

CAMPBELL & BLACK, P.A.

LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM R. SLATTERY
PATRICIA A. MATTHEWS

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
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April 24, 1990

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OIL CONSERVATION DIVISION

9940

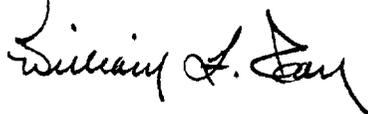
William J. LeMay, Director
Oil Conservation Division
New Mexico Department of Energy,
Minerals and Natural Resources
State Land Office Building
Santa Fe, New Mexico 87503

Re: In the Matter of the Applications of Osborn Heirs Company for Compulsory
Pooling, Lea County, New Mexico

Dear Mr. LeMay:

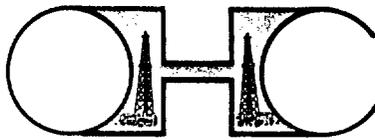
Enclosed in triplicate are the Applications of Osborn Heirs Company in the above-referenced case. Osborn Heirs Company respectfully requests that this matter be placed on the docket for the Examiner hearings scheduled on May 16, 1990.

Very truly yours,



WILLIAM F. CARR

WFC:mlh
Enclosures



OSBORN HEIRS COMPANY
OIL AND GAS EXPLORATION AND PRODUCTION

P. O. BOX 17968

SAN ANTONIO, TEXAS 78286

(512) 826-0700

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MAY 9 1990

Stogner

May 30, 1990

TEX/CON Oil & Gas Company
9401 Southwest Freeway
Suite 1200
Houston, TX 77074-9913
Attn: Mr. George Banich

Certified No. P-577-082-210

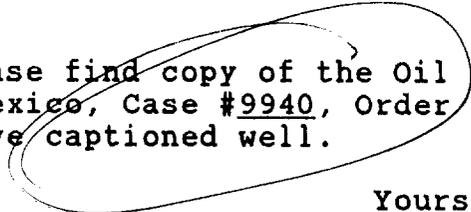
Greg Golliday
2420 Lakeview
Amarillo, TX 79109

Certified No. P-577-082-209

Re: T-17-S, R-37-E
Section 20: NW/4 NE/4
Lea County, New Mexico
Osborn Heirs Company's
#4 E.D. Shipp

Gentlemen:

Attached hereto, please find copy of the Oil Conservation Division, State of New Mexico, Case #9940, Order #R-9189 along with AFE covering the above captioned well.



M.S.

Yours very truly,

OSBORN HEIRS COMPANY

Bill L. Tucker
Vice President, Land

BLT/ap

Enclosure

cc: State of New Mexico
Oil Conservation Division
Director: William J. Lemay
P.O. Box 2088
State Land Office Building
Santa Fe, NM 87504

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:

CASE NO. 9940
ORDER NO. R-9189

APPLICATION OF OSBORN HEIRS COMPANY
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO.

ORDER OF THE DIVISION

BY THE DIVISION:

This cause came on for hearing at 8:15 a.m. on May 16, 1990, at Santa Fe, New Mexico, before Examiner Michael E. Stogner.

NOW, on this 29th day of May, 1990, the Division Director, having considered the testimony, the record and the recommendations of the Examiner, and being fully advised in the premises,

FINDS THAT:

- (1) Due public notice having been given as required by law, the Division has jurisdiction of this cause and the subject matter thereof.
- (2) The applicant, Osborn Heirs Company, seeks an order pooling all mineral interests from the surface to the base of the San Andres formation, underlying the NW/4 NE/4 (Unit B) of Section 20, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, forming a 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent, which presently includes but is not necessarily limited to the Undesignated Midway-San Andres Pool.
- (3) The applicant has the right to drill and proposes to drill its E.D. Shipp Well No. 4 at a standard oil well location thereon.
- (4) There are interest owners in the proposed proration unit who have not agreed to pool their interests.

Case No. 9940
Order No. R-9189
Page No. 2

(5) To avoid the drilling of unnecessary wells, to protect correlative rights, to prevent waste and to afford to the owner of each interest in said unit the opportunity to recover or receive without unnecessary expense his just and fair share of the oil in any pool completion resulting from this order, the subject application should be approved by pooling all mineral interests, whatever they may be, within said unit.

