

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. 12,817
)
 APPLICATION OF TMBR/SHARP DRILLING,)
 INC., FOR AN UNORTHODOX OIL WELL)
 LOCATION AND A NONSTANDARD SPACING AND)
 PRORATION UNIT, LEA COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

February 21st, 2002

Santa Fe, New Mexico

01 05 13 2002
02 MAR - 7 AM 8:07

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, February 21st, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

February 21st, 2002
 Examiner Hearing
 CASE NO. 12,817

	PAGE
APPEARANCES	3
APPLICANT'S WITNESS:	
<u>DALE LUBINSKI</u> (Geologist)	
Direct Examination by Mr. Kellahin	5
Examination by Examiner Stogner	11
REPORTER'S CERTIFICATE	16

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	6	11
Exhibit 2	6	11
Exhibit 3	7	11
Exhibit 4	9	11
Exhibit 5	12	-

* * *

A P P E A R A N C E S

FOR THE DIVISION:

DAVID K. BROOKS
Attorney at Law
Energy, Minerals and Natural Resources Department
Assistant General Counsel
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

KELLAHIN & KELLAHIN
117 N. Guadalupe
P.O. Box 2265
Santa Fe, New Mexico 87504-2265
By: W. THOMAS KELLAHIN

* * *

1 WHEREUPON, the following proceedings were had at
2 10:30 a.m.:

3 EXAMINER STOGNER: I'll call next case, 12,817,
4 which is the Application of TMBR/Sharp Drilling, Inc., for
5 an unorthodox oil well location and a nonstandard spacing
6 and proration unit in Lea County, New Mexico.

7 Call for appearances.

8 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin,
9 appearing on behalf of the Applicant, and I have one
10 witness to be sworn.

11 EXAMINER STOGNER: Any other appearances?

12 Witness come on up and be sworn in.

13 (Thereupon, the witness was sworn.)

14 MR. KELLAHIN: Mr. Examiner, we're here before
15 you this morning to ask permission to produce this well in
16 a small Wolfcamp stringer. It's capable of producing only
17 about ten barrels of oil a day. The well has, in fact,
18 been drilled. It was drilled in July as an attempt to
19 produce the Bough "C", which is part of the Pennsylvanian.

20 In October -- by October, that effort had failed.
21 The well was unsuccessful in any zone, except for a small
22 stringer in the Wolfcamp. The operator has tested the
23 Wolfcamp and has determined it will only produce about ten
24 barrels of oil a day.

25 So we're seeking approval to test this at an

1 unorthodox location and to dedicate the south half of the
2 northwest quarter and the north half of the southeast
3 quarter to the well. This will be under the East Saunders-
4 Permo-Penn Pool rules, and we would seek an exception from
5 those pool rules to produce this.

6 The entire Section 10 is a single State of New
7 Mexico lease. All the interest owners are the same.
8 Yesterday I received a Division order title opinion which
9 confirms the ownership and provides a breakout of all the
10 interest owners.

11 With your permission, we'll make our
12 presentation.

13 EXAMINER STOGNER: Please continue.

14 DALE LUBINSKI,
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. KELLAHIN:

19 Q. Would you please state your name and occupation?

20 A. My name is Dale Lubinski, and I'm a consulting
21 geologist.

22 Q. How do you spell your last name, Mr. Lubinski?

23 A. It is L-u-b-i-n-s-k-i.

24 Q. Mr. Lubinski, on prior occasions have you
25 testified before the Division?

1 A. Yes, I have.

2 Q. What has been your involvement with this
3 wellbore?

4 A. I'm a consulting field geologist, and I went out
5 during the drilling of this well to oversee the mudlogger,
6 be out there when they go through primary zones that may be
7 productive and to go out there for the electric logging of
8 the well.

9 MR. KELLAHIN: We tender Mr. Lubinski as an
10 expert geologist.

11 EXAMINER STOGNER: Mr. Lubinski is so qualified.

12 Q. (By Mr. Kellahin) Let me ask you to turn, sir,
13 to Exhibit Number 1. Let's orient the Examiner as to where
14 the well is located in Section 10. Where are you?

15 A. Okay, the plat is a land map of Township 14-34,
16 and in Section 10 there it has the location for the
17 TMBR/Sharp State 10 Number 1 well.

18 Q. It's Number 3 on the plat?

19 A. It is Number 3 on the plat that goes with the
20 corresponding cross-section.

21 Q. At the time TMBR/Sharp had planned this well,
22 what was the database upon which this well was planned?

23 A. This well was planned on a 3-D seismic survey,
24 which is Exhibit Number 2.

25 Q. Let's look at Exhibit Number 2. How big an area

1 was subject to the 3-D seismic survey?

2 A. The 3-D seismic survey was a 22-mile seismic
3 survey, which included Section 10.

4 Q. Within Section 10, was there any particular
5 feature identified in Section 10 as a probable target for
6 drilling a well?

7 A. Yes, from Exhibit Number 2, which is a Bough "C"
8 time-structure map, there was a seismic anomaly. There is
9 an arbitrary line, Exhibit 3, which is shown on Exhibit 2,
10 where it goes, and there is an anomaly approximately 1.4
11 seconds there in the Bough interval, which is an anomaly
12 that does produce in the area, and the drilling location
13 was picked based on this 3-D seismic.

