

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. 12,413
)	
APPLICATION OF NEARBURG EXPLORATION)	
COMPANY, L.L.C., FOR COMPULSORY POOLING,)	
LEA COUNTY, NEW MEXICO)	
)	ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

July 13th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner on Thursday, July 13th, 2000, 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.

* * *

OIL CONSERVATION DIV.
CO JUL-21 AM 5:02

I N D E X

July 13th, 2000
Examiner Hearing
CASE NO. 12,413

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A P P E A R A N C E S

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 By: MICHAEL FELDEWERT

* * *

1 WHEREUPON, the following proceedings were had at
2 2:16 p.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,413,
4 Application of Nearburg Exploration Company, L.L.C., for
5 compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

7 MR. FELDEWERT: Michael Feldewert with the law
8 firm of Campbell, Carr, Berge and Sheridan for the
9 Applicant, Nearburg Exploration.

10 EXAMINER ASHLEY: Do you have any witnesses?

11 MR. FELDEWERT: We will have two witnesses.

12 EXAMINER ASHLEY: Additional appearances?

13 Will the witnesses please rise to be sworn in?

14 (Thereupon, the witnesses were sworn.)

15 MARK WHEELER,

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. FELDEWERT:

20 Q. Would you please state your name for the record?

21 A. Mark Wheeler.

22 Q. And where do you reside?

23 A. Midland, Texas.

24 Q. And by whom are you employed?

25 A. Nearburg Exploration Company.

1 Q. What is your current position with Nearburg
2 Exploration Company?

3 A. Senior landman.

4 Q. Have you previously testified before this
5 Division?

6 A. Yes, I have.

7 Q. As an expert witness in petroleum land matters?

8 A. Yes.

9 Q. At the time of that testimony, were your
10 credentials as an expert in petroleum land matters accepted
11 and made a matter of record?

12 A. Yes, they were.

13 Q. Are you familiar with the Application that's
14 filed in this case?

15 A. Yes, sir.

16 Q. And are you familiar with the status of the lands
17 in the subject area?

18 A. Yes, sir.

19 MR. FELDEWERT: Mr. Ashley, at this point I would
20 tender Mr. Wheeler as an expert witness in petroleum land
21 matters.

22 EXAMINER ASHLEY: Mr. Wheeler is so qualified.

23 Q. (By Mr. Feldewert) Would you briefly state, Mr.
24 Wheeler, what Nearburg seeks with this Application?

25 A. Nearburg seeks an order pooling all minerals from

1 the surface to the base of the Morrow formation under the
2 north half of Section 13, 19 South, 33 East, Lea County,
3 New Mexico, in the following manner:

4 The north half for all formations developed on
5 320-acre spacing, being in the Undesignated North Quail
6 Ridge-Morrow Gas Pool or the Undesignated East Gem-Morrow
7 Gas Pool;

8 The northeast quarter for all formations or pools
9 developed on 160-acre spacing in the Undesignated Quail
10 Ridge-Yates Gas Pool;

11 And the southwest quarter, northeast quarter, for
12 all formations or pools developed on 40-acre spacing in the
13 Undesignated Tonto-Seven Rivers Pool, Undesignated Tonto-
14 Wolfcamp Pool, the Undesignated Southeast Buffalo-Bone
15 Spring Pool, and the Undesignated East Gem-Delaware Pool.

16 This would be dedicated to our Stetson 13 Federal
17 Number 1 well, to be drilled at a standard location in the
18 southwest quarter, northeast quarter of Section 13, 1650
19 feet from the north line and 1650 feet from the east line
20 of Section 13.

21 Q. I think the Application may have talked about a
22 Fed Com well. Are you contemplating a name change to the
23 well?

24 A. Yes, sir, we will not need to communitize this
25 well, as the entire north half is one federal lease. So

1 the "Com" should be stricken from the order.

2 Q. Have you prepared some exhibits today?

3 A. Yes, I have.

4 Q. Would you turn to Nearburg Exhibit Number 1 and
5 identify and review that for the Examiner?

6 A. This is a land locator map showing the proposed
7 north-half spacing unit, the proposed well location and the
8 ownership in the area.