(6) The applicant should be designated the operator of the subject well and unit.

(7) Any non-consenting working interest owner should be afforded the opportunity to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production.

(8) Any non-consenting working interest owner who does not pay his share of estimated well costs should have withheld from production his share of reasonable well costs plus an additional 200 percent thereof as a reasonable charge for the risk involved in the drilling of the well.

(9) Any non-consenting interest owner should be afforded the opportunity to object to the actual well costs but actual well costs should be adopted as the reasonable well costs in the absence of such objection.

(10) Following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs should pay to the operator any amount that reasonable well costs exceed estimated well costs and should receive from the operator any amount that paid estimated well costs exceed reasonable well costs.

(11) \$4050.00 per month while drilling and \$405.00 per month while producing should be fixed as reasonable charges for supervision (combined fixed rates); the operator should be authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator should be authorized to withhold from production the proportionate share of actual expenditures required for operating the subject well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(12) All proceeds from production from the subject well which are not disbursed for any reason should be placed in escrow to be paid to the true owner thereof upon demand and proof of ownership.

Case No. 9940
Order No. R-9189
Page No. 3

(13) Upon the failure of the operator of said pooled unit to commence drilling of the well to which said unit is dedicated on or before August 31, 1990, the order pooling said unit should become null and void and of no further effect whatsoever.

(14) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order should thereafter be of no further effect.

(15) The operator of the well and unit should notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

IT IS THEREFORE ORDERED THAT:

(1) All mineral interests, whatever they may be, from the surface to the base of the San Andres formation, underlying the NW/4 NE/4 (Unit B) of Section 20, Township 17 South, Range 37 East, NMPM, Lea County, New Mexico, are hereby pooled to form a standard 40-acre oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within said vertical extent which presently includes the Undesignated Midway-San Andres Pool, said unit to be dedicated to its E.D. Shipp Well No. 4 to be drilled at a standard oil well location thereon.

PROVIDED HOWEVER THAT, the operator of said unit shall commence the drilling of said well on or before the 31st day of August, 1990, and shall thereafter continue the drilling of said well with due diligence to a depth sufficient to test from the surface to the base of the San Andres formation.

PROVIDED FURTHER THAT, in the event said operator does not commence the drilling of said well on or before the 31st day of August, 1990, Decretory Paragraph No. (1) of this order shall be null and void and of no effect whatsoever, unless said operator obtains a time extension from the Division for good cause shown.

PROVIDED FURTHER THAT, should said well not be drilled to completion, or abandonment, within 120 days after commencement thereof, said operator shall appear before the Division Director and show cause why Decretory Paragraph No. (1) of this order should not be rescinded.

(2) Osborn Heirs Company is hereby designated the operator of the subject well and unit.

Case No. 9940
Order No. R-9189
Page No. 4

(3) After the effective date of this order and within 90 days prior to commencing said well, the operator shall furnish the Division and each known working interest owner in the subject unit an itemized schedule of estimated well costs.

(4) Within 30 days from the date the schedule of estimated well costs is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to the operator in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his share of estimated well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges.

(5) The operator shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the well; if no objection to the actual well costs is received by the Division and the Division has not objected within 45 days following receipt of said schedule, the actual well costs shall be the reasonable well costs; provided however, if there is an objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(6) Within 60 days following determination of reasonable well costs, any non-consenting working interest owner who has paid his share of estimated costs in advance as provided above shall pay to the operator his pro rata share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator his pro rata share of the amount that estimated well costs exceed reasonable well costs.

(7) The operator is hereby authorized to withhold the following costs and charges from production:

- (A) The pro rata share of reasonable well costs attributable to each non-consenting working interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him; and
- (B) As a charge for the risk involved in the drilling of the well, 200 percent of the pro rata share of reasonable well costs attributable to each non-consenting working

Case No. 9940
Order No. R-9189
Page No. 5

interest owner who has not paid his share of estimated well costs within 30 days from the date the schedule of estimated well costs is furnished to him.

(8) The operator shall distribute said costs and charges withheld from production to the parties who advanced the well costs.

