

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. 12,829  
)  
APPLICATION OF NADEL AND GUSSMAN )  
PERMIAN, L.L.C., FOR COMPULSORY )  
POOLING, EDDY COUNTY, NEW MEXICO )  
\_\_\_\_\_)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

March 7th, 2002

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, March 7th, 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.

02 MAR 21 AM 10:45  
OIL CONSERVATION DIV

\* \* \*

## I N D E X

March 7th, 2002  
Examiner Hearing  
CASE NO. 12,829

	PAGE
EXHIBITS	3
APPEARANCES	4
APPLICANT'S WITNESSES:	
<u>SAM H. JOLLIFFE, IV</u> (Landman)	
Direct Examination by Mr. Bruce	6
Examination by Mr. Carr	11
Examination by Examiner Brooks	12
<u>KEITH LOGAN</u> (Geologist)	
Direct Examination by Mr. Bruce	13
Examination by Mr. Carr	19
REPORTER'S CERTIFICATE	21

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## E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	7	10
Exhibit 2	8	10
Exhibit 3	9	10
Exhibit 4	10	10
Exhibit 5	15	19
Exhibit 6	16	19
Exhibit 7	17	19
Exhibit 8	17	19
Exhibit 9	17	19
Exhibit 10	18	19
Exhibit 11	18	19
Exhibit 12	18	19
Exhibit 13	18	19

\* \* \*

## A P P E A R A N C E S

## FOR THE APPLICANT:

JAMES G. BRUCE, Attorney at Law  
324 McKenzie  
Santa Fe, New Mexico 87501  
P.O. Box 1056  
Santa Fe, New Mexico 87504

## FOR EOG RESOURCES, INC.:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR  
110 N. Guadalupe, Suite 1  
P.O. Box 2208  
Santa Fe, New Mexico 87504-2208  
By: WILLIAM F. CARR

## ALSO PRESENT:

DAVID R. CATANACH  
Hearing Examiner  
New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87501

\* \* \*

1                   WHEREUPON, the following proceedings were had at  
2 10:03 a.m.:

3  
4  
5  
6  
7                   EXAMINER BROOKS: Okay, we'll call the hearing  
8 back to order, and at this time we'll call Case Number  
9 12,829, Application of Nadel and Gussman Permian, L.L.C.,  
10 for compulsory pooling, Eddy County, New Mexico.

11                   Call for appearances.

12                   MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,  
13 representing the Applicant.

14                   I have two witnesses to be sworn in.

15                   MR. CARR: May it please the Examiner, William F.  
16 Carr with Holland and Hart, L.L.P. We represent EOG  
17 Resources, Inc.

18                   I do not have a witness.

19                   EXAMINER BROOKS: Okay, would the witnesses  
20 please stand and please state your names.

21                   MR. JOLLIFFE: Sam Jolliffe.

22                   MR. LOGAN: Keith Logan.

23                   (Thereupon, the witnesses were sworn.)

24                   EXAMINER BROOKS: You may proceed, Mr. Bruce.

25                   MR. BRUCE: Thank you.



1 in this case?

2 A. Yes, sir, Exhibit 1 is a land plat highlighting  
3 the east half of Section 36, Township 17 South, Range 29  
4 East in Eddy County. We seek an order pooling the east  
5 half of 36 from the surface to the base of the Morrow  
6 formation for all pools and formations spaced on 320 acres.  
7 We also seek to pool the southeast quarter of Section 36  
8 for 160-acre units.

9 Q. What is the working interest ownership of the  
10 well in the south?

11 A. The working interest ownership for the east half  
12 would be Nadel and Gussman Permian, 50 percent; Phillips  
13 Petroleum and Southwestern Energy through a joint venture  
14 have 37 1/2 percent; EOG Resources has 10.9375 percent; and  
15 Westway Petroleum has 1.5625 percent.

16 Q. And that's set forth on the second page of  
17 Exhibit 1, is it not?

18 A. Yes, that's correct.

19 Q. Where will the well be located?

20 A. The well will be located in an orthodox location  
21 in the southeast quarter of the southeast quarter of the  
22 section.

23 Q. Let's discuss your efforts to obtain the  
24 voluntary joinder of the interest owners in the well. What  
25 is Exhibit 2?

1           A.    Okay, Exhibit 2 has copies of correspondence with  
2 the working interest owners that I've just mentioned. We  
3 mailed our proposal letters with an AFE on November 14th,  
4 2001, enclosed a letter and AFE requesting the interest  
5 owners to participate in the well or farm out, mutually  
6 acceptable terms.

