

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:

ORIGINAL

APPLICATION OF NEARBURG EXPLORATION COMPANY Case 14826
LLC, FOR A NON-STANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Technical Examiner
DAVID K. BROOKS, Legal Examiner

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June 7, 2012

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Technical Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, June 7, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
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Albuquerque, NM 87103 505-843-9241

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A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART
ADAM G. RANKIN, ESQ.
110 N. Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505)988-4421

WITNESSES: PAGE

Russell Wickman:

Direct examination by Mr. Rankin 4
Examination by Examiner Jones 11
Examination by Examiner Brooks 11

Bill Elton:

Direct examination by Mr. Rankin 13
Examination by Examiner Jones 20

INDEX PAGE

EXHIBITS 1 THROUGH 4 WERE ADMITTED 11
EXHIBITS 5 THROUGH 9 WERE ADMITTED 19

REPORTER'S CERTIFICATE 22

1 EXAMINER JONES: At this time, let's call
2 Case 14826, application of Nearburg Exploration Company,
3 LLC, for a non-standard spacing and proration unit and
4 compulsory pooling, in Lea County, New Mexico. Call for
5 appearances

6 MR. RANKIN: Mr. Examiner, Adam Rankin, of
7 Holland & Hart, on behalf of Nearburg. I have two
8 witnesses today. One of the witnesses I'm going to call
9 today is not on the pre-hearing statement. Keith
10 Williams, who is identified on the pre-hearing statement
11 is not going to make it, so Bill Elton will be testifying
12 in his place today.

13 EXAMINER JONES: He's going to be the
14 engineer?

15 MR. RANKIN: He's the geologist.

16 EXAMINER JONES: Any other appearances?

17 Will the witnesses please stand to be sworn.
18 State your names first.

19 MR. WICKMAN: Russell Wickman.

20 MR. ELTON: Bill Elton.

21 (Two witnesses were sworn.)
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RUSSELL WICKMAN

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Having been first duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. RANKIN:

Q. By whom are you employed and where do you reside?

A. I'm employed by Nearburg Producing Company, and I reside in Midland, Texas.

Q. Have you previously testified before the Division?

A. I have not.

Q. Could you briefly state for the Examiner your educational background and work experience?

A. Political Science major, Southwestern University, 1984. I've been a landman for approximately 25 years, both as an independent and with various company situations.

I kind of started at the base doing title work and buying leases and that sort of thing. I had my own broker company that I ran and owned for about eight or nine years.

In company situations, I've been the land manager of Vista Resources about 6 years. I was a district land manager for the Midland District for unit petroleum for three years. I've been with Nearburg for

1 the last two and a half years.

2 Q. And you're familiar with the application that
3 was filed in this case?

4 A. Yes, I am.

5 Q. You're familiar with the status of the land
6 involved in this case?

7 A. Yes.

8 Q. And you prepared exhibits; is that correct?

9 A. That's correct.

10 MR. RANKIN: Mr. Examiner, I'd like to
11 tender Mr. Wickman as an expert in petroleum land
12 matters.

13 EXAMINER JONES: He is so qualified.

14 Q. (By Mr. Rankin) Mr. Wickman, turning to
15 Exhibit 1 which has been marked in this exhibit packet,
16 can you briefly recite for the Examiners what this map
17 depicts and what it is that Nearburg is seeking with this
18 application?

19 A. What we're seeking is the 160-acre
20 non-standard spacing unit in the Bone Spring Formation
21 comprised of the west half of the west half of Section
22 23, which is the area on the map outlined in red and
23 covered in yellow.

24 This will be dedicated to Laguna 23 Fed Com
25 Number 2H Well. We're seeking to pool all the mineral

1 interests within that non-standard spacing unit. You can
2 see this map, also. I've depicted the offset owners
3 around the spacing unit.

4 Q. You're seeking to pool all the mineral
5 interests within the Bone Spring formation; is that
6 correct?

7 A. That's correct.

8 Q. Just one point, flipping through the pages,
9 Mr. Wickman, on the second page of that exhibit, you've
10 got it identified by tract; is that correct?

