

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date NOVEMBER 5, 1998 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
Jerry Elger	Nearburg Prod	Midland
Duke Roush	"	"
Doug Hundert	Yates Pet	Artesia
Brent May	"	"
Jim Gillespie	Hinkle, Cox & al	Roswell
Terry Durham	Nearburg Prod Co.	Midland
William F. [unclear]	[unclear], [unclear], [unclear]	Santa Fe
Kevin E. O'Connell	Hallwood Per. Inc	Denver
Chuck Dommer	"	"
Lois Dodds	" " "	"
Michael Shear	West Oil	Santa Fe
DALE DONOFRAS	ARRINGTON	MIDLAND
Bill Baker	ARRINGTON	MIDLAND
[Signature]	[Signature]	Santa Fe
Robert C. Leibrock	Amerind Oil Co.	Midland
DAMIAN BARROT	JOHN H. HENDERSON CORP	" "

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:) CASE NO. 12,072
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

ORIGINAL
98 NOV 19 PM 2:42
OIL CONSERVATION DIV

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

November 5th, 1998
Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, November 5th, 1998, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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November 5th, 1998
 Examiner Hearing
 CASE NO. 12,072

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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By: W. THOMAS KELLAHIN

FOR DAVID H. ARRINGTON OIL AND GAS:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
Suite 1 - 110 N. Guadalupe
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 8:20 a.m.:

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6 EXAMINER CATANACH: At this time we'll call Case
7 12,072.

8 MR. CARROLL: Application of Nearburg Exploration
9 Company, L.L.C., for compulsory pooling, Eddy County, New
10 Mexico.

11 EXAMINER CATANACH: Call for appearances in this
12 case.

13 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of
14 the Santa Fe law firm of Kellahin and Kellahin, appearing
15 on behalf of the Applicant, and I have two witnesses to be
16 sworn.

17 EXAMINER CATANACH: Any additional appearances?

18 MR. CARR: May it please the Examiner, my name is
19 William F. Carr with the Santa Fe law firm Campbell, Carr,
20 Berge and Sheridan. We represent David H. Arrington Oil
21 and Gas.

22 I have no witnesses.

23 EXAMINER CATANACH: Okay, will the witnesses
24 please stand to be sworn in?

25 (Thereupon, the witnesses were sworn.)

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DUKE W. ROUSH,

the witness herein, after having been first duly sworn upon his oath, was examined and testified as follows:

DIRECT EXAMINATION

BY MR. KELLAHIN:

Q. Mr. Roush, for the record, sir, would you please state your name and occupation?

A. My name is Duke Roush, R-o-u-s-h. I'm a senior landman for Nearburg Exploration Company, L.L.C.

Q. On prior occasions have you qualified before the Division as an expert in petroleum land matters?

A. Yes, I have.

Q. And are you familiar with the Nearburg interest in the proposed spacing unit that's the subject matter of this case?

A. Yes, I am.

Q. In addition, are you familiar with the balance of the interest owners in this proposed spacing unit?

A. Yes, I am.

Q. And you're here today to testify on Nearburg's efforts to consolidate these interests on a voluntary basis?

A. That's correct.

MR. KELLAHIN: We tender Mr. Roush as an expert petroleum landman.

1 EXAMINER CATANACH: Mr. Roush is so qualified.

2 Q. (By Mr. Kellahin) If you'll turn, sir, to what
3 is marked as Exhibit 1 and identify that plat for us?

4 A. Yes, this is a locator plat showing the location
5 of the Poco Mesa "26" Fed Com Number 1 well. It's showing
6 the north-half proration unit, and it shows the ownership,
7 Nearburg owning the northeast quarter and Dale Douglas, the
8 lessee of record, shown owning the northwest quarter.

9 Q. In the northeast quarter, has Nearburg
10 consolidated the working interest ownership in that quarter
11 section?

12 A. Yes, they have.

13 Q. The balance, then, of a 320-acre spacing unit is
14 subject to a federal lease, is it?

15 A. Yes, it is.

16 Q. And at the time the lease was issued, to whom was
17 it issued?

18 A. It was issued to Dale Douglas.

19 Q. To the best of your knowledge, who now controls
20 the decision about committing the working interest
21 ownership in that lease to this project?

