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

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Producing  
Company for compulsory pooling and  
a non-standard gas proration unit,  
Lea County, New Mexico.

Case 10093

TRANSCRIPT OF PROCEEDINGS

BEFORE: DAVID R. CATANACH, EXAMINER

STATE LAND OFFICE BUILDING  
SANTA FE, NEW MEXICO  
September 19, 1990

**ORIGINAL**

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

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FOR THE DIVISION:

ROBERT G. STOVALL  
Attorney at Law  
Legal Counsel to the Division  
State Land Office Building  
Santa Fe, New Mexico 87501

OCD CHIEF ENGINEER:

JIM MORROW  
Chief Engineer to the Division  
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FOR THE APPLICANT:

WILLIAM F. CARR, ESQ.  
CAMPBELL & BLACK, P.A.  
Post Office Box 2208  
Santa Fe, New Mexico 87504-2208

I N D E X

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Page Number

Appearances

2

- 1. xxxxx  
Examination by
- Examination by
- Examination by

- 2. xxxxx  
Examination by
- Examination by
- Examination by

Certificate of Reporter

E X H I B I T S

- Exhibit No. 1
- Exhibit No. 2
- Exhibit No. 3
- Exhibit No. 4
- Exhibit No. 5
- Exhibit No. 6
- Exhibit No. 7
- Exhibit No. 8
- Exhibit No. 9
- Exhibit No. 10

## 1 P R O C E E D I N G S

2 HEARING EXAMINER: At this time we'll call Case  
3 10093.

4 MR. STOVALL: Application of Nearburg Producing  
5 Company for compulsory pooling and a non-standard gas proration  
6 unit, Lea County, New Mexico.

7 HEARING EXAMINER: Are there appearances in this  
8 case?

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

13 HEARING EXAMINER: Are there any other appearances?  
14 Would the witnesses please stand to be sworn in.

15 MARK NEARBURG,  
16 the witness herein, after having been first duly sworn upon his  
17 oath, was examined and testified as follows:

## 18 EXAMINATION

19 BY MR. CARR:

20 Q. Will you state your full name for the record,  
21 please.

22 A. Mark Nearburg.

23 Q. Mr. Nearburg, where do you reside?

24 A. Midland, Texas.

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

1 A. Nearburg Producing Company, vice president.

2 Q. Have you previously testified before the Oil  
3 Conservation Division and had your credentials accepted and  
4 made a matter of record?

5 A. Yes.

6 Q. Were you qualified as a petroleum landman at that  
7 time?

8 A. Yes.

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

11 A. Yes.

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

14 A. Yes.

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

17 HEARING EXAMINER: They are.

18 Q. (BY MR. CARR) Mr. Nearburg, would you briefly state  
19 what Nearburg seeks in this case.

20 A. Nearburg seeks an order approving all mineral  
21 interest in the Morrow formation and underlying Section 31,  
22 Township 19 South, Range 36 East, Lea County, New Mexico.

23 Q. What is the objective formation in this case?

24 A. Morrow Pennsylvanian gas formation.

25 Q. In what pool is this located?

1 A. In the North Osudo-Morrow pool.

2 Q. Is that spaced on 640-acre spacing?

3 A. Yes, it is.

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

6 A. Yes, I have.

7 (Thereupon, Exhibit 1 was  
8 marked for identification.)

9 Q. Could you identify what has been marked as Nearburg  
10 Exhibit No. 1 and review the information on that exhibit for  
11 the Examiner.

12 A. Exhibit 1 is land map showing the proration unit in  
13 yellow and the test well standard location with the green dot  
14 1,650 from the south line and 1,650 from the east line.

15 Q. How much of the ownership under this 640-acre tract  
16 has been voluntarily committed to the well?

17 A. 95.53 percent.

18 Q. And at this point in time who has not voluntarily  
19 joined in this effort?

20 A. Douglas Cone.

21 Q. Is he the only interest owner not voluntarily  
22 committed?

23 A. Yes.

24 (Thereupon, Exhibit 2 was  
25 marked for identification.)

