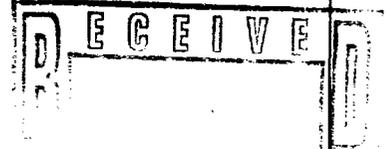


STATE OF NEW MEXICO

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:)
)
APPLICATION OF NEARBURG)
EXPLORATION COMPANY)
)

CASE NO. 11,287

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

August 10th, 1995

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, August 10th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

August 10th, 1995
 Examiner Hearing
 CASE NO. 11,287

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>MICHAEL M. GRAY</u> (Landman)	
Direct Examination by Mr. Carr	5
Examination by Mr. Carroll	17
Examination by Examiner Stogner	17
<u>TERRY E. DURHAM</u> (Geophysicist)	
Direct Examination by Mr. Carr	18
Examination by Examiner Stogner	23
<u>TIM McDONALD</u> (Engineer)	
Direct Examination by Mr. Carr	24
Examination by Examiner Stogner	27
REPORTER'S CERTIFICATE	31

* * *

E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	8	15
Exhibit 2	9	15
Exhibit 3	12	15
Exhibit 4	13	15
Exhibit 5	20	22
Exhibit 6	21	22
Exhibit 7	25	27

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:00 a.m.:

3

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8 EXAMINER STOGNER: At this time I'll call Case
9 Number 11,287.

10 MR. CARROLL: Application of Nearburg Exploration
11 Company for compulsory pooling, directional drilling, and
12 an unorthodox bottomhole oil well location, Lea County, New
13 Mexico.

14 EXAMINER STOGNER: Call for appearances.

15 MR. CARR: May it please the Examiner, my name
16 is William F. Carr with the Santa Fe law firm Campbell,
17 Carr and Berge.

18 We represent Nearburg Exploration Company in this
19 matter, and I have three witnesses.

20 EXAMINER STOGNER: Are there any other
21 appearances in this matter?

22 Will the witnesses please stand to be sworn at
23 this time, all three?

24 (Thereupon, the witnesses were sworn.)

25 EXAMINER STOGNER: Mr. Carr?

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MICHAEL M. GRAY,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Michael M. Gray.

Q. And where do you reside?

A. Amarillo, Texas.

Q. By whom are you employed?

A. I'm employed as a consulting landman by Nearburg Exploration Company.

Q. Have you previously testified before the New Mexico Oil Conservation Division?

A. No, sir.

Q. Could you briefly summarize your educational background and then review your work experience for Mr. Stogner?

A. I have a bachelor's of business administration degree from Texas Tech University. I've been a landman in the oil and gas business for 20 years, with -- including stints with Continental Oil Company, Ike Lovelady, Inc., the Aikman Group of companies out of Amarillo, Texas, as an independent and as a consultant to Nearburg.

1 Q. Are you familiar with the Application filed in
2 this case on behalf of Nearburg Exploration Company?

3 A. Yes, sir.

4 Q. And are you familiar with the status of the lands
5 and the subject area?

6 A. Yes, sir.

7 MR. CARR: We would tender Mr. Gray as an expert
8 witness in petroleum land matters.

9 EXAMINER STOGNER: Mr. Gray is so qualified.

10 Q. (By Mr. Carr) Could you briefly state what
11 Nearburg seeks with this Application?

12 A. Nearburg would like to have a compulsory pooling
13 from the surface to the base of the Strawn in the north
14 half of the northwest quarter of Section 13, Township 17
15 South, Range 37 East.

16 Nearburg is applying for an unorthodox bottomhole
17 location within 50 feet of a point 330 feet from the north
18 line and 2130 feet from the west line of Section 13.

19 And Nearburg requests authority for directional
20 drilling from a surface location 1350 feet from the west
21 line and 330 feet from the south line of Section 12 to the
22 north.

23 Q. Now, Mr. Gray, there is currently a Division
24 order pooling part of these lands; is that not correct?

25 A. That's correct.

1 Q. Do you know the number of that order?

2 A. That is Order Number 10,310, pooling the east
3 half of the northwest quarter of Section 13.

4 Q. And that order was actually obtained by Nearburg
5 earlier this year, was it not?

6 A. Yes, sir, that's correct.

7 Q. That was in Case 11,187?

8 A. Yes.

9 Q. Why has Nearburg proposed this change in the
10 development plans for the northwest quarter of Section 13?

11 A. Since the proposal and approval of the prior
12 case, Nearburg has drilled and completed the Byers 12N
13 Number 1 well in the south half, southwest quarter of
14 Section 12, and the resulting changes in the geological
15 interpretation required a change in location in Section 13.

