

1	Q. In developing your geological presentation, have
2	you utilized seismic information?
3	A. Yes, we have.
4	Q. Mr. Elger, at this time would you refer to
5	Nearburg Exhibits 3 and 4 and reviewing those together,
6	review the seismic end of your interpretation of this
7	formation?
8	A. Exhibits 3 and 4 First of all, this prospect
9	and the location that Nearburg is seeking is based almost
10	exclusively on the geophysics. Very little subsurface
11	control involved.
12	Nearburg participated in a 3-D shoot across this
13	project area, and the interpretation you see on Exhibit
14	Number 3 is Nearburg's geophysical interpretation of that
15	data.
16	The map on the left is a structure map on top of
17	the Strawn, again utilizing well control and the 3-D data.
18	The map on the right is an isochron map of the thickness of
19	the top of the Strawn to the top of the Atoka, also across
20	this prospect area.
21	You'll notice that there is a structural closure
22	in conjunction with this prospect at the proposed location,
23	and there is also a Strawn isochron time thick associated
24	with the proposed location.
25	These maps were developed on the basis of all of

the data, a portion of which is displayed on Nearburg
Exhibit Number 4.

One of the benefits to the 3-D data is the 3 ability to display arbitrary seismic lines in orientations 4 that tie wells and proposed locations. The arbitrary 5 seismic line displayed on Exhibit 4, arbitrary lines 126 6 7 and 127, for the most part, have tied the well controls surrounding the prospect and have been displayed in such a 8 manner that they run through legal locations in the 80-acre 9 proration unit, as well as the unorthodox location that's 10 the subject of this Application. Those have been 11 12 identified in the shot point columns at the top of each of 13 these lines, the red box being the -- where the two seismic lines cross at the proposed unorthodox location. 14

The isochron map is developed on the basis of the 15 blue trace on each of these seismic lines, which is the 16 signature for the top of the Strawn, and the time interval 17 from that blue marker to the top of the Atoka, which marks 18 the base of the Strawn, which is the green line. And 19 again, a structural closure develops across this acreage, 20 as displayed on the structure map, and a Strawn time thick 21 22 occurs in conjunction with the interpretation of this data 23 across the proposed location.

Q. Let's go to Nearburg Exhibit Number 5. I'd ask you to identify now and review that for Mr. Catanach.

1	A. Exhibit Number 5 is a geological interpretation
2	which incorporates the well control and the seismic
3	information.
4	Wells which are producing or have been producing
5	from these algal mound developments in the Strawn have
6	green circles around them, and the outline of the producing
7	areas has been shaded a green on this display.
8	The thickness of porosity that's developed in
9	association with each of these mounds is the number that
10	you see by each of these wells. And again, the
11	interpretation across the 80-acre the south half of the
12	northeast quarter of Section 36, which is the prospect
13	acreage, shows that an unorthodox drill site would have to
14	be utilized to or drilled in order to maximize or
15	minimize the risk on this acreage.
16	Q. Let's go now to your cross-section, Exhibit
17	Number 6. Can you review this for the Examiner, please?
18	A. Exhibit Number 6 is a structural cross-section
19	through the Strawn, tying the surrounding well control to
20	the proposed location.
21	There's one previous well drilled to the Strawn
22	in the northeast quarter of Section 36, and that well is
23	displayed as the second well from the right on A-A'. The
24	cross-section has been noted on all of these maps as A-A'.
25	That well was drilled by Sohio in probably incorp I

1	would assume incorporating 2-D seismic data, and no
2	porosity or algal mounds were encountered in that wellbore,
3	and the well was abandoned.
4	The other critical well to this prospect is in
5	the adjacent east section. It was drilled by Siete Oil,
6	and it's the well at A' on the cross-section. That well
7	encountered what I've interpreted as being eight feet of
8	algal mound development in the very top of the Strawn.
9	The well was perforated overall from
10	approximately 11,550 to nearly to 11,800. And I think
11	whatever production came from this wellbore came from that
12	little eight-foot development of algal-mound porosity
13	that's indicated in purple just below 11,600 on this
14	display.
15	The geological interpretation incorporating the
16	geophysics is that this mound development the mound
17	develops to the west across the area that's shaded green on
18	Exhibit Number 5 and ties this well this well marking
19	the easternmost boundary of that algal-mound development.
20	You'll notice the production cum at the base of
21	that well log. The well was not commercial from this thin
22	of a pay section. The well only made 4800 barrels of oil
23	and 11 million cubic feet of gas, which is basically a
24	dryhole.
25	Q. Mr. Elger, let's now go to Nearburg's production

