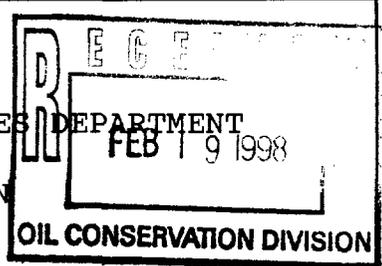


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



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. 11,902

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

February 5th, 1998

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, February 5th, 1998, 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. 11,902

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* * *

A P P E A R A N C E S

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FOR THE APPLICANT:

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 P.O. Box 2208
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 By: PAUL R. OWEN

* * *

1 WHEREUPON, the following proceedings were had at
2 8:26 a.m.:

3 EXAMINER CATANACH: At this time we'll call Case
4 11,902.

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

8 EXAMINER CATANACH: Call for appearances in this
9 case.

10 MR. OWEN: Paul Owen of the Santa Fe law firm
11 Campbell, Carr, Berge and Sheridan for the Applicant which,
12 I would like the record to reflect, should be Nearburg
13 Producing Company.

14 I have two witnesses in this matter.

15 EXAMINER CATANACH: Mr. Owen, the advertisement
16 should state Nearburg Producing Company?

17 MR. OWEN: I believe we made the Application
18 under the appellation Nearburg Exploration Company. I
19 think that the party-in-interest is actually Nearburg
20 Producing Company.

21 EXAMINER CATANACH: Okay. Any additional
22 appearances in this case?

23 Will the two witnesses please stand to be sworn
24 in?

25 (Thereupon, the witnesses were sworn.)

1 MR. OWEN: Call my first witness, Michael Gray.

2 MICHAEL M. GRAY,

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

5 DIRECT EXAMINATION

6 BY MR. OWEN:

7 Q. Mr. Gray, please tell us your name and where you
8 live.

9 A. Michael Gray. I live in Midland, Texas.

10 Q. And what do you do in Midland?

11 A. I work for Nearburg Producing Company and the
12 Nearburg Exploration Company --

13 Q. What do you --

14 A. -- as a landman.

15 Q. Have you previously testified before this
16 Division or one of its Examiners and had your credentials
17 as a petroleum landman accepted and made a matter of
18 reference?

19 A. Yes.

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

22 A. Yes.

23 Q. Are you familiar with the status of the lands in
24 the area of the proposed well?

25 A. Yes, I am.

1 MR. OWEN: Mr. Examiner, are the witness's
2 qualifications acceptable?

3 EXAMINER CATANACH: They are.

4 Q. (By Mr. Owen) Mr. Gray, please tell us briefly
5 what Nearburg Producing Company seeks with this
6 Application.

7 A. Nearburg Producing Company seeks an unorthodox
8 location for a Morrow test well at a location 990 feet from
9 the south line and 1980 feet from the east line of Section
10 16, 19 South, 33 East.

11 Q. Now, the Application that was originally filed in
12 this matter, did that contain the same location?

13 A. No, the original Application was filed at a
14 location 660 feet from the south line and 1650 feet from
15 the east line. The location was moved to a less unorthodox
16 location as a compromise location with the operator of the
17 unit offsetting us to the south.

18 Q. What are the standard setbacks in that pool?

19 A. The standard setbacks would be the statewide
20 setbacks of 1650 from the -- on the lengthwise, and 660 on
21 the short widthwise.

22 Q. With whom did you reach a compromise -- the new
23 location?

24 A. Yates Energy Corporation.

25 Q. What acreage are you proposing to dedicate to

1 this well?

2 A. The east half of Section 16, 19 South, 33 East.

3 Q. And what pool is that in?

4 A. This is in the Gem-Morrow Pool.

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

6 A. I think they're statewide rules.

7 Q. All right. Are there any special pool rules?

8 A. Not that I'm aware of.

9 Q. Okay. Have you prepared certain exhibits for
10 introduction in this case?

11 A. Yes, I have.

12 Q. Why don't we turn to Nearburg's Exhibit Number 1.
13 why don't you tell us what you --

14 A. This is a --

15 Q. -- what that shows.

16 A. This is a locator map depicting the proposed
17 proration unit, being the east half of Section 16, along
18 with the location at the -- at 990 from the south and 1980
19 from the east. It also shows the surrounding acreage and
20 wells.

