

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

RECEIVED

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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, L.L.C., FOR COMPULSORY POOLING, )  
 LEA COUNTY, NEW MEXICO )  
 )

CASE NO. 11,563

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 25th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, July 25th, 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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July 25th, 1996  
 Examiner Hearing  
 CASE NO. 11,563

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\* \* \*

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

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By: JAMES G. BRUCE

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By: J. SCOTT HALL

\* \* \*

1           WHEREUPON, the following proceedings were had at  
2 8:42 a.m.:

3  
4           EXAMINER CATANACH: At this time we'll call Case  
5 11,563.

6           MR. CARROLL: Application of Nearburg Exploration  
7 Company, L.L.C., for compulsory pooling, Lea County, New  
8 Mexico.

9           EXAMINER CATANACH: Are there appearances in this  
10 case?

11           MR. CARR: May it please the Examiner, my name is  
12 William F. Carr with the Santa Fe law firm Campbell, Carr,  
13 Berge and Sheridan. We represent Nearburg in this matter.

14           This case involves a pooling application  
15 involving the Cone interests.

16           MR. BRUCE: Yeah, Mr. Examiner, I represent --  
17 Jim Bruce from the Hinkle law firm. I represent A.L. Cone  
18 Partnership. And they are, I believe, an unleased mineral  
19 interest owner.

20           EXAMINER CATANACH: I'm sorry?

21           MR. BRUCE: A.L. Cone, C-o-n-e, Partnership.

22           MR. CARR: Mr. Bruce -- his witness, or at least  
23 a representative of the Cones, has not yet arrived and is  
24 coming to Santa Fe for the hearing. And consequently he  
25 has asked that we go out of order so the representative of

1 Mr. Cone can be here.

2 And we have no objection to that, which would  
3 mean putting that case back on the docket until the Cones'  
4 representative arrives.

5 MR. BRUCE: They're supposed to be here a little  
6 after nine.

7 EXAMINER CATANACH: Okay. Mr. Hall?

8 MR. HALL: Mr. Examiner, Scott Hall, Miller law  
9 firm, Santa Fe. We're appearing on behalf of Enserch  
10 Exploration, Inc., this morning.

11 I have no witnesses, likely no statements this  
12 morning.

13 EXAMINER CATANACH: And you have no objection --

14 MR. HALL: It's fine with me if you want to move  
15 it back on the docket.

16 EXAMINER CATANACH: Okay, why don't we do that?  
17 We'll move it back to -- Will you please let us know when  
18 your witness arrives, Mr. Bruce?

19 We'll just call it then.

20 (Thereupon, a recess was taken at 8:44 a.m.)

21 (The following proceedings had at 10:18 a.m.)

22 EXAMINER CATANACH: We'll call the hearing back  
23 to order, and at this time we'll call Case 11,563 or -- I  
24 guess we've already called it, haven't we? We can call it  
25 again.

1 MR. CARROLL: Application of Nearburg Exploration  
2 Company, L.L.C., for compulsory pooling, Lea County, New  
3 Mexico.

4 EXAMINER CATANACH: Are there appearances in this  
5 case?

6 MR. CARR: I'll appear again for Nearburg  
7 Exploration Company, and I still have two witnesses.

8 MR. BRUCE: Mr. Examiner, Jim Bruce from the  
9 Hinkle law firm representing A.L. Cone Partnership. I do  
10 not have any witnesses.

11 MR. HALL: Mr. Examiner, Scott Hall, Miller  
12 Stratvert law firm in Santa Fe, on behalf of Enserch  
13 Exploration, Inc. I have no witnesses this morning.

14 EXAMINER CATANACH: Okay.

15 MR. CARR: Mr. Catanach, Mr. Bruce has advised us  
16 his witness, or his client, is still not here.

17 I would represent on the record that Nearburg  
18 will be happy to meet with them in Midland and share their  
19 technical data with them at a mutually agreeable time.

20 EXAMINER CATANACH: Okay.

21 MR. CARR: At this time I would call Mr. Bob  
22 Shelton.

23 EXAMINER CATANACH: Let's swear the witnesses in,  
24 please.

25 (Thereupon, the witnesses were sworn.)

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ROBERT G. SHELTON,

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 name and place of residence?

