

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. 12,939  
)  
APPLICATION OF NEARBURG EXPLORATION )  
COMPANY, L.L.C., FOR COMPULSORY POOLING )  
AND DIRECTIONAL DRILLING, LEA COUNTY, )  
NEW MEXICO )  
\_\_\_\_\_ )

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

October 10th, 2002

Santa Fe, New Mexico

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This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, October 10th, 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.

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October 10th, 2002  
 Examiner Hearing  
 CASE NO. 12,939

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

## FOR THE DIVISION:

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Assistant General Counsel  
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## FOR THE APPLICANT:

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:

WILLIAM V. JONES, JR.  
Petroleum Engineer  
New Mexico Oil Conservation Division  
1220 South Saint Francis Drive  
Santa Fe, NM 87505

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2   8:58 a.m.:

3           EXAMINER CATANACH: Okay, at this time I'll call  
4   Case 12,939, Application of Nearburg Exploration Company,  
5   L.L.C., for compulsory pooling and directional drilling,  
6   Lea County, New Mexico.

7           Call for appearances.

8           MR. CARR: May it please the Examiner, my name is  
9   William F. Carr. I'm with the Santa Fe office of Holland  
10   and Hart, L.L.P. We represent Nearburg Exploration  
11   Company, L.L.C. I have two witnesses.

12           EXAMINER CATANACH: Any additional appearances?  
13           Will the two witnesses stand to be sworn in,  
14   please?

15           (Thereupon, the witnesses were sworn.)

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

19                                 DIRECT EXAMINATION

20   BY MR. CARR:

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

22           A.    Yes, Duke Roush.

23           Q.    Mr. Roush, where do you reside?

24           A.    Midland, Texas.

25           Q.    By whom are you employed?

1 A. Nearburg Exploration Company, L.L.C.

2 Q. And what is your position with Nearburg  
3 Exploration Company?

4 A. Senior landman.

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

7 A. Yes, I have.

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

11 A. Yes, they were.

12 Q. Are you familiar with the Application filed in  
13 this case on behalf of Nearburg?

14 A. Yes, I am.

15 Q. And are you familiar with the status of the lands  
16 in the area which is the subject of this Application?

17 A. Yes, I am.

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

20 EXAMINER CATANACH: They are.

21 Q. (By Mr. Carr) Mr. Roush, would you briefly  
22 summarize what it is that Nearburg seeks in this case?

23 A. An order pooling all the minerals from the  
24 surface to the base of the Strawn formation, underlying the  
25 south half of the southeast of Section 15, Township 17

1 South, Range 37 East, in a manner to form a standard 80-  
2 acre spacing unit in the Strawn formation, placing it in  
3 the Undesignated Southwest Humble City-Strawn Pool.

4 This acreage would be dedicated to the Guernsey  
5 "15" Number 1-Y well, which will be directionally drilled  
6 from a standard location in the northeast quarter of  
7 Section 15 -- surface location in the northeast quarter of  
8 Section 22 at a point 710 feet from the north line, 570  
9 feet from the east line, to a standard bottomhole location  
10 in the southeast quarter of Section 15, located 510 from  
11 the south, 660 from the east.

12 Q. What rules govern the development of this  
13 acreage?

14 A. They're special pool rules that are adopted by  
15 Order R-10,595 for the Southwest Humble City-Strawn Pool,  
16 which was entered on May 10th, 1996. It provides for 80-  
17 acre spacing units, with the wells to be located within 150  
18 feet of the quarter quarter section.

19 Q. So the bottomhole location will be at a standard  
20 location in the south half of the southeast of 15?

21 A. That's correct.

22 Q. Let's go to Exhibit 1, and I'd ask you to  
23 identify and review that, please.

24 A. It's a locator map that shows the proration unit  
25 and shows the bottomhole location in the south half of the

1 southeast of 15 and the surface location in the north half  
2 of the northeast of Section 22.