22 A. David Arrington Oil and Gas, Inc.

23 Q. Is the proposed Nearburg well at a standard well
24 location, to the best of your knowledge?

25 A. Yes, it is.

1 Q. And the purpose of the pooling, then, is, in the
2 absence of voluntary agreement, to consolidate a 320-acre
3 spacing unit in the event there is production below the top
4 of the Wolfcamp?

5 A. That's correct.

6 Q. The principal target being the Morrow formation?

7 A. Yes.

8 Q. All right, sir. Let's turn to Exhibit Number 2
9 and have you identify and describe this display.

10 A. This is an ownership plat showing the ownership
11 of Nearburg in the northeast and David H. Arrington/Dale
12 Douglas in the northwest. It shows the location being 1650
13 from the east, 660 from the north, Section 26, Township 18
14 South, Range 24 East.

15 Q. All right, sir. Let's turn to Exhibit 3 and have
16 you identify and describe the first page of Exhibit 3.

17 A. That is the initial well proposal. It was sent
18 to Mr. Douglas, who at the time was the record lessee.

19 Q. And the date of this letter is what, sir?

20 A. I'm sorry, August 31st. It sets forth the depth,
21 the proration unit and the location.

22 Q. Did the letter also include a proposed AFE?

23 A. It included an AFE, and also a joint operating
24 agreement went out with it.

25 Q. All right, sir. Let's turn past the first page

1 and then past the AFE. The well proposal was sent
2 certified mail?

3 A. Yes, it was.

4 Q. And you have verification of that?

5 A. Yes, I do.

6 MR. KELLAHIN: Mr. Carroll, did I give you the
7 same copy of this exhibit?

8 MR. CARROLL: Oh, you flip-flopped the letters,
9 October 12th and August 31st letter.

10 MR. KELLAHIN: Let me trade with you so we'll
11 have the same sequence that we're talking about.

12 MR. CARROLL: Thank you.

13 Q. (By Mr. Kellahin) All right, sir. Following the
14 correspondence on August 31st, what is the next
15 correspondence?

16 A. It's a letter dated October 12th, whereby we
17 proposed the well to David H. Arrington Oil and Gas, Inc.

18 This was from a conversation we had with Mr.
19 Douglas on the 5th of October, where he advised us that he
20 was going to -- he had purchased this acreage from Mr.
21 Arrington, and then we had some conversations with Mr.
22 Douglas again, provided him some information and sent this
23 letter out proposing the location, as stated before, and in
24 addition provided him with copies of the mud log and
25 electric logs that Nearburg drilled in Mucho Mesa, the "24"

1 State Number 1.

2 Q. Okay. The compulsory-pooling Application was
3 filed approximately October 13th, Mr. Roush. Prior to that
4 date, was there any response from Mr. Douglas or Mr.
5 Arrington, other than having Mr. Douglas tell you that the
6 interest was controlled by Mr. Arrington?

7 A. No.

8 Q. The Application is then filed, and after the
9 Application is filed, is there any further correspondence
10 by Nearburg to Mr. Arrington?

11 A. Yes, we mailed a letter October 27th, offering to
12 show Mr. Arrington the geological information we had
13 available for this prospect, under the agreement that he
14 would either participate for his one half or grant us the
15 term assignment, a one-year term assignment.

16 Q. Yesterday in response to this letter, did you
17 have an indication from Mr. Arrington that he may be
18 willing to discuss with you farming out his interest on
19 terms yet to be negotiated?

20 A. That's correct.

21 Q. In the event you're successful in reaching a
22 voluntary agreement with Mr. Arrington, then, we could ask
23 the Division either to dismiss the pooling case, or, if the
24 order is issued, we'll advise them that it's no longer
25 desired?

1 A. That's correct.

2 Q. Okay, let's turn to the operating agreement, Mr.
3 Roush. Would you identify and describe this document?

4 A. Yes, this is the proposed operating agreement
5 that went out with all of the proposals that we just
6 described. It covers the north half of Section 26,
7 Township 18 South, Range 24 East.

8 Q. In the event you're not able to reach a voluntary
9 agreement for farming in Mr. Arrington's interest, then he
10 would have the option to participate either voluntarily
11 under this joint operating agreement, or voluntarily under
12 a pooling order in which you would operate the well in
13 accordance with this agreement?