(9) \$4050.00 per month while drilling and \$405.00 per month while producing are hereby fixed as reasonable charges for supervision (combined fixed rates); the operator is hereby authorized to withhold from production the proportionate share of such supervision charges attributable to each non-consenting working interest, and in addition thereto, the operator is hereby authorized to withhold from production the proportionate share of actual expenditures required for operating such well, not in excess of what are reasonable, attributable to each non-consenting working interest.

(10) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under the terms of this order.

(11) Any well costs or charges which are to be paid out of production shall be withheld only from the working interest's share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

(12) All proceeds from production from the subject well which are not disbursed for any reason shall be placed in escrow in Lea County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership; the operator shall notify the Division of the name and address of said escrow agent within 30 days from the date of first deposit with said escrow agent.

(13) Should all the parties to this force-pooling reach voluntary agreement subsequent to entry of this order, this order shall thereafter be of no further effect.

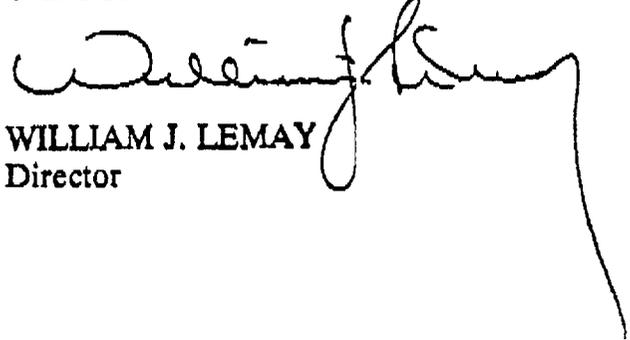
(14) The operator of the subject well and unit shall notify the Director of the Division in writing of the subsequent voluntary agreement of all parties subject to the force-pooling provisions of this order.

(15) Jurisdiction of this cause is retained for the entry of such further orders as the Division may deem necessary.

Case No. 9940
Order No. R-9189
Page No. 6

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in black ink, appearing to read 'William J. Lemay', is written over the typed name. The signature is fluid and cursive, with a long, sweeping tail that extends downwards and to the right.

WILLIAM J. LEMAY
Director

SEAL

Prospect: East Spencer
 Location: NW/4 NE/4
 County: Lea
 Total Depth: 5500 feet

Lease: E. D. Shipp #4
 Section: Sec 20-T17S-R37E
 State: New Mexico
 Objective: San Andres

INTANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
Survey	800		800
Roads, Location, and Pits	10,000		10,000
Surface Damages and Restoration	4,000		4,000
Rig Mobilization			
Drilling;Footage: 5,500' @ \$10.00/ft	55,000		55,000
Drilling;Daywork: 3 days @ \$3700/day	3,700	7,400	11,100
Drilling;Turnkey			
Rig Fuel			
Water and Water Hauling	9,000		9,000
Drilling and Completion Fluids	8,000	1,000	9,000
Drilling Bits and Tools			
Cement: Surface Casing	2,000		2,000
Cement: Intermediate Casing			
Cement: Production Casing		5,000	5,000
Equipment Rental	1,500	1,400	2,900
Contract Services	1,000	3,000	4,000
Transportation and Vacuum Trucks	1,000	1,000	2,000
Formation Testing and Coring	2,000		2,000
Open Hole Logging	8,200		8,200
Completion Rig: 5 days @ \$1200/day		6,000	6,000
Cased Hole Logging, Perforating		5,500	5,500
Formation Stimulation		3,000	3,000
Geologist and Mud Logging	4,500		4,500
Engineering and Supervision	1,300	1,200	2,500
Professional Fees: Title Exam, etc	1,000		1,000
Operating Overhead	1,500	1,500	3,000
Insurance	3,500		3,500
Miscellaneous			
Contingencies: 10%	12,000	4,000	16,000
Plug and Abandon	9,000		9,000
TOTAL INTANGIBLE EXPENSES	139,000	40,000	179,000
TANGIBLE EXPENSE	DRILLING	COMPLETION	TOTAL
Csg-Cond:			
Csg-Surf: 400' 8-5/8" @ \$11.75 /ft	4,700		4,700
Csg-Inter:			
Csg-Prod: 5500' 5-1/2" @ \$ 6.00 /ft		33,000	33,000
Float Equipment and hardware	1,000	2,500	3,500
Tubing: 5500' 2-3/8" @ \$ 2.60 /ft		14,300	14,300
Packer and Downhole Equipment			
Rods and Pump		6,200	6,200
Pumping Unit and Prime Mover			
Wellhead Equipment	1,300	2,000	3,300
Treater		5,500	5,500
Separator			
Tanks		8,500	8,500
Flowlines		4,000	4,000
Valves and Fittings		2,000	2,000
Installation of Lease Equipment		5,000	5,000
Miscellaneous Equipment		1,000	1,000
TOTAL TANGIBLE EXPENSES	7,000	84,000	91,000
TOTAL WELL COST	146,000	124,000	270,000