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1	map, Exhibit Number 7. Would you review that for Mr.			
2	Catanach?			
3	A. Exhibit Number 7 shows, again, the history of the			
4	production in this prospect area. Again, the green circles			
5	indicate those wells that have been productive from the			
6	Strawn. Yellow and red and blue indicate various other			
7	formations that have been productive.			
8	You'll notice in the surrounding sections to the			
9	proposed location, the propensity of green circles			
10	indicating that basically the Strawn is the main producing			
11	horizon in this area.			
12	The field name appears above each cumulative			
13	production, which includes cumulative for oil, gas and			
14	water. And then the bottom three numbers, if the well is			
15	still active, incorporates the average barrels of oil per			
16	day, daily rate, the gas MCF per day and the barrels of			
17	water that's being produced per day.			
18	Q. Mr. Elger, in your opinion is a well at the			
19	proposed location necessary if Nearburg is to effectively			
20	produce the Strawn reserves under the subject spacing and			
21	proration unit?			
22	A. Yes, it is.			
23	Q. In your opinion, will approval of this			
24	Application and the drilling of the proposed well be in the			
25	best interests of conservation, the prevention of waste and			

the protection of correlative rights? 1 Yes, it will. 2 Α. Were Exhibits 3 through 7 prepared by you? 3 Q. 4 Α. Yes, they were. MR. CARR: At this time, Mr. Catanach, we would 5 move the admission into evidence of Nearburg Exhibits 3 6 7 through 7. EXAMINER CATANACH: Exhibits 3 through 7 will be 8 admitted as evidence. 9 MR. CARR: And that concludes my direct 10 11 examination of Mr. Elger. EXAMINATION 12 BY EXAMINER CATANACH: 13 Mr. Elger, has Nearburg utilized 3-D seismic to 14 0. drill Strawn wells in this area? 15 16 Α. Yes, we have. 17 ο. Successful? Mixed, actually. We have drilled -- We haven't 18 Α. 19 operated, but we've participated on the basis of a 3-D survey in a dryhole, in which no porosity was encountered 20 in the Strawn. And we have been successful to some degree. 21 The Sohio well encountered no porosity; is that 22 Q. correct? 23 That is correct. And that well is located -- I 24 Α. believe it's almost in the same 80-acre proration unit as 25

our Application, very close. 1 What thickness do you anticipate encountering in 2 0. your well? 3 I've interpreted approximately 60 feet, but 4 Α. that's based on conjecture, really. 5 I believe Gecko, who is the operator of numerous 6 other wells in this area, including the wells -- at least 7 two of the wells that are included on the cross-section 8 A-A', also utilized 3-D seismic interpretations to drill 9 these wells. 10 You can see the thickness of the porosity again. 11 It's been colored in purple on A' in each one of those 12 13 wellbores. Of course, they had some help. There was already 14 a previous Sohio well that was drilled in that quarter 15 section. Again based on the vintage of the well, I would 16 17 say probably it was a 2-D -- well based on 2-D interpretation. 18 But these wells -- The risk is that these wells, 19 20 number one, will make -- produce water. You'll see that the Gecko wells and -- The Sohio well, although -- even 21 though it encountered over 100 feet of algal-mound 22 porosity, only made 10,000 barrels of oil. 23 The cums for the Gecko wells will be better, but 24 they're not spectacular wells. They're really a kind of 25

	20
1	marginal setting, even though they have one of the wells
2	has 110 feet of porosity.
3	So the risk is that, number one, we've
4	misinterpreted the data, and the we will not encounter
5	porosity. Or we will encounter porosity but it will have
6	high water cuts, have high operating expenses and be really
7	marginal, in my opinion.
8	Q. This algal mound you're targeting, is this in
9	your opinion separate from the ones in the west half?
10	A. Yes, it is. The only well that I've interpreted
11	as having penetrated that particular mound is the Siete
12	well over in the adjacent section, and again it only had
13	eight feet of porosity, and I've interpreted that well, and
14	based on what we see with the geophysics, as being on the
15	eastern margin of the mound that we're chasing.
16	Q. Where is your other unorthodox location in the
17	southeast quarter? Do you recall what the footage is on
18	that?
19	A. 660 from the east line, and I believe it's 2310
20	from the south line.
21	MR. CARR: Right, that's right.
22	EXAMINER CATANACH: Mr. Carr, do you by any
23	chance have that order number that approved that?
24	MR. CARR: Mr. Catanach, I don't. It was
25	entered, I believe, last either Thursday or Friday.
-	