A. Bob Shelton from Midland, Texas.

Q. By whom are you employed and in what capacity?

A. I'm the land manager for Nearburg Exploration Company.

Q. Have you previously testified and had your credentials as a landman accepted and made a matter of record?

A. Yes, I have.

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

A. Yes, sir, I am.

Q. And are you familiar with the status of the lands in the subject area?

A. Yes, sir.

MR. CARR: Are Mr. Shelton's qualifications acceptable?

EXAMINER CATANACH: Yes, they are.

Q. (By Mr. Carr) Would you briefly summarize what Nearburg seeks with this Application?

1           A.   Nearburg seeks to pool the uncommitted leasehold  
2 interests in an 80-acre tract of land, located in Section  
3 3, Township 16 South, Range 35 East, Lea County, New  
4 Mexico, for the drilling of a Strawn test well.

5           Q.   Are you also seeking the pooling of a 40-acre  
6 tract in this acreage?

7           A.   Yes, we are, for a Mississippian formation, if  
8 that's necessary.

9           Q.   And what is the name and location of the well to  
10 which these spacing units will be dedicated?

11          A.   The well name is the Nike "3" Number 1 well. Its  
12 location is 3070 feet from the south line and 330 feet from  
13 the east line of Section 3.

14          Q.   And this differs by 100 feet from the location of  
15 the well as originally proposed; is that correct?

16          A.   Yes, it does. When we went out to stake the  
17 well, there was a power line that made the location of the  
18 well at 2970 feet hazardous, and so we moved it north 100  
19 feet to get away from the power line and the danger  
20 associated with that.

21          Q.   And both of these proposed locations are standard  
22 locations, both for 80-acre and 40-acre spacing units?

23          A.   That is correct.

24          Q.   Have you prepared certain exhibits for  
25 presentation here today?

1           A.    Yes, I have.

2           Q.    Let's go to Exhibit Number 1.  Can you identify  
3 and review that for Mr. Catanach?

4           A.    Exhibit Number 1 is a locator map which shows a  
5 Midland Map Company map.  Outlined on it is the expected  
6 80-acre proration unit.  If a 40-acre proration unit was  
7 necessary, it would be the east half of the 80 acres.  It  
8 also shows the proposed location of the Nike well.

9           Q.    What is the primary objective in the well?

10          A.    Primary objective of the well is the Strawn  
11 formation.

12          Q.    Let's go to Exhibit Number 2.  Can you identify  
13 and review this, please?

14          A.    Exhibit Number 2 is a more detailed ownership  
15 map, again showing Lot 15 and 16, which the two 40-acre  
16 tracts upon which the well would be located.  The proposed  
17 location is shown in red.

18                Also, the ownership, leasehold ownership, is set  
19 forth below.  Nearburg Exploration Company owns 54.17  
20 percent, Amerind Oil Company owns 20.83 percent, Enserch  
21 Exploration owns 12.5 and A.L. Cone Partnership owns 12.5.

22          Q.    Mr. Shelton, let's go to Nearburg Number 3, and  
23 using this exhibit I'd ask you to review for Mr. Catanach  
24 your efforts to obtain voluntary joinder in this well.

25          A.    You'll notice the first two letters that are part

1 of Exhibit Number 3 are letters to Jimmy Joe Hooper and  
2 Jerry Lee Hooper. These parties, although they were sent  
3 AFEs and operating agreements, have now leased to Amerind  
4 Oil Company, and so they are no longer the subject of  
5 this -- or a party to the hearing.

6           Following those two pages, you'll see a well  
7 proposal letter dated June 25th, 1996, to A.L. Cone  
8 Partnership, Amerind Oil Company, and Enserch, which is a  
9 change of location. This was the second set of letters  
10 that were sent to the A.L. Cone, Enserch and Amerind.

11           The original proposal for the well was made on  
12 June 10th, 1996, to the same parties, where Nearburg  
13 proposed the location at that time at 2970 feet from the  
14 south line and 330 from the east line.

15           And then after we staked the well, we came back,  
16 repropoed the well, sent new substitute pages to the  
17 operating agreement as were necessary, and a new AFE  
18 setting forth the location as it -- after it was changed.

19           Q. And you have been in active negotiations with all  
20 owners of working interest in the proposed spacing or  
21 proration units?