16 Q. What does Nearburg request be done with the prior
17 pooling order?

18 A. Upon approval of this Application, if it is
19 approved, we request that it be dismissed.

20 Q. Have you prepared certain exhibits for
21 presentation here today?

22 A. Yes, sir, I have.

23 Q. Let's go to what has been marked for
24 identification as Nearburg Exploration Company Exhibit
25 Number 1, and Mr. Gray, I would ask you first to identify

1 this and then review the information contained on the
2 exhibit.

3 A. Exhibit Number 1 depicts the proposed unit in the
4 north half of the northwest quarter of Section 13, and the
5 approximate location of the unorthodox bottomhole location
6 in that unit, and it is also a land plat depicting
7 ownership in the area.

8 Q. In terms of the offsetting tracts, which of the
9 tracts are operated by Nearburg?

10 A. Nearburg operates the tracts to the north and
11 northwest.

12 Q. And what about the tract to the east?

13 A. And the tract -- The tract to the east is --

14 Q. Yes.

15 A. -- is owned by the -- nominally, by the identical
16 people as in the drill-site tract.

17 Q. So you've got the same parties --

18 A. The same parties are in both tracts.

19 Q. Okay. Are the same owners consistent throughout
20 the northwest quarter of Section 13, as well?

21 A. Yes, sir.

22 Q. What is the primary objective of the proposed
23 well?

24 A. The Strawn formation.

25 Q. And in what pool will it be located?

1 A. This will be in the South Humble City-Strawn
2 Pool.

3 Q. All right. Let's go to Exhibit Number 2, the
4 ownership breakdown, and will you review the information on
5 this for Mr. Stogner?

6 A. Yes, sir, this is a depiction of the south half
7 of the southwest quarter of Section 12, showing our surface
8 -- proposed surface location, the north half of the
9 northwest quarter of Section 13, showing our proposed
10 bottomhole location, with a description of the ownership in
11 the north half of the northwest quarter of Section 13 by
12 name and percentage.

13 Q. All right. Now, the top portion of the area
14 shaded in yellow --

15 A. Yes, sir.

16 Q. -- that is -- indicates what? The south half of
17 the southwest of 12?

18 A. That indicates the south half of the southwest
19 quarter of Section 12, yes, sir.

20 Q. And you are proposing to drill from the surface
21 location that -- on which you have -- in close proximity to
22 the Byers well?

23 A. That's correct. This -- The proposed surface
24 location will be an extension of the pad from the Nearburg
25 Byers well which was recently completed.

1 Q. Now, the surface location shown on this exhibit,
2 1300 from the west line and 330 from the south line, that
3 is in fact the location of the Byers well, is it not?

4 A. Yes, sir, that's correct.

5 Q. What will be the location for the Shriner 13
6 Number 2 well, which is the subject of this hearing?

7 A. The actual surface location for this well will be
8 50 feet east of the Byers well, and it will actually be
9 1350 feet from the west line and 330 feet from the south
10 line.

11 Q. And there will be a subsequent witness that will
12 show the surface topographical conditions that require
13 directionally drilling this well in this fashion?

14 A. Yes, sir.

15 Q. Now, if we go to the southern half of this
16 exhibit, the bottom area shaded in yellow, can you tell me
17 which of these interest owners have voluntarily joined in
18 the well?

19 A. On the list on Exhibit 2, Nearburg Exploration,
20 American West, Amerada Hess, David Petroleum and McMillan
21 Production have all voluntarily joined in the unit or
22 farmed out to Nearburg.

23 Q. And the other four have not?

24 A. Right, Bonneville Fuels, Nadine Loveless, Carolyn
25 Schlicher and Lucinda Hershenhorn have not responded.

1 Q. What percentage of the acreage, of the working-
2 interest in this acreage, is voluntarily committed to the
3 proposed well?

4 A. 75.84881 percent.

5 Q. Now, as to the interests in the tract upon which
6 the well is located --

7 A. Yes.

8 Q. -- have you negotiated with the surface owner?

9 A. Yes, we have.

10 Q. And what is the status of that?

11 A. We have reached an agreement, a negotiated
12 agreement, with the surface owner for the drilling of the
13 surface -- or for commencement of the well on the surface
14 location, to the unorthodox location in Section 13.