21 Q. And does it -- Is Yates Energy to the south?

22 A. Yates Energy operates an Atoka well in Unit C of
23 Section 21, 19-33. That well is dedicated to the north
24 half of Section 21.

25 Q. Okay, does your next exhibit show the ownership

1 breakdown?

2 A. Yes, it does.

3 Q. Why don't we turn to Nearburg Exhibit Number 2
4 and explain, if you will, for the Examiner what that shows.

5 A. Exhibit Number 2 again depicts our proposed unit
6 in the east half of Section 16, the two nearest offsetting
7 wells being in the west half of Section 16 and the north
8 half of Section 21, and the ownership of the acreage upon
9 which we're encroaching.

10 Q. Have you requested waiver of objection of the
11 proposed location --

12 A. I've requested waivers from all of the owners in
13 Section 21.

14 Q. And is Exhibit Number 3 letters from yourself to
15 these different owners requesting waiver of objection?

16 A. Yes, it is.

17 Q. And have you received waiver of objection from
18 any of these owners?

19 A. We received a number of waivers; we didn't get
20 all of them back. Exhibit Number 4 is the waivers that we
21 received, and there are a number of just simple non-
22 responses in addition -- besides the ones that we got back.

23 Q. Okay. And Yates is the party with whom you
24 reached a compromise; is that right?

25 A. Yates Energy, again, is the operator of the Atoka

1 well dedicated to the north half of Section 21, and Yates,
2 representing a number of their affiliated entities, is the
3 company that we reached the compromise with, yes.

4 Q. Okay. And does the note on the first letter on
5 Exhibit Number 4 reflect that compromise?

6 A. Yes, that's just a personal note from their
7 landman reflecting that -- for appreciation of reaching a
8 compromise in this case.

9 Q. After the Application was filed, did Nearburg
10 provide notice to all affected interest owners of this
11 pending case?

12 A. Yes, the Application was filed, as you can see,
13 at the original location which was objected to by the
14 offsetting owners. Before the deadline to send the notices
15 out, we had reached the compromise location, and the
16 notices went out with the correct location.

17 Q. And is Exhibit Number 5 an affidavit from Mr.
18 Carr in my office and the notice letters that were sent out
19 in this case?

20 A. Yes, it is.

21 Q. And the location that you're requesting today is
22 encroaching upon the owners to the south to a lesser degree
23 than the original location requested; is that right?

24 A. That's correct.

25 Q. Okay. Will Nearburg call a geologic witness to

1 review the technical portions in this --

2 A. Yes, we will.

3 Q. Were Exhibits 1 through 5 prepared by you or
4 under your direction?

5 A. Yes, they were.

6 MR. OWEN: Mr. Examiner, I offer Nearburg
7 Exhibits Number 1 through 5.

8 EXAMINER CATANACH: Exhibits 1 through 5 will be
9 admitted as evidence.

10 MR. OWEN: I have no further questions of this
11 witness.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. Mr. Gray, the north half of Section 21 is
15 currently dedicated to an Atoka well?

16 A. Yes, sir. Mr. Gawloski will get into more of
17 this than I can, but the gas well shown on the -- actually,
18 looking at the ownership map, the gas well shown in the
19 north half of Section 21 was originally a Morrow producer
20 that produced something over 3 BCF and was subsequently
21 plugged back to the Atoka, and is currently an Atoka gas
22 well.

23 Q. And Yates Energy is the operator of that well?

24 A. That's correct.

25 Q. And is that a north-half dedication, as far as

1 you know?

2 A. It is a north-half dedication, yes.

3 Q. Okay. So even though Yates is the operator of
4 that north half, you chose to notify all of the interest
5 owners in the north half of Section 21?

6 A. Inasmuch as we were drilling a Morrow test well
7 and the Morrow is no longer producing in the north half, it
8 sounded -- I believe the literal reading of the rules would
9 require that.

10 Q. So you're satisfied you've notified all the
11 interest owners in the north half?

12 A. Yes.

13 Q. Okay. No one has objected to your location, as
14 far as you know?

15 A. No.

16 Q. Is there any documentation as to the compromise
17 agreement you worked with --

18 A. Other than the -- If you'll look at Exhibit 4,
19 there's a personal note from Yates' landman on their return
20 letter.

