

STATE OF NEW MEXICO
ENERGY AND MINERALS DEPARTMENT
OIL CONSERVATION DIVISION
State Land Office Building
Santa Fe, New Mexico

11 September 1985

EXAMINER HEARING

IN THE MATTER OF:

Application of Chama Petroleum Com- CASE
pany for compulsory pooling, Eddy 8703
County, New Mexico.

BEFORE: Gilbert P. Quintana, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Oil Conservation Jeff Taylor
Division: Legal Counsel to the Division
Oil Conservation Division
State Land Office Bldg.
Santa Fe, New Mexico 87501

For the Applicant: William F. Carr
Attorney at Law
CAMPBELL & BLACK P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501

I N D E X

MARK NEARBURG

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MR. QUINTANA: We'll call the last case of the day, Case 8703.

MR. CARR: Mr. Examiner, my name is William F. Carr, with the law firm Campbell and Black, P. A., of Santa Fe, appearing on behalf of the Applicant, Chama Petroleum Company.

I have one witness who needs to be sworn.

(Witness sworn.)

MARK NEARBURG,
being called as a witness and being duly sworn upon his oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

Q Would you state your full name and place of residence?

A I'm Mark K. Nearburg, Dallas, Texas.

Q Mr. Nearburg, by whom are you employed and in what capacity?

A I'm employed by Chama Petroleum Company. I manage the land aspects of the business and oversee the

1 financial operations.

2 Q Now, how would you describe Chama Petro-
3 leum Company?

4 A Chama Petroleum Company is a family-owned
5 company, consisting of my brother and myself. We're a small
6 independent oil and gas operator.

7 Q And you are one of the owners of the com-
8 pany?

9 A Yes.

10 Q Have you previously testified before this
11 Commission and had your credentials as a landman accepted
12 and made a matter of record?

13 A Yes.

14 Q Are you familiar with the application
15 filed in this case on behalf of Chama?

16 A Yes, I am.

17 Q And are you familiar with the subject
18 area?

19 A Yes.

20 Q Are the witness' qualifications accep-
21 table?

22 MR. QUINTANA: Did you say you
23 have experience as a landman and you are a part owner of the
24 company?

25 A Yes.

1 MR. QUINTANA: Did you say you
2 had testified before?

3 A Yes.

4 MR. QUINTANA: Yes, his quali-
5 fications are acceptable.

6 Q Will you briefly state what Chama seeks
7 with this application?

8 A Chama Petroleum Company seeks an order
9 for compulsory pooling in Eddy County, to pool all mineral
10 interests from the surface to the base of the Glorieta Yeso
11 formation underlying the northwest quarter southeast quarter
12 of Section 4, Township 19 South, Range 26 East, Eddy County,
13 New Mexico, to be dedicated to the Bogart Well No. 1, lo-
14 cated 1980 feet from the south and east lines of Section 4.

15 We'd also like the Commission to consider
16 the cost of drilling and completing the well, the allocation
17 of the costs therefore, as well as operating costs and char-
18 ges for supervision, designation of Chama Petroleum Company
19 as the operator of the well and a charge for the risk invol-
20 ved in drilling said well.

21 Q Mr. Nearburg, have you prepared certain
22 exhibits for introduction in this case?

23 A Yes.

24 Q Would you refer to what has been marked
25 for identification as Chama Exhibit Number One, identify

1 this, and review it for Mr. Quintana?

2 A This is a land map showing the subject
3 proration unit colored in yellow. The subject well is indi-
4 cated by the orange triangle.

5 Q Does it show the ownership in the general
6 area?

7 A No, the ownership in the general area,
8 specifically the proration unit, is Exhibit Number Two.

9 Q What is the primary objective in the pro-
10 posed well?

11 A The Glorieta Yeso oil production.

12 Q Would you now go to Chama Exhibit Number
13 Two, identify this and review it for Mr. Quintana?

14 A This is an ownership breakdown for the
15 proration unit, listing the lessors, the mineral interest
16 they have in the proration unit, the lease status of the
17 lessors, and the royalty rates on the leases in effect.

18 Q And why we are here today is seeking an
19 order pooling the interest of the three interest owners who
20 are indicated on Exhibit Two as unleased.

21 A That is correct.

22 Q What percent of the acreage in the prora-
23 tion unit has been voluntarily committed to the subject
24 well?

25 A 83.3 percent.

1 Q All right, Mr. Nearburg, would you now go
2 to Exhibit Number Three and identify that and review it,
3 please?

4 A Exhibit Number Three is an AFE for the
5 proposed well.

6 The cost to casing point is \$112,855.
7 The completion costs are \$188,375; completed well costs,
8 \$301,230.

9 Q Are these costs in line with what's being
10 charged by other operators in the area for similar wells?

11 A Yes, they are. They're based on discus-
12 sions with those operators.

13 Q And who in particular have you been talk-
14 ing to and relying on their figures?

15 A Ralph Nix and their engineers, who we've
16 had discussions with, and it is also based on our operations
17 of the well in Section 5 in the Yeso Glorieta formation.