OSBORN HEIRS COMPANY
 APPROVED: [Signature]
 TITLE: Vice President-Production
 DATE APPROVED: April 6, 1990

OWNER: _____
 APPROVED: _____
 INTEREST: _____
 DATE APPROVED: _____

Amounts herein contained are reasonable estimates only and approval of this authorization shall extend to the actual costs incurred in conducting the operation specified, whether more or less.

CAMPBELL & BLACK, P.A.
LAWYERS

JACK M. CAMPBELL
BRUCE D. BLACK
MICHAEL B. CAMPBELL
WILLIAM F. CARR
BRADFORD C. BERGE
MARK F. SHERIDAN
WILLIAM P. SLATTERY
PATRICIA A. MATTHEWS

JEFFERSON PLACE
SUITE 1 - 110 NORTH GUADALUPE
POST OFFICE BOX 2208
SANTA FE, NEW MEXICO 87504-2208
TELEPHONE: (505) 988-4421
TELECOPIER: (505) 983-6043

August 6, 1990

HAND-DELIVERED

William J. LeMay, Director
Oil Conservation Division
New Mexico Department of
Energy and Minerals
State Land Office Building
Santa Fe, New Mexico 87501

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OIL CONSERVATION DIV.
SANTA FE

Re: Case No. 9940: Application of Osborn Heirs Company for Compulsory Pooling, Lea County, New Mexico; Order No. R-9189

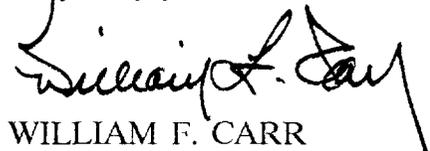
Dear Mr. LeMay:

Order No. R-9189 was entered by the Division on May 29, 1990 granting the application of Osborn Heirs Company for compulsory pooling of the NW/4 NE/4 of Section 20, Township 17 South, Range 37 East, Lea County, New Mexico.

The purpose of this letter is to request a ninety (90) day extension of Order No. R-9189. This extension is necessary to permit Osborn Heirs Company to evaluate information on a well which has recently been drilled offsetting this pooled unit. This well has encountered certain problems and a detailed review of data on this well is necessary before Osborn Heirs Company can determine whether or not development of the pooled unit is still prudent.

Your attention to this request is appreciated.

Very truly yours,



WILLIAM F. CARR
ATTORNEY FOR OSBORN HEIRS COMPANY
WFC:mlh

cc: Mr. Bill Seltzer
214 West Texas, Suite 507
Midland, Texas 79701



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

GARREY CARRUTHERS
GOVERNOR

POST OFFICE BOX 2068
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO 87504
(505) 827-5800

August 7, 1990

Campbell & Black, P.A.
P.O. Box 2208
Santa Fe, NM 87504-2208

Attention: William F. Carr

Dear Mr. Carr:

Based upon your letter of August 6, 1990 and in accordance with the provisions of Division Order No. R-9189, Osborn Heirs Company is hereby granted an extension of time in which to begin the well on the unit pooled by said order until November 30, 1990.

