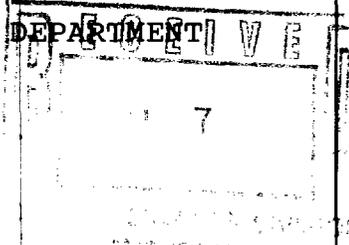


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF NEARBURG PRODUCING)
COMPANY, L.L.C., FOR AN UNORTHODOX WELL)
LOCATION, LEA COUNTY, NEW MEXICO)

CASE NO. 11,546

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

June 13th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, June 13th, 1996, 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.

* * *

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June 13th, 1996
 Examiner Hearing
 CASE NO. 11,546

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

CAMPBELL, CARR, BERGE and SHERIDAN, P.A.
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 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:42 a.m.:

3 EXAMINER STOGNER: We're going to veer from the
4 order of the docket and go on to page 2 and call Case
5 Number 11,546.

6 MR. CARROLL: Application of Nearburg Producing
7 Company, L.L.C., for an unorthodox well location, Lea
8 County, New Mexico.

9 EXAMINER STOGNER: Call for appearances.

10 MR. CARR: May it please the Examiner, my name is
11 William F. Carr with the Santa Fe law firm Campbell, Carr,
12 Berge and Sheridan.

13 We represent Nearburg Producing Company in this
14 case, and I have two witnesses.

15 EXAMINER STOGNER: Any other appearances?
16 Will the witnesses please stand to be sworn?
17 (Thereupon, the witnesses were sworn.)

18 EXAMINER STOGNER: Mr. Carr?

19 ROBERT G. SHELTON,
20 the witness herein, after having been first duly sworn upon
21 his oath, was examined and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

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

25 A. Robert G. Shelton.

1 Q. Where do you reside?

2 A. Midland, Texas.

3 Q. Mr. Shelton, by whom are you employed?

4 A. Nearburg Producing Company.

5 Q. And what is your current position with Nearburg?

6 A. Land manager.

7 Q. Have you previously testified before this

8 Division and had your credentials as a petroleum landman
9 accepted and made a matter of record?

10 A. Yes, I have.

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

13 A. Yes, I am.

14 Q. And are you familiar with the status of the lands
15 in the area of the proposed well?

16 A. Yes, sir.

17 MR. CARR: Mr. Stogner, are the witness's
18 qualifications acceptable?

19 EXAMINER STOGNER: They are.

20 Q. (By Mr. Carr) Mr. Shelton, would you briefly
21 state what Nearburg Producing Company, L.L.C., seeks with
22 this Application?

23 A. We seek the approval of an unorthodox location in
24 the Strawn field. We -- Our location is 660 feet from the
25 east line, 2310 from the south line of Section 36, Township

1 16 South, Range 37 East, Lea County, New Mexico.

2 Q. And what acreage will be dedicated to this well?

3 A. It will be an 80-acre dedication in the north
4 half of the southeast quarter.

5 Q. And in what pool are you proposing to locate the
6 well?

7 A. Let's see --

8 Q. Will it be the Shipp-Strawn?

9 A. Shipp-Strawn, correct.

10 Q. Are you familiar with the rules for that pool?

11 A. Yes, I am.

12 Q. What are the well-location requirements?

13 A. The well-location requirements are 660, with a
14 tolerance of 150 feet, from the center of the quarter-
15 quarter section.

16 Q. And 80-acre spacing units?

17 A. And 80-acre spacing, that's correct.

18 MR. CARR: Mr. Stogner, those rules were adopted
19 by Case Number 8790 -- in Case 8790, by Order Number
20 R-8062-A, dated January 21, 1986.

21 Q. (By Mr. Carr) Now, Mr. Shelton, have you
22 prepared certain exhibits for presentation in this case?

23 A. Yes, I have.

24 Q. Could you refer to what has been marked for
25 identification as Nearburg Exhibit Number 1, an exhibit

1 consisting of two pages, identify the exhibit and review
2 the information on this for the Examiner?

3 A. The first page of Exhibit Number 1 illustrates a
4 land map indicating the proration unit for the well and the
5 approximate location on the land map. It also shows
6 adjoining ownership in a general locator map within the
7 area.

8 Page 2 shows the four surround- -- the section in
9 question and the three surrounding sections. It shows the
10 ownership of this acreage. Nearburg Exploration Company
11 and David Petroleum Corporation and LDM Corporation own the
12 undivided interest in the southeast quarter of Section 36.