18 Q Would you please summarize for the Exam-
19 iner the efforts that have been made by Chama to locate and
20 obtain the voluntary joinder of all interest owners in the
21 proposed spacing unit?

22 A Okay. I would refer the Division to Ex-
23 hibit Number Four, which are correspondence, letters between
24 the various parties, Chama and the people we are seeking to
25 force pool.

1 Rather than read each letter, I will re-
2 view briefly what we've done and the Commission can go to
3 the letters if they need further information.

4 We started working on this prospect in
5 1982. In 1983 I contacted the three interest owners. They
6 were -- preferred to wait until we were ready to drill to
7 make any kind of an agreement.

8 I contacted them again this summer and
9 the long and short of it is we have not reached agreement.

10 Q How do your offers compare with the
11 leases that you've actually be able to obtain with other in-
12 terest owners in the spacing unit?

13 A The other interest owners in the unit
14 have provided leases that we feel enable us and justify the
15 drilling of the well.

16 The interest owners we are seeking to
17 force pool we feel are being unreasonable in their demands
18 and lease terms and I would like to point out to the Commis-
19 sion that specifically one of the leases from the First
20 National Bank of Lubbock is a 3/16ths royalty lease from
21 their Trust Department, and it is based on the fact that
22 they have existing production in the area and they realize
23 the risk involved in drilling these wells and they have made
24 us a lease that we accept and the other gentleman, as you
25 will see in your letters, requested quarter royalty leases

1 limiting the proration units and limited to 100 feet below
2 total depth drilled, and as you read the letters, you'll see
3 what the problems are that were encountered with those
4 terms.

5 Q So in essence, the bottom line is you
6 have not been able to reach voluntary agreement for develop-
7 ment of this spacing unit.

8 A No.

9 Q In your opinion has Chama made a good
10 faith effort to obtain their joinder?

11 A Absolutely.

12 Q And Chama has drilled other Glorieta Yeso
13 wells in the immediate area?

14 A Yes.

15 Q And where are they? Are they -- how
16 close?

17 A There's a well in the northwest quarter
18 southwest quarter of Section 5 of 19 South, 26 East, approx-
19 imately one mile west of this location.

20 Q Now you have referred to Exhibit Number
21 Four. Would you now identify Exhibit Number Five for the
22 Examiner?

23 A Exhibit Number Five are notices of forced
24 pooling mailed to the various interests that we are pooling
25 here.

Q And have return receipts been received

Q And are those attached to Exhibit Number

Q Are you prepared to make a recommendation Quintana as to the risk factor that should be assessed on these individuals?

We feel that the possibilities of making
ere, it is a high risk situation; there is no guar-
There's a very good possibility we will drill either
hole or a marginal well, based on problems in the
ns of these types of wells, and I'll go into those,
like.

A Yes. We feel that the primary risk is
are stepping out from known production. We can show
mission that as we do come south from existing pro-
north of us, the wells do radically decrease and
ly variable in their production rates.

We feel that we know that without a salt

1 water disposal well development cannot take place in this
2 area, and I can give you some specific examples, if you
3 like, of operators with wells that are shut in because of
4 the high volumes of water that you produce with the oil.

5 Also, the corrosiveness and the poor
6 quality of the water make operations difficult. You can
7 have a lot of workovers.

8 We also feel one thing that's very impor-
9 tant is the variation in the well quality even with similar
10 completion techniques from well to well.

11 Q If there are all of these problems, why
12 is Chama going forward with development?

13 A We feel in this area you cannot look at
14 one well and decide that it's an economic, viable venture.
15 You have to look at a situation where you might drill twenty
16 or thirty wells over time, reaching some economics of scale
17 and having a salt water disposal well enables you to keep
18 your operating costs down enough that these wells can pro-
19 duce enough oil to be profitable, but you don't know until
20 after you've produced a well for quite awhile after you've
21 completed it. There are significant drops in the production
22 rates from the initial potentials to stabilized flow rates.

23 Q Do you believe there's a chance you could
24 drill a well in this area that wouldn't be a commercial suc-
25 cess?

1 A Yes, in terms of an economic question,
2 you could drill a well and have production but again it
3 could be a very marginal or not an economic venture.

4 Q Do you have lease expirations in the
5 area?

6 A Yes, we do. We would request that the
7 Commission expedite this order on this hearing. We have an
8 October 2nd expiration date on the tract that we propose to
9 drill. We would have come to the Commission sooner if we
10 had not thought that agreement would be reached with these
11 parties. Now, we have the lease returned we mailed to the
12 parties; it did not come back the way that we had intended
13 for the agreement to be reached between us, and so now we're
14 here and we're under a very tight time limit.