9 Q. What is the status of the acreage in the north
10 half of Section 13 that's shown on Exhibit 1?

11 A. It's all federal acreage.

12 Q. And is your well shown on that exhibit?

13 A. Yes, sir, it's shown with a red dot in the
14 southwest-northeast.

15 Q. And what is the primary objective of your
16 proposed well?

17 A. The Morrow formation.

18 Q. Okay, I'd like to have you turn to and identify
19 and review Nearburg Exhibit Number 2.

20 A. Exhibit Number 2 is an ownership breakdown as of
21 July 10th on the north half of Section 13. It shows the
22 owners in the various zones. There are three different
23 horizons that have different ownerships. And then at the
24 end on the right side, it shows the status of how many
25 parties have signed our AFE and the party, EOG Resources,

1 that we have a pending farmout on.

2 Q. Have you been able to contact all of the owners
3 on this list?

4 A. Yes, we have.

5 Q. Can you provide us with the percentage of the
6 working interest owners that are voluntarily committed to
7 the well?

8 A. Currently, that percentage is approximately 67
9 percent, but we do have a farmout pending with EOG
10 Resources that will bring that percentage close to 99
11 percent.

12 Q. And you've identified Nearburg's interest on here
13 as NEC; is that right?

14 A. Yes, we have.

15 Q. Okay. And which of the interest owners on here,
16 then, would be subject to your pooling Application at this
17 point?

18 A. At this point EOG would still be subject until we
19 get our farmout in, along with all the parties that have
20 nothing shown beside them in the status column. The
21 parties that have signed an AFE will not be subject to this
22 pooling.

23 Q. Mr. Wheeler, in your opinion, has Nearburg made a
24 good faith effort to locate all the individuals and obtain
25 their voluntary joinder in this proposed well?

1 A. Yes, sir, we have.

2 Q. Why don't you summarize your efforts to obtain a
3 voluntary joinder of all the affected owners?

4 A. We forwarded an AFE dated March 31st, 2000, to
5 all the owners in the north half. We received all of the
6 green cards back, certified mail, showing that everyone had
7 received those, and we subsequently have had some
8 conversations with some of the owners, and we have received
9 in this Exhibit Number 3, which details our efforts, we
10 have received AFEs, signed, back from a number of the
11 parties.

12 Q. Turning to Exhibit Number -- Is Exhibit Number 3
13 a compilation of your efforts to contact the working
14 interest owners in this property?

15 A. Yes, sir.

16 Q. Whose handwriting is that on the first page where
17 it says "all green cards received"?

18 A. That is my secretary, Dee Dee Walton.

19 Q. Okay, all right. Why don't you turn to Nearburg
20 Exhibit Number 4 and identify and review that, please?

21 A. This is Nearburg's AFE for the Stetson 13 Number
22 1 well.

23 Q. And this is the AFE that you sent out to the
24 working interest owners in the property?

25 A. Yes, sir.

1 Q. What are the totals that are set forth on this
2 exhibit?

3 A. Dryhole total is \$877,119, and a completed well
4 cost of \$1,279,607.

5 Q. Mr. Wheeler, are those costs in line with what
6 has been charged by other operators in the area for similar
7 wells?

8 A. Yes, they are.

9 Q. Have you made an estimate of the overhead and
10 administrative costs while drilling this well and also
11 while producing this well, if it is successful?

12 A. Yes, sir, \$6000 a month during the drilling phase
13 and \$650 a month during the producing phase.

14 Q. Mr. Wheeler, are these costs in line with what is
15 being charged by operators in the area?

16 A. For similar wells, yes, sir.

17 Q. Do you recommend that these figures be
18 incorporated in any order that results from this hearing?

19 A. Yes, sir.

20 Q. Does Nearburg request that the overhead figures
21 approved by the Division be subject to adjustments in
22 accordance with any COPAS guidelines applicable to other
23 interest owners in the well?

24 A. Yes, sir.

25 Q. Do you have Nearburg Exhibit Number 5 in front of

1 you?