21 Q. Okay, and this has the actual location on it that
22 you're going to drill?

23 A. Yes.

24 Q. And it's signed by Yates Energy?

25 A. Yes.

1 EXAMINER CATANACH: Okay. I have nothing
2 further. This witness may be excused.

3 MR. OWEN: My next witness, Mr. Examiner, is Mr.
4 Ted Gawloski, G-a-w-l-o-s-k-i.

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

8 DIRECT EXAMINATION

9 BY MR. OWEN:

10 Q. Mr. Gawloski, please tell us your name and where
11 you live.

12 A. My name is Ted Gawloski. I live in Midland,
13 Texas.

14 Q. And what do you do in Midland?

15 A. I'm a geologist for Nearburg Exploration and
16 Producing Company.

17 Q. Have you previously testified before this
18 Division or one of its Examiners and had your credentials
19 as a petroleum geologist accepted and made a matter of
20 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. Are you prepared to present the results of that
4 study with the Examiner?

5 A. Yes, sir.

6 MR. OWEN: Mr. Examiner, are the witness's
7 qualifications acceptable?

8 EXAMINER CATANACH: They are.

9 Q. (By Mr. Owen) Mr. Gawloski, let's -- Why don't
10 we take a quick look at Nearburg's Exhibit Number 6 to get
11 a feel for the area. What's the primary producing interval
12 in this area?

13 A. The primary producing deep interval in this area
14 is the Morrow sands.

15 And then Exhibit 6 is a structure map on the top
16 of the Morrow formation in this area showing -- The wells
17 in red are the deep wells that are producing out of the
18 Morrow, with the latest cumulative production from those
19 wells. And you can see where we're -- the proration unit
20 in the east half of Section 16 in the proposed location.

21 The three wells to the west and southwest are the
22 best Morrow producers. The well in Section 16 and the
23 wells in 15 or 22 were either nonproductive in the Morrow
24 or very poor Morrow producers.

25 Q. Is that well in Section 21 still producing from

1 the Morrow?

2 A. No, that well is currently producing out of the
3 Atoka. They have plugged back the Morrow.

4 Q. How important is structure in determining whether
5 or not you're going to make a successful well in this area?

6 A. Structure is one of the ingredients that we use
7 to prospect for the Morrow in this area, and it is one of
8 the important factors that we do plug into our formula for
9 prospecting for the Morrow.

10 Q. I believe you've prepared a cross-section. Is
11 that Exhibit Number 7?

12 A. Yes, sir, it is.

13 Q. Why don't you review the data on Exhibit Number 7
14 for the Examiner?

15 A. Okay, this is a cross-section that, if you refer
16 back to Exhibit 6, you can see that it ties several of the
17 deep wells in the area, going from the west, and it snakes
18 up through the proration unit and down across into Section
19 22. And --

20 Q. Mr. Gawloski, is there a small copy of that map
21 presented on the bottom of Exhibit Number 7?

22 A. Yes, there's a locator map on the bottom of the
23 cross-section you can refer to for location of the wells.

24 The exhibit that I just showed was a structure
25 map, and the datum is the top of the Morrow, which is the

1 light blue line in the middle of the cross-section. That
2 was what the structure map was presented.

3 The following maps that we'll be showing will be
4 isopach maps of the Morrow and the Atoka, and you'll be
5 able to see the intervals that I'll be talking about.
6 There will be an upper Morrow "B" sand isopach, a lower
7 Morrow "B" sand isopach and a Morrow "C" isopach, as well
8 as a middle Atoka sand isopach.

9 These wells produce out of all three of these
10 intervals in the Morrow, as well as the Atoka when it is
11 present.

12 And one thing to note on the cross-section is
13 that the wells, again, the three wells on the left of the
14 west of the cross-section, are the best Morrow producers.
15 And this is one of the reasons why we're looking to have
16 the location in that location where we have proposed it.

17 Q. Okay, why don't we go ahead? Leaving Exhibit
18 Number 7, why don't you tell us what Exhibit Number 8 shows
19 in relation to Exhibit Number 7?