15 I would like to point out that when it
16 was apparent we would not reach agreement I mailed AFE's and
17 in the letter to these three people on September 3rd or 4th
18 -- let me start over.

19 When we realized we'd be at the forced
20 pooling we sent AFE's and Notices of Force Pooling to these
21 parties. They were received on September 3rd and 4th by
22 these parties and I have return receipts in Dallas I can
23 provide you, if you'd like.

24 And we would like to ask the Commission
25 to expedite this order so that we're not forced into a posi-

1 tion of drilling this well without all the interest included
2 in the unit. It only takes about a week to drill these
3 wells, so we would appreciate an expeditious order.

4 Q Mr. Nearburg, have you an estimate of
5 overhead and administrative costs while drilling the well
6 and also while producing it if, in fact, it is successful?

7 A Yes. We propose an overhead rate for
8 drilling of \$3500 and a monthly operating overhead of \$380.

9 Q Are these figures in line with what's
10 being charged by other operators in the area?

11 A Yes, they are.

12 Q Do you recommend that these figures be
13 incorporated into the order which results from today's
14 hearing?

15 A Yes.

16 Q Does Chama Petroleum Company seek to be
17 designated operator of the proposed well?

18 A Yes.

19 Q In your opinion, Mr. Nearburg, will
20 granting this application be in the best interest of
21 conservation, the prevention of waste, and the protection of
22 correlative rights?

23 A Yes.

24 Q Were Exhibits One through Five prepared
25 by you or compiled under your direction and supervision?

1 A Yes.

2 MR. CARR: At this time, Mr.
3 Quintana, we would offer into evidence Chama Exhibits One
4 through Five.

5 MR. QUINTANA: Exhibits One
6 through Five will be entered as evidence in Case 8703.

7 MR. CARR: I have nothing fur-
8 ther on direct of Mr. Nearburg.

9

10 CROSS EXAMINATION

11 BY MR. QUINTANA:

12 Q Mr. Nearburg, the term of the operating
13 agreement that you requested, or no, excuse me, not the
14 operating agreement, leasing of the portions of the -- of
15 the property that hasn't been leased, were your offers in
16 line with what other people had been offered in the area?

17 A We made a better offer than most -- well,
18 not, of course, that's always a highly confidential area,
19 but I've worked the records in this area for, well, since
20 1981, working this land and adjoining tracts, and you will
21 see very few leases over 3/16ths.

22 I would like to point out that we have
23 accepted a 1/4 royalty lease. You'll notice that we agreed
24 to accept the 1/4 royalty lease, however, we did not feel
25 that being -- given the land status which was the way the

1 tract is -- see, this is a 60-acre mineral interest, and
2 they wanted to limit us to the proration unit.

3 We have had other people, such as Mar-
4 shall and Winston, just for example, give us 1/4 royalty
5 leases not limited to the proration unit, and they have ex-
6 perience in this area and they understood that you did have
7 to have flexibility to develop, which we felt that we were
8 not being allowed here.

9 Q And then the other people that did not
10 agree, they were asking for terms way above what other
11 people had been accepting?

12 A I'm confused on the nouns in your ques-
13 tion. The other people would be --

14 Q Well, there was three people involved
15 that did not voluntarily agree.

16 A Right, all of those three people are rep-
17 resented by F. H. Mills, Jr. --

18 Q Okay.

19 A -- right.

20 Q That's where I was mixed up.

21 A All right.

22 Q I see.

23 A We did send -- all of the notices were
24 sent to the individuals, though, so that there was no chance
25 that one of them would not know that the hearing was being

1 held.

2 MR. QUINTANA: I don't have any-
3 thing further of the witness.

4 Anything further in Case 8703?

5 If not, Case 8703 will be taken
6 under advisement and the witness may be excused.

7 I'll try and expedite this or-
8 der. I'll try and get it out for you.

9 MR. NEARBURG: Thank you, very
10 much.

11 MR. QUINTANA: October 2nd, you
12 said?

13 MR. NEARBURG: Yes.

14 MR. QUINTANA: That's coming up
15 here real quick.

16 MR. NEARBURG: Right.

17 MR. QUINTANA: This hearing for
18 Docket Number 27-85 is hereby adjourned.

19

20 (Hearing concluded.)

21

22

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY CERTIFY that the foregoing Transcript of Hearing before the Oil Conservation Division was reported by me; that the said transcript is a full, true, and correct record of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 8703, heard by me on SEPT. 11 1985.

Silvestre P. Quintana, Examiner
Oil Conservation Division