

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 12 July 1989

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Nearburg Producing Com- CASE
10 pany for compulsory pooling, Lea County, 9693
11 New Mexico.

12 BEFORE: Michael E. Stogner, Examiner

13
14
15 TRANSCRIPT OF HEARING

16
17
18 A P P E A R A N C E S

19 For the Division:

20
21 For Nearburg Producing
22 Company:

23 William F. Carr
24 Attorney at Law
25 CAMPBELL and BLACK, P. A.
P. O. Box 2208
Santa Fe, New Mexico 87501

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MARK NEARBURG

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LOUIS J. MAZZULLO

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1 MR. STOGNER: Call next Case
2 Number 9693, which is the application of Nearburg Produc-
3 ing Company for compulsory pooling, Lea County, New Mexico.

4 At this time I'll call for ap-
5 pearances.

6 MR. CARR: May it please the
7 Examiner, my name is William F. Carr, with the law firm
8 Campbell & Black, P. A. of Santa Fe.

9 We represent Nearburg Produc-
10 ing Company and I have two witnesses.

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

13 Will the witnesses please
14 stand to be sworn and raise your right hand?

15

16 (Witnesses sworn.)

17

18 MR. STOGNER: You may be
19 seated. Mr. Carr?

20

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

24

25

DIRECT EXAMINATION

1
2 BY MR. CARR:

3 Q Will you state your full name for the
4 record, please?

5 A Mark Nearburg.

6 Q And where do you reside?

7 A In Midland, Texas.

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

10 A Nearburg Producing Company, Land Mana-
11 ger.

12 Q Have you previously testified before
13 this Division and had your credentials as a landman ac-
14 cepted and made a matter of record?

15 A Yes.

16 Q Are you familiar with the application
17 filed in this case?

18 A Yes, I am.

19 Q And are you familiar with the subject
20 area?

21 A Yes.

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

24 MR. STOGNER: They are.

25 Q Mr. Nearburg, would you briefly state

1 what you seek with this application?

2 A Nearburg Producing Company seeks com-
3 pulsory pooling from the surface to the base of the Strawn
4 formation underlying the north half southwest quarter in
5 Section 1, Township 17 South, Range 37 East, to form a
6 standard 80-acre oil spacing and proration unit for all
7 formations in the Undesignated West Knowles Drinkard Pool
8 and the Shipp Strawn Pool.

9 Q Are both of these pools spaced on
10 80-acre spacing pursuant to special pool rules?

11 A Yes, they are.

12 Q Have you prepared certain exhibits for
13 presentation today?

14 A Yes.

15 Q Would you refer to what has been marked
16 for identification as Nearburg Exhibit Number One, identify
17 this and review it for Mr. Stogner?

18 A Exhibit Number One is a land plat show-
19 ing Section 1 in Township 17 South, Range 37 East, indi-
20 cating in the north -- in the west half northwest quarter
21 the Pennzoil Price Family Trust No. 1 Well; in the north
22 half southwest quarter, the proposed proration unit and
23 well location indicated by the red triangle that Nearburg
24 seeks to drill; and in the south half southwest quarter the
25 Pennzoil Price Family Trust No. 2 Well.

1 These are all Strawn wells.

2 Q And are the proration units in the west
3 half of this section indicated on this exhibit?

4 A Yes.

5 Q The north half of the southwest quarter
6 would be a standard proration unit?

7 A Yes, it is, with the well located at a
8 standard location.

9 Q And the two offsetting wells are oper-
10 ated by Pennzoil, is that correct?

11 A Yes.

12 Q What is your primary objective in this
13 well?

14 A Strawn Oil Production.

15 Q What percentage of the working interest
16 ownership has been voluntarily committed to the proposed
17 well?

18 A 23.2 percent, which includes a farmout
19 to Nearburg from Ashland.

20 Q And the interest of Pennzoil has not
21 voluntarily been committed, is that correct?

22 A That's correct.

23 Q And that is the only interest owner
24 who's being pooled?

25 A Yes.

1 10 to 15 phone calls since this time. Discussions con-
2 tinued up through last Friday and there's been no agreement
3 with Pennzoil.

