

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, L.L.C., FOR COMPULSORY POOLING)
AND AN UNORTHODOX LOCATION, LEA COUNTY,)
NEW MEXICO)

CASE NO. 11,689

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

January 9th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 9th, 1997, 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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 Examiner Hearing
 CASE NO. 11,689

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* * *

A P P E A R A N C E S

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By: JAMES G. BRUCE

* * *

1 WHEREUPON, the following proceedings were had at
2 9:21 a.m.:

3 EXAMINER STOGNER: Call Case Number 11,689.

4 MR. CARROLL: Application of Nearburg Exploration
5 Company, L.L.C., for compulsory pooling and an unorthodox
6 location, Lea County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent Nearburg in this matter,
11 and I have two witnesses.

12 EXAMINER STOGNER: Any other appearances?

13 MR. BRUCE: Mr. Examiner, Jim Bruce from the
14 Hinkle law firm in Santa Fe, representing Santa Fe Energy
15 Resources, Inc. I have no witnesses.

16 EXAMINER STOGNER: Any other appearances? Will
17 the two witnesses please stand to be sworn?

18 MR. CARR: May it please the Examiner, my
19 witnesses are Mr. Michael Gray and Mr. Jerry Elger. They
20 both have previously testified today, and I would request
21 that the record reflect that they have previously been
22 sworn and remain under oath.

23 EXAMINER STOGNER: Oh, okay, I'll let the record
24 show that the two witnesses in this matter were sworn in
25 previous Case 11,683.

1 Gentlemen, let me remind you you're still under
2 oath in this matter.

3 MR. CARR: Thank you, Mr. Stogner.

4 MICHAEL M. GRAY,

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

10 A. Michael M. Gray.

11 Q. Where do you reside?

12 A. Midland, Texas.

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

14 A. I'm a landman for Nearburg Producing Company and
15 Nearburg Exploration Company.

16 Q. Mr. Gray, you've previously testified before this
17 Division?

18 A. Yes, I have.

19 Q. And at the time of that testimony, your
20 credentials as an expert in petroleum land matters were
21 accepted and made a matter of record, were they not?

22 A. Yes, they were.

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

25 A. Yes.

1 Q. Are you familiar with the status of the lands in
2 the subject area?

3 A. Yes.

4 MR. CARR: Are the witness's qualifications
5 acceptable?

6 EXAMINER STOGNER: They are, still.

7 MR. CARR: He's done nothing to disqualify
8 himself in the last hour.

9 EXAMINER STOGNER: No, and he's still qualified,
10 even for you, Mr. Carr.

11 MR. CARR: Thank you, Mr. Stogner.

12 Q. (By Mr. Carr) Mr. Gray, could you briefly state
13 what Nearburg Exploration seeks in this case?

14 A. Nearburg Exploration seeks approval for an
15 unorthodox location at 990 feet from the north line and 660
16 feet from the east line of Section 12, 21 South, 32 East,
17 Lea County, New Mexico, and seeks a pooling order involving
18 the east half of Section 12.

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

21 A. Yes, I have.

22 Q. Would you refer to what has been marked as
23 Nearburg Exhibit Number 1, identify that and review it for
24 Mr. Stogner?

25 A. Nearburg Exhibit 1 is a locator map depicting the

1 320 acres involved in the proposed unit, the unorthodox
2 location and the surrounding lands.

3 Q. And this location is actually encroaching on
4 acreage to the north; is that right?

5 A. Yes, that's correct.

6 Q. What is the status of the acreage in the east
7 half of Section 12?

8 A. The status of the acreage in the east half of
9 Section 12 is, there are two, or actually three, US
10 government leases, and the ownership within the east half
11 is 50-percent Nearburg Exploration Company and 50-percent
12 Phillips Petroleum Company.

13 Q. And so today we're pooling Phillips?

14 A. Yes.

15 Q. All right. Let's go to what has been marked as
16 Nearburg Exhibit Number 2. Can you review that for the
17 Examiner?

18 A. Yes, Exhibit Number 2 is an ownership plat
19 depicting the surrounding ownership of the acreage around
20 the proposed east-half unit and the unorthodox location.

21 Q. And as to the unorthodox location, this shows
22 that the only other operator on whom Nearburg is
23 encroaching is Santa Fe Energy Resources, Inc.?

24 A. Well, and Mitchell Energy Corporation.

25 Q. All right. Let's go to Exhibit Number 3. Will

1 you review that?