Sincerely,

William J. LeMay
Director

cc: Oil Conservation Division - Hobbs
Osborn Heirs Company
✓ Case No. 9940

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STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
CASE 9940

EXAMINER HEARING

IN THE MATTER OF:

Application of Osborn Heirs Company
For Compulsory Pooling, Lea County,
New Mexico.

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO
May 16, 1990

ORIGINAL

A P P E A R A N C E S

FOR THE DIVISION:

ROBERT G. STOVALL
Attorney at Law
Legal Counsel to the Divison
State Land Office Building
Santa Fe, New Mexico

FOR THE APPLICANT:

WILLIAM F. CARR, ESQ.
Campbell & Black, P.A.
Post Office Box 2208
Santa Fe, NM 87504-2208

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Page Number

Appearances 2

WILLIAM SELTZER

Examination by Mr. Carr 4
Examination by Hearing Examiner 10

TOM NELSON

Examination by Mr. Carr 12
Examination by Hearing Examiner 16

Certificate of Reporter

E X H I B I T S

OSBORN HEIRS COMPANY EXHIBITS: Page

Exhibit 1 9
Exhibit 2 9
Exhibit 3 9
Exhibit 4 9
Exhibit 5 9
Exhibit 6 16
Exhibit 7 16

1 HEARING EXAMINER: At this time I'll call
2 Case No. 9940.

3 MR. STOVALL: Application of Osborn Heirs
4 Company for compulsory pooling, Lea County, New
5 Mexico.

6 HEARING EXAMINER: 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. We represent Osborn Heirs
10 Company, and I have two witnesses.

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

13 Will the witnesses please stand to be
14 sworn.

15 HEARING EXAMINER: Mr. Carr.

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

19 EXAMINATION

20 BY MR. CARR:

21 Q. Will you state your full name and place of
22 residence?

23 A. Bill Seltzer, Midland, Texas.

24 Q. Mr. Seltzer, by whom are you employed and
25 in what capacity?

1 A. I'm employed by Osborn Heirs Company of San
2 Antonio as a land consultant.

3 Q. Have you previously testified before the
4 Oil Conservation Division?

5 A. Yes.

6 Q. Were your credentials as a landman accepted
7 and made a matter of record at that time?

8 A. Yes.

9 Q. Are you familiar with the application filed
10 in this case on behalf of Osborn Heirs Company?

11 A. Yes.

12 Q. Are you familiar with the subject area in
13 the proposed well?

14 A. Yes.

15 MR. CARR: Are the witness' qualifications
16 acceptable?

17 HEARING EXAMINER: They are.

18 Q. Mr. Seltzer, would you briefly state what
19 Osborn seeks with this application?

20 A. We seek an order to pool all the interests
21 from the surface to the base of the San Andres
22 formation, covering the northwest of the northeast
23 quarter of Section 20, Township 17 South, Range 37
24 East, Lea County, New Mexico.

25 Q. Would you refer to what has been marked as

1 Osborn Exhibit 1, identify this, and review the
2 information on this exhibit for Mr. Stogner?

3 A. This is a land plat setting forth the
4 proration unit to be dedicated to this well, being the
5 northwest of the northeast quarter of Section 20, of
6 Township 17 South, Range 37 East.

7 Q. This exhibit also shows the offsetting
8 ownership, is that correct?

9 A. That's correct.

10 Q. The well location is indicated 330 from the
11 north line, 2080 from the east line of Section 20?

12 A. Correct.

13 Q. Is that a standard location?

14 A. Yes.

15 Q. What is the primary objective in the
16 proposed well?

17 A. The primary objective is to test the San
18 Andres formation.

19 Q. Would you identify what is set forth on
20 Exhibit 2?

21 A. Exhibit 2 is the list of owners in acreage
22 and percentage that each owns in the proration unit
23 dedicated to this well.

24 Q. What is the status of each of these owners
25 in regard to their commitment to this well?

1 A. We have voluntary agreements from all
2 owners with the exception of TEX/CON Oil & Gas, who
3 has 22.8 percent, and Greg Golladay, a broker in
4 Amarillo, who has 2.18 percent.

