

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:)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, LLC, FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

CASE NO. 12,517

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

October 19th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner on Thursday, October 19th, 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.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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I N D E X

October 19th, 2000
Examiner Hearing
CASE NO. 12,517

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* * *

A P P E A R A N C E S

FOR THE APPLICANT and EOG RESOURCES, INC.:

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

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 2:39 p.m.:

3
4 EXAMINER STOGNER: Now I'll call Case Number
5 12,517, which is the Application of Nearburg Exploration
6 Company, LLC, for compulsory pooling, Eddy County, New
7 Mexico.

8 At this time I'll call for appearances.

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 I have two witnesses.

14 EXAMINER STOGNER: Any other appearances?

15 MR. CARR: Mr. Examiner, I'd also like the record
16 to reflect that we did also enter an appearance in this
17 matter for EOG Resources, Inc.

18 EXAMINER STOGNER: Who's "we"?

19 MR. CARR: Campbell, Carr, Berge and Sheridan.

20 EXAMINER STOGNER: Oh. In support or in
21 opposition to?

22 MR. CARR: EOG is going to be pooled, and they
23 know they're going to be pooled. And there have been
24 negotiations going on for some time.

25 They've been unable to finalize agreements,

1 because Randy Cate's mother is ill, they've been out of
2 town, they called and asked that I enter the appearance,
3 Nearburg concurred, and so I have done that.

4 And when they get back and Mr. Cate is in town,
5 they're going to look into exchanging some data afterwards.

6 But at this point in time there is no agreement
7 between them for the development of the acreage, and Enron
8 knows -- or EOG knows it will be pooled.

9 EXAMINER STOGNER: Okay. Well, when we have a
10 witness, are you going to be directing the questions to
11 them and also cross-examining?

12 MR. CARR: No, sir, EOG is not appearing in the
13 case.

14 They just entered their appearance. They asked
15 that that be done, and I am doing that for them at their
16 request.

17 EXAMINER STOGNER: Okay, I just wanted to clarify
18 that, Mr. Carr.

19 MR. CARR: And if it starts to slip, no, I will
20 not ask any questions for EOG.

21 EXAMINER STOGNER: Any other appearances?
22 Will the two witnesses please stand to be sworn?
23 (Thereupon, the witnesses were sworn.)

24 EXAMINER STOGNER: Mr. Carr?

25 MR. CARR: Thank you, Mr. Stogner.

1 the area which is the subject of this case?

2 A. Yes, sir.

3 MR. CARR: Mr. Stogner, are the witness's
4 qualifications acceptable?

5 EXAMINER STOGNER: Yes, they are.

6 Q. (By Mr. Carr) Mr. Wheeler, would you briefly
7 summarize for the Examiner what it is that Nearburg seeks
8 with this Application?

9 A. Nearburg seeks an order pooling all minerals from
10 the surface to the base of the Morrow formation under the
11 east half of Section 4, Township 19 South, Range 27 East,
12 in the following manner:

13 The east half for all formations and/or pools
14 developed on 320-acre spacing in the Angel Ranch-Atoka-
15 Morrow Gas Pool;

16 The northeast quarter for all formations and/or
17 pools developed on 160-acre spacing;

18 And the southwest quarter-northeast quarter for
19 all formations and/or pools developed on 40-acre spacing.

20 This is to be dedicated to our Kaiser Lake "4"
21 Fed Com Number 1 well, to be drilled at a standard location
22 in the east half of Section 4.

23 Q. Mr. Wheeler, would you go to what's been marked
24 for identification as Nearburg Exhibit Number 1, identify
25 this exhibit and review the information on it for Mr.

1 Stogner?

2 A. This is a land map of the area in 19 South, 27
3 East. It shows the proposed spacing unit for the well, the
4 east half of Section 4. It shows the proposed location at
5 1650 feet from the north line and 1650 feet from the east
6 line of Section 4.