2 A. Exhibit 3 is a simple plat, simply depicting the
3 ownership of the acreage within the proposed unit.

4 Q. Have you made a good-faith effort to obtain the
5 voluntary participation in this project of Phillips
6 Petroleum Corporation?

7 A. Yes, we have.

8 Q. Can you review your efforts to obtain their
9 voluntary agreement?

10 A. Yes, initially we, with regard -- Exhibit Number
11 4 demonstrates this. On May 2nd, 1996, we proposed the
12 drilling of this well at this unorthodox location, although
13 at the time we were anticipating a unit covering the north
14 half of Section 12.

15 On October 31st of 1996, we sent a letter simply
16 reiterating our proposal and reminding Phillips that we
17 wanted to do something there, and also giving them notice
18 that we might commence a pooling proceeding if we didn't
19 hear from them.

20 On November 5, 1996, we sent the proposal again,
21 this time proposing the identical location, however we
22 changed the orientation of the unit to the east half of
23 Section 12.

24 Subsequent to that time, we have reached
25 tentative agreement or -- in terms of a letter of intent

1 with Phillips to acquire an assignment of their interest in
2 the east half of Section 12. However, we're still
3 negotiating the terms of that assignment.

4 Q. And if you're successful in negotiating that
5 assignment, will you immediately advise the Division --

6 A. Yes, we will.

7 Q. -- so they can proceed with an order --

8 A. Yes.

9 Q. -- as to the pooling portion?

10 A. Yes, we will.

11 Q. Does Exhibit 4 contain an AFE for the proposed
12 well?

13 A. Yes, it does.

14 Q. What are the totals as set forth on this AFE?

15 A. The total cost to casing point for this well is
16 \$699,220. The completion costs are \$460,053 dollars. The
17 total well costs are \$1,159,273.

18 Q. And these are the AFE costs that have been
19 provided to Phillips?

20 A. Yes, they are.

21 Q. And are these in line with what's charged by
22 other operators in the area for similar wells?

23 A. Yes, they are.

24 Q. Now, what is the status of the Nearburg
25 negotiations with Santa Fe?

1 A. We at this point have a waiver which is in your
2 package as Exhibit 5 from Santa Fe, waiving objections to
3 this proposed location.

4 Q. Is Exhibit Number 6 an affidavit with attached
5 letters confirming that notice of this hearing has been
6 provided to Phillips and Mitchell Energy, as well as Santa
7 Fe, in accordance with Oil Conservation Division Rules and
8 Regulations?

9 A. Yes, sir.

10 Q. Have you made an estimate of the overhead and
11 administrative costs to be incurred while drilling the well
12 and also while producing it if it is successful?

13 A. Yes, we have. In the proposal made to Phillips,
14 we asked for \$6000 a month for a drilling well and \$600 a
15 month for a producing well.

16 Q. And what is the source of these figures?

17 A. This is the common charges that we and others
18 make in the area and charges which have been approved in
19 the past for wells of this depth by the Commission.

20 Q. Okay. Do you recommend that these figures be
21 incorporated into the order that results from today's
22 hearing?

23 A. Yes, sir, I do.

24 Q. Does Nearburg Exploration Company seek to be
25 designated operator of the proposed well?

1 A. Nearburg Producing and Nearburg Exploration are
2 sister companies, and Nearburg Producing is the operating
3 arm of Nearburg Exploration Company.

4 Q. I was involved with this before, but I can't
5 remember which one is which.

6 A. I know, sometimes Mr. Carr can't either.

7 EXAMINER STOGNER: I made a bunch of findings in
8 a previous order, and I'll refer back to that.

9 MR. CARR: I will too.

10 Q. (By Examiner Stogner) Okay, there are three
11 federal leases -- is that correct? -- that make up that
12 east half of the section?

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

14 Q. Okay. Is there -- Do you know the expiration
15 dates of those three leases?

16 A. The expiration date of the lease covering the
17 west half of the northeast quarter is a Nearburg lease
18 expiring 6-1-2005.

19 The lease covering the -- Looking at Exhibit 1,
20 the lease covering the south half of the southeast quarter,
21 which is nominally in Perry and Perry's name, is actually
22 Nearburg's lease. That lease was just acquired last
23 October, so it's ten years from 1996.

24 The Phillips lease covering the balance of the
25 east half of Section 12 is held by production.

1 Q. And again, Phillips has agreed on what terms at
2 this point?

3 A. Phillips has submitted a term assignment to us,
4 the basic terms of which are a six-month term assignment
5 and a 75-percent net revenue interest lease delivered to
6 Nearburg. Those terms are acceptable to us. It's a very
7 voluminous agreement, and we are negotiating additional
8 terms, or some of the minutiae of the contract, with
9 Phillips right now.