Do you have that? 1 MR. SHELTON: I have it. 2 3 MR. CARR: Just a second, we can give you the order number. 4 (By Examiner Catanach) What's Nearburg's intent 5 Q. with respect to which well will be drilled first? Do you 6 know that? 7 I don't really know that. That's handled with 8 Α. our drilling department, the drilling schedule. 9 MR. CARR: Mr. Catanach, the order is Order 10 11 R-10,613, dated June 19. I would note also that we do have a rig available 12 as of the 15th of July to start the first of these two 13 14 wells. EXAMINER CATANACH: Which is the first? 15 16 MR. CARR: Which is the first, Mr. Elger? 17 THE WITNESS: I don't know. MR. CARR: It's the one that isn't the second. 18 MR. SHELTON: It's the one with the title to it. 19 20 EXAMINER CATANACH: I believe that's all I have of the witness. 21 MR. CARR: That concludes our presentation in 22 23 this case. 24 EXAMINER CATANACH: Did you have anything, Mr. McMillan? 25

1	EXAMINATION
2	BY MR. MCMILLAN:
3	Q. Yes, I'm sorry, Jerry, I missed you. Which
4	location do you all plan to drill first?
5	A. I don't know. I don't know which location we'll
6	be drilling first. That's all subject to scheduling of
7	drilling rigs and clearances through our drilling
8	department.
9	MR. McMILLAN: Okay, thanks.
10	EXAMINER CATANACH: Okay, there being nothing
11	further in this case, Case 11,554 will be taken under
12	advisement.
13	(Thereupon, these proceedings were concluded at
14	9:07 a.m.)
15	* * *
16	
17	
18	
19	
20	1 de hereby cer#fy that the foregoing is
21	a complete record of the proceedings in/ the Examiner hearing of Case No. //52
22	voard by me on 10ne 27 1996.
23	Oil Conservation Division
24	
25	

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)) ss. COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL June 28th, 1996.

li m-STEVEN T. BRENNER

CCR No. 7

My commission expires: October 14, 1998

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BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico

Case No. 11554 Exhibit No. 1

Submitted by: Nearburg Exploration Company

Hearing Date: June 27,1996

NEARBURG EXPLORATION COMPANY, L.L.C. NEARBURG PRODUCING COMPANY, OPERATOR NUEVE "36" NO. 1 WELL 2310' FNL & 1200' FEL SECTION 36, T-16-S, R-37-E LEA COUNTY, NEW MEXICO OCD CASE NO. 11554 JUNE 27, 1996