20 A. Okay, Exhibit Number 8 is an isopach of the
21 Morrow "C" sand, which is the lowermost interval that
22 extends the cross-section.

23 And the isopachs that -- The red symbols on the
24 isopach refer to Morrow wells that are productive through
25 that interval only. On the structure map, they refer to

1 the Morrow that's productive at any of the horizons.

2 And you can see a northwest-southeast trend that
3 comes across Section 16, but as you move toward the eastern
4 half of Section 16, the sand is much thinner, and it's
5 nonproductive in the wells in 15 and 22. But the three
6 wells in the west half of Section 16, the east half of
7 Section 20 and the north half of 21 are all productive out
8 of that interval.

9 Q. That well out of the -- In Section 21, that was
10 the production that took place previously. There's no
11 current production again out of that well?

12 A. That's correct.

13 Q. Out of the Morrow?

14 A. That's correct.

15 Q. All right, what is Exhibit Number 9, and what
16 does it show in relation to Exhibit Number 7?

17 A. Exhibit Number 9 is an isopach of the Lower
18 Morrow "B", which is shown on the cross-section, that
19 bracketed -- the middle part of the Morrow sand section.
20 Again, it's showing a trend that comes from the northwest
21 to the southeast, and essentially showing the same things
22 that the proposed location is in a better sand fairway than
23 if we had it moved to the north.

24 Again, the same three wells that are on the
25 cross-section, on the western part, are productive through

1 this interval as well.

2 Q. All right. And is Exhibit Number 10 consistent
3 with that trend as well?

4 A. Yes, it is. This is an isopach of the upper
5 Morrow "B", showing a little different orientation to this
6 sand interval, but again shows that the main -- the
7 thickness of it is better in the south part of Section 16
8 and again is productive in those three wells that I
9 referred to that are in the west -- in -- the three western
10 wells on the cross-section.

11 Q. Okay. Now, since the well in Section Number 21
12 is producing out of the Atoka, have you prepared an isopach
13 of the Atoka as well in the area?

14 A. Yes, I have. Exhibit Number 11 is an isopach of
15 the middle Atoka sand, and it's referred to in this area as
16 the YL Pay sand for the well in Section 15.

17 As you go toward the upper part of the cross-
18 section, you can see this Atoka sand. It's a very thin
19 sand but was a very prolific producer when it was first
20 drilled. It is a very limited sandbody right now. And
21 it's very thin, but it can be productive at very thin
22 intervals.

23 But as you move in Section 16, as you go north in
24 there, the sand is not present. So again, our location
25 would give us an opportunity to get some of this sand in

1 the Atoka.

2 Q. Now, the well in the east half of Section 15 and
3 the one in the north half of Section 22, were you involved
4 in those wells at all?

5 A. Yes, sir, I was working for Mitchell Energy, and
6 we were an interest owner in those wells.

7 Q. Are those Atoka producers?

8 A. Yes, they are.

9 Q. Do they show anything in relation to that well in
10 the north half of Section 21, as far as Atoka production?

11 A. The well in the north half of 21 is currently
12 producing out of the Atoka, but at a relatively low rate of
13 less than 100 MCF a day. Most of the gas from this
14 reservoir has been depleted.

15 We had drilled a well to the south in Section 28
16 a month or so ago and encountered this sand, but we did not
17 even have a gas show when we drilled through it, and I
18 believe that's because a lot of the pressure is drawn down
19 in this reservoir.

20 Q. In your proposed well, do you expect production
21 out of the Atoka?

22 A. If Atoka production is there, it's probably going
23 to be pretty minimal.

24 Q. Mr. Gawloski, were Nearburg Exhibits 6 through 11
25 prepared by you or under your direction?

1 some drill stem tests. But their mudweight -- and it's
2 noted on the cross-section down here -- was severely
3 overbalanced, over 2000 pounds overbalanced. And these
4 Morrow sands are very susceptible to damage at those kind
5 of mudweights.

6 They did drill stem test one of the zones marked
7 at about 13,200, did recover gas at a rate of about 460 MCF
8 a day. They did run some other tests that had slight shows
9 in it. And they drilled the well down -- It took several
10 months to drill the well down to the Devonian. And the
11 Morrow was exposed that whole time.