7 And it shows the ownership in the area. Nearburg
8 owns the southeast quarter of Section 4, and EOG owns the
9 northeast quarter of Section 4.

10 Q. The proposed location is, in fact, on the EOG
11 acreage; is that right?

12 A. That is correct, that is correct.

13 Q. And what is the status of the lands in the east
14 half of this section?

15 A. All federal.

16 Q. What is the primary objective in the proposed
17 well?

18 A. The Morrow formation in the Undesignated Angel
19 Ranch-Atoka-Morrow Gas Pool.

20 Q. Let's go to what has been marked Nearburg Exhibit
21 Number 2. Would you review the information on that?

22 A. This is a leasehold ownership for this particular
23 well spacing unit. The east half -- That should be "east
24 half". I believe it says "south half", but that should be
25 "east half" of Section 4, is a 318.45-acre unit. EOG has

1 the northeast quarter, which contains the irregular lots.
2 Nearburg Exploration has the southeast quarter.

3 It shows the breakdown of ownership, 50.24337
4 percent for Nearburg and 49.75663 percent for EOG.

5 Q. At this point in time, is only the Nearburg
6 interest committed to the well?

7 A. That's correct.

8 Q. And there are no other owners in this spacing
9 unit who would be affected by the Application?

10 A. No, sir.

11 Q. Could you summarize your efforts to reach a
12 voluntary agreement with EOG for the development of this
13 acreage?

14 A. We've been in contact with EOG over the last
15 eight or nine months. My first written contact with them
16 was February 15th of the year 2000. We forwarded a letter
17 requesting a term assignment on this acreage and on some
18 additional acreage in Township 19 South, Range 27 East. We
19 never received any kind of confirmation from them that they
20 wanted to do that, so we ended up proposing a well to them
21 on July the 28th.

22 And as you mentioned earlier, we have been in
23 contact with them. They have been looking at the area but
24 have thus far been unable to reach a decision as to their
25 participation or any kind of arrangement with us for a

1 trade agreement, so we informed them that we were going
2 forward with this hearing, and they concurred with that.

3 Q. When did you last communicate or talk with anyone
4 from EOG Resources?

5 A. I spoke with Patrick Tower of their office, I
6 believe it was Friday of last week.

7 Q. And he advised you that they understood that you
8 were going forward with the hearing and they did not
9 object?

10 A. They did not object, that's correct.

11 Q. Is Exhibit Number 3 a copy of the letters that
12 you have sent to EOG and the AFE for the well?

13 A. Yes, sir.

14 Q. Let's go to Exhibit 4, the AFE, and I'd ask you
15 to review that for Mr. Stogner.

16 A. This is Nearburg's AFE for this well. The dry
17 hole cost set forth is \$575,275. The completed well cost
18 is \$893,315.

19 Q. Has Nearburg drilled other wells in the area?

20 A. Yes, sir.

21 Q. Are these costs in line with the actual costs
22 incurred in drilling similar wells?

23 A. Yes, sir.

24 Q. Is Exhibit Number 5 an affidavit confirming that
25 notice of the Application and hearing in this case have

1 been provided to EOG in accordance with the rules and
2 regulations of the Oil Conservation Division?

3 A. Yes, sir.

4 Q. Have you made an estimate of the overhead and
5 administrative costs to be incurred while drilling the well
6 and also while producing it if, in fact, it is a success?

7 A. Yes, sir.

8 Q. And what are those figures?

9 A. \$6000 a month during the drilling phase and \$600
10 a month during the producing phase.

11 Q. And upon what do you base these numbers?

12 A. Other wells that we and other operators have
13 drilled to similar depth in the area.

14 Q. How do they compare with the Ernst and Young
15 figures?

16 A. They're actually slightly lower than what is
17 provided for by current Ernst and Young figures.

18 Q. Do you recommend that these figures be
19 incorporated into the order which results from today's
20 hearing?

21 A. Yes, sir, we do.

22 Q. Does Nearburg Producing company seek to be
23 designated operator of the well?

24 A. Yes, sir.

25 Q. Were Exhibits 1 through 5 prepared by you or

1 compiled under your direction and supervision?