10 Q. Now, you originally negotiated or approached them
11 in May of 1996; is that correct?

12 A. That's correct.

13 Q. When I say "them", Phillips.

14 A. Yes, sir.

15 Q. And it was proposed to be a north-half --

16 A. Yes.

17 Q. -- dedication?

18 And even on October 31st of 1996 -- and I'm
19 referring to a letter in Exhibit Number 4 -- you all were
20 still -- I'm sorry, Nearburg was still proposing a north-
21 half dedication?

22 A. Yes.

23 Q. And when did that north-half dedication become an
24 east-half dedication?

25 A. Well, I guess it officially became an east-half

1 dedication with our proposal on November 5th to Phillips
2 changing it to the east half.

3 Q. Okay. Now, is there some correspondence?

4 A. Yes, sir, that's the -- On Exhibit Number 4, that
5 entire stream of correspondence is attached thereto.

6 Q. The first page?

7 A. Yes.

8 Q. Okay. When this was a north half of 12, just for
9 the record, the northwest quarter of 12, was that a
10 separate lease, or was it a part of that west half of the
11 northeast quarter?

12 A. The -- I'm sorry, repeat the question, please.

13 Q. Okay, the west half -- or, I'm sorry, the
14 northwest quarter of Section 12 --

15 A. Yes.

16 Q. -- was that a separate --

17 A. No.

18 Q. -- federal lease?

19 A. No, that is a -- That lease and the north --
20 excuse me, the west half of the northeast quarter are the
21 same lease.

22 Q. Okay. And now you request an overhead rate of
23 \$6000 while drilling and \$600 while producing?

24 A. Yes, sir.

25 Q. And you referenced -- This is the overhead rates

1 in previous Commission orders in this area?

2 A. In -- Well, for wells of this depth I think we've
3 been granted that. I don't know this particular -- I don't
4 think we've pooled anyone in this particular immediate
5 area. But for Morrow wells of this approximate depth or
6 deeper, and shallower, we've had approved rates of that
7 amount, yes, sir.

8 Q. And what is the proposed total depth of this
9 well? I'm assuming that's reflected on the --

10 A. 14,500 feet.

11 Q. And that's reflected again on Exhibit Number 4 --

12 A. Yes.

13 Q. -- the AFE?

14 A. Yes, sir.

15 Q. Have you been talking or discussing these matters
16 with Phillips over the telephone?

17 A. Oh, yes. In fact, the one reason we haven't come
18 to an agreement with Phillips is that the first written
19 response I had from Phillips was this Monday of this week,
20 was when they submitted their proposed term assignment, so
21 -- That's the first time we had ever gotten anything in
22 writing regarding their intentions with regard to this
23 proposal.

24 EXAMINER STOGNER: Does anybody else have
25 anything further of this witness?

1 You may be excused, Mr. Gray.

2 THE WITNESS: Thank you.

3 MR. CARR: At this time, Mr. Stogner, we would
4 call Jerry Elger.

5 EXAMINER STOGNER: Mr. Carr, did we accept your
6 Exhibits 1 through 6?

7 MR. CARR: Yes, sir, you did.

8 EXAMINER STOGNER: Okay. Mr. Carr?

9 JERRY B. ELGER,

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

12 DIRECT EXAMINATION

13 BY MR. CARR:

14 Q. Could you state your name for the record, please?

15 A. Jerry Elger.

16 MR. CARR: Mr. Stogner, I would request that Mr.
17 Elger's qualifications as an expert in petroleum geology be
18 accepted for the purpose of this hearing.

19 EXAMINER STOGNER: Even for you, again, Mr. Elger
20 will be -- His qualifications are acceptable.

21 Q. (By Mr. Carr) Mr. Elger, have you prepared
22 exhibits for presentation in this case, even with me?

23 A. Yes, I have.

24 Q. All right. Has Nearburg drilled other Morrow
25 wells in this area?

1 A. Yes, we have.

2 Q. Could you identify and review what has been
3 marked as Nearburg Exhibit Number 7?

4 A. Exhibit Number 7 is a 1-to-2000 scale map of the
5 prospect area. The 320 acres dedicated to this well is
6 outlined in yellow, the proposed location has been
7 highlighted in red. All offset Morrow producers have been
8 shaded green on this display.