11 A. That's correct.

12 Q. And then on the following page, you've got a
13 list of interests identified in pool; is that correct?

14 A. That is correct.

15 Q. The actual footages for the location of the
16 proposed well are different than they were at the time
17 this application was filed; is that correct?

18 A. That is true.

19 Q. How have they changed?

20 A. When we went out to stake the location at 330
21 off of the south line, it turned out that we were under a
22 power line, so obviously, we couldn't put a rig there.
23 So we moved the location to 175 feet off of the south
24 line and did that with the knowledge that, by the time we
25 land the curve and started the horizontal and the

1 producing points will be beyond the 330 setback.

2 Q. And the status of these lands, these are all
3 federal lands?

4 A. That is correct.

5 Q. Is there a designated pool that covers the
6 proposed project area?

7 A. Yes, the Lea Bone Springs South Pool.

8 Q. And there are no special pool rules that
9 apply?

10 A. No, sir.

11 Q. Turning to Exhibit 2, this is a copy of the
12 sample of the well proposal letter that was sent out to
13 the interest owners; is that correct?

14 A. That is correct.

15 Q. And how many of the interest owners that were
16 identified on the previous exhibits have you been unable
17 to reach agreement with?

18 A. As of today, we only have an actual agreement
19 with one of the parties. They have executed an operating
20 agreement at this point.

21 A number of the other owners were very close
22 to agreements either to participate and execute an
23 operating agreement, or a number of folks have agreed to
24 do a term of assignment with us.

25 Q. In your opinion, have you pursued in good

1 faith to obtain the voluntary joinder of all uncommitted
2 interests?

3 A. Yes, sir.

4 Q. Turning to Exhibit 3, this is the AFE that was
5 sent with the proposal; is that correct?

6 A. Yes.

7 Q. Are these costs in here commensurate with what
8 Nearburg has incurred for drilling similar horizontal
9 wells in the area?

10 A. Yes.

11 Q. Has Nearburg made an estimate of overhead and
12 administrative costs involved in this well?

13 A. Yes. \$6,000 a month while drilling, and \$600
14 a month while producing.

15 Q. These costs are also commensurate with what
16 Nearburg and other operators have charged?

17 A. Yes.

18 Q. Does Nearburg request that these figures be
19 incorporated into any order that results from this
20 hearing?

21 A. Yes, we do.

22 Q. Does Nearburg also request that the overhead
23 and administrative costs be adjusted in accordance with
24 the COPAS accounting procedures?

25 A. Yes.

1 Q. Does Nearburg request, in accordance with
2 Division rules, the maximum risk charge of 200 percent be
3 assessed against all non-consent interests?

4 A. Yes.

5 Q. Mr. Wickman, has Nearburg also brought a
6 geologist to testify regarding the non-standard, the
7 formation of a non-standard unit in this case?

8 A. Yes.

9 Q. Now, did Nearburg also identify all the
10 interests in the surrounding 40 acres?

11 A. Yes, we did.

12 Q. Did you also provide notice to them; is that
13 correct?

14 A. Yes.

15 Q. Turning to Exhibit 4, this is an affidavit
16 that was prepared by your attorney indicating that notice
17 was provided in accordance with Division rules; is that
18 correct?

19 A. Yes.

20 Q. The second page indicates that this was
21 advertised in the Lovington Leader?

22 A. Yes.

23 Q. The following page is a copy of the letter
24 that was sent out as notice?

25 A. Yes.

1 Q. Behind that is a list of all the parties who
2 were provided notice?

3 A. Yes.

4 Q. And those are the parties being pooled and the
5 offset interests; is that correct?

6 A. Yes.

7 Q. Looking at the green cards, there are four
8 green cards that were not returned. And those, just to
9 be -- as I understand, those are all interests that were
10 derived from Read & Stevens?

11 A. That's correct.

12 Q. All those interests, as I understand, did you
13 receive a green card back from them from your AFE
14 proposals; is that correct?