2 A. Yes, sir.

3 Q. Is this an affidavit with attached letters giving
4 notice of this hearing to the affected parties?

5 A. Yes, sir, it is.

6 Q. Does Nearburg Producing Company, L.L.C., seek to
7 be designated operator of the proposed well?

8 A. Yes, sir.

9 Q. How soon does Nearburg plan to spud this well,
10 Mr. Wheeler?

11 A. We plan to spud it on or before the 15th of
12 October in order to satisfy a term assignment expiring that
13 we have, covering the north half of Section 13 and some
14 other acreage.

15 Q. Because of that term assignment, would you
16 request that this order be expedited?

17 A. Yes, sir.

18 Q. Were Exhibits 1 through 6 prepared by you or
19 compiled at your direction and supervision?

20 A. 1 through 5.

21 MR. FELDEWERT: I'm sorry, 1 through 5, yes, sir.

22 Mr. Examiner, at this time I would move the
23 admission into evidence of Nearburg Exhibits 1 through 5.

24 EXAMINER ASHLEY: Exhibits 1 through 5 will be
25 admitted as evidence.

1 MR. FELDEWERT: At this time, this concludes my
2 examination of this witness.

3 EXAMINER ASHLEY: I have nothing further. Thank
4 you, Mr. Wheeler.

5 THE WITNESS: Thank you.

6 MR. FELDEWERT: Mr. Examiner, we would then call
7 Jerry Elger.

8 JERRY B. ELGER,
9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. FELDEWERT:

13 Q. Would you please state your full name and place
14 of residence?

15 A. Jerry Elger, and I reside in Midland, Texas.

16 Q. Would you please state your full name and place
17 of residence?

18 A. Jerry Elger, and I reside in Midland, Texas.

19 Q. Mr. Elger, by whom are you employed and in what
20 capacity?

21 A. By Nearburg Producing Company as exploration
22 geologist.

23 Q. Have you previously testified before this
24 Division or one of its Examiners?

25 A. Yes, I have.

1 Q. Have you credentials as a petroleum geologist
2 been accepted and made a matter of public record?

3 A. Yes, they were.

4 Q. Are you familiar with the Application that was
5 filed in this case?

6 A. Yes, I am.

7 Q. Have you made a technical study of the area which
8 is the subject of this Application?

9 A. Yes, I have.

10 Q. And are you prepared to share the results of your
11 work with the Examiner?

12 A. Yes, I am.

13 MR. FELDEWERT: Are the witness's qualifications
14 acceptable?

15 EXAMINER ASHLEY: They are.

16 Q. (By Mr. Feldewert) Have you prepared exhibits
17 for this case, Mr. Elger?

18 A. Yes, I have.

19 Q. Would you turn to Nearburg Exhibit Number 6 for
20 me, please, identify it and review it with the Examiner?

21 A. Exhibit Number 6 is a Morrow stratigraphic cross-
22 section, the datum which is the top of the Morrow
23 formation, the red trace at the top of each of the well
24 logs. The two wells incorporated in this cross-section are
25 both east and west of the proposed drill site, as indicated

1 by the plat at the bottom of the cross-section.

2 The better of the two wells is the Union Oil
3 Pipeline Deep Unit Federal Number 2, which is located to
4 the east in Section 18. The well to the west in Section 13
5 was drilled by Belco Petroleum, and that was a dry hole in
6 the Morrow.

7 The structure map, which is one of the exhibits
8 we will review next, is on the basis of the top of the
9 Morrow, which again is the red trace on the top of the
10 cross-section. Each of the individual sand isopachs, which
11 will also be reviewed, the sands which are the subdivisions
12 of the Morrow formation itself, the sand packages which
13 comprise those subunits are outlined adjacent to each of
14 the two well logs, and they've been identified as the upper
15 "B" sands, the lower "B" sands and the Morrow "C" sands.

16 We will look at isopachs of each one of these
17 individual -- the sands developed within each of these
18 individual units.