4 Q In your opinion have you made a good
5 faith effort to obtain the voluntary participation of Penn-
6 zoil in this project?

7 A Yes, very much so.

8 Q And Nearburg has drilled other Strawn
9 wells in the area?

10 A Yes.

11 Q Will be calling a technical witness to
12 explain the questions concerning a risk involved in
13 drilling in this area?

14 A Yes, we will.

15 Q Would you identify what has been marked
16 as Nearburg Exhibit Number Four?

17 A Exhibit Number Four is the affidavit and
18 letter mailed by Campbell & Black to Pennzoil notifying
19 them of the hearing today.

20 Q Have you made an estimate of overhead
21 and administrative charges to be assessed against a non-
22 participating interest owner in this well?

23 A Yes, we have. The overhead charges
24 during drilling are \$5,760 and the overhead and adminis-
25 trative charges during production are \$576.

1 Q Are these costs in line with what's
2 being charged by other operators in the area?

3 A Yes.

4 Q And do you recommend that these figures
5 be incorporated into any order which results from today's
6 hearing.

7 A Yes, we do.

8 Q Does Nearburg Producing Company seek to
9 be designated operator of the proposed well?

10 A Yes.

11 Q Mr. Nearburg, in your opinion will
12 granting this application be in the best interest of con-
13 servation, the prevention of waste, and the protection of
14 correlative rights?

15 A Yes.

16 Q Were Exhibits One through Four either
17 prepared by you or compiled under your direction and super-
18 vision?

19 A Yes, they were.

20 MR. CARR: At this time, Mr.
21 Stogner, I would move the admission of Nearburg Exhibits
22 One through Four.

23 MR. STOGNER: Exhibits One
24 through Four will be admitted into evidence at this time.

25 MR. CARR: I have nothing

1 further of this witness on direct.

2

3

CROSS EXAMINATION

4

BY MR. STOGNER:

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Q Mr. Nearburg, other than the April 26th letter, what other communications have you had with Pennzoil?

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11

A I tried, as I say, I called them probably 10 or 15 times, maybe more, since this time and I had conversations with Lonnie Whitfield and other members of his land department in Houston.

12

13

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Finally, last week I was able to speak with Mr. Whitfield, who I think is manager of land in this district for Pennzoil, and we were unable to reach any type of agreement for Pennzoil to participate.

16

17

18

We've made numerous attempts to talk to Pennzoil about this and our first direct communication which resulted in them actually taking calls was last week.

19

20

Q Now you did not receive any written response from Pennzoil --

21

A No.

22

Q -- in this (unclear)?

23

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MR. STOGNER: Are there any other questions of this witness?

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He may be excused.

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Mr. Carr?

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

LOUIS J. MAZZULLO,
being called as a witness and being duly sworn upon his
oath, testified as follows, to-wit:

DIRECT EXAMINATION

BY MR. CARR:

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

A My name is Louis Mazzullo.

Q Mr. Mazzullo, where do you reside?

A Midland, Texas.

Q By whom are you employed and in what
capacity?

A I'm a geological consultant on retainer
to Nearburg Producing Company in Midland.

Q Have you previously testified before the
Oil Conservation Division and had your credentials as a
geologist accepted and made a matter of record?

A I have.

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

1 A Yes.

2 Q Are you familiar with the subject area?

3 A Yes, I am.

4 Q Have you made a study of this area and
5 prepared certain exhibits for presentation here today?

6 A Yes.

7 MR. CARR: Are the witness'
8 qualifications acceptable?

9 MR. STOGNER: They are.

10 Q Mr. Mazzullo, let's refer to first to
11 what has been marked as Nearburg Exhibit Number Five and I
12 would ask you to first identify what this is and then
13 review the exhibit for Mr. Stogner.