22           A. That is correct. And in fact, Amerind Oil  
23 Company, subject to some changes they want in the operating  
24 agreement and the AFE, have indicated a desire to  
25 participate in the well, which I believe their voluntary

1 joinder is probably going to occur next week.

2 Q. And at that point in time, you would have 75  
3 percent of the working interest voluntarily committed?

4 A. That is correct.

5 Q. Does this packet of materials also contain an  
6 authority for expenditure?

7 A. Yes, it does. The most recent authority for  
8 expenditure is the one found right behind the operating  
9 agreement page, which sets forth the location 3070 feet  
10 from the south line, 330 from east line, and shows a cost  
11 to casing point of \$615,930, completion costs of \$402,500,  
12 for a total completed well cost, \$1,018,430.

13 Q. Are these costs in line with what is charged by  
14 other operators for similar wells in the area?

15 A. Yes, they are.

16 Q. Has Nearburg drilled other similar wells?

17 A. Yes, we have. We've very active in this  
18 particular area and in this play. We've drilled a lot of  
19 wells right in this area, and in townships east of here, to  
20 the Strawn formation.

21 Q. Now, if we will go from Exhibit 3 to the last  
22 exhibit in the exhibit packet, Exhibit Number 6, is this an  
23 affidavit confirming that notice of this Application of  
24 hearing has been provided to all interest owners in  
25 accordance with the Oil Conservation Division Rules?

1           A.    Yes, Exhibit 6 is the -- yes, sir, is the  
2 affidavit.

3           Q.    Mr. Shelton, have you made an estimate of the  
4 overhead and administrative costs to be incurred while  
5 drilling this well and also while producing it if, in fact,  
6 it is successful?

7           A.    Yes, sir, we have. We propose operating costs --  
8 operating rates, \$6000 for a drilling well rate, \$600 for a  
9 producing well rate.

10          Q.    Are these costs in line with what's charged by  
11 other operators for similar wells?

12          A.    Yes, and this is Amerind -- This is a part of the  
13 operating group. They have accepted, there has been no  
14 request for amendment to these changes by Amerind, who will  
15 be what we believe to be a participating party.

16          Q.    Are you recommending that these figures be  
17 incorporated into the order that results from this hearing?

18          A.    Yes, sir, I am.

19          Q.    And does Nearburg seek to be designated operator  
20 of the proposed well?

21          A.    Yes, we do.

22          Q.    Will Nearburg be also calling a technical witness  
23 to review the risk associated with this prospect?

24          A.    Yes, sir, we will.

25          Q.    Were Exhibits 1 through 3 and 6 prepared by you

1 or compiled at your direction?

2 A. Yes, they were.

3 MR. CARR: At this time, Mr. Catanach, we would  
4 move the admission into evidence of Nearburg Exhibits 1  
5 through 3 and 6.

6 EXAMINER CATANACH: Exhibits 1 through 3 and 6  
7 will be admitted as evidence.

8 MR. CARR: And that concludes my direct  
9 examination of Mr. Shelton.

10 EXAMINER CATANACH: Mr. Bruce?

11 EXAMINATION

12 BY MR. BRUCE:

13 Q. Just a quick question. I wanted to clarify  
14 something, Mr. Shelton.

15 A.L. Cone Partnership you're showing as 12.5  
16 percent. They are, at this point, an unleased mineral  
17 interest owner; is that right?

18 A. That's correct. They are an unleased mineral  
19 interest owner, not a leasehold owner, that's correct.

20 EXAMINER CATANACH: Any questions, Mr. Hall?

21 MR. HALL: No, sir.

22 EXAMINATION

23 BY EXAMINER CATANACH:

24 Q. Mr. Shelton, it's my understanding you anticipate  
25 that Amerind will voluntarily participate in the well?

1           A.    Yes, sir, I believe they will.  We've got a  
2   couple of things that they were negotiating under the  
3   operating agreement and the AFE, and I believe those  
4   negotiations will be concluded this week, and they will  
5   sign both agreements and be a party participating in the  
6   well.

7           Q.    Are you still negotiating with Enserch and the  
8   A.L. Cone interest?

9           A.    Yes, we are.

10          Q.    What do you anticipate as far as those two  
11   interests?

12          A.    I believe Enserch will probably ultimately  
13   participate.  I don't know -- We haven't gotten a response  
14   of any kind, although they've exhibited some interest in  
15   participating.