19 Q. Mr. Elger, do you have any seismic data available
20 across this area?

21 A. Not immediately across this section, we do not.
22 We do have some several miles to the north.

23 Q. So your study in this matter is based on well-
24 control data; is that correct?

25 A. Subsurface well control.

1 MR. FELDEWERT: Okay. Mr. Ashley, I would
2 suggest we leave Exhibit 6 out on the table, and I'd like
3 to move to Exhibit Number 7.

4 Q. (By Mr. Feldewert) Mr. Elger, if you could
5 identify and review that for the Examiner?

6 A. Exhibit Number 7 is a structure map on the top of
7 the Morrow, which again on the cross-section is the
8 uppermost datum, stratigraphic datum, for the two-well
9 cross-section. Of importance is the fact that there is a
10 structural high that has been interpreted in the northwest
11 quarter of Section 18, just to the east of the proposed
12 drill site, with a structural nose extending diagonally
13 across Section 13 and the proposed drill site, down into
14 the northwest quarter of 24 and the northeast quarter of
15 Section 23.

16 The importance of that structural nose will be --
17 We'll re-review this Exhibit Number 7 structure, because
18 it's important for the productivity of one of the sands in
19 particular that will be featured when we review the Morrow
20 "C" isopach.

21 Q. Now, you have the Morrow gas producers shown in
22 red here; is that right?

23 A. That's correct. The Morrow gas producers in this
24 two-mile radius around the spacing unit are indicated by
25 the red symbols, and the total amount of gas in BCF is the

1 first set of numbers that you see in red adjacent to each
2 one of these red wells.

3 For instance, the well in Section 18, the north
4 half of 18, there's 2.40. That represents 2.4 billion
5 cubic feet of gas recovered to date. The slash separates
6 that, the gas produced, from the oil produced or condensate
7 produced in each one of these wells. And in the instance
8 of that well in the north half of Section 18, the 149
9 represents thousands of barrels of oil, so that would be
10 149,000 barrels of oil produced in association with the gas
11 in that particular well.

12 The blue numbers set adjacent to each one of the
13 well symbols represents the subsea top of the Morrow in
14 that particular well, and that's what has been contoured on
15 this Exhibit Number 7, is the structure of the top of the
16 Morrow.

17 Q. Has Nearburg drilled a well in Section 24, which
18 is shown on this map?

19 A. Yes, they have.

20 Q. And which one was that?

21 A. Nearburg drilled a Sagebrush 24 Number 1. It's
22 located in the northeast quarter of Section 24. It shows
23 as an uncolored gas well, just immediately south of the
24 proposed location one mile. That particular well was
25 drilled earlier this year. Production testing of the

1 Morrow indicated it was not commercial, and that well has
2 currently been perforated and is producing from the
3 Delaware sand section.

4 Q. With your proposed well, Mr. Elger, what would
5 you consider to be a commercial rate of production?

6 A. For the depth that this well is being proposed to
7 of 13,600 feet, we would think that reserves in the
8 neighborhood of 2.5 to 3 BCF equivalent gas reserves would
9 be deemed a respectable well or a respectable return on
10 investment. Reserves less than that, of course you move
11 through a whole range of noncommercial to marginal
12 reserves. But we would think 2.5 would be a cutoff for us
13 to justify the risk to drill to this deep.

14 Q. Okay, why don't we move to Nearburg Exhibit
15 Number 8? Would you identify and review that for the
16 Examiner, please?

17 A. Exhibit Number 8 is a net sand isopach, utilizing
18 an 8-percent or greater porosity unit cutoff for each of
19 the individual wells within the upper Morrow "B" sand
20 interval. And those sands -- again, I would defer back to
21 the cross-section -- have been identified and are sands
22 which are developed within the interval that's been marked
23 Morrow Upper "B" sands.

24 What this isopach indicates is that the upper "B"
25 sands were deposited as stream events, in streams with the

1 orientation basically north to south. There's a number of
2 wells to the north in Section 1 and 2 in the northwest of
3 12, to the north of us, which have in excess of 20 feet of
4 sand developed in this upper "B" Unit, and that projects as
5 a stream channel tying various other well logs to the
6 south, across the proposed spacing unit. So it is one of
7 the objectives for this particular proposed location,
8 although it is not one of the major objectives.