14 A Exhibit Number Five is a structure map
15 drawn on the top of the Strawn limestone which is the prin-
16 cipal reservoir zone that we are going after in this area.

17 This map is the result of several years
18 of intensive study on my part and on the part of geophys-
19 icists who have mapped this area extensively through the use
20 of seismic data. We have quite a number of lines of
21 seismic. I don't know how many miles, but we have quite a
22 bit of seismic that crisscrosses this area, but we also
23 have a lot of subsurface well control, as you can see on
24 the map.

25 I draw your attention to the orange

1 arrow which is pointing to our proposed location, which is
2 due south of the Pennzoil Price Family Trust No. 1 Well.
3 The proposed location is shown to be on a structural
4 closure, which is defined by the 7750 foot subsea contour
5 on the top of the Strawn. This closure is defined seismi-
6 cally. It's inferred by the subsurface well control.
7 These closures, as we have found in the area, generally
8 correspond to build-ups of porous reservoir reef facies
9 that are characteristic of the producing zones in the
10 Strawn.

11 We see one of them associated with the
12 proposed location. We see another one which is flanked by
13 our recently completed -- drilled No. 1 Maryanne in the
14 northwest quarter of Section 12. That's the well that has
15 the 7762 subsea value on it. We are today in the process
16 of completing that well. It was defined similarly seismi-
17 cally as lying on or close to a closure as we show here.

18 We see the same type of closure develop-
19 ing at the proposed location and infer the existence of
20 reservoir facies just on the basis of the -- of the
21 structure map, although that's not our only criteria.

22 Q And so what you're hoping for is to have
23 a similar situation to that which you encountered --

24 A Right.

25 Q -- in the well which you just identified

1 to the south.

2 A Right, and also to our No. 1 Wright in
3 Section 12 where we see a similar situation developed.

4 Q Are you ready to go to the next exhibit?

5 A Yeah.

6 Q Would you refer to Exhibit Number Six,
7 please, and review that for the examiner?

8 A Exhibit Number Six is an isopach, or
9 thickness map of the Strawn limestone, showing the total
10 thickness of the limestone regardless of porosity develop-
11 ment.

12 Again the orange arrow points to the
13 proposed location south of the No. 1 Pennzoil Price Family
14 Trust.

15 What's unusual, what's a little bit
16 unusual about this map is it shows an isopach, or a thick-
17 ness closure associated with the No. 1 Price Family Trust,
18 our proposed location, the No. 2 Price Family Trust in the
19 southwest -- southeast of the southwest of Section 1, and
20 this closure carries, apparently carries on southward to
21 our Maryanne location, where I'll show you in a little --
22 in a -- in a minute how I think these are all in communica-
23 tion with one another.

24 What's unusual about this is the size of
25 this particular feature associated with the four -- with

1 the three wells and the proposed location. This is a
2 little bit out of the ordinary for this area, having one of
3 these Strawn reefs being as extensive as this and so it --
4 it already makes -- it already makes the situation seem a
5 little bit ambiguous, or a little bit anomalous for this
6 particular area, having something this size.

7 Q Could you explain what the color coding
8 is on this exhibit?

9 A Yeah. The green areas that you see
10 colored on this map correspond to porosity development in
11 the upper part of the Strawn. Okay, and you see that big,
12 green splotch that covers the three wells, the three
13 existing wells in the proposed location. The red areas
14 correspond to porosity development towards the base of the
15 Strawn section. We're not concerned with that porosity
16 development in that part of the section here. We're just
17 concerned with the one big, green -- green area that you
18 see.

19 Similar types of -- of porosity develop-
20 ment are seen in other areas but you'll notice particularly
21 with regard to our Wright wells in the southeast quarter of
22 Section 12 that these features are pretty small, one or two
23 wells at the most.

