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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 10337

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Producing Company
for an Unorthodox Gas Well Location,
Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

June 27, 1991

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A P P E A R A N C E S

FOR THE DIVISION: ROBERT G. STOVALL, ESQ.
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FOR THE APPLICANT: WILLIAM F. CARR, ESQ.
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I N D E X

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Appearances

2

F. ANDREW GROOMS

Examination by Mr. Carr

6

JERRY ELGER

Examination by Mr. Carr

11

Examination by Hearing Examiner

17

Certificate of Reporter

20

E X H I B I T S

APPLICANT'S EXHIBITS:

Exhibit 1

9

Exhibit 2

10

Exhibit 3

13

1 EXAMINER STOGNER: Call the next case, No.
2 10337.

3 MR. STOVALL: The application of Nearburg
4 Producing Company for an unorthodox gas well location,
5 Eddy County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. CARR: May it please the Examiner, my
8 name is William F. Carr with the law firm Campbell &
9 Black, P.A., of Santa Fe. I represent Nearburg
10 Producing Company, and I have two witnesses.

11 EXAMINER STOGNER: Are there any other
12 appearances in this matter?

13 Will the witnesses please stand to be
14 sworn.

15 MR. CARR: At this time, we would call Andy
16 Grooms.

17 F. ANDREW GROOMS

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

20 EXAMINER STOGNER: Mr. Carr, if I may
21 inject, this case looks vaguely familiar. Would you
22 please elaborate a little bit before we--

23 MR. CARR: May it please the Examiner, a
24 case came before you about six weeks ago involving a
25 proposal to develop the same 320-acre tract which is

1 the subject of this application.

2 As the witnesses will testify, following
3 denial of that application--that application was 330
4 feet from the west line of the spacing unit. It was
5 offset by an undeveloped state tract in this formation
6 to the west, and following that hearing the
7 application was denied.

8 Since that time, the interest owners in the
9 320-acre tract, and also the offsetting acreage to the
10 west, have met and have now moved the location 660
11 feet from that line. It is standard, therefore, from
12 the west line. It is still unorthodox from the north
13 line. Our geologist will explain why that is
14 necessary.

15 Our land testimony will show that there are
16 no parties that are affected because we're moving away
17 from the end boundaries of the unit. What we have is
18 the same tract and a new well location.

19 EXAMINER STOGNER: Essentially, as I read
20 it, and correct me if I'm mistaken, it's unorthodox
21 inasmuch as you're encroaching toward the middle of
22 the 320-acre proration unit?

23 MR. CARR: That's correct.

24 EXAMINER STOGNER: And you're 660 feet away
25 from the long boundary of the 320, which is standard

1 pursuant to the General Rules?

2 MR. CARR: That is correct.

3 EXAMINER STOGNER: Okay. Thank you.

4 MR. CARR: Because the matter required a
5 hearing before, we decided the appropriate thing to do
6 was to bring it back for hearing and give additional,
7 new notice to Kerr McGee and to Texaco who are the
8 offsetting owners to the west, even though we're a
9 standard distance. They were noticed at the previous
10 hearing, and we felt it was appropriate to bring it
11 back to you and again give notice.

12 EXAMINER STOGNER: And if I might, the case
13 number on that previous order?

14 MR. CARR: It was Order R-9513. I don't
15 have the case number in front of me.

16 EXAMINER STOGNER: I believe that was Case
17 10297. What was that order number again?

18 MR. CARR: That was Order R-9513.

19 EXAMINER STOGNER: Thank you, Mr. Carr. I
20 won't interrupt you again--maybe. You may continue.

21 EXAMINATION

22 BY MR. CARR:

23 Q. State your full name for the record,
24 please.

25 A. F. Andrew Grooms.

1 Q. And where where do you reside?

2 A. Roswell, New Mexico.

3 Q. Mr. Grooms, by whom are you employed and in
4 what capacity?

5 A. I'm employed by Branex Resources, Inc.,
6 B-R-A-N-E-X. I'm employed as a petroleum landman.

7 Q. In this case, what is your relationship
8 with Nearburg Producing Company?

9 A. We have jointly developed the prospect with
10 them as operator.

11 Q. Have you previously testified before this
12 division?

13 A. Yes, sir.

14 Q. At that time were your credentials as a
15 petroleum landman accepted and made a matter of
16 record?

17 A. Yes, they were.

18 Q. Are you familiar with the application in
19 this case?

20 A. Yes, I am.

21 Q. Are you familiar with the proposed well?

22 A. Yes, sir.

23 MR. CARR: Are the witness's qualifications
24 acceptable?

25 EXAMINER STOGNER: Mr. Grooms is so

1 qualified.