16                    And the A.L. Cone Partnership, I don't know what  
17   they're going to do yet.  They have several options.  Any  
18   of the options by -- you know, Nearburg's got 54.75 [*sic*]  
19   percent.  That's an interest level we're comfortable with.  
20   And if they want to participate, that's fine.  If they want  
21   to lease, that's fine.  We have no preference.

22          Q.    Now, these interest owners are the same in the  
23   80-acre and the 40-acre tracts; is that correct?

24          A.    That's correct.

25          Q.    Mr. Shelton, is it -- was it your testimony that

1 you originally proposed the well on or about June 10th; is  
2 that right?

3 A. That's correct. Our original proposal letters  
4 went out June 10th to Amerind, Enserch, Jerry Lee Hooper,  
5 A.L. Cone, and then Jimmy Hooper, I believe.

6 Q. Is it the general practice of Nearburg to conduct  
7 such limited negotiations before filing compulsory pooling  
8 applications?

9 A. Well, we are always in contact with people, and  
10 we always try to give them enough time, enough opportunity  
11 to make an election before we file the pooling. We don't  
12 try to do it premature. And we always like to offer people  
13 several options under which to participate, lease or farm  
14 out.

15 Q. Well, do you think two to three weeks is  
16 sufficient time for somebody to make an election like that?

17 A. Well, all of the people that are involved here  
18 are in the oil and gas business, very sophisticated people,  
19 and we do believe that this is an area that there's been a  
20 lot of activity in, and we felt like everybody would know  
21 readily what their election would be.

22 Q. Has Nearburg drilled a well to this depth in this  
23 area recently?

24 A. Yes, we did. We drilled a well -- Let me see if  
25 I can find it. Just south of here. Well, let's see there,

1 it's -- I believe it was the well in -- Yeah, it's the well  
2 in Section 29, in the southeast quarter, northeast quarter,  
3 Nearburg Exploration drilled a well to 12,993 feet That  
4 well was drilled approximately, oh, a year, year and a half  
5 ago.

6 And in addition to that, we've drilled other  
7 wells in 16. We're drilling a well in 16-37, and we've  
8 drilled several wells in that area in the Strawn field over  
9 there very recently, and we're currently drilling one well  
10 right now there.

11 Q. These drilling costs are in line with what you've  
12 encountered in the recent past?

13 A. Yes, sir, they are.

14 EXAMINER CATANACH: I have nothing further of  
15 this witness. He may be excused.

16 MR. CARR: At this time we would call Jerry  
17 Elger.

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

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. Jerry Elger.

25 Q. Where do you reside?

1 A. In Midland, Texas.

2 Q. By whom are you employed and in what capacity?

3 A. By Nearburg Producing Company as senior  
4 exploration geologist.

5 Q. Mr. Elger, you have previously testified before  
6 this Division, have you not?

7 A. Yes, I have.

8 Q. At the time of that testimony, your credentials  
9 as an expert in the field of petroleum geology have been  
10 accepted and made a matter of record?

11 A. Yes, they were.

12 Q. Are you familiar with the Application filed in  
13 this case?

14 A. Yes, I am.

15 Q. Have you made a technical study of the area  
16 surrounding the proposed well?

17 A. Yes, I have.

18 Q. And are you prepared to present the results of  
19 that study to Mr. Catanach?

20 A. Yes, I am.

21 MR. CARR: Are the witness's qualifications  
22 acceptable?

23 EXAMINER CATANACH: They are.

24 Q. (By Mr. Carr) Mr. Elger, let's go to what has  
25 been marked for identification as Exhibit Number 4, the

1 isopach map, and I would ask you to review this for the  
2 Examiner.

3 A. Exhibit Number 4 is what I've referred to as a  
4 Strawn facies isopach map. The color shading of the  
5 individual well symbols on this map are such that they  
6 identify -- coincide with various facies as interpreted by  
7 the character of the individual log sections, primarily  
8 gamma-ray log.

9 Wells that are shaded red on this display are  
10 interpreted as having encountered algal mound facies, which  
11 is the main pay in this particular area in the Strawn.