9 This display, again, is a combination structure
10 map on top of the lower Morrow, and it also serves as a
11 production map.

12 Q. How significant is structure in determining
13 whether or not you're going to have a commercial well in
14 the Morrow?

15 A. It does play a role as to this particular
16 location. We'll see that when we review some further
17 Exhibits.

18 Q. All right. Let's move to the isopach map of the
19 middle Morrow -- or late middle Morrow sand, which is
20 Exhibit Number 8.

21 A. Yes, I would like to review Exhibit Number 8 in
22 conjunction, in reference to Exhibit Number 9, which is
23 structural cross-section A-A'.

24 Let me first mention that the structure map
25 presented on Exhibit Number 7 represents well control as

1 well as two seismic lines, which have also been displayed,
2 an east-west line along the southern boundary of --
3 southern border of Sections 12 and 7 and 11 and 10, and a
4 north-seismic line which runs along the western margin of
5 Sections 1, 12 and 13.

6 The proposed location -- And again, this Exhibit
7 Number 9 is a structural cross-section, and it shows the
8 proposed location, and it shows it relative to the -- how
9 we anticipate encountering the Morrow in all of the sands
10 structurally. In fact, both structural cross-sections
11 we'll look at bear this out.

12 The Exhibit Number 8 is a net sand isopach map of
13 the late middle Morrow. If we review cross-section 9 -- or
14 Exhibit Number 9 -- you'll see the late middle Morrow has
15 been identified and colored yellow between the two wells,
16 one being the former Gulf Exploration Company Minis Federal
17 Number 1, located in the east half of Section 1, which was
18 drilled and plugged by Gulf Oil in 19- -- It was drilled in
19 1982.

20 There were a number of drill stem tests conducted
21 at the time of drilling by Gulf. The well was plugged.

22 It was re-entered by Nearburg in March of 1990
23 and perforated -- You can see a set of production tests in
24 the lower part of the Morrow, which were noncommercial.
25 The well was finally completed from the set of perforations

1 you see marked in red in the depth column on that log, from
2 the sands that have been indicated on there, and that well
3 has cum'd slightly in excess of 1 BCF of gas. The well
4 continues to produce at a daily rate of 84 MCF of gas per
5 day.

6 And again, that -- the primary set of
7 perforations in that well are the late middle Morrow sands,
8 which are the mapped horizon on Exhibit Number 8.

9 The well to the south of the proposed location,
10 actually southwest, was drilled by Belco Petroleum
11 Corporation in 1980. That well ran one drill stem test in
12 the Morrow, and it happened to correspond with the sand
13 package that's been identified as the late middle Morrow
14 sands. That drill stem test flowed about 1.5 million cubic
15 feet of gas.

16 The well was subsequently completed from all of
17 those sands, as well as some sands that have been
18 identified as low-porosity sands in the lower part of the
19 middle Morrow.

20 And that well produced a cumulative prior to
21 being abandoned of -- Well, I'm sorry, that well is not
22 abandoned. That well currently produces at 105 MCF of gas
23 per day and has produced a cumulative of about 1 BCF of
24 gas. That's the target -- That's one of the target sands
25 for this unorthodox location.

1 The interpretation of this late middle Morrow
2 sand package is that it's -- represents a bar type of a
3 system, with a northeast-southwest orientation.

4 The attraction of this particular sand, 1 BCF of
5 gas which has been produced by the well in 13 and the BCF
6 of gas which has been produced by the re-entry of the Gulf
7 Minis Well by Nearburg, are really, for the depth, to drill
8 these things at their proposed 14,500 feet, is not really
9 commercial, a commercial amount of reserves.

10 So this is one of the sands which we're hoping to
11 encounter with some reservoir quality to it, at the
12 identified unorthodox location that will contribute to this
13 being a commercial venture.

14 Q. Are you ready now to look at the upper Morrow?

15 A. Yes, I am.

16 Q. Let's turn to the isopach, Exhibit 10, and do you
17 want to also review this in conjunction with the cross-
18 section?

19 A. Yes, I will.

20 Q. All right. If you'll also refer to Exhibit
21 Number 11.

22 A. Exhibit Number 10 represents an isopach map, net
23 sand isopach map, again using 8-percent density -- or
24 crossplot porosity cutoff for this particular sand as it
25 extends across the proposed location in Section 12.

1 Again, cross-section B-B', which is Exhibit 11,
2 is hung structurally, a subsea of minus 10,500 feet. The
3 middle Morrow sands have been identified on this cross-
4 section, along with the upper Morrow sand across this
5 particular area.