7           Q.    Okay. Now, have you had telephone calls with --  
8 or have your persons at Nadel and Gussman had telephone  
9 calls with any of these interest owners subsequent to this  
10 letter?

11          A.    Yes, we have, everyone except Westway Petroleum.

12          Q.    Okay. At this time, looking at Exhibit 1 again,  
13 who do you seek to force pool?

14          A.    We would seek to force pool EOG, Phillips and  
15 Westway.

16                    Southwestern has sent us a formal response that  
17 they will participate in the well, based on our AFE.

18          Q.    Okay, so you just need to force pool those three  
19 parties, then?

20          A.    Yes, sir.

21          Q.    In your opinion, has Nadel and Gussman made a  
22 good faith effort to obtain the voluntary joinder of the  
23 interest owners in this well?

24          A.    Yes, sir.

25          Q.    Would you identify Exhibit 3 for the Examiner and

1 discuss the cost of the proposed well?

2 A. Yes, sir, Exhibit 3 is an AFE for the well. The  
3 well's proposed depth is 11,500 feet. It has an estimated  
4 dryhole cost of \$748,690, a completed well cost of  
5 \$356,683.

6 Q. That's the completion cost?

7 A. Completion cost, yes, sir.

8 Q. For a final well cost of what, about \$1.1  
9 million?

10 A. \$1.1 million, yes, sir.

11 Q. Is this cost in line with the cost of other wells  
12 drilled in this area -- to this depth in this area of New  
13 Mexico?

14 A. Yes, it is.

15 Q. Does Nadel and Gussman request that it be  
16 designated operator of the well?

17 A. Yes, sir.

18 Q. Do you have a recommendation to the Division for  
19 the amounts which you should be paid for supervision and  
20 administrative expenses?

21 A. Yes, sir, we do, \$6000 a month for drilling and  
22 \$600 a month for producing.

23 Q. Are these amounts equivalent to those charged by  
24 other operators in this area?

25 A. Yes, they are.

1 Q. Do you request that the overhead rates be  
2 adjusted periodically as provided by the COPAS accounting  
3 procedure?

4 A. Yes, sir.

5 Q. Were the interest owners notified of this  
6 Application?

7 A. Yes, they were. Exhibit 4 is an affidavit of  
8 notice.

9 Q. Okay, and that contains the letter and the  
10 certified receipts?

11 A. Yes.

12 Q. Were Exhibits 1 through 4 prepared by you or  
13 under your supervision or compiled from company business  
14 records?

15 A. Yes, they were.

16 Q. In your opinion, is the granting of Nadel and  
17 Gussman's Application in the interest of conservation and  
18 the prevention of waste?

19 A. Yes, sir.

20 MR. BRUCE: Mr. Examiner, I'd move the admission  
21 of Nadel and Gussman Exhibits 1 through 4.

22 MR. CARR: No objection.

23 EXAMINER BROOKS: 1 through 4 are admitted.

24 MR. BRUCE: Pass the witness.

25 EXAMINER BROOKS: Mr. Carr?

## EXAMINATION

1  
2 BY MR. CARR:

3 Q. Mr. Jolliffe, is the November 14th letter the  
4 only written communication that you're aware of, of EOG  
5 concerning an agreement to jointly develop the property or  
6 reach a voluntary agreement?

7 A. Other than the pooling notice sent to EOG also.

8 Q. Did you have any personal communications with  
9 anyone at EOG?

10 A. Not personally. Our engineers discussed back and  
11 forth, Joe Martin and Randy Cate. I was not in on those  
12 discussions.

13 Q. Mr. Martin is an engineer with your company?

14 A. Yes, sir.

15 Q. Are you aware that about three weeks ago Mr.  
16 Martin advised Randy Cate that you didn't intend to go  
17 forward with this well?

18 A. I'm not aware of that.

19 Q. Were you aware of any discussions concerning cash  
20 payments to Nadel and Gussman in exchange for --

21 A. No, sir.

22 Q. -- not going forward with the well?

23 Your letter talks about an offer to farm out or  
24 other potential ways to reach voluntary agreement.

25 A. Uh-huh.

1 Q. Are you still willing to talk to EOG about those  
2 matters?

3 A. Yes, we would, if we would hear from them, from  
4 their land department. I know Patrick Tower very well.  
5 I'm assuming Patrick is in charge of land in this area. I  
6 know him very well, and I'm making an assumption because I  
7 did not hear from anybody. There's no telling who within  
8 the land department works this area, but I'm assuming --

9 Q. Were there discussions at an engineering level in  
10 which you were not involved?

11 A. Yes, from what I understand there were, but  
12 nothing agreed to.

13 Q. Thank you.

14 A. Uh-huh.

15 EXAMINATION

16 BY EXAMINER BROOKS:

17 Q. What were the footages on this location?

18 A. The footages?

19 Q. Yeah.

20 A. Oh, yes, sir. We will try to do 660 south and  
21 660 east. It may have to move a little bit, due to all the  
22 production and facilities in this area. It may move  
23 slightly, but we will get an orthodox location.