15 A. We did, with the exception of Dr. Alfred J.
16 Rodriguez.

17 Q. He is also direct from Read & Stevens?

18 A. That is correct. And we obtained the
19 addresses from Read & Stevens who continue to have
20 contact and associate with all these folks.

21 Q. And there was one green card, or rather
22 notice, that was returned from Phillip G. Huey, and as I
23 understand, you've been in contact with him?

24 A. That's correct. And we are working on a term
25 assignment with Mr. Huey.

1 Q. Were Exhibits 1 through 4 prepared by you or
2 under your supervision?

3 A. Yes.

4 MR. RANKIN: Mr. Examiner, I move to admit
5 Exhibits 1 through 4.

6 EXAMINER JONES: Exhibits 1 through 4 will
7 be admitted.

8 (Exhibits 1 through 4 were admitted.)

9 MR. RANKIN: I have no further questions.

10 EXAMINATION

11 BY EXAMINER JONES:

12 Q. Did you say 6,000 for drilling and 600 for
13 producing?

14 A. That's correct

15 Q. You've got \$19,000 a day for your rig costs?

16 A. It's a deeper rig.

17 Q. Amazing. This is going to be a federal well,
18 so you probably have no API number yet?

19 A. I'm not aware that we do.

20 EXAMINER JONES: David, do you have
21 questions?

22 EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. It amazes me that Nearburg is trying to pool
25 Cimarex and Cimarex is not here to complain.

1 A. And we've been in contact with Cimarex, and
2 we're very close to agreeing to an operating agreement.

3 Q. Is this also a Yeso prospect?

4 A. No. This is Bone Spring.

5 Q. Okay. And are you asking for any uphole unit,
6 or are you just asking for this non-standard -- 160
7 acres?

8 A. 160 acres covers the entire Bone Spring.

9 Q. That makes things a lot simpler.

10 A. Yes.

11 Q. Do you have any unlocated interests?

12 A. Nobody that has not been located.

13 Q. Have you indicated here who the people are
14 that -- I see. You have no response here, so we can go
15 down this list --

16 A. We do have green cards back even from those
17 folks.

18 Q. Yeah. But we can go through this -- when you
19 have this page where you have, "Status of interest
20 owners," we can go through this list and see who the pool
21 parties are?

22 A. That is correct.

23 Q. You put "Agreed to" where you've gotten
24 agreement with them?

25 A. That's correct. And most of those, we don't

1 yet have papers and signed up to an agreement, but we've
2 got verbal agreements.

3 Q. So you expect to get an agreement?

4 A. That's correct.

5 Q. Actually, that doesn't make any difference
6 because of the way we write our orders, because we put
7 all interests, whatever they are anyway, but we like to
8 know what we're looking at.

9 A. Sure

10 EXAMINER BROOKS: That's all I have.

11 MR. RANKIN: Okay. Thank you,
12 Mr. Examiner. No further questions of the witness.

13 I'd like to call my second witness, Mr. Bill
14 Elton.

15 BILL ELTON

16 Having been first duly sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. RANKIN:

19 Q. Mr. Elton, can you please state for the
20 Examiners by whom you're employed and where you reside?

21 A. I'm employed by Nearburg Producing Company,
22 and I reside in Midland, Texas.

23 Q. Have you previously testified before the
24 Division?

25 A. No, I have not.

1 Q. Can you please review for the Examiners your
2 educational background and work experience as a petroleum
3 geologist?

4 A. Yes. I have a Bachelor's in Geology from
5 Muskegon College in 1972. I have a Master's in Geology
6 from Eastern Kentucky University in 1974. I was employed
7 by Marathon for 29 years, worked numerous basins in the
8 U.S. In the last eight years, I've been employed with
9 Nearburg, working primarily in Eddy and Lea County, New
10 Mexico. I'm also a professional geoscientist licensed in
11 Texas.