5 Q. Let's go to Exhibit 3. I would ask you to
6 identify that.

7 A. Exhibit No. 3 is the AFE for the drilling
8 and completing of this proposed test well.

9 Q. What are the totals for both, the drilling
10 total and completion total?

11 A. We have \$146,000 for a dry hole, \$124,000
12 for a completed well--or completion cost--and a total
13 completed well of \$270,000.

14 Q. Are these costs in line with what's being
15 charged by other operators in the area for similar
16 wells?

17 A. Yes, it is.

18 Q. Could you review for Mr. Stogner the
19 efforts you've made to obtain the voluntary joinder of
20 TEX/CON and Golladay?

21 A. I started in November of 1989 contacting
22 TEX/CON and Greg Golladay and proposing to each one of
23 them to join or farmout to Osborn for the drilling of
24 this proposed test.

25 I later followed up with a certified

1 letter, return receipt requested, April 11, 1990,
2 again asking the two parties to join or farmout their
3 interests to Osborn Heirs so we could start this well.

4 Q. Is a copy of your April 11 letter what has
5 been marked as Osborn Exhibit No. 4?

6 A. Yes.

7 Q. In your opinion, have you made a good-faith
8 effort to identify and obtain voluntary joinder of all
9 interest owners in the subject spacing unit?

10 A. Yes.

11 Q. Is Exhibit No. 5 a copy of an affidavit
12 from Campbell & Black with attached letters and return
13 receipts confirming that notice of today's hearing has
14 been provided as required by Division rules and
15 regulations?

16 A. It is.

17 Q. Have you made an estimate of the overhead
18 and administrative costs that will be incurred while
19 drilling this well and also while producing it, if it
20 is, in fact, successful?

21 A. Yes. We set out the costs for a drilling
22 well as \$4,050 per month, for a producing well as \$405
23 per month.

24 Q. What is the source of these figures?

25 A. These are the Ernst figures that are put

1 out yearly.

2 Q. These are the 1990 figures from Ernst &
3 Young?

4 A. Yes.

5 Q. Are these costs in line also with what is
6 being charged by other operators in the area?

7 A. Yes.

8 Q. Do you recommend that these figures be
9 incorporated into the order that results from this
10 hearing?

11 A. We do.

12 Q. Does Osborn seek to be designated operator
13 of the well?

14 A. We do.

15 Q. Were Exhibits 1 through 5 either prepared
16 by you or compiled at your direction or under your
17 supervision?

18 A. They were.

19 MR. CARR: At this time, Mr. Stogner, we
20 would move the admission of Osborn Heirs Company
21 Exhibits 1 through 5.

22 HEARING EXAMINER: Exhibits 1 through 5
23 will be admitted into evidence.

24 MR. CARR: That concludes my direct
25 examination of Mr. Seltzer.

EXAMINATION

1
2 BY HEARING EXAMINER:

3 Q. Mr. Seltzer, while I'm referring to Exhibit
4 2, you show Osborn Heirs Company as having about 75
5 percent of this quarter quarter section?

6 A. Yes.

7 Q. Do they own that outright or are there some
8 other working interest owners that have joined that
9 are represented in this figure?

10 A. This is a very diverse ownership section
11 with approximately 20 mineral owners owning undivided
12 interest. We either own oil and gas leases outright
13 or have bought assignments outright or have secured
14 farmouts. I think I've secured four farmouts from the
15 other outstanding owners to get Osborn 75 percent.

16 Q. So those, like you said, are signed? The
17 farmouts are owned outright?

18 A. Yes. I might add that Greg Golladay is a
19 broker in Amarillo, Texas, who I contacted, and he
20 advised me by his letter that he made an assignment to
21 TEX/CON a year or so ago, and as of twelve o'clock
22 Monday, this assignment has not been filed of record.
23 So that is why we're still holding Mr. Golladay as a
24 record owner under this interest.

25 Q. You mentioned in your testimony that you've

1 been in contact with both of these parties since
2 November. Was that by letter or by phone
3 conversations?

4 A. By both.

5 Q. When has your last telephone conversation
6 with either of these parties been?

7 A. I would say in the last 30 days.

8 Q. Did they give you any kind of feeling of
9 why they haven't signed?

10 A. Well, they have said that they have other
11 commitments and right now they can't do anything on
12 this, but our commitments with our other farmout
13 people have necessitated us that we go ahead and seek
14 a compulsory pooling so we can go ahead and drill this
15 well.