2 Q. Would you briefly state what is being
3 sought with this application?

4 A. Nearburg Producing Company is seeking to
5 locate a 12,000-foot Morrow test, 2,500 foot from the
6 north line and 660 feet from the west line of Section
7 15, Township 22 South, Range 27 East.

8 Q. Into what pool are they projecting this
9 well?

10 A. The undesignated Carlsbad Strawn Gas Pool
11 and the undesignated South Carlsbad Morrow Gas Pool.

12 Q. Are you familiar with the rules for these
13 pools?

14 A. Yes, sir.

15 Q. Are there any special rules in effect for
16 either of them?

17 A. None that I'm aware of, other than the
18 Morrow Pool, I believe, is a prorated gas pool.

19 Q. What are the well location and spacing
20 requirements for each of these formations?

21 A. Each requires 320-acre spacing, and the
22 specific location requirements would be 1,980 feet
23 from the short boundary and 660 from the long
24 boundary.

25 Q. This, as Mr. Stogner has noted, was the

1 subject of a prior OCD hearing, is that correct?

2 A. Yes, sir.

3 Q. Following the denial of that application,
4 would you just simply explain what the interest owners
5 in this tract, what action they took?

6 A. The interest owners, we had a meeting and
7 took a look at the available geological evidence, and
8 made the decision that we could justify a standard
9 location insofar as the boundary from the west line
10 was concerned.

11 Q. Mr. Grooms, let's go to what has been
12 marked as Nearburg Exhibit No. 1. This is an isopach
13 map that the geologist will testify to, but using
14 this, could you just review for Mr. Stogner the status
15 of the ownership in the immediate area?

16 A. Okay. All of the west half of 15 is the
17 subject of common leasehold ownership, so the
18 northwest quarter and the southwest quarter, from the
19 standpoint of the leasehold ownership, is identical.

20 The east half of Section 16, the owners
21 basically come down to Hallwood Petroleum, Texaco and
22 Kerr McGee, insofar as that 320-acre tract is
23 concerned. It's HBP State of New Mexico Oil and Gas
24 Lease. The west half of Section 15 are fee oil and
25 gas leases.

1 Q. There's a dotted line around the west half
2 of 15 and the east half of 16. What does that
3 indicate?

4 A. That simply indicates the prospective area
5 that we've identified, as far as that which we intend
6 to drill.

7 Q. Is there any Strawn or Morrow production in
8 the east half of 16 at this time?

9 A. No, there is not.

10 Q. And the primary producing formations that
11 are the objective of this well, are what formations?

12 A. The Strawn and the Morrow.

13 Q. Let's go to what has been marked as
14 Nearburg Exhibit No. 2. Could you identify that for
15 Mr. Stogner?

16 A. Exhibit No. 2 is a paleo-structural cross--

17 Q. Exhibit No. 2?

18 A. Oh, excuse me. Exhibit No. 2 is a copy of
19 a letter sent to Texaco Producing Company whereby they
20 were advised of our application for this particular
21 location. Even though they were not adversely
22 affected insofar as our west boundary was concerned,
23 we felt that since we notified them before, we would
24 notify them again.

25 Q. Does it advise them of today's hearing on

1 this application?

2 A. Yes, it does.

3 Q. Is there also attached to that letter a
4 similar letter to Kerr McGee, giving them also notice?

5 A. Yes, that's correct.

6 Q. Were these letters prepared at the
7 direction of Nearburg Producing Company?

8 A. Yes, they were.

9 Q. Do you have anything further to add to your
10 testimony?

11 A. No, sir.

12 Q. Will Nearburg be calling a geological
13 witness to explain the reasoning behind the current
14 location for this well?