12 Q. Are you familiar with the application that was
13 filed in this case?

14 A. Yes, I am.

15 Q. Have you conducted a study of the lands
16 involved in this application?

17 A. Yes.

18 MR. RANKIN: Mr. Examiner, I would tender
19 Mr. Elton as an expert petroleum geologist.

20 EXAMINER JONES: How do you spell your
21 last name?

22 THE WITNESS: E-l-t-o-n.

23 EXAMINER JONES: He is so qualified.

24 MR. RANKIN: Thank you, Mr. Examiner.

25 Q. (By Mr. Rankin) Mr. Elton, can you please

1 turn to Exhibit Number 6 and review -- or rather 5, and
2 review for the Examiners what this structure map shows?

3 A. Yes. This is a structure map on -- a marker
4 towards the base of the third Bone Spring formation. The
5 contour interval on this map is 25 feet. We go from a
6 sub C value at the north end of Section 23 minus 7,350 to
7 about 7,450 at the south end of 23.

8 So it basically just shows a general 1- to
9 2-degree dip across Section 23. There's no apparent
10 faulting or other impediments to drilling a horizontal
11 well.

12 Q. Mr. Elton, turning to Exhibit Number 6, this
13 is a cross-section map; is that correct?

14 A. Yes, that's correct.

15 Q. Can you review for the Examiners the inset and
16 what the cross-section shows?

17 A. This is a cross-section that runs across
18 Section 23. There's an index map in the upper right-hand
19 corner for reference.

20 The cross-section starts from the Mewbourne
21 Marathon Road Well in the section to the north. It is
22 projected then through our location in the
23 southwest/southwest of 23, and it goes over to the east,
24 to the Nearburg Rett well located in the
25 southeast/southeast of Section 23.

1 What's depicted here is not the entire Bone
2 Spring. It's the third bone sand. You can see the
3 correlation at the top of the third bone, as well as a
4 number of good correlative markers within the base of the
5 third bone interval.

6 I might also point out on the next map that
7 we'll look at here what has been isopached is that green
8 bracketed interval, so it's the low resistivity part of
9 the third bone, less than 10 ohms that's been isopached
10 on the next map.

11 Q. Turning to the next exhibit, that's the
12 isopach you were referencing; is that correct?

13 A. Exhibit Number 7 is an isopach map of the
14 Third Bone Spring Sand pay. It shows that we should
15 encounter between 200 and 225 feet of the third bone pay
16 across the west half of Section 23.

17 By the way, the contouring on this map is 25
18 feet. And the wells located to the northeast with the
19 green circles just indicate overall Bone Spring
20 production from vertical wells up in the Lea South Unit.

21 Q. Now, Mr. Elton, you've been depicting -- your
22 exhibits have shown the target interval for the proposed
23 well, which is restricted to the Third Bone Spring; is
24 that correct?

25 A. That's correct.

1 Q. But Nearburg is also interested in the entire
2 Bone Spring Formation; is that correct?

3 A. We are. Again, on Exhibit 7, I'd say the
4 majority of those vertical wells produce either out of
5 the First or the Second Bone Spring.

6 As a point of reference, the Nearburg Rett
7 Well in the southeast/southeast of 23 produced
8 approximately 12,000 barrels of oil from the Second Bone
9 Spring.

10 So in addition to the third, which is our
11 target, we do see other potential within the bone
12 interval.

13 Q. That's also the point of Exhibit Number 8; is
14 that correct?

15 A. Right. Exhibit Number 8 is an isopach map of
16 the lower member of the second bone. The contour
17 interval here is 10 feet. There's not a lot of well
18 control to the west. However, we're anticipating some 60
19 feet of second bone pay to be developed on the west half
20 of Section 23.

21 Q. So while the target interval for this initial
22 proposed well is for the Third Bone Spring, Nearburg is
23 looking at potentially developing all the Bone Spring?