14 Q. Was there any other definable feature identified
15 in Section 10 as a possible target?

16 A. No, this was the only one.

17 Q. When you're looking for an anomaly, is this a
18 structural feature, or some other type of interpretation?

19 A. It is a stratigraphic feature. And as you can
20 see from the arbitrary seismic line there, it shows that
21 there's an anomaly that goes down on the northeast and is
22 indicated as a time-structure high, where the well was
23 drilled.

24 Q. So when we look on Exhibit 3 and on the
25 horizontal line we find T10-1 and read down that line, we

1 find a point marked with the Wolfcamp, and then we go down
2 into the Saunders, and below that you see the Bough "C"?

3 A. Yes, at approximately 1.4 seconds, yes.

4 Q. And just to the right there's a squiggle in that
5 line. What does that mean?

6 A. The squiggle in the line means that it drops off
7 a stratigraphic feature there.

8 Q. Is that what you're attempting to identify with a
9 well at this location?

10 A. Yes.

11 Q. When this, then, is reduced to a map display, we
12 can see that representation on Exhibit Number 2?

13 A. That is correct, you can see that where the well
14 was drilled, just to the north of it, the contours bunch
15 up, meaning that the feature is dropping off to the north
16 there, and the anomaly is where the well was drilled.

17 Q. There's no other anomaly or proposed target for a
18 well in Section --

19 A. No, the main objective was --

20 Q. -- 10?

21 A. -- the Bough interval, and that's what the well
22 is drilled on.

23 Q. Were you involved in any of the permitting or
24 regulatory processing for this well?

25 A. No, sir, I was --

1 Q. That was not your responsibility?

2 A. No.

3 EXAMINER STOGNER: Mr. Kellahin --

4 MR. KELLAHIN: Yes, sir.

5 EXAMINER STOGNER: -- are you going to have
6 anybody here that will testify to that?

7 MR. KELLAHIN: I do not have anybody available
8 that will testify as to the permitting.

9 EXAMINER STOGNER: And why not?

10 MR. KELLAHIN: I didn't have a witness available
11 for me today.

12 EXAMINER STOGNER: Okay, you may proceed.

13 Q. (By Mr. Kellahin) After the well was drilled,
14 was there any opportunity for completing the well in the
15 Bough "C"?

16 A. The well was attempted as a completion in one of
17 the Bough intervals, and it was unproductive.

18 Q. Do you have a cross-section that you prepared
19 that shows what was done with the wellbore?

20 A. Yes, Exhibit Number 4 goes back to -- Exhibit
21 Number 1 shows where the wells are located, 1, 2, 3 and 4.
22 1 and 3 are neutron density logs, Number 2 is a sonic log,
23 and Number 4 is a resistivity log. The cross-section,
24 Exhibit Number 4, is datum'd on a Wolfcamp marker, and the
25 subject well, Number 3, in yellow, is indicated the zone

1 that TMBR/Sharp is attempting to complete in.

2 The other lines are just more or less correlation
3 marks to show that these zones in the Wolfcamp come and go,
4 they are not very extensive laterally.

5 Q. When we look at the log or the well at position
6 Number 3 on Exhibit 4 --

7 A. Uh-huh.

8 Q. -- that interval corresponds to a Wolfcamp
9 interval?

10 A. Yes, it does.

11 Q. Is there any other opportunity for potential
12 production in this wellbore?

13 A. Not that I saw.

14 Q. Okay. Do you have any opinion about the size and
15 extent of this little Wolfcamp reservoir?

16 A. It probably is not very extensive, and
17 perforating it and testing it seems like it's probably very
18 limited in extent.

19 Q. As a result of the test, what kind of rates were
20 obtained?

21 A. Between 5 and 15 barrels a day, and they believe
22 it would probably start production around 10 barrels.

23 Q. When we go back to Exhibit Number 1, are there
24 any other wells in this area that produce out of the
25 Wolfcamp interval?

1 A. Yes, a number of wells in Section 4 and down in
2 Section 14 are also productive from the Wolfcamp. On the
3 cross-section I have, Exhibit Number 4, there is a -- Well
4 Number 1 has a Wolfcamp interval just above 10,300 feet
5 that produces from the Wolfcamp, and well Number 4 just
6 below 9600 feet had a small zone that was productive from
7 the Wolfcamp.

8 Q. When we look at the cross-section, these Wolfcamp
9 intervals do not seem to correlate very well.

10 A. No, they do not.

11 Q. What explains that? They're simply
12 discontinuous?

13 A. Yes.

14 Q. And there's no other well in the area that has
15 been attempted a completion in this correlative interval?

16 A. Not that I know of.

17 MR. KELLAHIN: That concludes my examination of
18 Mr. Lubinski. We move the introduction of his Exhibits 1
19 through 4.

20 EXAMINER STOGNER: Exhibits 1 through 4 will be
21 admitted into evidence.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. Well, I had almost two pages worth of questions
25 here for the permitting process, but you weren't involved

1 in that?