15 A. Yes. We will call Mr. Jerry Elger.

16 MR. CARR: Mr. Stogner, at this time I have
17 no further questions of Mr. Grooms.

18 EXAMINER STOGNER: Nor do I.

19 MR. CARR: We would, therefore, call Mr.
20 Elger.

21 **JERRY B. ELGER**

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

24 EXAMINATION

25 BY MR. CARR:

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

3 A. Jerry B. Elger.

4 Q. And where do you reside?

5 A. Midland, Texas.

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

8 A. By Nearburg Producing Company as senior
9 geologist.

10 Q. Have you previously testified before this
11 Division?

12 A. Yes, I have.

13 Q. Were your credentials as a geologist
14 accepted and made a matter of record at that time?

15 A. Yes, they were.

16 Q. In fact, you were the geologist that
17 testified in the first hearing concerning this
18 prospect, is that not correct?

19 A. That is correct.

20 Q. Are you familiar with the application filed
21 in this case?

22 A. Yes, I am.

23 Q. And the new proposed well location?

24 A. Yes.

25 MR. CARR: Are the witness's qualifications

1 acceptable?

2 EXAMINER STOGNER: Mr. Elger is so
3 qualified.

4 Q. Have you prepared certain exhibits for
5 presentation in this hearing?

6 A. Yes, I have.

7 Q. Mr. Elger, are these exhibits identical to
8 the exhibits presented in the previous case with the
9 exception of the well location?

10 A. That's correct.

11 Q. Let's go to what has been marked as
12 Nearburg Exhibit No. 1, your isopach map. Please
13 refer to that and review it for Mr. Stogner.

14 A. Okay. The isopach map represents the total
15 thickness of what we feel like is the pay section in
16 the Strawn formation. It's the shaded blue area
17 that's indicated blue on Exhibit 3, which is the
18 two-well cross-section.

19 If I can refer to Exhibit 3, which is the
20 paleo-structural cross-section, the total porosity
21 unit within the Strawn, which is critical to the total
22 reserves, ultimate total reserves from the wellbores,
23 is correlative with the thickness of that mass.
24 Obviously, the thicker the mass the more pay section
25 you should encounter.

1 Therefore, by locating the wellbore
2 prospect, the wellbore in the west half of 16 within
3 the 200-foot isopach interval, indicates that we could
4 have ultimately up to 200 feet of potential pay
5 section, at least that's what we hope.

6 Q. When we look at Exhibit No. 1, was this
7 isopach prepared by well control information alone?

8 A. Yes, it is. Although, well, there is, as I
9 testified previously in the initial presentation of
10 this case, there is a northeast/southwest trending
11 seismic line that was utilized, tying the wellbore in
12 the north half of the northwest quarter of Section 21,
13 which ran diagonally across the Section 16 in the
14 proposed location off the southeast section of Section
15 10 to the north. And that seismic line indicated,
16 although the data quality was fairly poor, the
17 interpretation applied to it was that there was a
18 thick interval within this particular Strawn interval
19 across the northwest quarter of Section 15.

20 Q. Now, this location is now a standard
21 setback from the west boundary of Section 15, is that
22 correct?

23 A. That is correct.

24 Q. You are unorthodox in regard to the north
25 line of the dedicated acreage?

1 A. Yes.

2 Q. If I look at your Exhibit No. 1, the
3 orange-shaded area, it would encompass probably a
4 standard location, is that not correct?

5 A. Yes.

6 Q. Why do you have to, in your opinion, be at
7 the proposed unorthodox location, that being an
8 additional distance from the north line, than a
9 standard location?

10 A. Well, this particular Strawn thick is
11 related to a series of carbonate build-up that's
12 related to a Strawn shelf margin that runs from this
13 particular area to the southwest of the Frontier Hills
14 area, and off to the northeast towards the Golden Lane
15 Strawn, the Big Eddy Strawn fields, and eventually to
16 the Lusk area.