12 Wells that have been shaded purple have been  
13 interpreted as having encountered near-mound facies, a  
14 clean section but devoid of porosity.

15 And brown-shaded well symbols are those wells  
16 which have not encountered any algal mound facies or near-  
17 mound facies and in fact have encountered strictly an  
18 intermound mudstone facies, very tight, very high gamma-ray  
19 sections.

20 As you can see, the section -- the outline of the  
21 80-acre proration unit in Section 3 has been shaded yellow,  
22 and the proposed location in this pooling -- in this unit  
23 has been identified as a red circle. At that proposed  
24 location, we anticipate encountering in excess of 30 feet  
25 of algal mound porosity.

1 I have tied on Exhibit Number 5, which is a  
2 stratigraphic cross-section, all of the surrounding wells  
3 that have penetrated the Strawn formation, cross-sections 2  
4 and 3, and have tied these various facies relationships in  
5 with these wells on this cross-section.

6 Q. All right, let's go to the cross-section and  
7 review that.

8 A. This cross-section is a stratigraphic cross-  
9 section. Again, it ties a series of wells that were  
10 drilled just to the northeast of the proration unit with a  
11 series of wells that were drilled immediately north and  
12 southwest of the proration unit. The datum for this cross-  
13 section is the base of the Strawn carbonate unit.

14 Also identified on this cross-section is the  
15 purple-shaded area, which is the main pay in three key  
16 wells on the right-hand side of the cross-section,  
17 beginning with the Gillespie Baer Number 2 well, which was  
18 drilled through the Strawn and encountered algal mound  
19 porosity and was perforated across a particularly thin unit  
20 of porosity, from 11,5- -- roughly -55, to about 11,570.

21 That well, again, is a -- Both of these wells  
22 that have encountered this algal mound porosity have been  
23 drilled fairly recently. In fact, if I can read a bit off  
24 of that log, the well was drilled in the middle of 1995.

25 The cum production from the Strawn in that well

1 is currently 11,000 barrels of oil, 9 million cubic feet of  
2 gas. But the daily rate is 409 barrels of oil per day and  
3 about a third of a million cubic feet of gas.

4 That well was drilled -- A south offset was  
5 drilled to that well in Section 2 by Amerind Oil. That  
6 well log is also on the cross-section, and it's the second  
7 from the right.

8 Again, the algal mound porosity was perforated in  
9 that well, which was drilled -- it was also in 19- -- later  
10 in 1995. That well has produced cumulative production of  
11 in excess of 107,000 barrels of oil and 167 million cubic  
12 feet of gas. Current daily rate is 564 barrels of oil per  
13 day and about three-quarters of a million cubic feet of gas  
14 per day.

15 As direct south offset to that was also drilled  
16 by Amerind Oil. And that well, the log section remains --  
17 the open-hole log section remains tight, but the completion  
18 indicates that that well was completed from the Strawn  
19 fairly recently, like within the last month. And the  
20 perforations and potential tests filed with the OCD have  
21 added to this cross-section.

22 The flow rate of 445 barrels of oil per day and  
23 about three-fourths of a million cubic feet of gas  
24 indicates that that well also encountered algal mound  
25 porosity in its location in Section 2.

1           On the -- I'd like to jump to the two wells on  
2 the far left side of the cross-section. They're old wells,  
3 drilled in the Fifties, as part of the development for the  
4 Townsend Pennsylvanian, Wolfcamp Pennsylvanian play, but  
5 they were drilled deep enough to go through the Strawn  
6 section.

7           Those wells, one is located in the southwest-  
8 southwest of Section 3. The other well is located in the  
9 northwest section of -- portion of Section 10. They're old  
10 micrologs.

11           But the importance of these wells is that I've  
12 interpreted, based on the microlog sections and drill stem  
13 test results, that these wells are on the very edge of an  
14 algal mound development.

15           The well, the Shell State TA Number 2, drill stem  
16 tested the algal mound porosity and actually recovered  
17 300 -- had gas to surface in 22 minutes and recovered 300  
18 feet of oil along with some heavy oil- and gas-cut mud.  
19 Thirty-minute shut-in pressures were 4250 pounds,  
20 indicating that this well could indeed have encountered  
21 some algal mound porosity. But it's -- Because of the very  
22 thin section that was encountered, the well was never  
23 completed from this particular unit.