9 Q. So this is a secondary target?

10 A. This is kind of a secondary target within the
11 Morrow.

12 Q. What happened to the Nearburg well in Section 24?

13 A. That well drill stem tested sands within both the
14 upper and middle -- or upper and lower "B" sand units, and
15 flowed gas at 2.2 million cubic feet a day, but those were
16 the sands that were subsequently production-tested and
17 determined to be noncommercial.

18 On this particular isopach, as well as the next
19 two isopachs that we'll review, if a particular well symbol
20 has been shaded in red, that well has perforated and has
21 contributed some Morrow gas reserves to the cums that are
22 listed on Exhibit Number 7.

23 If the well symbol has not been colored in, then
24 that well, particular well, has not been perforated in the
25 respective isopach unit.

1 Q. Okay, and why don't we move to Nearburg Exhibit
2 Number 9?

3 A. Exhibit Number 9, again, similar to the upper "B"
4 sand package, sand unit, represents an isopach of the sands
5 developed in the lower "B" unit, and again there's been a
6 number of wells drilled to the north in Section 12 and the
7 east half of Section 2 and to the south in Section 30, 29,
8 which I have produced from sands developed within the lower
9 "B" unit.

10 Again, it represents kind of a secondary target
11 at the proposed location. We think there's -- again,
12 there's -- The orientation of the sands that are developed
13 in this particular township suggest that the sands were
14 deposited relative to north-south-oriented stream systems.

15 And again it represents a rather high-risk
16 target. The reserves are not exceptional from either the
17 upper or lower "B" units in this entire mapped area, but
18 they do represent secondary targets.

19 Q. And your primary target here now is the Morrow
20 "C" sand; is that right?

21 A. That's correct. Exhibit Number 10 is an isopach
22 of the Morrow "C" sands, and again I would defer back to
23 the Exhibit Number 6, the cross-section, and if you notice
24 that the well log on the right side of the proposed
25 location, which is the Union Oil Pipeline Deep Unit Federal

1 Number 2, located in the north half of Section 18, has --
2 the perforations on all of these well logs are marked in
3 red in the depth column, and you'll see a 32-foot sand
4 section developed in the Morrow C.

5 That's probably, looking at the quality of the
6 other sands that were perforated in this wellbore within
7 the Morrow, is responsible for the majority of the reserves
8 produced by that particular well, which the 2.4 BCF and the
9 150,000 barrels of oil, probably from the Morrow "C".

10 If you look at wells that were drilled southeast
11 of this well in 18, down in Section 20, you see a 9.3-BCF
12 well and a 485,000-barrels-of-condensate well, a 2.25-BCF
13 well. Those wells are producing from sands developed
14 within this Morrow "C" package.

15 This particular isopach is a little different in
16 that we now see some wells that show up with pretty good
17 numbers to them, such as the wells in the west half of
18 Section 7, just northeast of the proposed location, we have
19 24 feet of reservoir-quality sand and the notation that
20 this well swabbed 130 barrels of water in eight hours of
21 production testing, indicating to me that there's excellent
22 reservoir quality developed in that well, but the reservoir
23 is water-bearing.

24 Likewise in a well drilled south of the proposed
25 location, in the south half of Section 24, a drill stem

1 test of the Morrow "C" sands indicated recovered 42 barrels
2 of formation water, again indicating the presence of
3 reservoir quality sands, but a water-bearing reservoir.

4 Q. These are the wells marked in blue; is that
5 right?

6 A. These are the wells that were marked in blue.
7 Any wells that were production tested, this Morrow "C" unit
8 and were deemed to be water-bearing rather than hydrocarbon
9 are denoted as the blue symbols.