1 Q. I would like you to refer to what has been marked as  
2 Nearburg Exhibit No. 2 and identify that for the Examiner.

3 A. Exhibit No. 2 is an AFE for the Morrow test well.

4 Q. And what is the total for a completed well as  
5 reflected on this AFE?

6 A. \$1,021,320.

7 Q. Are these costs in line with what is being charged  
8 by other operators for similar wells in this area?

9 A. Yes.

10 Q. Are these in line with other wells proposed by  
11 Nearburg to the Morrow formation?

12 A. Yes.

13 Q. Could you briefly summarize for Mr. Catanach the  
14 efforts you have made to obtain the voluntary joinder of  
15 Mr. Cone in this well.

16 A. We talked to Mr. Cone at length and gave him the  
17 option of leasing, participating, or farming out. And he  
18 elected to be force pooled.

19 Q. And he has indicated that to you in a letter?

20 A. Yes.

21 Q. In your opinion have you made a good faith effort to  
22 obtain his voluntary joinder in this project?

23 A. Yes, we have.

24 (Thereupon, Exhibit 3 was  
25 marked for identification.)

1 Q. Is what has been marked as Exhibit No. 3 an  
2 affidavit confirming that notice of today's hearing has been  
3 provided to a number of interest owners including Mr. Cone?

4 A. Yes

5 Q. And since these letters were mailed out you have  
6 been able to obtain the joinder of everyone except Douglas  
7 Cone; is that correct?

8 A. Yes.

9 (Thereupon, Exhibit 4 was  
10 marked for identification.)

11 Q. Could you identify what has been marked as Nearburg  
12 Exhibit No. 4.

13 A. This is a letter written to me by Mr. Cone  
14 expressing his desire to be force pooled.

15 Q. Have you made an estimate of the overhead and  
16 administrative cost that you will incur while drilling the well  
17 and then while producing it if it is successful?

18 A. Yes. 6,000 drilling and 600 producing.

19 Q. And are these costs in line with what is being  
20 charged by other operators in the area?

21 A. Yes.

22 Q. Have these costs also been incorporated into other  
23 forced pooling orders from this division for wells in this  
24 immediate area?

25 A. Yes.

1 Q. And do you recommend that these figures be  
2 incorporated into any order which results from today's hearing?

3 A. Yes.

4 Q. Does Nearburg Producing Company seek to be  
5 designated operator of the proposed well?

6 A. Yes, we do.

7 Q. In your opinion will approval of this application be  
8 in the best interest of conservation, the prevention of waste,  
9 and the protection of correlative rights?

10 A. Yes.

11 Q. Were Exhibits 1 through 4 either prepared by you or  
12 have these exhibits been compiled under your direction and  
13 supervision?

14 A. Yes.

15 MR. CARR: At this time, Mr. Catanach, we would move  
16 the admission of Nearburg Exhibits 1 through 4.

17 HEARING EXAMINER: Exhibits 1 through 4 will be  
18 admitted as evidence.

19 MR. CARR: I have nothing further on direct of  
20 Mr. Nearburg.

21 EXAMINATION

22 BY THE HEARING EXAMINER:

23 Q. Mr. Nearburg, have you drilled a Morrow well in this  
24 area, or is this your first attempt?

25 A. Several within two or three townships. But in this

1 particular township it's the first well.

2 Q. Are the Morrow wells that you've drilled, are they  
3 to a comparable depth?

4 A. Yes, and deeper.

5 Q. When was the attempt to secure Douglas Cone's  
6 voluntary interest, voluntary agreement with him, when was that  
7 commenced?

8 A. In November of 1989.

9 Q. The proposed overhead rates, are those rates that  
10 you've charged other operators in this?

11 A. Yes. The number of rates approved by the commission  
12 in a non-standard location hearing in Section 6 of 20 South 36  
13 East in a hearing of August this year.