16 HEARING EXAMINER: I have no other
17 questions of Mr. Seltzer. Are there any other
18 questions of this witness? If none, he may be
19 excused.

20 Mr. Carr?

21 MR. CARR: At this time, we call Mr. Tom
22 Nelson.

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

EXAMINATION

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BY MR. CARR:

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

A. Thomas J. Nelson.

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

A. Osborn Heirs Company, geological consultant.

Q. Have you previously testified before this Division?

A. No.

Q. Could you briefly summarize for the Examiner your educational background, and then review your work experience?

A. I have a geological degree from TCU, and I have 41 years' experience in oil exploration and exploitation work, mostly in the Permian Basin.

Q. How long have you been working as a consultant?

A. For the last five years.

Q. And before that by whom were you employed?

A. Union Texas Petroleum.

Q. Has most of your work been centered in the Permian Basin?

1 A. Yes.

2 Q. Are you familiar with the portion of
3 Southeastern New Mexico that is involved in this
4 application?

5 A. Yes, I am. That's where I started work.

6 Q. Are you familiar with the application filed
7 in this case?

8 A. Yes.

9 Q. And the proposed well?

10 A. Yes.

11 MR. CARR: We would tender Mr. Nelson as an
12 expert in petroleum geology.

13 HEARING EXAMINER: Mr. Nelson is so
14 qualified.

15 Q. Mr. Nelson, would you refer to what has
16 been marked Exhibit No. 6 and identify that, please?

17 A. Exhibit No. 6 is a subsurface map of the
18 structure on top of the San Andres. This map shows
19 the Spencer field, and it shows it as a small
20 structure on top of the San Andres, and we think we
21 have an analog to it in our East Spencer Prospect.

22 Q. The Spencer field is centered over Section
23 24 in the lower left-hand portion of the exhibit?

24 A. Yes.

25 Q. And your current project is located where?

1 A. In the northern part of Section 20.

2 Q. On this exhibit what does the red dot
3 indicate?

4 A. Our proposed location.

5 Q. What was this based on? Was this based on
6 well control information, or seismic, or what?

7 A. Well control. It's a subsurface
8 interpretation.

9 Q. You're hoping to obtain a similar
10 structural anomaly in your proposed well to that
11 encountered in the Spencer field?

12 A. Correct.

13 Q. Would you identify what has been marked as
14 Exhibit No. 7?

15 A. Exhibit No. 7 is a west/east structural
16 correlation section tying in our proposed drilling
17 area with the Spencer field. It shows the portions of
18 structure on top of the Spencer zone, and shows that
19 porosity develops erratically throughout this area,
20 and your porosity and your permeability are problems
21 in the area.

22 Q. There's an index map for this
23 cross-section?

24 A. Yes.

25 Q. That is the same map that was marked as

1 Exhibit No. 6, is that correct?

2 A. It is on the cross-section at a reduced
3 scale.

4 Q. There's also a porosity map on the
5 cross-section, but you're not intending to present
6 that as part of your case?

7 A. Correct.

8 Q. Are you prepared to make a recommendation
9 to the Examiner as to the risk penalty that should be
10 assessed against any interest owner who does not
11 voluntarily participate in this well?

12 A. Yes.

13 Q. What would that be?

14 A. 200 percent.

15 Q. Could you just summarize your reasons for
16 recommending this particular risk penalty?

17 A. This is a high-risk prospect because we're
18 facing development of the structure, development of
19 the porosity and good permeability.

20 Q. In your opinion, is there a chance that
21 because of absence of any of these factors, structure,
22 porosity or permeability, that you might drill a well
23 at the proposed location that would not, in fact, be a
24 commercial success?

25 A. Yes.

1 Q. Mr. Nelson, in your opinion, would granting
2 the application of Osborn Heirs Company be in the best
3 interest of conservation, the prevention of waste and
4 the protection of correlative rights?

