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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. 10257
APPLICATION OF NEARBURG PRODUCING)
COMPANY)
_____)

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: JIM MORROW, Hearing Examiner
March 7, 1991

Santa Fe, New Mexico

This matter came on for hearing before the Oil Conservation Division on March 7, 1991, at 9:52 a.m. at Oil Conservation Division Conference Room, State Land Office Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico, before Freda Donica, RPR, Certified Court Reporter No. 417, for the State of New Mexico.

FOR: OIL CONSERVATION DIVISION BY: FREDA DONICA, RPR
Certified Court Reporter
CCR No. 417

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I N D E X

March 7, 1991
Examiner Hearing
CASE NO. 10257

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APPEARANCES

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* * *

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
 General Counsel
 Oil Conservation Commission
 State Land Office Building
 310 Old Santa Fe Trail
 Santa Fe, New Mexico 87501

FOR THE APPLICANT: CAMPBELL & BLACK, P.A.
 110 N. Guadalupe
 Santa Fe, New Mexico
 BY: WILLIAM F. CARR, ESQ.

1 HEARING EXAMINER: We'll call case number 10257. This
2 is the application of Nearburg Producing Company for
3 compulsory pooling and a non-standard gas proration unit,
4 Lea County, New Mexico. Call for appearances.

5 MR. CARR: May it please the Examiner, my name is
6 William F. Carr with the law firm, Campbell and Black,
7 P. A., of Santa Fe. We represent Nearburg Producing
8 Company, and I have two witnesses.

9 HEARING EXAMINER: Will the witnesses please stand and
10 be sworn?

11 (Witnesses sworn.)

12 MARK NEARBURG
13 the Witness herein, having been first duly sworn, was
14 examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. CARR:

17 Q. Will you state your full name for the record,
18 please?

19 A. Mark Nearburg.

20 Q. Mr. Nearburg, by whom are you employed and in
21 what capacity?

22 A. Nearburg Producing Company, land manager.

23 Q. Have you previously testified before this
24 division and had your credentials as the landman accepted
25 and made a matter of record?

1 A. Yes.

2 Q. Are you familiar with the application filed in
3 this case on behalf of Nearburg Producing Company?

4 A. Yes.

5 Q. Are you familiar with the proposed well and the
6 surrounding area?

7 A. Yes.

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

9 HEARING EXAMINER: Yes, sir.

10 Q. (By Mr. Carr) Mr. Nearburg, would you briefly
11 state what you seek with this application?

12 A. We seek the compulsory pooling of certain mineral
13 interest owners under a non-standard gas proration unit in
14 Section 19, Township 19 South, Range 36 East, Lea County,
15 New Mexico, for a Morrow test.

16 Q. And the acreage that we're discussing here today
17 is developed on 640-acre spacing?

18 A. Yes.

19 Q. Why are you seeking approval of a non-standard
20 proration unit?

21 A. Lots 1, 2, 3 and 4, which are the west half, west
22 half of this section, are short; they're not full 40-acre
23 units, due to survey.

24 Q. Therefore you have only 629 acres instead of 640?

25 A. Yes.

1 Q. Have you prepared certain exhibits for
2 presentation in this case?

3 A. Yes.

4 Q. Will you refer to what has been marked as
5 Nearburg Exhibit Number 1, identify that and review it for
6 Mr. Morrow?

7 A. Exhibit Number 1 is a land plat showing Section
8 19 colored in yellow, with the proposed reentry location of
9 a previous dry hole shown with the red dot and arrow.

10 Q. Let's go at this time to Exhibit Number 2. This
11 is an exhibit that was offered in a previous case; is that
12 not correct, Mr. Nearburg?

13 A. Yes.

14 Q. What does this show you?

15 A. This is an outline of the boundary of the North
16 Osudo Morrow gas pool.

17 Q. If we go up to the upper left-hand corner,
18 there's a well spot in Section 30?

19 A. Yes.

20 Q. What is that well spot?

21 A. That's the location that we plan to drill
22 subsequent to the well that we're here for today.

23 Q. And if we go due north of that 640-acre tract, we
24 get to Section 19, which is the subject of this hearing.

25 A. Yes. Section 19 immediately offsets Section 30

1 to the north.