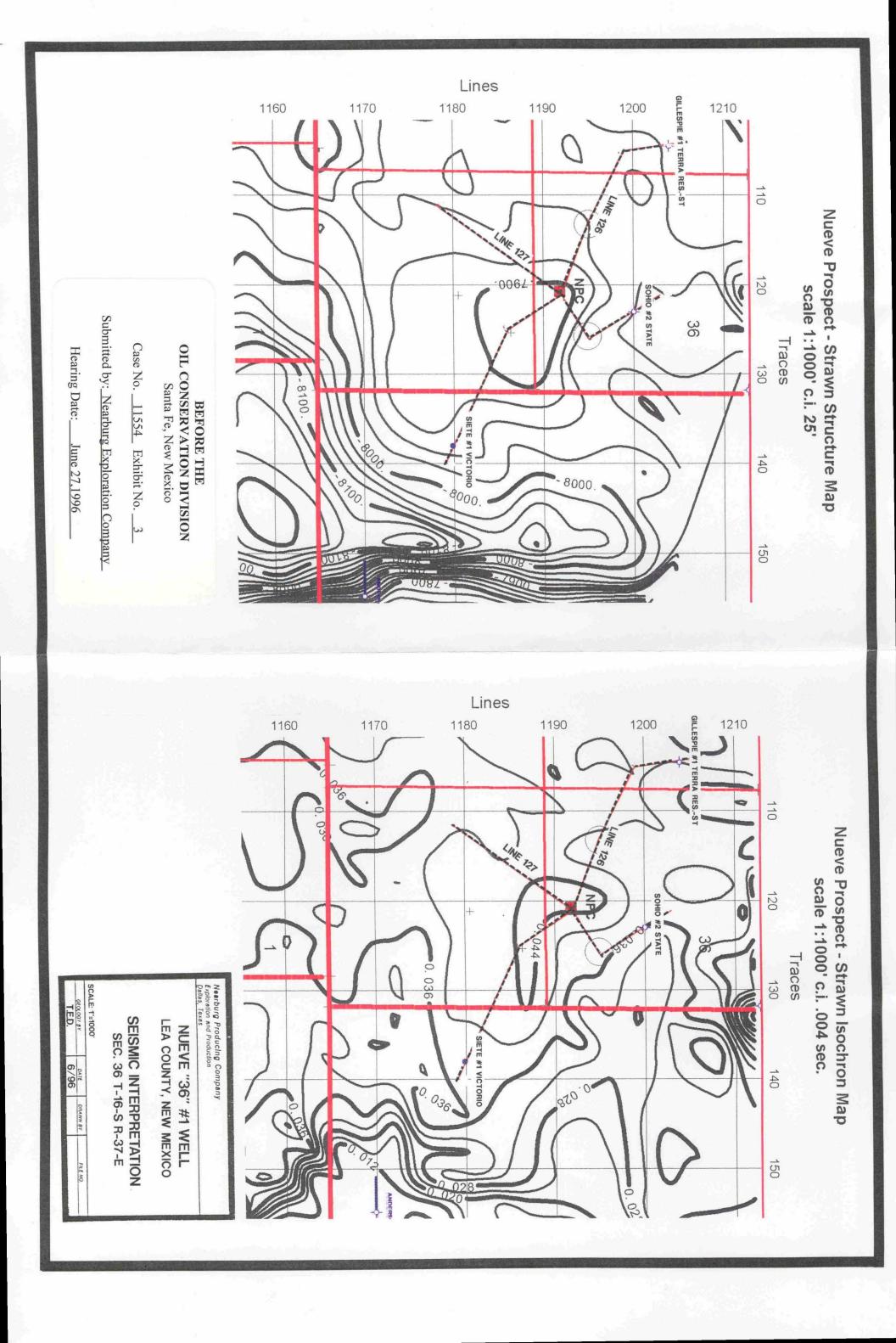
Exhibit #2

BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico

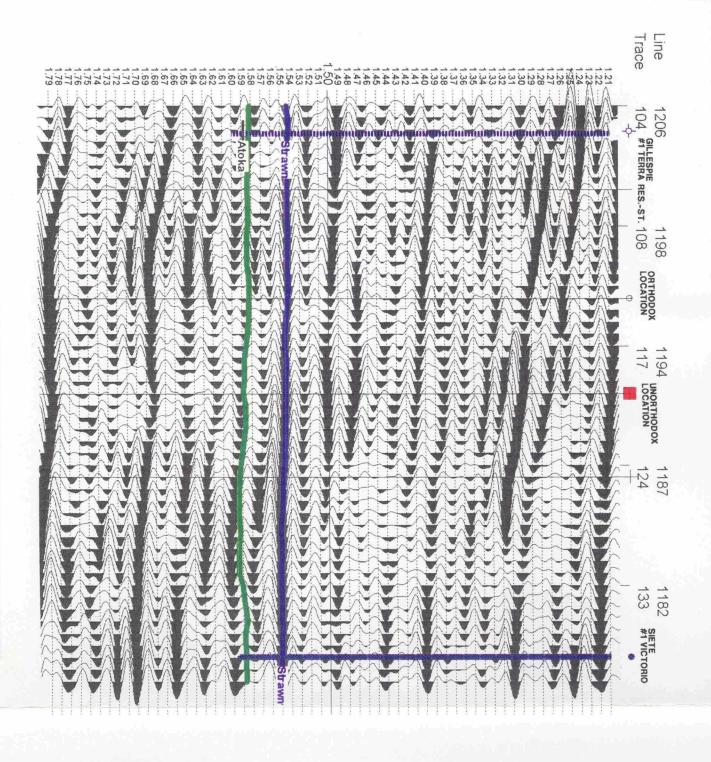
Case No. 11554 Exhibit No. 2

Submitted by: <u>Nearburg Exploration Company</u>

Hearing Date: June 27,1996



Nueve Line 126 thru Terra dry hole, legal location, NPC location and Seite well



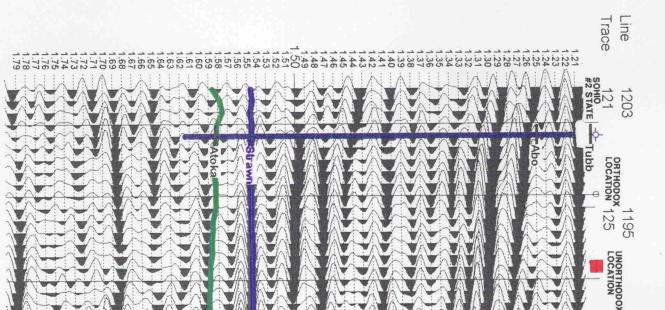
Hearing Date: June 27,1996