5 A. Yes.

6 Q. Were Exhibits 6 and 7 prepared by you?

7 A. They were prepared by me or under my
8 supervision.

9 Q. And can you testify as to the accuracy of
10 these interpretations?

11 A. Yes.

12 MR. CARR: At this time, Mr. Stogner, we
13 would move the admission of Osborn Heirs Exhibits 6
14 and 7.

15 HEARING EXAMINER: Exhibits 5 and 7 will be
16 admitted into evidence.

17 MR. CARR: That concludes my examination of
18 Mr. Nelson.

19 HEARING EXAMINER: Thank you, Mr. Carr.

20 EXAMINATION

21 BY HEARING EXAMINER:

22 Q. Mr. Nelson, the well in the northeast
23 quarter of the northeast quarter of Section 20 shows
24 to be plugged and abandoned. Did that ever produce?

25 A. No, it was never tested. It's a low well

1 with only a small amount of porosity. That well is
2 on the cross-section.

3 Q. There seem to be areas of producing San
4 Andres wells. At least that's the way I'm reading
5 Exhibit No. 6. Correct me if I'm wrong. 16 and 17
6 has somewhat of a generalized area of producing wells
7 from the San Andres?

8 A. That is in the Abo field, Midway-Abo. Two
9 wells that produced a small amount of oil from San
10 Andres in there.

11 Q. Where is most of the San Andres
12 production? back to the west?

13 A. The south half of 24.

14 Q. In looking through your records, did you
15 pull any production records from that Midway San
16 Andres Pool that takes in the south half of 17 and
17 portions of 18 and 16?

18 A. I have them available in my briefcase.

19 Q. Are any of those presently producing?

20 A. No.

21 Q. That's essentially an abandoned Pool at
22 this time?

23 A. Right.

24 Q. It appears that there's--

25 A. There's only one well in the Spencer field

1 still producing.

2 Q. And which one is that one?

3 A. It's the one in the northeast of the
4 southwest quarter.

5 Q. That would be designated Well No. 2?

6 A. Right.

7 Q. This development began in the late 60's?
8 early 70's?

9 A. Yes.

10 Q. It appears there's probably more acreage
11 dedicated to the Midway San Andres than what actual
12 production is represented, is that correct?

13 A. I don't understand the question.

14 Q. Well, I show the Midway San Andres Pool as
15 covering 640 acres, but right now it's abandoned. And
16 from your testimony so far, and by your exhibits,
17 there's just not that many wells ever produced from
18 the Midway San Andres?

19 A. You're correct, then.

20 Q. Although you are offsetting that, it's
21 really not a development well, per se?

22 A. No, sir.

23 HEARING EXAMINER: I have no further
24 questions of Mr. Nelson. Are there any other
25 questions of this witness?

1 MR. CARR: No further questions.

2 HEARING EXAMINER: You may be excused.

3 Mr. Carr, anything further?

4 MR. CARR: Nothing further in this case,
5 Mr. Stogner.

6 HEARING EXAMINER: Does anybody else have
7 anything further in Case No. 9940? This case will be
8 taken under advisement. Let's take about a 15-minute
9 recess so everybody can get ready for these last three
10 cases.

11 (And the proceedings concluded.)

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1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4 COUNTY OF SANTA FE) ss.

5
6 I, Carla Diane Rodriguez, Certified
7 Shorthand Reporter and Notary Public, HEREBY CERTIFY
8 that the foregoing transcript of proceedings before
9 the Oil Conservation Division was reported by me; that
10 I caused my notes to be transcribed under my personal
11 supervision; and that the foregoing is a true and
12 accurate record of the proceedings.

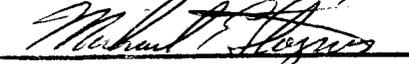
13 I FURTHER CERTIFY that I am not a relative
14 or employee of any of the parties or attorneys
15 involved in this matter and that I have no personal
16 interest in the final disposition of this matter.

17 WITNESS MY HAND AND SEAL May 29, 1990.

18 
19 CARLA DIANE RODRIGUEZ
20 CSR No. 91

21 My commission expires: May 25, 1991

22
23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
25 the Examiner hearing of Case No. 9942
heard by me on 16 May 1990.


Michael T. Steyer, Examiner
Oil Conservation Division

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