14 Q. That was for a non-standard location?

15 A. Yes.

16 Q. And compulsory pooling?

17 A. I don't recall.

18 MR. CARR: It would have had to have been, yes, sir.

19 HEARING EXAMINER: Okay. No further questions of  
20 the witness.

21 MR. CARR: At this time we call Mr. Mazzullo.

22 LOUIS J. MAZZULLO,

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

25 EXAMINATION

1 BY MR. CARR:

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

4 A. Louis Mazzullo.

5 Q. Mr. Mazzullo, where do you reside?

6 A. Midland, Texas.

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

8 A. I am a geological consultant, and I am employed on  
9 retainer by Nearburg Producing Company.

10 Q. Have you previously testified before the Oil  
11 Conservation Division?

12 A. I have.

13 Q. At the time of that testimony were your credentials  
14 as a geologist accepted and made a matter of record?

15 A. They were.

16 Q. Are you familiar with the application filed in this  
17 case on behalf of Nearburg Producing Company?

18 A. Yes.

19 Q. Have you studied the subject area?

20 A. Yes.

21 Q. And are you familiar with the well proposal?

22 A. I am.

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

25 HEARING EXAMINER: They are.

1 Q. (BY MR. CARR) Mr. Mazzullo, are you prepared to  
2 make a recommendation to the Examiner as to the risk penalty  
3 that should be assessed against Mr. Cone if he remains  
4 nonconsent in this effort?

5 A. Yes, I am.

6 Q. And what penalty do you recommend?

7 A. I would recommend well cost plus 200 percent  
8 penalty.

9 (Thereupon, Exhibit 5 was  
10 marked for identification.)

11 Q. And would you refer to what has been marked as  
12 Nearburg Exhibit No. 5, and review that for Mr. Catanach.

13 A. Exhibit No. 5 is a structure map that was drawn on  
14 the top of the Morrow formation which is the primary reservoir  
15 in this area. You may have already seen this exhibit on a  
16 previous hearing. But for this particular location the major  
17 points to address here is the risk involved in drilling a  
18 12,000 plus foot Morrow well with the available control that we  
19 have in the area.

20 The only control that we do have is an offset well  
21 to the immediate east of this location that has produced  
22 277,000 MCF gas before being abandoned from the Morrow  
23 formation.

24 The reason we want to step out to the particular  
25 location that we've targeted is to increase our chances of

1 intersecting a thicker section of Morrow sand which in this  
2 area may serendipitously bring us into more favorable reservoir  
3 condition. And to get away from the major bounding fault that  
4 I show intersecting that well to the east.

5 Evidently the closer you are to the faults in this  
6 area the chance you risk both a chance of having the porosity  
7 occluded close in proximity to the fault, and you also decrease  
8 the chance of the amount of sand that you are going to  
9 intersect in a particular -- in the Morrow. So the point of  
10 bringing the location out to where it is is twofold: it's to  
11 get away from the fault and to get away from the damaging  
12 effects on the porosity of being too close to the fault. And  
13 also to, as you can see from the isopach contours as we head to  
14 the west we increase the potentials total net pay section in  
15 the Morrow.

16 Q. Mr. Mazzullo, you also have on this exhibit a trace  
17 for a line of cross-section.

18 A. That's right. The cross-section is a little odd  
19 ball, but it is -- will enable us to illustrate the point we're  
20 trying to make over here.

21 (Thereupon, Exhibit 6 was  
22 marked for identification.)

23 Q. That is marked as Nearburg Exhibit No. 6?

24 A. Exhibit No. 6.

25 Q. Would you review that for Mr. Catanach at this time.

1           A.       Exhibit No. 6 is actually a stratigraphic  
2 cross-section. The reason I did a stratigraphic cross-section  
3 was to illustrate a couple of points. First of all, if I were  
4 to draw a structural cross-section across here it would have to  
5 be about four times as large as it is right now because the  
6 faults that the cross-section goes across are of 1,200 or 1,400  
7 foot magnitude. I would never be able to fit it on here. But  
8 the main point here is to show how rapidly the stratigraphy  
9 changes in the Morrow, as you come away, as you approach and  
10 come away from the faults.