6 You'll notice on the far right-hand side of B-B'
7 a well drilled by Phillips Petroleum as the Eaves Unit
8 Number 1, that well being drilled in 1975, Section 18 of 21
9 South, 23 East, encountered a sandbody within the upper
10 part of the Morrow. That well was drilled down into the
11 lower Morrow or Mississippian Barnett shale, and no sands
12 of reservoir quality were encountered anywhere else in the
13 Morrow except for that upper Morrow sand.

14 They then subsequently ran a drill stem test that
15 extended -- it included basically all of the Morrow, the
16 upper, middle and lower portions. The drill stem test
17 spanned an interval of 1021 feet. The recovery of that
18 drill stem test, the results, are annotated adjacent to the
19 bottom part of the log.

20 To make a long story short, the well basically
21 flowed water to surface, indicating a significant reservoir
22 was included in the test interval, and the only conclusions
23 we have is that the upper Morrow sand was the unit that was
24 contributing to this water flow on this drill stem test,
25 leading us to conclude that the sand was -- it was indeed a

1 water reservoir.

2 The middle -- The next well to the left of the
3 Phillips well was a well drilled by Gulf. That well ran a
4 drill stem test across -- a short drill stem test across
5 what is the equivalent sand to the water sand that was
6 encountered in the Phillips Eaves -- Phillips well, and
7 drill stem tested water.

8 That drill stem test, between 13,855 and -897,
9 flowed gas at 2 million cubic feet. They reversed out 800
10 feet of gas and distillate, plus 2400 feet of drilling mud.
11 And that particular sand, although it's very thin, was
12 included in -- was perforated in 1983, in a later
13 completion, and is apparently gas-bearing at this
14 structural horizon, which you can see is some distance
15 structurally high to the original Phillips well.

16 Somewhere between these two wells, I've concluded
17 that there's a gas-water contact, the Phillips well having
18 been drilled in the water leg and the Gulf well up in the
19 gas leg.

20 On the Exhibit Number 10, which again is the
21 upper Morrow gross and net sand isopach maps, I have
22 indicated with a blue line across the sand channel where --
23 somewhere following structural contour, somewhere between
24 those two wells where that gas-water contact exists.

25 The well on the far left of this cross-section

1 was drilled by Kimball Production in 1973. That well
2 encountered numerous thin sands, including a 4-foot sand in
3 the equivalent upper Morrow unit, and that was included in
4 their set of perforations on their completion, indicating
5 that at that location the sand is also probably gas-
6 bearing.

7 We have situated our location in Section 12 to
8 accommodate trying to encounter a portion of this upper
9 sand with reservoir quality and high to the gas-water
10 contact. You can see that only a small portion of the
11 northeast-northeast corner of Section 12 would accommodate
12 that, and we have situated the unorthodox location to
13 accommodate encountering this particular sand.

14 So it's our contention that the combined late
15 middle Morrow sand package, which we have shown, has
16 reserves in the neighborhood of a BCF or so of gas, and the
17 anticipated reserves from encountering the upper Morrow
18 sand in a gas-bearing situation, the combined effects of
19 both -- or combined reserves from both of those particular
20 sands would lead to a commercial quantity of hydrocarbons.
21 That's the main reason we've chosen this particular
22 location.

23 Q. Mr. Elger, are you prepared to make a
24 recommendation to the Examiner as to the risk penalty that
25 should be assessed against any interest that does not

1 voluntarily join in the well?

2 A. Yes, I am.

3 Q. And what is that?

4 A. It's 200 percent.

5 Q. Can you just summarize your reasons for that?

6 A. The -- Go back to Exhibit Number 7, which was the
7 structure and production map. There's a well in the west
8 half of Section 7, drilled by Gulf. That well is now
9 plugged, and produced a cumulative of 600 million feet,
10 which is not commercial for this depth.

11 We look at the well drilled in the west half of
12 Section 12, that well made 9 million cubic feet of gas,
13 total cumulative, before it was abandoned. That's
14 definitely not commercial.

15 The Kimball well in the south half of Section 1,
16 which is now abandoned, made less than a half a BCF.
17 That's not a commercial well.

18 And our proposed location is right in the middle
19 of the triangle formed by those three noncommercial wells.
20 Therefore, I would think there's a high degree of risk
21 associated with this location.

22 Q. In your opinion, will granting this Application
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. How soon does Nearburg hope to spud this well?