Submitted by: Nearburg Exploration Company

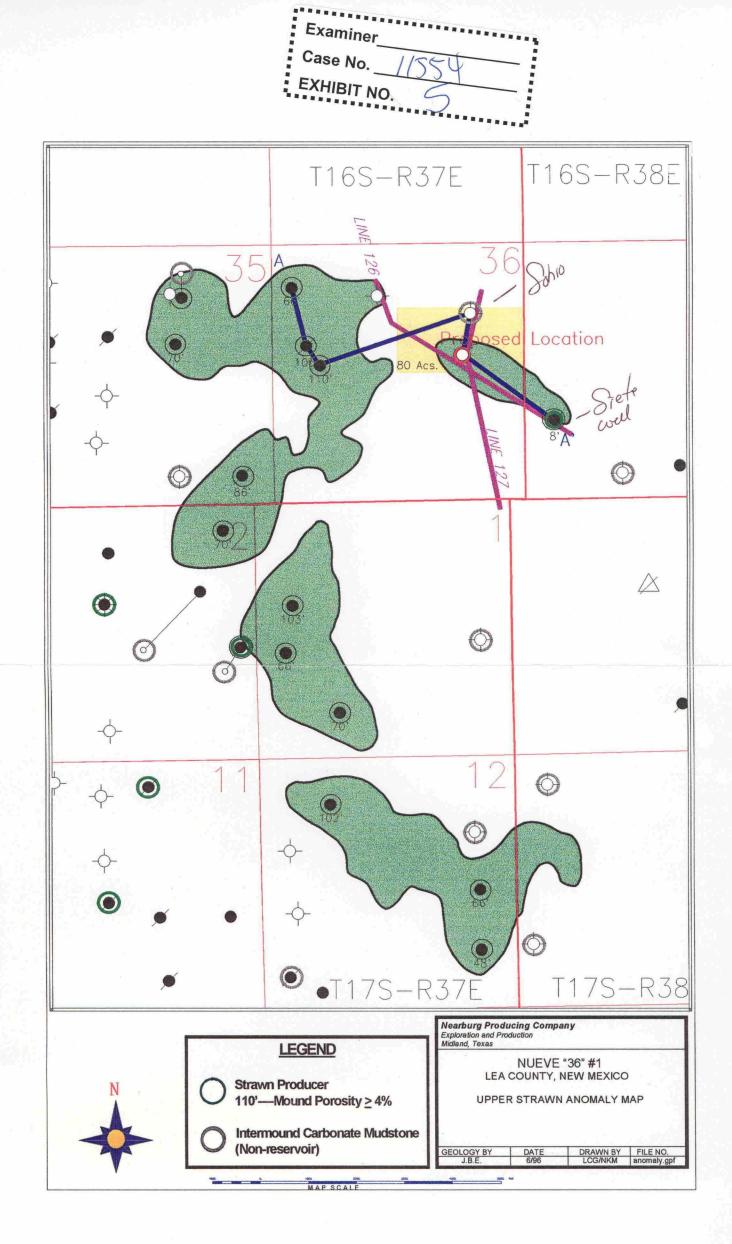
Case No. 11554 Exhibit No. 4

BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico

Nueve Line 127 thru Sohio dry hole



Nerburg Producing Company Exploration and Production Dates Texas NUEVE "36" #1 WELL LEA COUNTY, NEW MEXICO ARBITRARY SEISMIC LINES 126 & 127 126 & 127 <u>T.E.D. 6/96 01414 11640</u>	1189 1180 118 112	ole, legal location and NPC location