3 Q. What is the status of the land in the south half  
4 of the southeast of 15?

5 A. This is fee land.

6 Q. And then the surface location to the south, what  
7 is the character of that land?

8 A. It's state land.

9 Q. And what rights does Nearburg have to utilize  
10 that surface to access the --

11 A. We have filed a business lease with the State of  
12 New Mexico.

13 Q. And have you received that yet?

14 A. No, we have not.

15 Q. But will you provide a copy of that when it's  
16 received from the Land Office?

17 A. Yes, we will.

18 Q. And those are state minerals, and you also lease  
19 the minerals on the tract from which you're drilling?

20 A. That's correct.

21 Q. Did Nearburg actually drill the Guernsey well in  
22 the first instance?

23 A. No.

24 Q. It was drilled to access the Strawn from that  
25 location; is that right?

1 A. That is correct.

2 Q. And it was not successful?

3 A. That's correct.

4 Q. What is the primary objective of the well? Is it  
5 the Strawn?

6 A. It's the Strawn.

7 Q. Let's go to what has been marked as Exhibit  
8 Number 2, and I'd ask you to review that for Mr. Catanach.

9 A. Exhibit Number 2 is just an ownership exhibit  
10 showing who is in the unit, the prospective percentages and  
11 the bottomhole location.

12 Q. Can you, using this exhibit, explain to Mr.  
13 Catanach who is currently committed to the well?

14 A. The only two people that are not committed to the  
15 well at this point in time are OXY and Norma Jean Chanley.  
16 Everybody else has signed an AFE and is committed to the  
17 unit.

18 Q. Could you summarize the efforts you've made to  
19 reach voluntary agreement with OXY and Ms. Chanley?

20 A. Yes, we proposed the well, I believe, on August  
21 1st, followed up with all individuals by phone, we talked  
22 with OXY Petroleum. We have a 3-D shoot over this area.  
23 We offered to show them this 3-D if they would make an  
24 election either to participate or grant us a lease on their  
25 minerals. We've had numerous backup conversations with

1    them as -- personally, as short as last Friday, Bob Shelton  
2    in our offices, here at NMOGA and spoke with Bob Doty, I  
3    believe is his name, with OXY, and explained the situation,  
4    and they informed us that we should come and hold this  
5    hearing because they did not have an answer at that time.

6           Q.    What about Ms. Chanley?

7           A.    Ms. Chanley I've had a phone conversation with,  
8    in addition to the notice we sent her. I believe we'll be  
9    able to work with Ms. Chanley, but at this point in time we  
10   have not been able to arrive at negotiable or economic  
11   terms, but we will continue to do so. I left a message  
12   with her as late as last Monday on her phone, and she has  
13   not returned my phone call.

14          Q.    You're still in negotiations with each of  
15   these --

16          A.    Oh, yes.

17          Q.    And if you're able to reach voluntary agreement  
18   for the development of this spacing unit, will you advise  
19   the Oil Conservation Division --

20          A.    Yes.

21          Q.    -- of that agreement?

22          A.    Yes, we will.

23          Q.    Let's go to Exhibit 3, and why don't you just  
24   identify those?

25          A.    Exhibit 3 is the proposal letter setting forth

1 the location, the depth, providing an AFE which estimates  
2 our cost to drill and complete the well.

3 Q. And then behind that, is there a follow-up  
4 letter?

5 A. Yes.

6 Q. The initial letter says August 1, 2001. That's  
7 not correct, is it?

8 A. No, that's --

9 Q. It's August 1, 2002; that's just a typo?

10 A. Yes, sir, it is.

11 Q. Mr. Roush, let's go to the AFE. Would you review  
12 the totals on that AFE for the Examiner?

13 A. Dry hole cost is \$484,123, your completion costs  
14 are \$358,782, for a well that's drilled and completed of  
15 \$842,905.

16 Q. How do these costs compare generally with the  
17 costs incurred by Nearburg and other operators for similar  
18 wells in this area?

19 A. Actually, they're about \$200,000 to \$225,000  
20 cheaper because we are able to re-enter the well.

21 Q. Is Nearburg Exhibit Number 5 an affidavit that  
22 confirms that notice of today's hearing was provided to  
23 both OXY USA and to Norma Jean Chanley?