14 A. That's correct.

15 Q. Do you have a proposed overhead rate to include
16 in any compulsory-pooling order issued by the Division for
17 this well?

18 A. Yes, we do.

19 Q. And what is that rate?

20 A. \$6000 and \$600.

21 Q. Is that a rate consistent with what Nearburg is
22 charging others and what others charged Nearburg for
23 operating costs for wells in this area to this depth?

24 A. Yes.

25 MR. KELLAHIN: That concludes my examination of

1 Mr. Roush.

2 We move the introduction of his Exhibits 1
3 through 4.

4 EXAMINER CATANACH: Exhibits 1 through 4 will be
5 admitted as evidence.

6 Mr. Carr, do you have any questions?

7 MR. CARR: No, we have no questions.

8 EXAMINATION

9 BY EXAMINER CATANACH:

10 Q. Mr. Roush, were there any interests in the
11 northeast quarter that you did consolidate, or is that all
12 Nearburg?

13 A. It's all Nearburg as to the two leases.

14 Q. And you found out approximately October that
15 Douglas was not in charge of that northwest quarter?

16 A. Yeah, we called Dale -- After Dale received our
17 proposal he finally called us and said that he had
18 purchased the lease in the capacity of a broker for Mr.
19 Arrington.

20 Q. And so your first notification to Arrington was
21 October 12th?

22 A. That's correct.

23 Q. And you filed a compulsory-pooling Application on
24 October 13th.

25 Has Mr. Arrington expressed any concern over the

1 short time frame that he's had to review that?

2 A. No, he has not.

3 Q. Do you anticipate reaching an agreement with
4 Arrington?

5 A. We hope to, yes, sir.

6 EXAMINER CATANACH: I have no further questions.

7 MR. KELLAHIN: Mr. Examiner, Exhibit 5 is my
8 certificate of mailing notice for hearing. We would
9 request that Exhibit 5 be admitted into the record at this
10 time.

11 EXAMINER CATANACH: Exhibit 5 will be admitted as
12 evidence.

13 MR. KELLAHIN: Mr. Examiner, our next witness is
14 a geologist. His name is Jerry Elger.

15 JERRY B. ELGER,

16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. KELLAHIN:

20 Q. Mr. Elger, for the record, sir, would you please
21 state your name and occupation?

22 A. Jerry Elger, I'm an exploration geologist.

23 Q. Mr. Elger, was it your responsibility to evaluate
24 the geologic risk involved in drilling this well?

25 A. Yes, it is.

1 Q. And as a result of your study, do you have an
2 opinion for the Examiner as to what an appropriate risk
3 factor penalty would be for a compulsory-pooling order for
4 this well?

5 A. Yes, I do.

6 Q. And what is that opinion?

7 A. It's cost plus 200 percent.

8 Q. Let's turn to your Exhibit 6, and let's look also
9 at Exhibit 7. Exhibit 6 is your isopach, Exhibit 7 is your
10 cross-section.

11 The primary objective of this well is the Morrow
12 formation?

13 A. That's correct.

14 Q. Describe for us the reasons, sir, that you have
15 for supporting your ultimate conclusion that a 200-percent
16 risk-factor penalty is appropriate in this case.

17 A. Well, first on the Exhibit Number 6, let me
18 identify what the color-coding and shading here is.

19 The wells that are shaded red are productive from
20 the Morrow channel sequence, which is the target for this
21 proposed test. Wells that are shaded gray have no sand in
22 this equivalent package within the Morrow.

23 The cross-section A-A' runs along strike of this
24 channel and incorporates a number of wells in the adjacent
25 township and then two wells which were drilled in the

1 adjacent section, that being Section 24.

2 The well at A, or the far left on this cross-
3 section, is a recent well drilled by Nearburg Producing
4 Company. That was our Mucho Mesa "24" State Number 1.

5 That well was production-tested in two Morrow
6 sands that you see perforations set, marked on the depth
7 column of that particular log. And we were unable to
8 establish production from the Morrow in that well and ended
9 up plugging that well back to a secondary objective, which
10 was the Cisco/Canyon formation.