24 Q. Okay, you haven't filed for an APD yet, then?

25 A. I don't know if we have or not. I don't believe

1 so.

2 Q. Is this only working interests that are being  
3 pooled, or are there any unleased interests?

4 A. No, sir, those are all HBP leasehold working  
5 interests.

6 Q. And the objective of this, the objective here is  
7 the Morrow?

8 A. Yes, sir.

9 Q. And you're asking for pooling from the surface to  
10 the base of the Morrow?

11 A. That's correct.

12 EXAMINER BROOKS: I think that's all I have.

13 MR. BRUCE: I have nothing further with this  
14 witness.

15 EXAMINER BROOKS: Mr. Catanach, anything?

16 EXAMINER CATANACH: I don't have anything.

17 EXAMINER BROOKS: Very good, call your next  
18 witness.

19 MR. BRUCE: Call Mr. Logan to the stand.

20 KEITH LOGAN,

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

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

1           A.    Keith Logan.

2           Q.    Where do you reside?

3           A.    I reside in Midland, Texas.

4           Q.    Who do you work for?

5           A.    I work for Nadel and Gussman Permian.

6           Q.    What's your job with Nadel and Gussman?

7           A.    I'm an exploration geologist.

8           Q.    Have you previously testified before the

9    Division?

10          A.    Yes, I have.

11          Q.    And were you qualified as?

12          A.    I've been qualified as both a reservoir engineer

13    and an exploration geologist.

14          Q.    Okay.  Are you familiar with the matters involved

15    in the Application?

16          A.    Yes, I am.

17          Q.    And does your area of responsibility at Nadel and

18    Gussman include this area of southeast New Mexico?

19          A.    Yes, it does.

20                MR. BRUCE:  Mr. Examiner, I'd tender Mr. Logan as

21    both an expert petroleum geologist and an expert petroleum

22    engineer.

23                MR. CARR:  No objection.

24                EXAMINER BROOKS:  He is so qualified.

25          Q.    (By Mr. Bruce)  Mr. Logan, what is the primary

1 zone of interest in this well?

2 A. We're looking for the Morrow. There's actually  
3 two separate sands within the Morrow that are targeted.

4 Q. Okay, and we'll get to that in a minute. Would  
5 you identify Exhibit 5 and discuss what you hope to  
6 accomplish with your proposed work?

7 A. Exhibit 5 is a production map showing the  
8 production surrounding the east half of Section 36, which  
9 is where our proposed location is. As you can see, the  
10 well west of us -- it's an EOG well -- has produced 11 BCF  
11 and is still making 1.1 to 1.2 million cubic feet per day.

12 The well east of our proposed location is also an  
13 EOG well. It's produced 5.3 BCF, it's making about 1.9  
14 million a day.

15 Q. There's also some good production to the south of  
16 your proposed well, is there not?

17 A. Correct.

18 Q. Does the amount of production in this area raise  
19 the specter that there could be some pressure depletion at  
20 your location?

21 A. Oh, definitely.

22 Q. Okay, and that is an element of risk in drilling  
23 this well?

24 A. Yes, it is definitely a risk here.

25 Q. Okay, what is Exhibit 6?

1           A.    Exhibit 6 is a cross-section.  It's showing the  
2   -- It's really to find the interval that we're looking for  
3   in the Morrow.  This is a cross-section from north to  
4   south, and it's identified on the production map, starting  
5   with a dry hole in the north part of Section 36, coming  
6   down to the producer west of our proposed location, which I  
7   say is producing out of the lower Morrow brown sand.  Then  
8   the well to the east is producing from a middle Morrow  
9   sand, which I call the middle Morrow Green.

10           So as you can see, even though you've got two  
11   really good wells on either side of you that have made a  
12   lot of gas, they're out of two separate zones.  So there's  
13   some risk that in between them, yes, you have a chance that  
14   both could develop, but you have a chance that neither one  
15   could develop.  So there's definitely some risk there.

16           You continue to the south, and that well in  
17   Section 1, the east half of Section 1, produced out of both  
18   the lower brown and the middle green sand.

19           Q.    Okay.  So just to clarify this, the offsetting  
20   well to the east in Section 31 is producing only from the  
21   middle Morrow?