10 Q. Okay, now why is that important to your proposed
11 location?

12 A. Well, it's important because we think that again,
13 as with the Morrow "B" sands, the Morrow "C" sands were
14 deposited in conjunction with north-south -- northeast --
15 or northwest-to-the-southeast-oriented stream channels, and
16 the indication is, based on that well in 24, is that it
17 appears to be a stream that bifurcates immediately north of
18 the proposed spacing unit, with one leg of it going down
19 and including the wells that intersected it down in Section
20 20 and were good economic wells, that there's another leg
21 of it that branches off through the proposed drill site
22 down into Section 24 to accommodate the reservoir sand
23 being observed in that well that tested water in the south
24 half of 24.

25 Q. Does this follow the structural nose that's shown

1 on your Exhibit Number 7?

2 A. Well, the sand apparently crosses the structural
3 nose that is displayed in Exhibit Number 7. And if you'll
4 notice, the proposed location, the estimated structural top
5 of the Morrow -- that is, we anticipate encountering at the
6 proposed location, we expect to be above a minus 8950
7 subsea depth.

8 If you look at the subsea depth of the two wet
9 wells immediately northeast and southwest of our proposed
10 location, they are both structurally low to our proposed
11 drill site. The well that swabbed water in 7 is subsea
12 8984, and the well that drill stem tested water in Section
13 24 is minus 9020 -- or 9070, I'm sorry, 9070. I believe
14 that's a 7; it's contoured as a 70. But it is structurally
15 low to where we're proposing to drill our Stetson 13 well.

16 There's obvious risk involved from the fact that
17 if both our isopach maps and our structure maps are in
18 error, then we could have a combination of events occur,
19 one of which would be to encounter the "C" zone sand low
20 and wet, or, two, not encounter reservoir-quality "C" zone
21 sand and high, or encounter reservoir-quality "C" zone sand
22 and high, which is what we are attempting to do, and
23 thereby getting into a hydrocarbon column that's apparently
24 related to this structural closure, as the sands drape over
25 the top of that nose.

1 Q. Okay, and I think you testified, looking now back
2 at Exhibit Number 10, that the commercial rate production
3 for your proposed well would be about 2.5 BCF.

4 A. Cumulative commercial reserves, correct.

5 Q. We look at Section 18, we see one well there.
6 The red figures indicate a 2.4 --

7 A. Right.

8 Q. -- production; is that right?

9 A. That's correct.

10 Q. Okay. What about the wells in Section 13?

11 A. Well, the well in Section 13, that's drilled in
12 the southwest quarter of Section 13, was a dry hole in the
13 Morrow. They encountered very poor quality sands, none of
14 which -- a drill stem test of those sands indicated -- in
15 fact, they ran several drill stem tests -- indicated that
16 there was nonreservoir-quality sands in virtually all of
17 the units I've supplied isopach maps for.

18 Q. Okay, and then you show a well in Section 12.
19 How would you classify that well?

20 A. Both of the wells in Section 12 appear to be -- I
21 would deem as marginal wells. I don't think they're great
22 wells. The well in the northwest quarter of Section 12,
23 probably less of a quality -- probably a noncommercial-type
24 well. And of course we drilled a well in the north half of
25 Section -- well, both wells in Section 24, south of the

1 proposed spacing unit, were either dry or limited
2 reservoirs, which were noncommercial.

3 Q. And then you have two wells shown on Section 7?

4 A. Two wells in Section 7. One was dry, and one I
5 would determine to be probably a noncommercial well. It
6 cum'd about a half a BCF gas and 44,000 barrels of
7 condensate.

8 Q. Are you prepared to make a recommendation to the
9 Examiner as to the risk penalty that should be assessed
10 against the nonconsenting interest owners?

11 A. Yes, I am.

12 Q. And what is that?

13 A. 200 percent.

14 Q. Upon what do you base that recommendation?

15 A. Based on the risk, again, of the combination of
16 the isopachs and the structure, the necessity for structure
17 for this particular proposed location, in order to obtain
18 reservoir-quality sand at a structurally advantageous
19 enough position to recover hydrocarbons. All of those
20 factors have to meet, to really justify drilling this
21 proposed location for the economic reserves that could
22 potentially be there.

23 Q. Do you think there's a chance that you could
24 drill a well at your proposed location that would not be a
25 commercial success?