15 Q. And is Nearburg the operator of the drill site?

16 A. Yes.

17 Q. And there's an operating agreement in place?

18 A. Yes.

19 Q. So that if something should happen and there
20 should be some discovery of hydrocarbons in a very shallow
21 zone, that would also be covered by existing contractual
22 arrangements between the parties in the tract?

23 A. That's correct.

24 Q. Let's go to what's been marked for identification
25 as Exhibit Number 3, and I'd ask you to refer to this and

1 summarize for Mr. Stogner the efforts that have been made
2 by Nearburg to obtain a voluntary participation of the
3 interest owners in the proposed drilling tract.

4 A. Exhibit Number 3 depicts a letter dated March 28,
5 1995, sent by certified mail to all of the working interest
6 owners in the proposed unit, explaining the necessity to
7 change the unit and the location from the prior order,
8 10,310, and in proposing the directional well and the
9 unorthodox location and explaining the reasons therefor.

10 The letter also had attached to it an AFE and an
11 operating agreement.

12 Q. And this March 28, 1995, letter is the first time
13 a north half, northwest quarter unit was actually being
14 proposed to the interest owners; is that right?

15 A. That's correct.

16 Q. And when was the Byers Number 1 well completed
17 and the data available?

18 A. I believe that was about March 9th. It was in
19 early March.

20 Q. Prior to this proposal for a north half,
21 northwest unit in Section 13, Nearburg had been attempting
22 to develop a plan for the production of the reserves in
23 this quarter section, had they not?

24 A. That's correct.

25 Q. When did the -- Nearburg initially start

1 proposing this development --

2 A. Initially, Nearburg began working on a proposal
3 for this section, I believe, in mid-1993.

4 Q. Attached to this exhibit is an operating
5 agreement; is that right?

6 A. Yes.

7 Q. That has been joined by all those parties you
8 identified on Exhibit 2 who are participating in the well?

9 A. That's correct.

10 Q. Mr. Gray, in your opinion has a good-faith effort
11 been made to locate all individuals in the subject spacing
12 unit and obtain their voluntary joinder in the well?

13 A. Yes, sir.

14 Q. Is Exhibit Number 4 a copy of an affidavit of
15 attached letters and return receipts confirming that notice
16 of today's hearing has been provided in accordance with OCD
17 rules?

18 A. That's correct.

19 Q. Have you made an estimate of the overhead and
20 administrative costs while drilling the well and also while
21 producing it, if it is successful?

22 A. Yes, sir, the administrative cost will be, under
23 the terms of the operating agreement, \$5664 per month for a
24 drilling well and \$560 for a producing well.

25 Q. Were these figures adopted by the Division in

1 Order Number R-10,310, which approved a pool -- a unit in
2 the east half of the northwest quarter of this section?

3 A. Yes, sir, those provisions were approved.

4 Q. Are these also the same figures that are
5 contained in the joint operating agreement which these
6 interest owners have voluntarily joined or committed to
7 join?

8 A. Yes, that's correct.

9 Q. Do you recommend these figures be incorporated
10 into any order which results from today's hearing?

11 A. Yes.

12 Q. Does Nearburg seek to be designated operator
13 producing the well?

14 A. Nearburg Producing Company will be the operator.

15 Q. So the Application is brought in the name of
16 Nearburg Exploration Company, but the operator should be
17 Nearburg Producing Company?

18 A. That's right.

19 Q. Does Nearburg Producing Company actually produce
20 and operate all the wells for Nearburg Exploration?

21 A. Nearburg Producing Company is the operating
22 entity in affiliation with Nearburg Exploration Company.

23 Q. Mr. Gray, were Exhibits 1 through 4 prepared by
24 you or compiled at your direction?

25 A. Yes.

1 MR. CARR: At this time, Mr. Stogner, we move the
2 admission into evidence of Nearburg Exhibits 1 through 4.

3 EXAMINER STOGNER: Exhibits 1 through 4 will be
4 admitted as evidence.

5 And Mr. Carr, I was looking at the surface
6 location as advertised, but it seems different than --

7 MR. CARR: There is an error, and it is our
8 error, and it will have to be readvertised, Mr. Stogner.

9 EXAMINER STOGNER: Well, let's see here.

10 MR. CARR: I think it will.

11 EXAMINER STOGNER: What is the surface -- What
12 should the surface location be?

13 MR. CARR: The surface location should be 1350
14 feet from the west line and 330 feet from the south line of
15 Section 12, 17 South, 37 East.