2 Q. And what we have here is a proposal today that is
3 within a mile of the North Osudo Morrow gas pool rules?

4 A. Yes.

5 Q. That is developed on 640-acre spacing?

6 A. Yes.

7 Q. By going with this development plan where are you
8 going to reenter a well in Section 19 and then come back to
9 30, what benefits will you gain by going this route?

10 A. The economic benefit, the well in Section 19 was
11 previously drilled through the Morrow formation and was
12 plugged and abandoned as a dry hole by Clayton Williams.
13 The well in Section 30 would have to be drilled from the
14 surface down at considerable additional expense.

15 Q. So you're able to, at less capital outlay,
16 confirm -- or tendential information on the formations in
17 this area by going -- drilling the wells in this order?

18 A. Yes.

19 Q. What is the primary objective in this well?

20 A. Morrow formation gas production.

21 Q. Are there any secondary objectives?

22 A. No.

23 Q. For pooling just the Morrow formation?

24 A. Yes.

25 Q. Would you identify what has been marked as

1 Nearburg Exhibit Number 3?

2 A. Exhibit Number 3 shows the remaining mineral
3 owners that we have not been able to lease. I believe that
4 we pooled approximately 28 people, which is reflected on the
5 application for this hearing. These are the remaining
6 interest owners that we have not been able to reach
7 agreement with.

8 Q. So the 28 people identified in the application,
9 you've reached voluntary agreement with everyone but these
10 people identified in Exhibit 3?

11 A. Yes.

12 Q. What percent of the interest in this proration
13 unit has been voluntarily committed to this project?

14 A. Approximately 85.5 percent.

15 Q. Let's go now to Exhibit Number 4. Would you
16 identify that and review it for the Examiner?

17 A. Exhibit Number 4 is an AFE of our estimated costs
18 to reenter and complete this well in the Morrow formation.
19 There is no cost to casing point shown since we are
20 reentering an old well. The total estimated cost to reenter
21 and complete this well is \$221,680.00.

22 Q. How do these costs compare with costs for other
23 Morrow wells in the area?

24 A. They compare very favorably because it's a
25 reentry operation.

1 Q. Could you refer to Exhibit Number 5, and working
2 with this exhibit, review for the Examiner your efforts to
3 obtain voluntary joinder in this prospect of all interest
4 owners in this proration unit?

5 A. We began approximately one year ago to try to
6 lease and obtain farmouts on the entire Section 19. Exhibit
7 5 is the most recent correspondence with the remaining
8 owners we have not reached agreement with. The letters are
9 dated February 18th, 1991. And you can note at the bottom
10 of the letters on February 22nd and again on March 6th and
11 on February 26th for the letter to Florence Woods we
12 continue to try to obtain agreement, but we've not been able
13 to do so.

14 Q. Mr. Nearburg, we're seeking an order pooling the
15 interests of Mildred Orr, along with the people who are
16 identified in the letters in Exhibit Number 5. Could you
17 explain the status of Mildred Orr's interest and efforts
18 you've made to locate and obtain her joinder?

19 A. Yes. Mildred Orr and her husband are both
20 deceased. Her husband died in 1984, and Mrs. Orr died in
21 1985. Her last known address was San Joaquin County,
22 California. We have found a death certificate that we
23 believe is Mrs. Orr's in Stanislaus County, California.
24 We've ordered the death certificate, but we've been unable
25 to find any probate proceedings, so we will escrow any funds

1 for her account for her heirs.

2 Q. In your opinion, have you had a made good-faith
3 effort to identify and obtain voluntary joinder of all
4 interest owners in this spacing unit?

5 A. Yes.

6 Q. And you are the operator of the offsetting wells
7 in the Morrow formation?

8 A. Yes.

9 Q. Is Exhibit Number 6 an affidavit with attached
10 letter and return receipts confirming that notice of this
11 hearing has been provided in accordance with the rules of
12 the division?

13 A. Yes.

14 Q. Have you made an estimate of the overhead and
15 administrative costs that will be incurred while drilling
16 the well and also while producing it if it is a successful
17 well?

18 A. Yes, \$6,000.00 during drilling and \$600.00 during
19 production.

20 Q. And how do these costs compare with the overhead
21 and administrative charges that apply to the offsetting
22 Morrow wells?

23 A. These are costs that have been approved by the
24 commission for other wells within this immediate area.

25 Q. Do you recommend that these figures be

1 incorporated into the order which will result from this
2 hearing?