24 A. Yes, it is.

25 Q. Have you made an estimate of the overhead and

1 administrative costs to be incurred while drilling the well  
2 and also while producing it if, in fact, it is successful?

3 A. Yes, it would be \$6000 and \$600.

4 Q. Are these costs in line with what's charged by  
5 other operators and Nearburg for similar wells in the area?

6 A. Yes, they are.

7 Q. And do you recommend these figures be  
8 incorporated into the order that results from today's  
9 hearing?

10 A. Yes, I do.

11 Q. Can you identify what's marked as Nearburg  
12 Exhibit 6?

13 A. It's an accounting procedure that was attached to  
14 a well we proposed in our West Star Prospect. This JOA was  
15 executed by all the parties on a voluntary basis, and these  
16 were the overhead rates we agreed upon.

17 Q. And will this accounting procedure be attached  
18 and included in the joint operating agreement for the well  
19 which is the subject of this hearing?

20 A. Yes, it will.

21 Q. Do these COPAS procedures provide for the  
22 adjustment of overhead and administrative charges on a  
23 periodic basis?

24 A. Yes, they do.

25 Q. Does Nearburg request that the order entered in

1 this case also authorize the adjustment of overhead and  
2 administrative charges in accordance with COPAS procedures?

3 A. Yes, we do.

4 Q. Does Nearburg seek to be designated operator of  
5 the well?

6 A. Yes, we do.

7 Q. And how soon generally do you anticipate spudding  
8 the well?

9 A. Probably within the next 60 days.

10 Q. Were Nearburg Exhibits 1 through 6 prepared by  
11 you or compiled at your direction?

12 A. Yes, they were.

13 Q. And will Nearburg be calling a geophysical  
14 witness to review the technical portions of the case?

15 A. Yes, they will.

16 MR. CARR: At this time, Mr. Catanach, we move  
17 the admission into evidence of Nearburg Exhibits 1 through  
18 6.

19 EXAMINER CATANACH: Exhibits 1 through 6 will be  
20 admitted as evidence.

21 MR. CARR: That concludes my examination of Mr.  
22 Roush.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Roush, isn't it typical that Nearburg would

1 designate Nearburg Producing Company as operator, or --

2 A. Yes, it is.

3 Q. Is that correct?

4 A. Yes.

5 Q. Okay, I thought that might be the case.

6 Do you anticipate that OXY may ultimately decide  
7 to join in the drilling of the well?

8 A. I hope. We actually sent this letter of August  
9 28th over at their request. They wanted to see the  
10 seismic, which we were more than happy to show them, as  
11 long as we would get a decision after we had shown the  
12 data. They indicated early on that they would probably  
13 want to participate, and I've called them I don't know how  
14 many times and they just can't give us an answer, so...

15 Q. But you haven't shown them the data yet; is that  
16 right?

17 A. No, no.

18 Q. Okay.

19 A. But we're still willing to.

20 Q. What about the other interest owner? Do you  
21 anticipate any agreement with her?

22 A. Yes, I do. She's out of Hobbs. We're just  
23 missing each other, I think. We'll come to --

24 Q. But you have spoken to her?

25 A. Yes. Actually, her name is Norma Jane Chanley,

1 instead of Norma Jean. That's one of the reasons she  
2 called me.

3 Q. Is that well currently plugged and abandoned?

4 A. Yes, I believe it is.

5 Q. So the only thing you're going to charge the  
6 interest owners is the cost to directionally drill the  
7 well? You're not charging them for any existing costs?

8 A. Oh, no.

9 Q. The value of the wellbore or anything like that?

10 A. Right, no.

11 EXAMINER CATANACH: I believe that's all I have.

12 Do you have any questions?

13 EXAMINER BROOKS: No questions.

14 EXAMINER CATANACH: Okay, I think that's all I  
15 have.

16 MR. CARR: Mr. Catanach, at this time we call  
17 Terry Durham.

18 TERRY E. DURHAM,  
19 the witness herein, after having been first duly sworn upon  
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. Terry Durham.