2 A. Shortly after the order.

3 Q. Were Exhibits 6 through 11 prepared by you?

4 A. Yes, they were.

5 MR. CARR: At this time, Mr. Stogner, we would
6 move the admission into evidence of Nearburg Exhibits 6
7 through 11.

8 EXAMINER STOGNER: Exhibits 6 through 11 will be
9 admitted into evidence.

10 EXAMINATION

11 BY EXAMINER STOGNER:

12 Q. Referring to your Exhibit Number 8, now, this
13 shows the middle Morrow isopach map, and the thickening of
14 this channel that swings over and takes in the east half of
15 Section 12.

16 Do you have any other type of interpretation that
17 that is occurring, through 3-D seismic or anything?

18 A. No, we don't have a 3-D, and you really at this
19 depth -- The two seismic lines that Nearburg acquired --
20 they're actually market data, they weren't shot by
21 Nearburg, they're market data acquired by Nearburg -- we
22 looked for Morrow-thick signatures on those lines, but
23 apparently the depth of this particular event precludes us
24 being able to see that type of detail from that data.

25 So this is strictly an interpretation that's

1 based on well control only.

2 Q. Now, Exhibit Number 7, you show a fault --

3 A. Yes.

4 Q. -- back to the east.

5 A. That's correct. That -- The faults you see in
6 Section 1 and the faults you see in Section 7, those faults
7 were picked with -- by utilizing the seismic information.
8 We were able to see -- There's enough displacement
9 associated with those faults to be able to recognize on the
10 seismic.

11 Q. Did that fault have any influence over the upper
12 Morrow interval, as that channel seems to parallel it, or
13 just over right beside it?

14 A. I really don't think the faults existed at the
15 time of the deposition. I think they're post-depositional.
16 But what they did do is, the structure associated -- the
17 folding and faulting which did occur post-Morrow were
18 responsible for the well in Section 18 being what we have
19 now identified as being structurally low. And, you know,
20 there may be some correspondence between the upper Morrow
21 channel sort of paralleling that fault.

22 That's what your question was, right?

23 Q. Yes.

24 A. There could be some influence there.

25 Q. Has there been any Morrow depth test in Section 6

1 to the north and east of this area?

2 A. There has not.

3 Q. So that was a geologically bare area for you.

4 Up in the Section 1, over in the southeast corner
5 of that section, there's an old abandoned well, and then
6 there's a new well. Is that a new Morrow completion?

7 A. That's correct.

8 Q. Is that a Nearburg completion or --

9 A. Yes, it is.

10 Q. Okay. How new is that?

11 A. I believe that well has been drilled for about 10
12 to 12 months.

13 Q. Any production history or tests at this point?

14 A. We have production history -- Actually, if you
15 look at the cross-section B-B', the Gulf East Hat Mesa
16 well, and you see that the original completion on that well
17 in 1981 was from perforations between 14,382 and -406, and
18 that well potentialled for 9.4 million from those sands.

19 We originally completed our well from what
20 appears to be a comparable interval within the Morrow, but
21 it quickly depleted. We have plugged that well back to
22 some middle Morrow sands, and -- recently, within the past
23 week, I believe -- and have perforated that well and are
24 currently production testing the well from those -- from a
25 higher set of perforations.

1 Q. How about the shallower potential in the Wolfcamp
2 and the remaining formations in the Pennsylvanian interval?
3 Are there any past histories?

4 A. There's really not. This production map -- I
5 believe perhaps the well up in the north -- or the
6 northwest corner of Section 2 may have produced a very
7 insignificant amount of gas from what they call the Strawn.

8 But to my knowledge, all of these wells have been
9 strictly Morrow-only producers, no Atoka, no Wolfcamp.

10 EXAMINER STOGNER: I have no other questions of
11 Mr. Elger at this time.

12 MR. CARR: That concludes our presentation in
13 this case.

14 EXAMINER STOGNER: Does anybody else have
15 anything further in Case Number 11,689 at this time?

16 This case will be taken under advisement.

17 (Thereupon, these proceedings were concluded at
18 9:58 a.m.)

19 * * *

20
21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the examiner hearing of Case No. 11689,
heard by me on 9 January 1997.

24 Michael Elger, Examiner
25 Oil Conservation Division

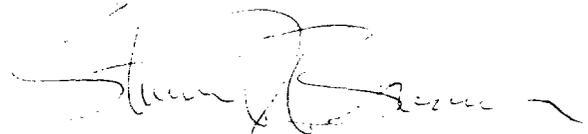
CERTIFICATE OF REPORTER

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 January 14th, 1997.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998