3 A. Yes.

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

6 A. Yes.

7 Q. In your opinion, will granting this application
8 be in the best interest of conservation, the prevention of
9 waste and the protection of correlative rights?

10 A. Yes.

11 Q. Will Nearburg also call a geological witness to
12 discuss the risk associated with this venture?

13 A. Yes.

14 Q. Are Exhibits 1 through 6 either prepared by you
15 or compiled under your direction and supervision?

16 A. Yes.

17 MR. CARR: At this time, Mr. Morrow, we would move the
18 admission of Nearburg Exhibits 1 through 6.

19 HEARING EXAMINER: Exhibits 1 through 6 are admitted.

20 MR. CARR: That concludes my direct examination of Mr.
21 Nearburg.

22 HEARING EXAMINER: On Exhibit Number 2, Mr. Nearburg,
23 the well in -- the well spot shown in Section 30, is that a
24 proposed Nearburg well.

25 THE WITNESS: Yes, sir. We have built the road and

1 location and paid surface damages for that, and we have
2 applied -- we have turned in our application to drill that
3 well. However, we do want to come up into 19 and test the
4 limits of the Morrow before we drill that one.

5 HEARING EXAMINER: You propose, I believe, to -- 640
6 acre spacing proposal was based on the spacing in this North
7 Osudo Morrow gas pool; is that correct?

8 THE WITNESS: Yes, sir. We are within one mile of that
9 pool.

10 HEARING EXAMINER: Is Number 30 in that --

11 THE WITNESS: No, Section 19 is within one mile of the
12 North Osudo Morrow pool boundary. Therefore, we're using
13 the North Osudo Morrow rules.

14 HEARING EXAMINER: On the Exhibit 5, I believe you
15 referred to some letters or some letter dates that I didn't
16 have included here.

17 THE WITNESS: At the very bottom of the letters,
18 handwritten, those are the dates I was referring to.

19 HEARING EXAMINER: The witness may be excused.

20 MR. CARR: At this time we would call Louis Mazzullo.

21 LOUIS MAZZULLO

22 the Witness herein, having been first duly sworn, was
23 examined and testified as follows:

24 DIRECT EXAMINATION

25 BY MR. CARR:

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

2 A. My name is Louis Mazzullo.

3 Q. Where do you reside?

4 A. Midland, Texas.

5 Q. By whom are you employed?

6 A. I am a geological consultant on retainer for
7 Nearburg, representing Nearburg Producing Company.

8 Q. Have you previously testified before this
9 division and had your credentials as the geologist accepted
10 and made a matter of record?

11 A. Yes, I have.

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

14 A. I am.

15 Q. Have you made a study of the subject area?

16 A. Yes.

17 Q. Have you prepared an exhibit for presentation in
18 this hearing?

19 A. Yes, Exhibit 7.

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

21 HEARING EXAMINER: Yes.

22 Q. (By Mr. Carr) Mr. Mazzullo, would you refer to
23 Exhibit Number 7? First identify this and then review the
24 information on this exhibit for the Examiner.

25 A. Exhibit Number 7 is a structural cross-section

1 through the area under consideration here. It basically
2 follows a line essentially west of the proposed reentry
3 well, through the proposed reentry well, and then
4 southeastward into a now plugged and abandoned Morrow gas
5 producing well, and thence west over to a well recently
6 plugged and abandoned by Nearburg Producing Company. This
7 cross-section is indexed on that structure map on the upper
8 right-hand side.

9 The section attempts to portray some of the risks
10 involved in drilling and trying to complete on the Morrow
11 and make an economic Morrow production in this area. I've
12 highlighted a number of different sands between my top of
13 Middle Morrow marker and the top of the Barnett shale.
14 These sands are variously patterned with different size
15 dots, but of particular interest are a couple of key sands.
16 The ones that are shown in red are the only sands in the
17 immediate area that have thus far produced any hydrocarbons
18 at all. In the Hamon Number 1 Childers well southeast of
19 our proposed reentry well, these two sands were perforated
20 along with some other thinner bedded sands below and have
21 cummed only a little bit more than a quarter BCF of gas
22 total. This well has now been plugged and abandoned.