16 EXAMINER STOGNER: And right now I show it to be
17 600 feet from the north line and 830 feet from the west
18 line.

19 MR. CARR: Yes, sir.

20 EXAMINER STOGNER: How about the bottomhole
21 location as advertised? Is that correct?

22 MR. CARR: I believe that was correct. Yes, sir
23 that 2130/330 figure is correct.

24 EXAMINER STOGNER: As long as the bottomhole
25 location is correct, Mr. Carr, do you see any necessity,

1 other than -- you said there were some negotiations with
2 the land on it --

3 MR. CARR: That's right.

4 EXAMINER STOGNER: -- why this would have to be
5 readvertised?

6 MR. CARR: Well, you're right, Mr. Stogner, we
7 wouldn't have to readvertise it. It is only the surface
8 location that was moved, and it was because of the surface
9 obstruction, a dairy that was there where we were
10 originally planning to locate the surface of the well.

11 EXAMINER STOGNER: You were going to originally
12 locate it in a dairy?

13 MR. CARR: Well, originally we decided it was
14 kind of a messy thing to attempt, with the cows there.

15 EXAMINER STOGNER: Oh, okay.

16 MR. CARR: The owner of the dairy did not think
17 it was a good idea.

18 EXAMINER STOGNER: Mr. Carr, I really don't see
19 any necessity of readvertising. I'm assuming that one of
20 your later witnesses will talk more about the surface
21 location.

22 MR. CARR: It shows the location of the dairy on
23 a subsequent exhibit.

24 EXAMINER STOGNER: Okay. I mean, we're not going
25 to take your word as testimony in the alleged dairy and the

1 alleged cows and the alleged mess, unquote.

2 MR. CARR: Not even as to the alleged mess, Mr.
3 Stogner?

4 EXAMINATION

5 BY MR. CARROLL:

6 Q. Mr. Gray, what's the status of your negotiations
7 with Bonneville Fuels?

8 A. To my knowledge, we haven't received a response
9 from them, from the AFE and operating agreement that was
10 sent out.

11 EXAMINER STOGNER: When was that sent out?

12 THE WITNESS: March 28th.

13 Q. (By Mr. Carroll) Mr. Gray, you testified earlier
14 that you have come to agreement with the surface owner of
15 the location you're going to drill from?

16 A. Yes, that's correct.

17 MR. CARROLL: That's all I have.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Now, that surface owner, is he only the surface
21 owner, or does he have any minerals?

22 A. I believe he's just the surface -- no -- No, I
23 believe he's just the surface owner.

24 MR. CARROLL: And what's his name?

25 THE WITNESS: W.A. Davis.

1 MR. CARROLL: Are you going to have some type of
2 formal agreement with him, a written agreement?

3 THE WITNESS: Yes, yes. Yes. At this point we
4 don't know that we are going to be allowed to do this, so
5 we don't have a written agreement with him. We do have a
6 verbal agreement with him, contingent upon the approval.

7 EXAMINER STOGNER: Thank you, Mr. Gray. You may
8 be excused.

9 MR. CARR: At this time we call Mr. Durham.

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

13 DIRECT EXAMINATION

14 BY MR. CARR:

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

16 A. Terry E. Durham.

17 Q. Where do you reside?

18 A. I reside in Plano, Texas.

19 Q. Mr. Durham, by whom are you employed?

20 A. I'm employed by Nearburg Producing Company,
21 located in Dallas, Texas.

22 Q. And what is your position with Nearburg Producing
23 Company?

24 A. My position there is senior geophysicist in
25 charge of all seismic operations for the company.

1 Q. Have you previously testified before this
2 Division?

3 A. Yes, I have.

4 Q. And at the time of that prior testimony, were
5 your credentials as a geophysicist accepted and made a
6 matter of record?

7 A. Yes, they were.

8 Q. Are you familiar with the Application filed in
9 this case on behalf of Nearburg Exploration Company?

10 A. Yes, I am.

11 Q. And have you made a geophysical study of the
12 Strawn formation in the area surrounding the proposed well?

13 A. I've studied 2-D and 3-D seismic in the area,
14 yes, I have done a study.

15 MR. CARR: Are the witness's qualifications
16 acceptable?

17 EXAMINER STOGNER: They are.

18 Q. (By Mr. Carr) Mr. Durham, are you prepared to
19 make a recommendation to the Examiner concerning the risk
20 penalty that should be assessed against nonconsenting or
21 nonparticipating owners in this tract?