24           Those two wells, in my opinion, tie in with an  
25 algal mound development that stretches from the north

1 portion of Section 2, the two wells on the right side of  
2 the cross-section, along with the new Amerind well in the  
3 middle of Section 2, down across the proration unit, into  
4 the south half of Section 3, in the very northern portion  
5 of the northwest quarter of Section 10.

6           The three other key wells were dry holes in the  
7 Strawn, and they're in the middle portion of the cross-  
8 section. The Bridge Oil Number 1 Chevron State, the Mesa  
9 Townsend State Com Number 1 and the Yates Petroleum Daisy  
10 State Number 1, in my opinion, all were encountered near  
11 mound facies but did not actually encounter any porosity  
12 development within the algal mound portion of the Strawn.

13           Two of the wells were drill stem tested in the  
14 Strawn.

15           The Mesa Townsend well -- that drill stem test is  
16 noted at the base of the log section -- recovered a lot of  
17 gas, 11,206 feet of gas in the drill pipe, along with 200  
18 feet of gas-cut condensate. The pressures increasing to  
19 the final shut-in from the initial are very suggestive that  
20 this well again is in proximity to some sort of a reservoir  
21 environment but was not directly drilled into one.

22           The Yates well also drill stem tested the near-  
23 mound facies but only recovered basically water cushion.  
24 The pressures are not as good, and it's probably just a  
25 little bit farther removed from the main mound development,

1 as I've interpreted.

2 The proposed Nearburg location is shown also on  
3 this cross-section, and we think by positioning the well  
4 where we have, 3070 feet from the south line and 330 feet  
5 from the east line, we anticipate encountering at least a  
6 portion of this algal mound reservoir.

7 Q. Mr. Elger, could you summarize the conclusions  
8 you've reached from your study and particularly how that  
9 study relates to the risk associated with the drilling of  
10 this well?

11 A. In addition to the subsurface work that I've done  
12 and the environments that I've interpreted for these  
13 various wells, Nearburg also has in its possession some  
14 market seismic data which we utilized and incorporated into  
15 this interpretation.

16 I can tell you that those two lines are  
17 oriented -- One is a north-south line, and one is an east-  
18 west line.

19 The east-west line runs across the northern  
20 section line of boundaries of Sections 2 and 3. And on  
21 that particular seismic data, an anomaly consistent with  
22 what the Strawn porosity development looks like occurs in  
23 the northern part of Section 2, where this line runs  
24 between the Gillespie well and the Amerind well.

25 Likewise, the north-south seismic line runs

1 across the east section boundaries between 2 and 3, and  
2 it -- So it traverses 330 feet to the east of where we're  
3 proposing to drill. And that particular seismic line  
4 shows, again, within the Strawn interval, an anomaly that's  
5 consistent with what we've interpreted as being an algal  
6 mound development.

7 My conclusion is that we need to drill a Strawn  
8 test in Section 3 to develop the reserves that underlie  
9 that acreage.

10 Q. In your opinion, could you drill a well at that  
11 location that would not -- could not be or might not be a  
12 commercial success?

13 A. Yes.

14 Q. Are you prepared to make a recommendation to the  
15 Examiner concerning a risk that should be assessed against  
16 those interest owners who do not participate in the well?

17 A. Yes, that recommendation would be a penalty of  
18 200 percent.

19 Q. If you happen to encounter production in some  
20 other interval, would the 200-percent penalty also be  
21 applicable there?

22 A. Yes, sir.

23 Q. Does Nearburg seek to be designated operator of  
24 the well?

25 A. Yes, they do.

1           Q.   Is Nearburg obligated to commence this well by  
2 any particular date?

3           A.   Yes, we are.

4           Q.   Did you enter an agreement with Tom Bell for the  
5 development of this acreage?

6           A.   That is correct, we are.

7           Q.   And this would be a well that you would have to  
8 require to drill to maintain the continuous development  
9 obligations?

10          A.   Yes, that is correct.

11          Q.   In your opinion, will granting of the Application  
12 be in the best interest of conservation, the prevention of  
13 waste and the protection of correlative rights?