2 A. Yes, sir.

3 MR. CARR: Mr. Stogner, at this time we would
4 move the admission into evidence of Nearburg Exploration
5 Company Exhibits 1 through 5.

6 EXAMINER STOGNER: Exhibits 1 through 5 will be
7 admitted into evidence.

8 MR. CARR: And that concludes my direct
9 examination of Mr. Wheeler.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Mr. Wheeler, let's see, the proposed name of this
13 well is the Kaiser Lake "4" Fed Com?

14 A. Yes, sir.

15 Q. Therefore, it's a communitization agreement. And
16 what are the two leases involved?

17 A. There are two federal leases, NM-92,165 and
18 NM-103,865.

19 Q. Okay, let's break the ownership down, or the
20 working interest, on those two leases, starting with the
21 southeast quarter. That's NM-103,865?

22 A. That is 100-percent Nearburg.

23 Q. Okay, and how about the northeast equivalent?

24 A. NM-92,165 is 100-percent EOG.

25 Q. Okay. Let's see, now your force pooling, you say

1 -- the 320, I can see that, but why the smaller stuff, if
2 Nearburg has no interest in that northeast quarter?

3 A. That's a good question.

4 MR. CARR: In fact, that could be deleted from
5 the Application --

6 THE WITNESS: That could be deleted from the
7 Application.

8 MR. CARR: -- and it should be, along with the
9 40-acre request.

10 THE WITNESS: That's correct.

11 Q. (By Examiner Stogner) So we -- because of this
12 ownership, we just want to limit --

13 MR. CARR: We would --

14 Q. (By Examiner Stogner) Well, along the same line
15 of questioning, is there some sort of an agreement that's
16 being worked out, that there would be a trade of working
17 interest or anything?

18 A. Yes, if we make a trade with EOG, we will trade
19 shallow interests also. And that is, I'm sure, one of the
20 things they're looking at currently, since we're drilling
21 the well on their location.

22 EXAMINER STOGNER: Mr. Carr, your ideas on this?

23 MR. CARR: My idea would be that if there is a
24 trade, then of course it would not be subject to pooling,
25 it would all be held by Nearburg. And so I would request

1 that the portions of the case that relate to either 160
2 spacing or 40-acre spacing be dismissed from this
3 Application.

4 THE WITNESS: And we have no objection to that.

5 EXAMINER STOGNER: Okay. Then the portions
6 seeking the force pooling of 160, 40 and 80 will be
7 dismissed at this time, because of this ownership.

8 THE WITNESS: Right, yes, sir.

9 EXAMINER STOGNER: Good, thanks for clarifying
10 that.

11 THE WITNESS: Sure.

12 Q. (By Examiner Stogner) Your Exhibit Number 3,
13 this was the first approach that Nearburg had on EOG for
14 this acreage?

15 A. February 15th?

16 Q. Yes.

17 A. Yes, sir.

18 Q. And when was your last verbal communication with
19 Mr. Tower?

20 A. I believe last Friday. I know it was the end of
21 last week. It was Thursday or Friday.

22 EXAMINER STOGNER: I have no other questions of
23 this witness.

24 MR. CARR: Thank you, Mr. Stogner. At this time
25 we call Jerry Elger.

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JERRY B. ELGER,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Jerry Elger.

Q. Where do you reside?

A. Midland, Texas.

Q. By whom are you employed?

A. By Nearburg Producing Company.

Q. And what is your position with Nearburg?

A. Exploration geologist.

Q. Have you previously testified before this Division and had your credentials as an expert in petroleum geology accepted and made a matter of record?

A. Yes, I have.

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

A. Yes, I have.

Q. Are you prepared to share the results of that work with Mr. Stogner?

A. Yes.

MR. CARR: Are the witness's qualifications acceptable?