22 A. Yes, I am.

23 Q. And what is that penalty?

24 A. That penalty is 200 percent.

25 Q. And do you base this 200-percent penalty

1 recommendation on your geophysical study of the area?

2 A. Yes, I do.

3 Q. Let's go to what has been marked Nearburg Exhibit
4 Number 5. Would you identify this exhibit for Mr. Stogner
5 and review it, please?

6 A. Exhibit Number 5 is an isopach map of the lower
7 Strawn, porosity greater than four percent. It's contoured
8 at a 50-foot contour interval.

9 The blue areas indicate what are interpreted as
10 productive algal mounds and the limits of the algal mounds.

11 The isopach map shows the surface location at
12 1350 feet from the west, 330 feet from the south, in the
13 southwest corner of Section 12. It shows the proposed
14 bottomhole location, 2130 feet from the west, 330 feet from
15 the north line.

16 You'll note the hachured area shows the location
17 of the West Star Dairy Farm, which precludes Nearburg from
18 drilling a standard location in Unit C, which is in the
19 center of the dairy farm, where there are barns and feed
20 lots and other such things located.

21 The primary reason for having the bottomhole
22 location at 2130 feet from the west and 330 from the North
23 is that a standard location in Unit C will be close to the
24 edge of the algal mound as I've determined from 3-D seismic
25 data.

1 To properly locate the bottomhole location toward
2 the center of the algal mound anomaly requires moving the
3 location about 150 feet to the northeast from the standard
4 location to our proposed bottomhole location.

5 This map shows the Location, also, of four 2-D
6 seismic lines. It does not show the location of the 3-D
7 seismic, but the 3-D seismic did cover all of Section 13,
8 south half of 12, the southeast corner of 11 and all of
9 Section 14. So there's adequate coverage for
10 interpretation of the algal mound.

11 Q. This exhibit also contains a trace for cross-
12 section A-A', does it not?

13 A. Yes, it does.

14 Q. Let's go to Exhibit Number 6 and review that
15 stratigraphic cross-section for the Examiner.

16 A. Exhibit Number 6 is a stratigraphic cross-
17 section, northwest to southeast, from the Texas
18 International Byers well in the southwest-southwest of
19 Section 12, through the Nearburg Producing Company Byers
20 12N well, through our proposed location, and to the
21 southeast through the Nearburg Producing Texas Boys Ranch
22 dryhole.

23 This cross-section demonstrates the limited
24 extent of the algal mounds in this play. You'll note the
25 distance between the dryhole to the northwest and the --

1 that's the Texas International Byers -- and the Nearburg
2 Producing Byers well, is only a distance of 800 feet. And
3 in that 800 feet you go from about 50 feet of porosity in
4 our producing well to no porosity at the dryhole in the
5 southwest-southwest of 12.

6 This cross-section demonstrates, you know, the
7 limited extent of these mounds.

8 Q. The risk is basically that you have to maximize
9 your position on those mounds and they're of a very -- in
10 certain cases, of very limited areal extent; is that not
11 right?

12 A. That's correct.

13 Q. Do you believe there's a chance that Nearburg
14 could drill a well at the proposed location that would not
15 be an economic success?

16 A. There is still a very high risk involved with
17 that, yes.

18 Q. Were Exhibits 5 and 6 prepared by you?

19 A. They were prepared under my direction, yes.

20 Q. And can you testify as to the accuracy of the
21 exhibits?

22 A. Yes, I can.

23 MR. CARR: At this time, Mr. Stogner, we would
24 move admission into evidence of Nearburg Exhibits 5 and 6.

25 EXAMINER STOGNER: Exhibits 5 and 6 will be

1 admitted into evidence.

2 MR. CARR: And that concludes my direct
3 examination of this witness.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. When I look at your Exhibit Number 5, the little
7 algal mound which you're proposing to go into that's
8 underneath that West Star Dairy Farm, that was essentially
9 discovered by your well, I guess, in the south half of the
10 southwest quarter?