12 They then tried some completion in the Devonian
13 and then came uphole and attempted some completions in the
14 Morrow. When they did that, they found that they had a
15 very poor cement job, so they even had to squeeze the zone
16 to get proper cement, and that is usually a task that is
17 very difficult to do in the Morrow.

18 They then perforated some of the sands, but they
19 did not get any gas of commercial quantities.

20 The well was then completed uphole in the
21 Wolfcamp, where it produced only 3000 barrels of oil.

22 And it was subsequently re-entered in November of
23 1996 by Basin Operating, when they attempted some Delaware
24 completions and made a little bit of oil out of the
25 Delaware, but the well has since been plugged.

1 Q. What Morrow zone did they test it 460 MCF per
2 day?

3 A. It's the lower Morrow "B" interval. It's the
4 upper sand in that lower Morrow "B" on the cross-section
5 with -- The little green marker on there shows the DST
6 interval. 13,207 to -226.

7 Q. Is there any one of these zones that's the most
8 prolific producing interval?

9 A. That's a little difficult to determine, because
10 the three best wells that you see on the -- They perforated
11 all three of the zones, and unless they've done them at
12 different times, you can't -- the term is, split out the
13 production.

14 Some of the wells were done at different times
15 and recompleted. The well in the north half of 21 did make
16 significant production out of the Morrow "C", about equal
17 to the zones up above. The other wells were almost
18 perforated at several zones at the same time, so it's
19 really difficult to determine that.

20 Q. Did they, in fact, DST any of the other zones,
21 the upper Morrow "B"?

22 A. They did not DST an upper Morrow "B". They DST'd
23 a Morrow "C" and essentially got drilling mud and water
24 blanket. However, the DST interval looks to be a little
25 bit off.

1 Q. So is it your opinion that a well at a standard
2 location wouldn't encounter enough sand in some of those
3 zones to be productive?

4 A. That's correct, this well is what I would
5 consider a good show well on the edge of a lot of these
6 sandbodies, and that's one of the reasons we would not want
7 to move in that direction.

8 Q. Did you say the well in the -- The Yates well in
9 the north half of Section 21, did you say that's producing
10 100 MCF per day?

11 A. A little less than 100. I talked to one of the
12 partners that had interest in that well, and that's what he
13 told me that the well was currently producing, less than
14 100 MCF a day.

15 Q. Okay. Do you know the status of the well in the
16 west half of 16.

17 A. Let's see, that would be -- I currently show it
18 producing out of the Morrow. The third well on the cross-
19 section, if you look on the bottom, has the last test
20 information that was available from the current records,
21 and it shows it still producing out of the Morrow
22 formation.

23 Q. You don't know what rate that well is producing
24 at?

25 A. Well, the last rate that I have showed about 232

1 MCF a day.

2 EXAMINER CATANACH: I have nothing further of
3 this witness, Mr. Owen. He may be excused.

4 Is there anything further?

5 MR. OWEN: I have no further witnesses in this
6 matter.

7 Mr. Examiner, I would like the record to reflect
8 that the Applicant has a March 15th contractual drill date
9 and requests an expedited order in this matter.

10 EXAMINER CATANACH: It's my understanding also,
11 Mr. Owen, that within this case you wish Nearburg Producing
12 Company to be named operator of this well; is that right?

13 THE WITNESS: That's correct.

14 MR. OWEN: That is correct.

15 EXAMINER CATANACH: Okay. There being nothing
16 further in this case, Case 11,902 will be taken under
17 advisement.

18 MR. OWEN: Thank you, Mr. Examiner.

19 (Thereupon, these proceedings were concluded at
20 8:51 a.m.)

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. 11902,
25 heard by me on 2/5/1978.

David R. Catanach, Examiner
Oil Conservation Division

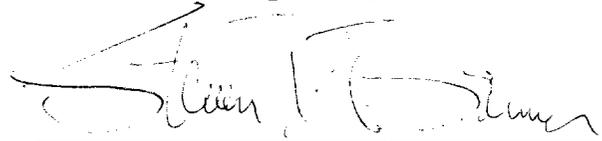
CERTIFICATE OF REPORTER

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 February 7th, 1998.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998