1 A. Absolutely. We just did that one mile to the
2 south.

3 Q. In your opinion, will granting this Application
4 be in the best interests of conservation, the prevention of
5 waste and the protection of correlative rights?

6 A. Yes.

7 Q. Were Exhibits 6 through 10 prepared at your
8 direction?

9 A. Yes, they were.

10 Q. Did you review them prior to the hearing today?

11 A. Yes, I did.

12 Q. Can you testify to their accuracy?

13 A. Yes.

14 Q. Are they accurate?

15 A. Yes.

16 MR. FELDEWERT: Mr. Ashley, I would now move the
17 admission into evidence of Nearburg Exhibit Numbers 6
18 through 10.

19 EXAMINER ASHLEY: Exhibits 6 through 10 will be
20 admitted as evidence.

21 MR. FELDEWERT: And at this time, this concludes
22 my examination of this witness.

23 EXAMINATION

24 BY EXAMINER ASHLEY:

25 Q. Mr. Elger, of these Morrow sands, is there any

1 one of the three that you would consider a more likely
2 candidate to be productive?

3 A. I think if you look at the upper "B" sands, every
4 well -- virtually every well around us has encountered some
5 degree of upper "B" sands, so I have a high confidence
6 level that we will encounter some upper "B" sands. The
7 problem is that even though you have some wells that have
8 encountered considerable thickness of sands, that doesn't
9 mean that they make great wells.

10 And I would defer back to the production maps and
11 look at some of the wells drilled just to the north and
12 just to the south. The cumulative production in those
13 wells, the wells to the south of us in Section 30, a well
14 down there made a quarter of a BCF, and the offset made 1.8
15 BCF. For this depth, that's either a noncommercial or a
16 marginal well at best.

17 I would think this would be the most likely well,
18 but again, we consider it to be one of the -- If it was the
19 only target, we probably wouldn't drill this well. If
20 either one of these "B" zones were the only targets, I
21 would think we would not drill this well.

22 The romance to this project is the "C" zone and
23 the potential to encounter the good reserves, if our
24 interpretation of the structure and the isopachs are
25 correct.

1 Q. Now, the two wells in Section 30, why is there
2 such a discrepancy in the cums?

3 A. Well, each one of those wells perforated the "B"
4 zone. One well made 1.8, one .2. You can have two wells,
5 and one well had 20 feet of sand that met the cutoff
6 criteria, the other well had 25 feet of sand which met the
7 cutoff criteria.

8 It's all a function of how much -- not only the
9 amount of porosity above your cutoff, but how high is that
10 porosity? Is it -- One well might be 9 percent, and the
11 other well might be 14 percent.

12 Well, the 14-percent porosity is likely to be a
13 better producer than one that encountered sands with just
14 9-percent porosity. Both wells meet the cutoff that's used
15 for the mapping criteria, but one has much greater porosity
16 than the other one.

17 So the variability of both porosity and
18 permeability relative to above and beyond what we use as
19 the standard cutoff to isopach each one of these units
20 generally dictates cumulative reserves.

21 EXAMINER ASHLEY: I have nothing further. Thank
22 you.

23 MR. FELDEWERT: Mr. Examiner, that concludes our
24 presentation.

25 EXAMINER ASHLEY: There being nothing further in

1 this case, Case 12,413 will be taken under advisement.

2 (Thereupon, these proceedings were concluded at
3 2:49 p.m.)

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12 I do hereby certify that the foregoing is
13 a complete record of the proceedings in
14 the Examiner hearing of Case No. 12413,
15 heard by me on 7-1-00 19
16 Mark A. [Signature], Examiner
17 Of Conservation Division
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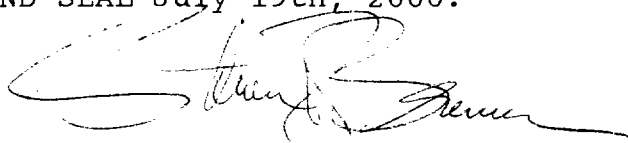
CERTIFICATE OF REPORTER

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 July 19th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002