1 EXAMINER STOGNER: EOG has no problem, he is so
2 accepted.

3 Q. (By Mr. Carr) Mr. Elger, has Nearburg drilled
4 other Morrow wells in this area?

5 A. Yes, we have.

6 Q. Could you refer to what has been marked for
7 identification as Nearburg Exhibit Number 6, identify this
8 and review it for Mr. Stogner?

9 A. Exhibit Number 6 is a combination production map
10 showing the various formations that produce in the vicinity
11 of the spacing unit, and it's a combination with a
12 structure map that is on top of the lower Morrow, which
13 will be identified on a future exhibit, Number 8.

14 The green box in the east half of Section 4
15 identifies this proposed spacing unit, with the proposed
16 well location in the northeast quarter of 4.

17 I would point out two wells that I will refer to
18 and that are on the cross-section for production reasons,
19 in Section 20 of Township 18 South, 27 East, and also a
20 well in Section 29. Those are both key wells. They're
21 located some 2 1/2 miles north of the proposed location.

22 Those wells have production figures which are
23 extremely commercial and play a factor in the future, when
24 we discuss the future exhibits, play a role in the target
25 sand which we are after at the proposed location in 4.

1 Q. Are you ready to go to your isopach?

2 A. Yes, I am.

3 Q. Let's go to Exhibit Number 7, and review that for
4 the Examiner.

5 A. Exhibit Number 7 is a net sand isopach map of
6 what I have referred to -- what Nearburg refers to as the
7 lower "B" sand. This is a sand that's developed in the
8 middle part of the Morrow, one of several sands that can
9 develop in the middle part of the Morrow.

10 And again, I would refer the fact that wells that
11 are producing from -- or perforated in and producing from
12 this particular sand are shaded red on this isopach
13 exhibit.

14 And again, I would refer to the wells in 18-27,
15 specifically those wells in Section 20 and 29, and in
16 combination with the productivity from those wells of in
17 excess of 9 BCF for each well, the fact that this
18 particular sand is interpreted as a channel sand that
19 extends across the east half of Section 4 and is, again,
20 the target for our Kaiser Lake "4" Fed Com Number 1 well.

21 There are several wells between our proposed
22 location and those two wells in Sections 20 and 29, which I
23 referred to, that have also perforated the lower "B" sand,
24 which had produced some gas but basically are not
25 commercial, those wells being a well in the northeast

1 northeast of Section 5, and a well in the north half of
2 Section 32. And also a well in the southeast quarter of
3 Section 29.

4 So between our location and the prolific
5 production in Section 29 and 20, there really are no
6 commercial wells at this time.

7 Q. Let's go now to the cross-section. I think it's
8 mislabeled. It's A-A'; is that not correct?

9 A. That is correct.

10 Q. The trace for the cross-section is shown on the
11 isopach?

12 A. Right, the map shows A-A', the top of the cross-
13 section shows B-B', and in fact they are one and the same.

14 The cross-section consists of a stratigraphic
15 cross-section that incorporates both the Atoka and Morrow
16 formations in open-hole logs that extend from the prolific
17 producers in Sections 20 and 29, which are on the left-hand
18 side of the cross-section.

19 In each instance, on every one of these wells
20 incorporated on this cross-section, the perforations which
21 were productive in the individual wells have been
22 identified in the depth column by red markings.

23 The lower "B" sand, again, is the main target for
24 the Kaiser Lake well in Section 4. And if I could refer to
25 each individual well from left to right on this cross-

1 section, the Yates Rio Pecos "GB" Number 2 perforated only
2 the lower "B" sand and produced 9.3 BCF.

3 The well just immediately south of that, the
4 Yates Rio Pecos "GB" 1, also produced only from the lower
5 "B" sand, and that well cum'd in excess of 13 BCF.