25 Q. Mr. Durham, where do you reside?

1 A. In Plano, Texas.

2 Q. And by whom are you employed?

3 A. I'm employed by Nearburg Producing Company in  
4 Dallas, Texas.

5 Q. What is your position with Nearburg Producing  
6 Company?

7 A. I'm the senior staff geophysicist.

8 Q. Have you previously testified before this  
9 Division?

10 A. Yes, I have.

11 Q. At the time of that testimony, were your  
12 credentials as an expert in geophysical sciences accepted  
13 and made a matter of record?

14 A. Yes, they were.

15 Q. Are you familiar with the Application filed in  
16 this case?

17 A. Yes, I am.

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

20 A. Yes, I've studied this area.

21 Q. And are you prepared to share the results of your  
22 work with the Examiners?

23 A. Yes, I am.

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

1                   EXAMINER CATANACH: Mr. Durham is so qualified.

2           Q.    (By Mr. Carr) Mr. Durham, have you prepared  
3 exhibits for presentation here today?

4           A.    I've prepared two exhibits.

5           Q.    Let's go to what has been marked Nearburg Exhibit  
6 Number 7, the production map, and I'd ask you to explain  
7 what it is that Nearburg is proposing to do with this well.

8           A.    Nearburg is proposing to re-enter the Oryx "FK"  
9 well, which was -- during drilling in 1989, was taken over  
10 by Exxon and renamed the Ruby well, in the northeast corner  
11 of Section 22, and directionally drilling this well  
12 approximately 1050 feet to the north at a standard location  
13 in the extreme southeast corner of Section 15, the reason  
14 being, based on seismic interpretation, the location in the  
15 southeast corner of Section 15 is centrally located in a  
16 seismic anomaly that we want to test.

17          Q.    If we look at the production map, it appears that  
18 there are a number of Strawn wells in the area; is that  
19 right?

20          A.    Yes, this immediate map shows 23 Strawn tests,  
21 nine producers. And of those nine producers, three were  
22 noneconomic wells. In other words, they did not even pay  
23 out the well cost.

24                   So basically, this map demonstrates the risk  
25 involved in drilling in this area. In this immediate area

1 the success rate for economic Strawn production is 6 of 23,  
2 or it works out to 26-percent success rate.

3 Q. Let's go to what has been marked as Nearburg  
4 Exhibit Number 8. Would you identify and review this for  
5 Mr. Catanach and Mr. Brooks?

6 A. This is an arbitrary seismic line from a 3-D  
7 survey. The position of this arbitrary line is shown on  
8 the production map by the blue line G-G, going from the  
9 south half of the northeast corner of Section 22 through  
10 the proposed re-entry well to our proposed bottomhole  
11 location, and up into the north half of Section 15.

12 This arbitrary seismic line shows six Strawn  
13 wells, and it also shows the proposed well path of our  
14 directional well. You'll note that there are four dry  
15 holes in this presentation.

16 I've annotated with the yellow highlighting what  
17 I consider or have interpreted to be a Strawn algal mound  
18 production by the two wells in the north half of Section  
19 15, the two Shaw wells, Shaw 1 and 2.

20 And I've interpreted a similar anomaly in the  
21 southeast corner of Section 15, immediately west of the  
22 well that we propose to re-enter. And by re-entering and  
23 directionally drilling 1000 feet to the north, hopefully  
24 we'll be in the center of this anomaly and have a  
25 productive well.

1 Q. Are you prepared to make a recommendation to the  
2 Examiner as to the risk to be assessed against any interest  
3 owner that doesn't voluntarily participate in the well?

4 A. Yes, I am.

5 Q. And could you just briefly summarize the reason  
6 for that? What is the recommendation, what percentage  
7 recommendation?

8 A. 200-percent penalty.

9 Q. And summarize the reason for that recommendation.

10 A. There is still considerable risk in drilling in  
11 this area, even with current technology of 3-D seismic  
12 data. Nearburg has drilled a dry hole on the production  
13 map, using 3-D data. We encountered a Strawn mound, but it  
14 had been depleted by previous production. So that risk is  
15 thrown in as a factor also for noneconomic wells.