2 A. No, sir.

3 Q. Who is?

4 A. The permit, I believe, was signed by Mr. Jeff
5 Phillips, who is currently the president of TMBR/Sharp
6 Drilling. TMBR/Sharp is a -- primarily a drilling
7 contractor, and they're getting into the oil business.
8 They do not have any geologists or petroleum engineers, per
9 se. They take parts of deals and get into deals, and their
10 part of it, they operate the wells and drill the wells with
11 their rigs.

12 And after the well was drilled a production man
13 was hired, and that is Mr. Lonnie Arnold. But he wasn't
14 there when the original permit was signed. So there was
15 probably a time in between where one may have thought the
16 other one was going to take care of this location problem.

17 Q. Okay, I want to make sure I understand. All of
18 Section 10 has common ownership, and that's reflected in
19 Exhibit 5; is that correct?

20 MR. KELLAHIN: Mr. Examiner, Exhibit 5 is our
21 Division order title opinion, and all of 10 is common state
22 leasing.

23 Q. (By Examiner Stogner) Okay. And what is the
24 current rate of production from this Wolfcamp? Is that --

25 A. I believe the well is shut in right now, but they

1 believe the well is capable of making between 5 and 15
2 barrels?

3 Q. And that's all?

4 A. Yes, sir.

5 EXAMINER STOGNER: I'm concerned about the
6 precedent being set in something like this. I keep having
7 a deep-seated fear of something called the Jalmat and the
8 Eumont when you start monkeying around with spacing units,
9 especially in a situation such as this where everything is
10 common. Or maybe an 80-acre proration unit would be more,
11 or an unorthodox location on a standard proration unit.
12 What's the difference?

13 MR. KELLAHIN: It has been filed for both
14 reliefs. I think you could pick one or the other if you
15 chose to do so.

16 Let me ask you, is there any other Wolfcamp
17 opportunity in this section?

18 THE WITNESS: I don't believe they would drill
19 another well to try to evaluate the Wolfcamp at this time.
20 I don't have the 3-D seismic here to review it, but I don't
21 believe so.

22 MR. KELLAHIN: It certainly would provide an
23 appropriate solution to simply approve the location, leave
24 it dedicated in the southwest quarter and be done, and not
25 establish the precedent of a nonstandard proration unit.

1 EXAMINER STOGNER: Would you like to amend your
2 Application at this time?

3 MR. KELLAHIN: Let's do that, Mr. Examiner.

4 Q. (By Examiner Stogner) You're pretty high up on
5 the structure, and you're sure you don't want to chase
6 another five barrels of oil a day.

7 A. Well, the primary zone was the Bough, and it made
8 about 800 barrels of water a day.

9 Q. Let's see, what county is this in?

10 MR. KELLAHIN: Lea County, I think.

11 EXAMINER STOGNER: Lea County, New Mexico. Since
12 you are willing to amend your Application such as that
13 today, I don't see any reason why we can't order the well
14 turned back on today.

15 MR. KELLAHIN: I appreciate that, Mr. Examiner.

16 EXAMINER STOGNER: And Mr. Williams is here with
17 the Hobbs District Office, and I'll tell him that, pass
18 that on, so the appropriate people can start working that.
19 With that, I don't see anything further in this case, if
20 you don't have anything further.

21 MR. KELLAHIN: Let me tell you that TMBR/Sharp
22 will make its best effort not to have this problem again.
23 They have people in place to avoid this, and Mr. Phillips
24 has represented to me that he will restructure his company
25 so that they don't have this problem.

1 EXAMINER STOGNER: So I don't have to make the
2 other infamous finding that I was famous for in the BTA
3 case, any further applications that would be approved
4 administratively has to go to hearing until further notice?

5 MR. KELLAHIN: We deserved that finding, Mr.
6 Examiner, but we've taken provision to avoid this mistake
7 in the future.

8 EXAMINER STOGNER: Okay, I don't see any reason
9 to include that paragraph in this particular order.

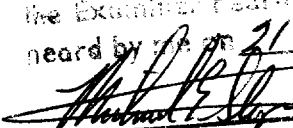
10 Case Number 12,817 will be taken under
11 advisement.

12 MR. KELLAHIN: Thank you, sir.

13 THE WITNESS: Thank you.

14 (Thereupon, these proceedings were concluded at
15 10:50 a.m.)

16 * * *

17
18 I do hereby certify that the foregoing is a
19 complete and true transcript of the proceedings at
20 the Examiner's hearing of Case No. 12817,
21 heard by me on 21 February 2002.
22  Examiner
23 Oil Conservation Division
24
25

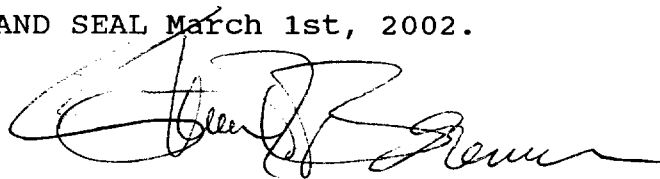
CERTIFICATE OF REPORTER

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 March 1st, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002