24 Similarly, down in Section 11 you have
25 production coming out of a lower porosity zone in the

1 center of Section 11 and you also have development coming
2 out of smaller pods in the upper part of the Strawn, too,
3 also, and so we're dealing with a feature here that's a
4 little bit out of the ordinary in terms of its lateral
5 extent.

6 Q This exhibit also has a trace for a
7 cross section on it, does it not?

8 A Yeah, there's a cross section that's
9 designated A-A', which I'll be showing as the subsequent
10 exhibit.

11 Q All right, are you ready to move to that
12 exhibit?

13 A Yeah.

14 Q Would you go to Exhibit Number Seven and
15 review the information on this cross section?

16 A Exhibit Number Seven is a stratigraphic
17 cross section that is hung at the base of the Strawn sand-
18 stone, so we're looking more or less at the way the -- at a
19 depositional cross section, how the rocks are actually laid
20 out, laid down, rather.

21 The Strawn sandstone is shown as the
22 dashed datum line towards the bottom half of the logs.

23 The areas -- the areas colored in purple
24 correspond to porous reef productive rock, reservoir rock.

25 As you can see, that proceeding from north to south from

1 the first well on the left, which is the -- which is an
2 Amerind dry hole in Section 2, which was later side-
3 tracked to the northeast, over to the Pennzoil Price Family
4 Trust No. 1, there's an abrupt thickening of the upper
5 porosity zone in the Strawn. This we see both seismically
6 and infer on the subsurface control as getting even thicker
7 towards our proposed location. It then proceeds into the
8 Price Family Trust No. 2 Well, where it's still signifi-
9 cantly thick and productive.

10 And now we go further on south to the
11 Maryanne No. 12-C No. 1, which is Nearburg's new well.
12 This zone is, the gross zone there is about 100 feet thick
13 and we intend to perforate and produce out of that zone.

14 The point here is that we are implying
15 that the zone is continuous from the Price Family Trust No.
16 1 through the proposed location, through the Price Family
17 Trust No. 2, and to our Maryanne 12-C No. 1.

18 Additional information that has a signi-
19 ficant bearing on this case involves the drill stem test
20 results that you see and pressure testing results that you
21 see.

22 I call your attention to the DST in the
23 Price Family Trust No. 1, the Pennzoil well second from the
24 left. You'll notice that shut-in pressures on that well
25 averaged around 3900 pounds, 3904 pounds of shut-in

1 pressure.

2 Two months later the Price Family Trust
3 No. 2 was tested in the same zone. It's shut-in pressure
4 on DST was 3853 pounds, the final shut-in pressure but four
5 months later, four months after that well was completed, a
6 bottom hole test, pressure test, was conducted on that zone
7 and the pressure was down to 3121 pounds, which is over 700
8 pounds of drawdown in four months.

9 Now we came in, Nearburg came in four
10 months later and we drilled the 12-C -- Maryanne 12-C No. 1
11 and we DST'ed the same zone. We also took RFT, repeat
12 formation pressure tests of the zone, and we're coming up
13 with an average somewhere around 2600 pounds or a little
14 bit better, which is a drop of about 500 pounds from the
15 Price Family Trust No. 2 four months later. Remember, the
16 Price Family Trust No. 2 lost 5 -- 700 pounds in four
17 months. We now see 500 pounds below that four months
18 later. There's a strong inference here that the zones are
19 all in communication -- the wells are all in communication
20 with one another.

21 Q Now, Mr. Mazzullo, you've explained why
22 you think you can make a well in this area. What risk is
23 associated with this effort?

24 A Well, as I stated before, we're dealing
25 with something that's an anomaly, if you will, that's

1 anomalous for this area in terms of its size; an anomalous
2 anomaly.

3 Usually we see these things in this
4 particular area, these porosity build-ups in this parti-
5 cular area as being a smaller scale, a smaller scale than
6 what we're -- what we're implying here. So we're showing a
7 scenario that's inconsistent with the usual small pods that
8 we generally associate with the Strawn in the -- in the
9 area.