24 A. We're evaluating other potential horizons in
25 the bone.

1 Q. What conclusions have you drawn based on your
2 analysis and geological review of the area within the
3 unit?

4 A. Based on the structure map, there doesn't
5 appear to be any geological impediment, i.e. faults, to
6 develop in this area with full-section horizontal wells.
7 We think the entire Bone Spring Formation can be
8 effectively and economically developed with horizontal
9 wells. And we expect that the proposed project area will
10 contribute equally to the well's overall production.

11 Q. Now, Mr. Elton, just one other point that the
12 Division has been requesting of us. Turning to Exhibit
13 Number 9, you've got here a wellbore schematic diagram
14 showing the approximate path of the horizontal well?

15 A. Yes, that's correct. Exhibit Number 9 is
16 basically a cross-section view of the horizontal we
17 intend to drill. It shows the kick-off point roughly
18 around a little below 10-5. We'll land the lateral at a
19 TDD of about 1,150.

20 For reference, the red lines, the one on the
21 far left is a lease line. And the next red line on the
22 other side of the surface location is a 330-stand-off. I
23 refer you to the two large green arrows on there. At
24 both the heel and the toe of the well, our perforations
25 will not exceed that overall area. Our perforations will

1 be within the 330 stand-offs.

2 Q. So even though the surface location was moved
3 back 175 feet from the south line, all the standard --
4 well, the entire completed interval and all perms will
5 remain within the standard setbacks?

6 A. That's correct.

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

11 A. Yes.

12 Q. Did you review and approve Nearburg Exhibits 6
13 through 9?

14 A. Yes, I did.

15 MR. RANKIN: Mr. Examiner, I move to admit
16 into evidence Nearburg Exhibits 6 through 9.

17 EXAMINER JONES: Exhibits 6 through 9 will
18 be admitted.

19 MR. RANKIN: I'm sorry. Let me correct
20 that, 5 through 9, I believe.

21 EXAMINER JONES: Exhibit 5 will also be
22 admitted.

23 (Exhibits 5 through 9 were admitted.)

24 MR. RANKIN: I'll pass the witness.

25

EXAMINATION

1

2 BY EXAMINER JONES:

3 Q. How thick is the Bone Spring here, did you
4 say?

5 A. Overall?

6 Q. Overall.

7 A. I didn't bring a cross-section to demonstrate
8 that. Roughly, maybe 2,050.

9 Q. Why is the Bone Spring so thick in the Permian
10 Basin?

11 A. It's basically a unit that was deposited more
12 in a basinal setting, so there was a lot of accommodation
13 space. You obviously have the upper bone lime, which
14 includes the Avalon, which you're familiar with, as well
15 as the first, second and third Bone Spring sand.

16 Q. It had a lot of depositional issues?

17 A. Yes, sir.

18 Q. So it's really thick.

19 You're asking to pool the entire Bone Spring.
20 I assume this Bone Spring -- Lea Bone Spring South Pool
21 means the entire Bone Spring anyway, so -- but there's
22 not a chance you're going to drill anything different
23 than this 11,150 feet TDD?

24 A. Not right now. We're basically patterning our
25 well on what Cimarex has done in east half.

1 Q. No pilot well here?

2 A. We're still talking about that. But right
3 now, we are leaning towards not drilling a pilot well.

4 Q. It would affect the cost a little?

5 A. It would affect the costs.

6 EXAMINER JONES: I don't have any more
7 questions. Thank you.

8 EXAMINER BROOKS: No questions.

9 MR. RANKIN: Thank you, Mr. Examiner. I
10 have nothing further.

11 EXAMINER JONES: Thanks for coming up.
12 We'll take Case 14826 under advisement.

13 * * *

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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. _____
heard by me on _____.

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_____, Examiner
Oil Conservation Division

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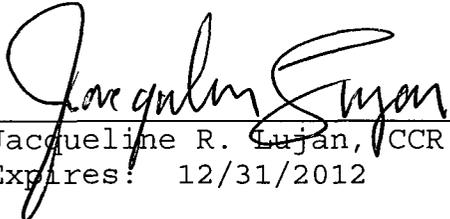
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on June 7, 2012, proceedings in the
above captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 19th day of June, 2012.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2012