11 A. Yes, that's correct.

12 Q. When was that well drilled?

13 A. That was drilled in February of this year and
14 completed in March of this year.

15 Q. Of the seismic lines shown on this exhibit, were
16 they all done prior to the drilling of the well in the
17 south half of the southwest quarter of 12, or were they
18 done subsequent to that well?

19 A. Yes, the four 2-D lines that are shown on the map
20 were done prior to the drilling of the Nearburg 12N
21 producer.

22 EXAMINER STOGNER: Mr. Carr, I had my directions
23 screwed up a while ago. I will see the necessity of it
24 being advertised. I apologize for that. I think --

25 MR. CARR: I think it was our error --

1 EXAMINER STOGNER: -- north line.

2 MR. CARR: I think it was our error. But if it
3 can be readvertised, I think that will take care of it.

4 EXAMINER STOGNER: I have no other questions of
5 this witness at this time.

6 MR. CARR: Mr. Stogner, at this time we call Mr.
7 Tim McDonald.

8 TIM McDONALD,

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

11 DIRECT EXAMINATION

12 BY MR. CARR:

13 Q. State your name for the record, please.

14 A. My name is Tim McDonald.

15 Q. By whom are you employed?

16 A. I'm employed by Nearburg Exploration Company in
17 Dallas, Texas.

18 Q. And what is your position with Nearburg?

19 A. I'm a petroleum engineer.

20 Q. Mr. McDonald, you've previously testified before
21 this Division, have you not?

22 A. Yes, I have.

23 Q. At the time of that testimony, were your
24 credentials as a petroleum engineer accepted and made a
25 matter of record?

1 A. Yes, they were.

2 Q. Are you familiar with the Application filed in
3 this case?

4 A. Yes, I am.

5 Q. And are you familiar with the proposed Shiner 13
6 Number 2 well?

7 A. Yes, I am.

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

10 EXAMINER STOGNER: They are.

11 Q. (By Mr. Carr) Mr. McDonald, would you refer to
12 what has been marked for identification as Nearburg Exhibit
13 Number 7, identify that and review it for Mr. Stogner?

14 A. Yes, it's an AFE for the drilling of the Shiner
15 Number 2 well. It shows a bottomhole proposed location of
16 2130 feet from the west line, 330 feet from the north line,
17 Section 13 of 17 South, 37 East, Lea County, New Mexico.

18 Q. And that location is accurate as to the
19 bottomhole location?

20 A. That's correct.

21 Q. All right. What are the totals shown on this
22 AFE?

23 A. The total dryhole cost is \$572,654 and a
24 completed well cost of \$930,904.

25 Q. Are these costs in line with what's charged by

1 other operators in the area for similar wells?

2 A. Yes, they are.

3 Q. Could you review for Mr. Stogner the way Nearburg
4 proposes to directionally drill this well?

5 A. As was stated by some of the earlier witnesses,
6 we plan to have the surface location 1350 feet from the
7 west line, 330 feet from the south line of Section 12,
8 which will be an extension of our drilling path that we
9 constructed in the Byers 12N Number 1 well.

10 We'll drill to set intermediate casing at about
11 4700 feet, and then at about 5500 feet we plan to kick the
12 well off, taking directional surveys to TD, to our
13 anticipated bottomhole location of 2130 feet from the west
14 line and 330 feet from the north line in Section 13.

15 Q. When the well is completed you will have an
16 actual survey that shows the bottomhole location?

17 A. Yes, we will.

18 Q. Will a copy of this survey be provided to the Oil
19 Conservation Division?

20 A. Yes, it will.

21 Q. Mr. McDonald, in your opinion will granting of
22 this Application and the drilling of the well as proposed
23 be in the best interest of conservation, the prevention of
24 waste and the protection of correlative rights?

25 A. Yes, it will.

1 Q. Was Exhibit 7 prepared by you?

2 A. Yes, it was.

3 MR. CARR: At this time, Mr. Stogner, we move the
4 admission into evidence of Nearburg Exhibit 7.

5 EXAMINER STOGNER: Nearburg Exhibit Number 7 will
6 be admitted into evidence.

7 MR. CARR: That concludes my direct examination
8 of this witness.

9 EXAMINATION

10 BY EXAMINER STOGNER:

11 Q. Mr. McDonald, you said that the AFE reflects
12 similar wells. Are there similar wells in this area that
13 have been directionally drilled?

14 A. We've done -- Yes, we've done some sidetracks. I
15 think we've done two sidetracks in this area, one in
16 Section 12, and I don't recall what section the other one
17 -- It was done a few years ago.