14          A.   Yes, it would.

15          Q.   Were Exhibits 4 and 5 prepared by you?

16          A.   Yes, they were.

17               MR. CARR: At this time, Mr. Catanach, we would  
18 move the admission into evidence of Nearburg Exhibits 4 and  
19 5.

20               EXAMINER CATANACH: Exhibits 4 and 5 will be  
21 admitted as evidence.

22               MR. CARR: And that concludes my direct of Mr.  
23 Elger.

24               EXAMINER CATANACH: Mr. Bruce?

25               MR. BRUCE: I have one or two.

## EXAMINATION

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BY MR. BRUCE:

Q. I think it's your Exhibit 4, Mr. Elger. If I read that right, you're showing that this particular algal mound covers about what? 300 or 400 acres, roughly?

A. Yes, uh-huh.

Q. Somewhere around there.

Is that large or small for these algal mounds in Lea County?

A. You'll notice that on this cross-section, the big, massive green-shaded area that I've called lower Strawn is that -- a portion of the Strawn that in this particular area is devoid of any algal mound developments.

However, that -- the lower Strawn can develop -- You can have algal mound developments farther to the south develop in the lower portion of the Strawn.

The algal mound that's developed in this particular instance is what I've termed basically the upper portion of the Strawn.

The massive Strawn development that has been unitized recently and drilled by Gillespie, immediately to the east of Sections 32 and Sections 2, is, I believe, developed in the same portion of the Strawn, the upper Strawn. And the areal extent that's covered by that particular field appears to be in excess of 640 acres.

1           Therefore the size -- Drawing on that information  
2 and the definition of that, based on the well control that  
3 exists there, I think we're actually looking at a smaller  
4 development than what Gillespie has found in the main  
5 portion of the West Lovington field.

6           Q.    Yeah, what -- The Gillespie field, the West  
7 Lovington-Strawn Pool, is that oriented in any particular  
8 direction?

9           A.    It's really not.  It looks kind of -- The  
10 geometry of that particular -- From what I've mapped of  
11 it -- and I don't have access to all of the recent wells  
12 that they've drilled to see what all of those sections look  
13 like -- but the geometry looks more like an oval shape.  It  
14 has some irregularities to the boundaries of it, but...

15          Q.    It's kind of square in shape, rounded edges --

16          A.    Right.

17          Q.    -- isn't it?

18          A.    That's correct.

19          Q.    Also on your Exhibit 4, there appears to be like  
20 a one-well pool up to the north?

21          A.    Yes, that's correct.

22          Q.    And you don't think that is pressure-connected  
23 with the larger reservoir to the south?

24          A.    It does not appear to be reservoir-connected,  
25 that's correct.  That well, in my -- I don't have the

1 cumulative production. I believe that well has made about  
2 32,000 barrels cumulative. It was drilled many, many years  
3 prior to the drilling by Gillespie, in the south half of 32  
4 and by Amerind's wells in Section 2, and it appears that  
5 the production history of that well indicates that it's in  
6 a limited reservoir.

7 MR. BRUCE: Pass the witness.

8 EXAMINER CATANACH: Anything, Mr. Hall?

9 MR. HALL: I have no questions.

10 EXAMINATION

11 BY EXAMINER CATANACH:

12 Q. All right, just a couple.

13 Mr. Elger, the seismic line you refer to, is that  
14 3-D seismic you have?

15 A. No, sir, it's 2-D market data.

16 Q. Okay. Does the 2-D seismic that you're using --  
17 is that a pretty good indication of these -- or have you  
18 used it to map these algal mounds?

19 A. We have used it to map and we have used it  
20 previous to drill.

21 It's not obviously as advanced as having 3-D over  
22 these anomalies, but we have utilized it successfully to  
23 drill Strawn anomalies in the past.

24 EXAMINER CATANACH: I have nothing further of the  
25 witness.

1 MR. CARR: That concludes our presentation in  
2 this case.

3 EXAMINER CATANACH: Is there anything further?

4 There being nothing further, Case 11,563 will be  
5 taken under advisement.

6 (Thereupon, these proceedings were concluded at  
7 10:52 a.m.)

8 \* \* \*

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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. 11563,  
heard by me on July 25 1976.  
David H. Catanach, Examiner  
OH 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 July 28th, 1996.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998