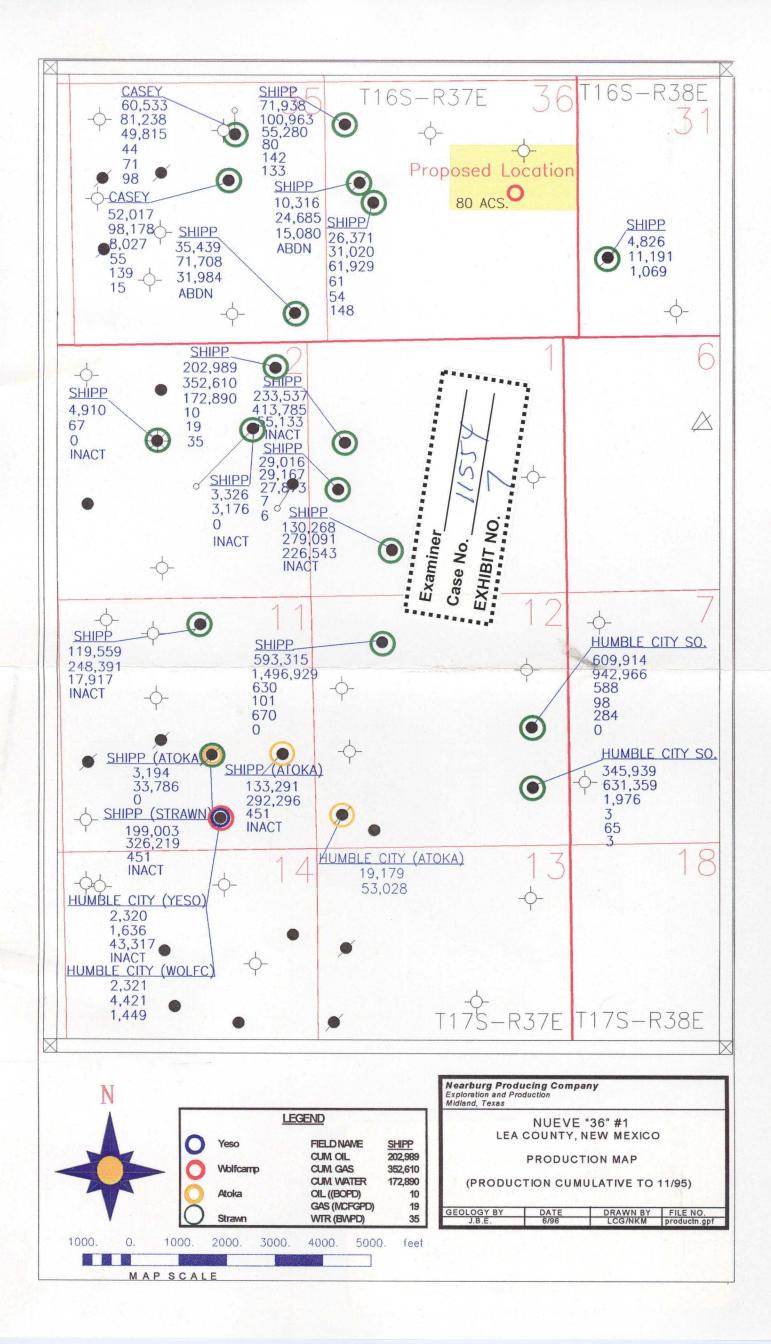
BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico

Case No. <u>11554</u> Exhibit No. <u>5</u>

Submitted by: Nearburg Exploration Company

Hearing Date: June 27,1996

LARGE FORMAT EXHIBIT HAS BEEN REMOVED AND IS LOCATED IN THE NEXT FILE



BEFORE THE OIL CONSERVATION DIVISION Santa Fe, New Mexico

Case No. 11554 Exhibit No. 7

Submitted by: <u>Nearburg Exploration Company</u>

Hearing Date: June 27,1996