16 Q. In your opinion, will approval of this  
17 Application and the re-entry and drilling of the well as  
18 proposed be in the best interest of conservation, the  
19 prevention of waste and the protection of correlative  
20 rights?

21 A. Yes, it will.

22 Q. Were Exhibits 7 and 8 prepared by you?

23 A. Yes, they were.

24 MR. CARR: May it please the Examiner, at this  
25 time we'd move the admission into evidence of Nearburg

1 Exhibits 7 and 8.

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

4 MR. CARR: That concludes my examination of Mr.  
5 Durham.

6 EXAMINATION

7 BY EXAMINER CATANACH:

8 Q. Which well, Mr. Durham, did you say you used 3-D  
9 seismic on, to drill?

10 A. It's the dry hole located in the southwest corner  
11 of Section 14.

12 Q. Okay.

13 A. And you'll note immediately to the east, there  
14 are three Strawn producers that were drilled in 1984, 1987  
15 and 1995, respectively, moving to the west, and we thought  
16 we'd be in an area that had not been drained, and we were  
17 wrong.

18 Q. Did that well encounter reservoir-quality rock?

19 A. Yes, it did. In fact, it was the best reservoir-  
20 quality rock in that algal mound.

21 Q. It's just depleted?

22 A. It was depleted.

23 Q. Now, the Guernsey well in Section 22, was that  
24 productive at one time?

25 A. No, it wasn't. It did have shows on a DST, but

1 it never was productive.

2 Q. And do you know why that well wasn't productive?  
3 Was it at the edge of the mound or --

4 A. It was basically at the edge of the mound, yeah.

5 Q. No porosity, or --

6 A. Just a very thin zone of porosity, just a few  
7 feet.

8 Q. Is your proposed location -- It's in the center,  
9 you say, of this structure. Is it at a high point in the  
10 structure, or can you tell that?

11 A. It's basically in the center, in where I believe  
12 the thickest part of the mound buildup is.

13 Q. Now, you said 6 out of 23. Is that just in this  
14 area that you've got mapped on this exhibit?

15 A. Yes, that's on the map that's in Exhibit Number  
16 7.

17 Q. Only six wells were productive?

18 A. Nine wells were productive, but only six were  
19 economic. Three of them didn't even recover the cost of  
20 the well. Those are three that are in the -- Two of them  
21 are in the west half of Section 15, and the third well is  
22 in the southwest of the northeast of 15, the one that made  
23 61,000 barrels of oil. It also was drilled 21 years after  
24 the well immediately to the north that made 417,000, so it  
25 also encountered an area that had been depleted. Those are

1 the three wells that are noneconomic.

2 Q. In Section 22 there are two additional dry holes.  
3 Those were also Strawn tests?

4 A. Yes, they were. Both dry holes with no Strawn  
5 mound, no porosity development at all.

6 EXAMINER CATANACH: Okay, I have nothing further.  
7 Do you have any?

8 EXAMINATION

9 BY MR. JONES:

10 Q. I have a question. I may have missed out earlier  
11 on the -- I know the drilling costs were in there, but was  
12 the seismic, 3-D seismic tossed in on the estimates of the  
13 payout on the well that would be included in the penalty,  
14 do you know, Mr. Durham?

15 A. I think all we discussed were the well costs  
16 initially. I don't believe the seismic was in there.

17 Q. How much is the seismic cost?

18 A. It was \$100,000 3-D, but the immediate area on  
19 this map only would be about a \$15,000 seismic cost, on the  
20 immediate area on this map.

21 Q. For that acreage?

22 A. Uh-huh.

23 MR. JONES: Thank you.

24 EXAMINER CATANACH: Okay, I think that's all we  
25 have, Mr. Carr.

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MR. CARR: Thank you, Mr. Catanach. That concludes our presentation in this case.

EXAMINER CATANACH: Okay, there being nothing further, Case 12,939 will be taken under advisement.

(Thereupon, these proceedings were concluded at 9:20 a.m.)

\* \* \*

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 12939, heard by me on October 10 1900.  
David P. Leitman, Examiner  
Oil Conservation Division