6 The next well immediately south, in the north
7 half of Section 32, was also a Yates well -- Actually, one
8 more correction. The trace of the cross-section does
9 include the well in the southeast quarter of Section 29,
10 and that doesn't show on the map. It shows to go from the
11 north half of 29 to the north half of 32. But both wells
12 in 29 are included in the cross-section.

13 The well in the north half of Section 32, which
14 is the fourth one from the left side of the cross-section
15 -- it was drilled by Texas Oil and Gas -- that well ran
16 several drill stem tests in the open hole section and also
17 perforated the lower B sand and produced a cumulative of
18 about one-third of a BCF, which is really not a commercial
19 well. But the sand is present and it's fairly thick there.

20 The next well immediately to the right of that
21 was a well drilled by Coquina Oil, the Gulf Federal Number
22 1. Again, that well drill stem tested the sand and
23 perforated and production-tested the sand and also made
24 about one-third of a BCF, again, which is not commercial.

25 And the interpretation is that the sand -- the

1 main part of the channel is to the east of the Texas Oil
2 and Gas well in 32 and to the north of the Coquina well in
3 Section 5, and makes kind of a jog, and then extends --
4 continues this southward projection across the east half of
5 Section 4, in the proposed location.

6 An older well drilled by Hanagan Petroleum in the
7 west half of Section 3 is the last well on the cross-
8 section. That well has a very thin lower "B" sand section
9 present. It was not tested in this well. They did,
10 however, test a lower Morrow sand, a "C" zone sand and
11 recovered formation water. They had reservoir quality, but
12 recovered formation water.

13 We think that the potential reserves that can be
14 found and captured from sands developed in this channel
15 that are apparent in wells drilled to the north justifies
16 the risk of drilling the location in the northeast corner
17 of Section 4 and in the proposed spacing unit.

18 Q. Are you prepared to make a recommendation to the
19 Examiner concerning the risk penalty which should be
20 assessed against nonconsenting or nonparticipating interest
21 owners?

22 A. Yes, I am.

23 Q. And could you summarize your reasons for that
24 recommendation?

25 A. Again, when you reference all of the sands that

1 are developed on all of the wells on all of these cross-
2 sections, the only major pay, commercial pay, in any of
3 these surrounding wells is found in the Morrow lower "B",
4 making this really a one-sand target.

5 There have been other wells that have drilled
6 much closer than our proposed location to these big
7 commercial wells, trying also to target this main sand, and
8 came up either dry or with very weak production. The same
9 thing could obviously happen to Nearburg at the proposed
10 location.

11 Therefore, I would recommend a penalty of 200
12 percent.

13 Q. In your opinion, will the approval of this
14 Application and the drilling of the well as proposed be in
15 the best interest of conservation, the prevention of waste
16 and the protection of correlative rights?

17 A. Yes.

18 Q. Were Nearburg Exhibits 6 through 8 prepared by
19 you?

20 A. Yes.

21 MR. CARR: Mr. Stogner, at this time we move the
22 admission into evidence of Nearburg Exhibits 6 through 8.

23 EXAMINER STOGNER: Exhibits 6 through 8 will be
24 admitted into evidence at this time.

25 MR. CARR: And that concludes my direct

1 examination of Mr. Elger.

2 EXAMINER STOGNER: And I have no questions of Mr.
3 Elger.

4 MR. CARR: And that concludes our presentation in
5 this case.

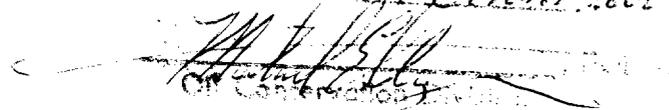
6 EXAMINER STOGNER: Anything else further in Case
7 Number 12,517?

8 Then this matter will be taken under advisement.
9 Thank you, gentlemen.

10 (Thereupon, these proceedings were concluded at
11 3:00 p.m.)

12 * * *

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16 I do hereby certify that the foregoing
17 is a complete and true copy of the proceedings
18 of the Examiner hearing of Case No. 12517
19 held by me on 17 October 2000.

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Off. Commissioner