10 We're taking an extreme risk because
11 we're going -- I'm either going to be absolutely right or
12 absolutely wrong in this deal. There's no middle ground.
13 It's either going to be there or -- or we're going to drop
14 off and drill another dry hole.

15 We've had, unfortunately, considerable
16 experience with -- with that in this area. If you note,
17 the Wright No. 1 in the southeast quarter of the northeast
18 of Section 12 is a top allowable, still is a top allowable
19 well producing out of the lower porosity zone in the
20 Strawn. We offset it to the north with the Howenstein No.
21 1, drilled a dry hole. We sidetracked the Howenstein No. 1
22 to the southeast, drilled a dry hole. So we know what
23 we're talking about here.

24 Q Can you make a recommendation to the
25 Examiner as to the risk penalty that should be assessed

1 against any interest owner who does not voluntarily parti-
2 cipate in the well?

3 A Well, we're willing to drill the well
4 holding a minority interest of about 23 percent on this
5 proration unit. The only thing I could figure is that
6 Pennzoil is staying out because they -- they obviously, or
7 they evidently, I shouldn't say obviously, they evidently
8 think it's a very risky venture. I think a maximum, a 200
9 percent penalty here would be appropriate in this case.

10 Q And you do believe there is a chance you
11 could drill a noncommercial well at the proposed location?

12 A There's definitely a chance that that
13 can happen.

14 Q Were Exhibits Five through Seven pre-
15 pared by you?

16 A Yes, they were.

17 MR. CARR: At this time, Mr.
18 Examiner, we would move the admission of Nearburg Exhibits
19 Five through Seven.

20 MR. STOGNER: Exhibits Five
21 through Seven will be admitted into evidence.

22 MR. CARR: I have nothing
23 further of Mr. Mazzullo on direct.

24

25

CROSS EXAMINATION

1
2 BY MR. STOGNER:

3 Q Mr. Mazzullo, the location that you're
4 proposing is 2130 from the south, 660 from the west, is
5 that correct?

6 A Yes.

7 Q That is a standard location, is that
8 right?

9 A Yes, it is.

10 Q That's also an additional risk, I would
11 assume?

12 A For us, I guess it is.

13 MR. STOGNER: I don't have any
14 other questions for Mr. Mazzullo at this time; however,
15 what was the overhead charges, Mr. Carr? He did testify to
16 that, did he not?

17 MR. CARR: Yes, sir, he did.
18 5760 and 576.

19 MR. STOGNER: Is there any-
20 thing further in this case, Mr. Carr?

21 MR. CARR: Nothing further,
22 Mr. Examiner.

23 MR. STOGNER: Case Number 9693
24 will be taken under advisement.

25 (Hearing concluded.)

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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 (Commission) 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. 9693, heard by me on 12 July 1989.
Michael Hoynes, Examiner
Oil Conservation Division
8/2/89

NEW MEXICO OIL CONSERVATION COMMISSION

EXAMINER HEARING

SANTA FE, NEW MEXICO

Hearing Date JULY 12, 1989 Time: 8:15 A.M.

NAME	REPRESENTING	LOCATION
R.R. Bobb Kendrick	El Paso Natural Gas Co.	El Paso, TX
Emil H. Carroll	Losee Curran, Haas & Carroll	Artesia
W. J. Velleman	Hellgate Well Co. Agency	SF, N.M.
Sharon Hamilton	Yates Energy Corp	Roswell
Curt Anderson	Yates Energy Corp	Roswell
W. Perry Pearce	Montgomery & Andrews	Santa Fe
Louis Marzullo	Nearburg Prod. Co.	MIDLAND
William F. Jan	Campbell and Beck, P.A.	Santa Fe
Mark Nearburg	Nearburg Prod Co	Midland
RICHARD DILLON	ORYX ENERGY CO.	MIDLAND
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