11 In that we're west, the west projection of this
12 channel system across the south half of 23 and the north
13 half of 26, there's not a lot of well control in the
14 immediate vicinity of this proposed test to help us
15 identify and locate for certain that this channel will
16 extend into the north half of Section 26, and therefore it
17 represents a risky location.

18 Q. Let's look at your data to control the location
19 of the channel in a northwest direction.

20 A. Well, the --

21 Q. You seem to have an absence of control to
22 specifically pinpoint whether or not this Morrow channel --

23 A. That's right, the Morrow --

24 Q. -- even is under the spacing unit?

25 A. That's right, the Morrow channel could, in fact,

1 be more centrally located across Section 23, and I've
2 identified a well with four feet of sand over in the -- to
3 the west in Section 22.

4 And that well, the remnant of this particular
5 sand channel that's in that well could be, in fact, on the
6 south side of the channel, rather than on the north side,
7 as I've depicted on this exhibit.

8 Q. The lack of control, then, north and west, is a
9 significant item in analyzing the reasons for the risk-
10 factor penalty?

11 A. Yes.

12 Q. Let's look at the ability to have data in a
13 westerly direction from Section 26 and see to what extent
14 that poses a risk to you.

15 A. Well, again, the existing well control on that
16 direction is located, a well in the south portion of
17 Section 27, and in fact it's unorthodox and located in the
18 southeast-southeast of that particular section. There's no
19 other well control in Section 27. And that's a location
20 that's in excess of a mile from where we're proposing to
21 drill.

22 Q. All of these wells in the immediate offsetting
23 spacing unit surrounding it have not been successful in
24 this Morrow interval?

25 A. That's correct.

1 Q. And the latest one drilled is the southwest of
2 24, and that too failed to produce out of this interval?

3 A. That's correct.

4 MR. KELLAHIN: Mr. Examiner, that concludes my
5 examination of Mr. Elger.

6 We move the introduction of his Exhibits 6 and 7.

7 EXAMINER CATANACH: Exhibits 6 and 7 will be
8 admitted as evidence.

9 EXAMINATION

10 BY EXAMINER CATANACH:

11 Q. Mr. Elger, the well in Section 24 that you just
12 drilled, that did encounter 16 feet of sand?

13 A. That's correct.

14 Q. But was still nonproductive?

15 A. That's correct. We encountered two sands in the
16 Morrow section.

17 The sand which is isopached on this
18 representation for Exhibit Number 6 is the darker-shaded
19 yellow, which is the uppermost sand package. That sand was
20 developed to 34 feet of thickness in the adjacent well in
21 the northeast quarter of Section 24.

22 And that well, I've written the -- on this
23 Exhibit 6 I've also incorporated how much gas has been
24 produced from each one of these individual wells.

25 So this is also a production map, in addition to

1 an isopach map. And that well has produced 1.2 BCF gas and
2 is virtually gone. It's currently -- current daily rate is
3 26,000 cubic feet per day.

4 And in fact, as you work your way back to the
5 east from this whole area, the best well in terms of
6 current producibility is a well in the south half of
7 Section 20, and that well has made 9.5 BCF, and current
8 daily rate is about a quarter of a million a day.

9 Q. So to make a well in this sand, are you saying
10 that you need to encounter that thicker section?

11 A. That's correct.

12 Q. Has there been a well drilled in Section 26? The
13 one in the south half, has that been drilled, or is that --

14 A. Yes.

15 Q. And that encountered four feet?

16 A. Four feet of sand, that's correct.

17 Q. And that was nonproductive?

18 A. No. In fact, those two wells show up as oil
19 symbols primarily because there is a little bit of
20 production in the Glorieta Yeso section, and they made very
21 marginal wells from that particular interval.

22 EXAMINER CATANACH: Okay, I have nothing further
23 of this witness.

24 MR. KELLAHIN: That concludes our presentation,
25 Mr. Examiner.

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EXAMINER CATANACH: Okay, there being nothing further in this case, Case 12,072 will be taken under advisement.

(Thereupon, these proceedings were concluded at 8:38 a.m.)

* * *

Case No. 12072
 Date of Hearing 11/5/98
 Heard by David R. Catanach
 Ct. Conservation Division