13 Nearburg Exploration Company, L.L.C., has
14 negotiated for and acquired the rights in the northeast
15 quarter of Section 36, although not all of the agreements
16 are yet of record. All of the agreements are in writing
17 and have been completed.

18 The acreage to the east there, which would be the
19 east offset to the location and the northeast diagonal, is
20 Yates Petroleum corporation, or several Yates companies.

21 Q. Now, the well actually is encroaching to the
22 north and diagonally to the northeast; is that right?

23 A. That is correct.

24 Q. If we move toward the north, you're only
25 encroaching on Nearburg-operated property; is that not

1 right?

2 A. That is correct.

3 Q. And if we go to the northeast, you're encroaching
4 on Yates Petroleum Corporation and other Yates companies?

5 A. That's correct, yes, sir.

6 Q. Have you reviewed this proposal with Yates?

7 A. Yes, we have. I have talked to Randy Patterson,
8 and if you'll refer to Exhibit Number 2, I have a letter
9 from Randy Patterson where they state the Yates companies
10 have no objection to our unorthodox location.

11 Likewise, Nearburg would waive objection to a
12 similar location if they wish to drill one in Section 31.

13 Q. And you are agreeable to that?

14 A. Yes, we are.

15 Q. So there are no interest owners to whom notice is
16 required under OCD rules?

17 A. That is correct.

18 Q. Will Nearburg be calling a geological witness to
19 review the technical portion of this case?

20 A. Yes, Jerry Elger will address those issues.

21 Q. Were Exhibits 1 and 2 prepared by you or compiled
22 at your direction?

23 A. Yes, they were.

24 MR. CARR: At this time, Mr. Stogner, we would
25 move the admission into evidence of Nearburg Exhibits 1 and

1 2, including the Yates letter.

2 EXAMINER STOGNER: Exhibits 1 and 2 will be
3 admitted into evidence.

4 MR. CARR: And that concludes my direct
5 examination of Mr. Shelton.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. Mr. Shelton, all of Section 36, is that state
9 lease?

10 A. Yes, sir, it is.

11 Q. Now, the 80 acres that the proposed proration
12 unit is to be dedicated, is that the same lease as the
13 remaining --

14 A. No, it's not. It's a separate lease covering
15 just the southeast quarter of 36. It was originally
16 purchased by Conoco, and we bought it from Conoco under a
17 term assignment that expires in 1997.

18 Q. Does Nearburg Exploration own 100 percent of the
19 working interest in both the northeast and the southeast
20 quarter?

21 A. We own 100-percent working interest in the
22 northeast corner, we own 60-percent working interest in the
23 southeast quarter, with David Petroleum and LDM Associates
24 owning the rest of the balance 40. We have proposed this
25 well to LDM and David Petroleum.

1 EXAMINER STOGNER: No other questions. Thank
2 you, sir.

3 MR. CARR: At this time we call Jerry Elger.

4 JERRY B. ELGER,

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

7 DIRECT EXAMINATION

8 BY MR. CARR:

9 Q. Mr. Elger, would you state your full name for the
10 record?

11 A. Jerry Elger.

12 Q. And where do you reside?

13 A. I reside in Midland, Texas.

14 Q. By whom are you employed?

15 A. By Nearburg Producing Company.

16 Q. And what is your current position with Nearburg?

17 A. Senior exploration geologist.

18 Q. Have you previously testified before this
19 Division and had your credentials as a petroleum geologist
20 accepted and made a matter of record?

21 A. Yes, I have.

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

24 A. Yes, I am.

25 Q. Have you made a geological study of the area

1 surrounding the proposed well?

2 A. Yes, I have.

3 Q. And are you prepared to share the results of that
4 study with Mr. Stogner here today?

5 A. Yes, I am.

6 MR. CARR: Are the witness's qualifications
7 acceptable?

8 EXAMINER STOGNER: They are.

9 Q. (By Mr. Carr) Mr. Elger, what is the primary
10 producing interval in this area?

11 A. The carbonate development within the Strawn
12 formation.

13 Q. Let's turn to what's been marked Nearburg Exhibit
14 Number 3. Would you identify that and then review the
15 information on this exhibit for the Examiner?

16 A. Exhibit 3 has two maps on it. Both them are
17 developed as a result of a 3-D seismic shoot that Nearburg
18 participated in, in this area.

19 The map on the left side is a map on the top of
20 the Strawn carbonate, again seismic map, and the map on the
21 right is an isochron map or thickness of the Strawn
22 formation.

23 The unorthodox drill site has been located with
24 the red box on both of these displays. And the projection
25 of two lines, which are Exhibit 4, are displayed on each of

1 these maps.