22           A.    In Section 1?

23           Q.    In Section 31.

24           A.    Oh, yes, it's only in the -- It didn't have the  
25   lower developed at all.

1 Q. Okay. And then the well in the west half of  
2 Section 36 is only producing from the lower well?

3 A. Right, and did not have the other one developed.

4 Q. Okay, so there's a chance both zones could pinch  
5 out at your proposed location?

6 A. That is correct.

7 Q. What is Exhibit 7, Mr. Logan?

8 A. Exhibit 7 is a structure map on the top of the  
9 lower Morrow. That's a point in between that middle Morrow  
10 sand and the lower Morrow sand. Structure in the area is  
11 really not that critical; we're not seeing any significant  
12 water production in here that could cause us problems.

13 Q. Okay, and what about Exhibits -- Why don't you  
14 look at Exhibits 8 and 9 together?

15 A. Okay, Exhibits 8 and 9 are net isopach maps on  
16 the two prospective zones in the Morrow, middle Morrow  
17 green sand and the lower Morrow brown sand. At our  
18 proposed location we obviously are hoping that we will find  
19 part of both sands. But as you can see, there's a zero in  
20 the middle Morrow west of us, and there's a zero in the  
21 lower Morrow east of us.

22 Q. Okay. It's a good prospect, but there is  
23 substantial risk?

24 A. Right.

25 Q. Are there any objectives in this well, other than

1 the Morrow?

2 A. Oh, I'd say on an outside chance there's -- the  
3 Atoka could produce in here. It produces several miles  
4 north of here in Township 17 South, 29 East, but I'd say  
5 it's quite remote.

6 Q. Okay. Now, the Hearing Examiner asked about a  
7 specific footage for the well, and you do plan at this  
8 point a 660-660 location, do you not?

9 A. That is correct.

10 Q. Could you refer to your Exhibits 10 and 11 and  
11 discuss why that location may change somewhat?

12 A. Well, what I've included here are an acreage well  
13 map, and then also an aerial photograph. And it's mainly  
14 to show you that there's quite a bit of shallow production  
15 in the area. Yeah, the location may be acceptable, but  
16 there may be pipelines in the area that would prevent that  
17 particular location from being drilled. But we are  
18 proposing, obviously, nothing closer to the east and south  
19 line, because that would be nonstandard, so we would move  
20 north or west.

21 Q. Okay. Finally, what do your Exhibits 12 and 13  
22 show?

23 A. Well, what these are, these are decline curves on  
24 both the west and the east offset wells. And as you can  
25 see, these wells have made a lot of gas, they're later in

1 their lives, both on -- if you just took historically on a  
2 fairly severe decline in the 30-percent range. So, you  
3 know, we're getting into this a little on the late side,  
4 but we still think it's an economical venture.

5 Q. In your opinion, should the maximum cost-plus-  
6 200-percent penalty be assessed against any interest owner  
7 who goes nonconsent in this well?

8 A. Yes, it should.

9 Q. Were Exhibits 5 through 13 prepared by you or  
10 under your supervision?

11 A. They were prepared by me.

12 Q. And in your opinion is the granting of this  
13 Application in the interests of conservation and the  
14 prevention of waste?

15 A. Yes, it is.

16 MR. BRUCE: Mr. Examiner, I'd move the admission  
17 of Nadel and Gussman Exhibits 5 through 13?

18 EXAMINER BROOKS: Objection?

19 MR. CARR: No objection.

20 EXAMINER BROOKS: 5 through 13 are admitted.

21 MR. BRUCE: Pass the witness.

22 EXAMINER BROOKS: Mr. Carr?

23 EXAMINATION

24 BY MR. CARR:

25 Q. Mr. Logan, were you personally involved in any

1 negotiations with EOG?

2 A. No, I was not.

3 MR. CARR: That's all I have, thank you.

4 EXAMINER BROOKS: I don't think I have anything  
5 for this witness. The witness may stand down.

6 MR. BRUCE: I have nothing further in this  
7 matter, Mr. Brooks.

8 EXAMINER BROOKS: Mr. Carr?

9 MR. CARR: Nothing further, your Honor.

10 EXAMINER BROOKS: Does EOG object to the  
11 Application in any way?

12 MR. CARR: Not at this time, no, sir.

13 EXAMINER BROOKS: Okay, thank you.

14 If there's nothing further, then Case Number  
15 12,829 will be taken under advisement.

16 (Thereupon, these proceedings were concluded at  
17 10:22 a.m.)

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 12829,  
heard by me on March 7, 2002.

David K. Brooks Examiner  
Oil Conservation Division

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 13th, 2002.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 14, 2002