17 Mapping of those Strawn pods in those
18 particular fields suggest that the porosity, the
19 maximum porosity development, not necessarily related
20 to the isopach interval but the porosity development,
21 is more related to the foreshelf area than the
22 backshelf area. The foreshelf area of this particular
23 Strawn thick would be to the southeast.

24 Therefore, we think, by drilling and
25 developing these Strawn thicks on the northeast

1 flanks, you're more liable to optimize the amount of
2 porosity that would be encountered.

3 Q. In your opinion, will a well at the
4 proposed location enable you to effectively and
5 efficiently drain the reserves in the Strawn, and
6 perhaps the Morrow formation, underlying this spacing
7 unit?

8 A. That's correct.

9 Q. In your opinion, should the well be
10 penalized?

11 A. No, it should not.

12 Q. And why not?

13 A. Because we're not crowding anybody but
14 ourselves.

15 Q. Were Exhibits 1 and 3 prepared by you?

16 A. Yes, they were.

17 Q. In your opinion, will approval of this
18 application be in the best interest of conservation,
19 the prevention of waste and the protection of
20 correlative rights?

21 A. Yes, it will.

22 MR. CARR: Mr. Stogner, at this time I move
23 the admission of Nearburg Exhibits 1 and 3.

24 EXAMINER STOGNER: Exhibits 1 and 3 will be
25 admitted into evidence at this time.

1 MR. CARR: Exhibit No. 2 is simply copies
2 of my letter providing notice of today's hearing.

3 EXAMINER STOGNER: We'll take that one
4 under notice, too. I'm going to take administrative
5 notice also of the data that was presented in the case
6 in which Order No. R-9513 was--

7 MR. STOVALL: That case has been identified
8 before in the record, right?

9 EXAMINER STOGNER: Yes. I think quite
10 extensively.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Mr. Elger, obviously it appears your
14 primary goal is the Strawn. The Morrow completion, is
15 it safe to say that whenever you're drilling in this
16 area, to this depth, you go ahead and go test the
17 Morrow?

18 A. That's correct.

19 Q. And let's refer to Exhibit No. 1. Let's
20 talk about some of your Morrow producers in the area.
21 Do you want to identify some of the nearer ones?

22 A. Okay. There's a Morrow producer in the
23 southwest quarter of 9, west half of 16; a former
24 Morrow producer in the north half of 21. This map is
25 not updated to indicate which of those wellbores are

1 currently--which of those Morrow producers are active
2 and which are inactive. I know the well, obviously,
3 in the north half of 21 is inactive. That well is now
4 plugged and abandoned.

5 Q. How would you classify the Morrow in this
6 area? What type of structure?

7 A. I would classify the Morrow as very poor
8 reserves. There is an occasional sweet spot in the
9 Morrow out here, but the majority of these wellbores
10 that you see, even though they are producing out of
11 the Strawn, colored blue, or brown for Wolfcamp, are
12 also Morrow penetrations and were not capable of
13 producing from the Morrow.

14 Therefore, we've kind of viewed the Morrow
15 as just kind of a second objective, with probably
16 sufficient reserves to justify drilling the
17 incremental distance between the base of the Strawn
18 and through the Morrow.

19 Q. And the Morrow out here is a channel sand,
20 is that correct?

21 A. Well, the Morrow in this area can be broken
22 into upper, middle and lower, as it can in most areas
23 of southeastern New Mexico. I believe the Lower
24 Morrow in this particular area is a channel-like
25 deposit. I'm not sure with the Middle Morrow or Upper

1 Morrow. The Upper Morrow may also be a channelized
2 deposit, but I'm not real sure about that.

3 Q. And the Morrow, the spacing for the Morrow
4 is 320, and the rules that affect your Strawn also are
5 applicable to the Morrow, is that correct?

6 A. That is correct.

7 EXAMINER STOGNER: I have no other
8 questions of Mr. Elger at this time. Are there any
9 other questions of this witness?

10 MR. CARR: I have nothing further in this
11 case.

12 EXAMINER STOGNER: Is there anything else
13 in Case 10337 at this time? If not, this case will be
14 taken under advisement.

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