2 The unorthodox drill site has been displayed on
3 each of these maps as a circle just south of the unorthodox
4 proposed location.

5 Q. Basically, this shows you that if you are to
6 maximize your structural position, in fact, the proposed
7 unorthodox location is necessary; is that not correct?

8 A. That's correct. The structure map, you see
9 there's a closure where the proposed unorthodox drill site
10 is located in the center of that closure.

11 If you look at the corresponding map on the right
12 side, the isochron map of the Strawn carbonate, you'll see
13 that there is also a closure indicating the maximum Strawn
14 thickness occurs at that location. And as we'll see on the
15 two seismic displays --

16 Q. Do you want to review that now --

17 A. Yes.

18 Q. -- Exhibit Number 4?

19 A. Yes, please.

20 The two seismic lines, arbitrary seismic lines
21 that are displayed on each of these maps, are displayed on
22 Exhibit Number 4.

23 Line 123 is a north-south line, which ties the
24 Sohio well in the northeast quarter of Section 36, it also
25 ties the proposed unorthodox drill site, and it also ties

1 -- runs through -- extends through the standard drill --
2 standard location in that 80-acre unit.

3 Seismic line 125 ties the Gillespie well, also
4 drilled in the north half of Section 36, with the proposed
5 unorthodox location, and it ties the Siete Victoria well,
6 which is located in the west half of the adjacent section
7 to the east.

8 On these seismic displays, the top of the Strawn
9 has been indicated and colored a blue shade. The base of
10 the Strawn or top of the Atoka has been identified as a
11 green line.

12 The isochron map, which really is the key map for
13 this prospect, was developed on the basis of measuring the
14 travel time differences between the top of the Strawn and
15 the top of the Atoka.

16 And again, you can see on line 123, the
17 difference between these two lines, or the variation
18 between these two lines at the unorthodox location and at
19 the -- at a standard location in that 80-acre unit. You
20 can see that the Strawn is a maximum thickness at the
21 proposed unorthodox drill site.

22 Q. Let's go now to your Exhibit Number 5. I'd ask
23 you to identify and review that.

24 A. Exhibit Number 5 is a local map of the area. It
25 identifies where carbonates, algal-mound carbonates within

1 the Strawn formation, are productive in adjacent sections.

2 It shows the -- It displays the two seismic lines
3 that are displayed on Exhibit 3 also as purple lines.

4 It shows the proposed drill site within an algal
5 mound that has been projected in that area based on this
6 seismic information.

7 And it also shows the trace of a cross-section
8 tying the -- all of the wells which have penetrated the
9 Strawn in the vicinity of this Application.

10 Q. All right, Mr. Elger, let's go now to your cross-
11 section, and I would ask you to review that.

12 A. Again, the cross-section has been displayed on
13 Exhibit Number 5. It basically is an east-west cross-
14 section that ties three Strawn producers in the Shipp
15 field, in the northeast -- in the northwest portion of the
16 quarter section of Section 36, it ties the dryhole drilled
17 by Sohio, immediately north of the proposed location, and
18 it ties, finally, a well drilled in Section 31 of 16-38,
19 drilled by Siete, Victoria State well, at A'.

20 That well is kind of a key well. The porosity
21 development within the Strawn carbonate has been shaded
22 purple on each one of these well sections. You can see the
23 thickness of the algal mounds within each of the three
24 wells on the west side of the cross-section, but the Siete
25 well encountered only eight feet of algal mound porosity,

1 at the very top of the Strawn.

2 We think, based on what we are interpreting from
3 the 3-D seismic, that this mound that was encountered in
4 the Siete well thickens across the -- a portion of the east
5 half of Section 36, as identified by both the Strawn
6 structure and the isochron maps, and that's displayed on
7 Exhibit 5 as a geological interpretation.

8 The well in the northeast quarter of Section 36,
9 the Sohio well, encountered a tight section within the
10 Strawn. No porosity development. And that well was
11 plugged and abandoned.

12 Q. Let's go now to your production map, Exhibit
13 Number 7. Would you review that for Mr. Stogner?

14 A. Exhibit Number 7 is a production map, same area
15 as the Strawn anomalies were displayed on Exhibit 5.

16 The legend shows what field the wells are
17 producing from. The green-circled wells are producing from
18 the Strawn formation, the other colors are Yeso, Wolfcamp
19 and Atoka, producing from those respective formations.