11                   The line of cross-section is a little zig-zag, but I  
12 think it shows for one thing the substrate on which the Morrow  
13 is deposited. That being the top of the Mississippian that  
14 I've marked on brown, I believe, on your copy, Mr. Examiner.  
15 You'll notice that the top of the Mississippian has some fairly  
16 rapid changes in stratigraphic level as you go from one side of  
17 the fault to the other.

18                   The changes that you see on the top of the  
19 Mississippian control deposition in the Morrow. When you come  
20 to the down-thrown side of the fault, particularly the large  
21 fault that we're dealing with that intersects our control well  
22 to the east, you see a very rapid increase in the thickness of  
23 the lower Morrow section. That is the section between my  
24 lower, top of lower Morrow marker and top of Mississippian  
25 marker. It is within this fairway, when you get onto the

1 down-thrown side of that fault, that I expect to see an  
2 increase in section, perhaps as much as 200 feet more section  
3 at the proposed location than we see on the control well to the  
4 east.

5           It's this increase in section that I am counting on  
6 to give us more potential net pay in the Morrow. It's a very  
7 risky thing to assume. It's based on regional mapping in the  
8 area.

9           The same type of relationships can be seen happening  
10 in Osudo North fields to the south. As you come away from the  
11 major faults you increase section markedly. As you approach  
12 the faults, the major faults, your potential both for porosity  
13 occlusion and thinning of the Morrow section increases.

14           So we're talking about a very, very risky Morrow  
15 location. All Morrow locations are risky, but this one in  
16 particular is even more risky because we have a lack of control  
17 wells with which to define a fairway. And the definition of  
18 the fairway here is based solely on regional mapping of the  
19 Morrow and my understanding of the timing and control of the  
20 underlying faults in the area.

21           Q.     Based on your study you're recommending that the  
22 maximum risk penalty be imposed on Mr. Cone's interest if it  
23 remains nonconsent?

24           A.     I do.

25           Q.     Were Exhibits 5 and 6 prepared by you?



1 you have an extra string of casing that's involved. That's  
2 part of the reason for the increase in cost on this well. So  
3 it's all very risky as you go below the Queen.

4 MR. CARR: I believe, Mr. Catanach, I might note  
5 that Mr. Cone's interest is in the Northwest Quarter of the  
6 section. And that if a well is successful and made in a  
7 shallower horizon his interest would not be affected. All  
8 those interests are voluntary anyway.

9 HEARING EXAMINER: I see. I have no further  
10 questions of the witness. He may be excused.

11 Anything further in this case?

12 MR. CARR: Nothing further.

13 HEARING EXAMINER: Case 10093 will be taken under  
14 advisement.

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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiners hearing of Case No. 10093,  
heard by me on September 18, 1990.  
David R. Catanach, Examiner  
Oil Conservation Division

1 CERTIFICATE OF REPORTER

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

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

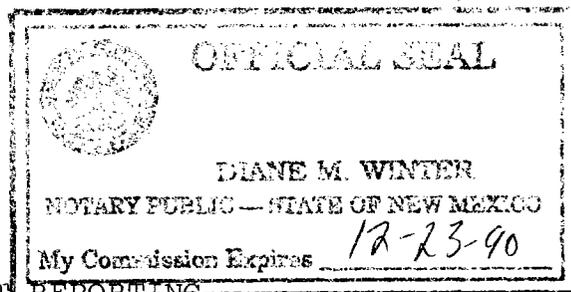
12 I FURTHER CERTIFY that I am not a relative or  
13 employee of any of the parties or attorneys involved in this  
14 matter and that I have no personal interest in the final  
15 disposition of this matter.

16 WITNESS MY HAND AND SEAL September 28, 1990.

17  
18 

19 DIANE M. WINTER  
20 CSR No. 414

21 My commission expires: December 21, 1993



CUMBRE COURT REPORTING  
(505)984-2244