18 Q. Now, sidetracking, is that going to be more
19 expensive or less expensive than kicking off at the bottom
20 of a hole, which I assume that --

21 A. It was more expensive, but we base these costs on
22 going back and looking at what we spend after we plug back
23 to the sidetrack depth.

24 Q. Will this be done with a downhole motor equipment
25 or --

1 A. That's how we'll start the directional, yes.

2 Q. If this was a vertical well, or the other well up
3 to the north that you're sharing the pad with, what are the
4 costs differentials, or can you give me some similarities,
5 or what's the total estimated cost on a straight well as
6 opposed to this one?

7 A. Well, if you look under the category under
8 "Directional Drilling - Tools and Service", on the first
9 page -- it's the seventh item down -- \$35,000. That
10 basically includes the cost of the motors, turning the
11 well, and the directional surveys that we take by virtue of
12 it being a directional well.

13 There's also a few additional costs of -- The
14 measured depth would be a little deeper, so we'd have a
15 little more production casing, not a lot, and tubing. And
16 there's also some cementing costs that are additional, to
17 set the kickoff plug.

18 Q. And were factored in?

19 A. Yes.

20 EXAMINER STOGNER: I have no other questions of
21 Mr. McDonald at this time.

22 MR. CARR: That concludes our presentation in
23 this case.

24 EXAMINER STOGNER: Mr. Carr, we're going to have
25 to readvertise for this. Something else I need to ask you

1 opinion on.

2 The way it's worded now is, force pooling
3 anything from the surface down to the base of the Strawn.
4 Since they're proposing to drill straight till 5500 feet
5 then kick off, is that a proper way to advertise this, or
6 should we limit it just to the Strawn formation, since that
7 is the only one spaced on 80?

8 MR. CARR: I've talked to Mr. Shelton. Anything
9 shallower that would be based on, say -- developed on 40-
10 acre spacing pattern would actually be on Section 12. So
11 it can be advertised to include any formation on 80-acre
12 spacing under this tract, which I think would basically be
13 the Strawn.

14 EXAMINER STOGNER: Okay, I just wondered --

15 MR. CARR: We're going to straight to the 5500
16 and then take off, and the shallower zones would on 40, and
17 that would be on Section 12, is what I'm saying.

18 So yes, I think what you're pointing out is
19 correct, it could be readvertised as including tract -- any
20 pool developed on 80-acre spacing or the Strawn, which is
21 what we're talking about.

22 EXAMINER STOGNER: Why don't you provide me --

23 MR. CARR: -- a revised ad?

24 EXAMINER STOGNER: -- a revised ad.

25 MR. CARR: I will.

1 EXAMINER STOGNER: And that will be for the
2 September 7th hearing, I believe.

3 MR. CARR: Okay.

4 EXAMINER STOGNER: What is the drilling deadline
5 on those leases? I'll ask your landman that.

6 MR. CARR: Early 1996.

7 EXAMINER STOGNER: Okay. So time is not really a
8 factor at this point, as far as lease agreements?

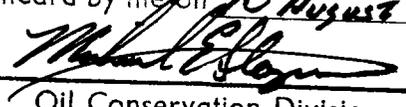
9 MR. CARR: No, sir.

10 EXAMINER STOGNER: Okay. Well, with that, with
11 the proposed ad change that you'll provide for me, this
12 matter will be readvertised and continued to the Examiner's
13 hearing scheduled for September 7th, 1995.

14 I see no reason why there will be a need to --
15 for witnesses to appear at that time, or be here at that
16 time. At that time it will be called and hopefully taken
17 under advisement.

18 (Thereupon, these proceedings were concluded at
19 9:37 a.m.)

20 * * *

21
22 I do hereby certify that the foregoing is
23 a complete record of the proceedings in
24 the Examiner hearing of Case No. 11282,
25 heard by me on 10 August 1995.
, Examiner
Oil Conservation Division

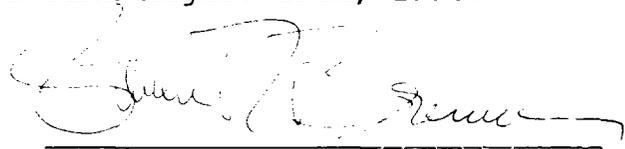
CERTIFICATE OF REPORTER

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 August 19th, 1995.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998