20 The production recorded for each well is -- The
21 first sequence of numbers is the cumulative oil production,
22 the second is the cumulative gas production, the third is
23 the cumulative water production. And then the last three
24 numbers, if the well is still active, record the barrels of
25 oil per day, the MCF of gas per day and the barrels of

1 water per day.

2 You'll notice that the Victoria well in Section
3 31, drilled by Siete, is inactive; in fact, it's abandoned.
4 And it produced a cumulative of only 4800 barrels of oil.

5 The other wells in the northeast quarter of
6 Section 36 on the west side of our prospect acreage,
7 although they're relatively new, they probably are not
8 going to be wells of any great significance because of the
9 fact that they make a lot of -- produce a lot of water.
10 And that's one of the greatest risks that we encounter, is
11 the possibility of getting porosity developed within the
12 Strawn but having high water cuts.

13 Q. Mr. Elger, what conclusions have you been able to
14 reach as a result of your geological study?

15 A. That Nearburg -- In order to reduce the risk on
16 this prospect, Nearburg needs to drill this location at an
17 unorthodox drill site, as outlined in our Application, in
18 the north -- well, in the north half of the southeast
19 quarter of Section 36.

20 Q. In your opinion, will a well at this location,
21 the proposed unorthodox location, most effectively drain
22 the reserves from this anomaly?

23 A. Yes, it will.

24 Q. Do you believe that granting this Application and
25 the drilling of this well, do you believe that will be in

1 the best interest of conservation and the protection of
2 correlative rights?

3 A. Yes, I do.

4 Q. How soon does Nearburg need to spud the well?

5 A. I believe we're trying to look at some rig
6 scheduling right now, so...

7 Q. As soon as possible?

8 A. That's correct.

9 Q. Were Exhibits 3 through 7 prepared by you?

10 A. Yes, they were.

11 MR. CARR: At this time, Mr. Stogner, I would
12 move the admission into evidence of Nearburg Exhibits 3
13 through 7.

14 EXAMINER STOGNER: Exhibits 3 through 7 will be
15 admitted into evidence at this time.

16 MR. CARR: That concludes my direct examination
17 of Mr. Elger.

18 EXAMINATION

19 BY EXAMINER STOGNER:

20 Q. Mr. Elger, in looking at your cross-section, the
21 well over to the far right, that Siete well, what was the
22 production history on that well? When was it spudded?
23 When did it first produce, and how long did it produce?

24 A. It produced shortly after it was drilled to total
25 depth of 11,950, and that would have been shortly after

1 they ran these electric log suite -- these open-hole logs,
2 which occurred in March of 1989.

3 I don't know the number of months that were
4 required to produce the cumulative of 4900 barrels. It
5 couldn't have been on line for very long.

6 Q. But that well is abandoned at this time?

7 A. Yes, it is.

8 Q. Plugged and abandoned, or just --

9 A. I believe it's plugged and abandoned, that's
10 correct.

11 The perforations -- I've marked the perforations
12 also on this cross-section, and there's no record of
13 individual perforations, so what I've done is bracket the
14 total zone that was perforated by Siete for this
15 production. The top perforation is just below 11,550, and
16 the basal perforation is just above 11,800. And I don't
17 know how they selectively shot in here, but I'm sure, based
18 on work in this area, that the majority of the production
19 came from that little 8-foot zone in the very top of the
20 Strawn.

21 Q. Was there any stimulation record of this well?

22 A. That I don't know. I'm sure there is.

23 Q. Now, how would you recommend that your proposed
24 well be perforated? Just through the reef core, or are you
25 planning on --

1 A. That will depend on what the formation -- the
2 thickness of the formation and whether we see a resistivity
3 change indicating higher water in the basal part of the
4 algal mound core.

5 You'll notice that the three wells on the west
6 side of the cross-section perforated basically the upper
7 one-third -- one-third to one-half of the mound development
8 that occurred in each of those wellbores, and they still
9 have -- they still make a significant amount of water.

10 So our perforations of our reef core will be
11 dependent on what we see in terms of drill stem tests and
12 log evaluations.

13 EXAMINER STOGNER: I have no other questions of
14 this witness.

15 MR. CARR: That concludes our examination of this
16 witness and our presentation in this case.

17 EXAMINER STOGNER: You may be excused, Mr. Elger.

18 Does anybody else have anything further in Case
19 Number 11,546? Then this case will be taken under
20 advisement.

21 (Thereupon, these proceedings were concluded at
22 9:03 a.m.)

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 11546
heard by me on 13 June 1996.

25 Michael H. Stogner, 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 June 16th, 1996.

Steven T. Brenner

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998