23 Further downdip, down structural dip, we recently
24 drilled a Nearburg Producing Company Number 1 31-J East
25 Pearl well, and we attempted completion both on a lower

1 coarse grain sand below 12,200 feet. As you can see from
2 the information regarding that sand, we did find some
3 hydrocarbons, and we did test hydrocarbons, but they were
4 judged to be non-commercial.

5 We then went up a hole and attempted to perforate
6 and produce from the two red sands, the red-colored sands,
7 and a smaller sand above it. And, again, we were unable to
8 establish commercial production out of those two zones.

9 Now, the purpose of reentering the Clayton
10 William Number 1 ²¹Perla well is to try to establish
11 production in a structurally higher position relative to the
12 one producing well in the field, that is, the Hamon Number 1
13 Childers. In 1983, when Clayton Williams originally drilled
14 the well, a drill stem test was run across a number of
15 sands, including the two red sands, and another porous sand
16 below. I've done sample examination of all the sands in the
17 Morrow section and have found a considerable amount of
18 porosity in these sands, but also a considerable amount of
19 clay minerals which would tend to damage a formation if it
20 was not properly accounted for during drilling operations.

21 In fact, the drill stem test results show gas to
22 surface too small to measure and the recovery of over 3,800
23 feet of heavy oil and gas cut drilling mud. You'll also
24 note that the shut-in pressures on this well indicate a
25 decline from initial shut-in pressure of 5,955 pounds to a

1 final shut-in pressure of 4,119 pounds. In my opinion, this
2 could be due to formation damage and not limited reservoir
3 conditions. So the point of reentering this well is to try
4 to establish production in three sands that the drill stem
5 test covered.

6 Q. Based on this information, are you prepared to
7 make a recommendation to the Examiner as to the risk penalty
8 that should be assessed against any interest owner that
9 doesn't voluntarily join in this effort?

10 A. Based upon the risk of establishing commercial
11 production out of these sands, as I've just gone through on
12 these other wells, I would recommend the maximum penalty,
13 200 percent.

14 Q. In your opinion, is it possible that Nearburg
15 will be unable to obtain a commercial well at this location?

16 A. It's a very high probability of a non-commercial
17 well.

18 Q. Was Exhibit Number 7 prepared by you?

19 A. Yes, it was.

20 MR. CARR: At this time, Mr. Morrow, we would offer
21 Nearburg Exhibit Number 7.

22 HEARING EXAMINER: We will accept Exhibit Number 7.

23 MR. CARR: That concludes my examination of Mr.
24 Mazzullo.

25 HEARING EXAMINER: Tell me again what you said the

1 final shut-in pressure was on the Williams well.

2 THE WITNESS: Final shut-in pressure, two-hour shut-in
3 pressure of 4,119 pounds, the flowing pressures increased
4 during the course of the test from 2,593 pounds up to 3,000
5 pounds.

6 HEARING EXAMINER: What is this FP-2593?

7 THE WITNESS: Flowing pressures.

8 HEARING EXAMINER: And do you show the final shut-in
9 pressure there?

10 THE WITNESS: 120, which means a two hour final --

11 HEARING EXAMINER: All right. I don't believe I have
12 any more questions. The witness may be excused.

13 MR. CARR: We have nothing further, Mr. Examiner.

14 HEARING EXAMINER: Case 10257 will be taken under
15 advisement.

16 (The foregoing hearing was adjourned at the
17 approximate hour of 10:10 a.m.)

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1 STATE OF NEW MEXICO)

2 :

3 COUNTY OF SANTA FE)

4 I, FREDA DONICA, RPR, a Certified Court Reporter, DO
5 HEREBY CERTIFY that I stenographically reported these
6 proceedings before the Oil Conservation Division; and that
7 the foregoing is a true, complete and accurate transcript of
8 the proceedings of said hearing as appears from my
9 stenographic notes so taken and transcribed under my
10 personal supervision.

11 I FURTHER CERTIFY that I am not related to nor employed
12 by any of the parties hereto, and have no interest in the
13 outcome hereof.

14 DATED at Santa Fe, New Mexico, this 5th day of
15 April, 1991.

Freda Donica
Freda Donica
Certified Court Reporter
CCR No. 417

I do hereby certify that the foregoing is
a complete and true transcript of the proceedings
the Examiner hearing of Case No. 10257,
heard by me on March 7, 1991.
[Signature], Examiner
Oil Conservation Division

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