

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. 13,043
)
APPLICATION OF NADEL AND GUSSMAN)
PERMIAN, L.L.C., FOR COMPULSORY)
POOLING, EDDY COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, JR., Hearing Examiner

April 10th, 2003

Santa Fe, New Mexico

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, JR., Hearing Examiner, on Thursday, April 10th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

April 10th, 2003
Examiner Hearing
CASE NO. 13,043

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>SAM H. JOLLIFFE, IV</u> (Landman)	
Direct Examination by Mr. Bruce	4
Examination by Examiner Catanach	9
<u>KEITH LOGAN</u> (Engineer)	
Direct Examination by Mr. Bruce	9
Examination by Examiner Brooks	16
Examination by Examiner Catanach	17
REPORTER'S CERTIFICATE	20

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E X H I B I T S

Applicant's	Identified	Admitted
Exhibit 1	5	8
Exhibit 2	5	8
Exhibit 3	6	8
Exhibit 4	7	8
Exhibit 5	8	8
Exhibit 6	10	16
Exhibit 7	12	16
Exhibit 8	13	16
Exhibit 9	14	16
Exhibit 10	15	16
Exhibit 11	15	16
Exhibit 12	15	16

* * *

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
 Santa Fe, New Mexico 87504

ALSO PRESENT:

DAVID R. CATANACH
 Hearing Examiner
 New Mexico Oil Conservation Division
 1220 South Saint Francis Drive
 Santa Fe, NM 87505

* * *

1 WHEREUPON, the following proceedings were had at
2 8:17 a.m.:

3 EXAMINER BROOKS: Are we ready to proceed? Very
4 good, at this time we will call Case Number 13,043,
5 Application of Nadel and Gussman Permian, L.L.C., for
6 compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses.

10 EXAMINER BROOKS: Other appearances? Very good,
11 the witnesses will be sworn.

12 (Thereupon, the witnesses were sworn.)

13 SAM H. JOLLIFFE, IV,
14 the witness herein, after having been first duly sworn upon
15 his oath, was examined and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

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

19 A. Sam Jolliffe, I'm from Midland, Texas.

20 Q. Who do you work for and in what capacity?

21 A. I work for Nadel and Gussman Permian as land
22 manager.

23 Q. Have you previously testified before the
24 Division?

25 A. Yes.

1 Q. And were your credentials as an expert petroleum
2 landman accepted as a matter of record?

3 A. Yes.

4 Q. And are you familiar with the land matters
5 involved in this Application?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I'd tender Mr. Jolliffe
8 as an expert petroleum landman.

9 EXAMINER BROOKS: So qualified.

10 Q. (By Mr. Bruce) Mr. Jolliffe, could you identify
11 Exhibit 1 and describe briefly what Nadel and Gussman seeks
12 in this case?

13 A. Yes, sir. Exhibit 1 is a land plat highlighting
14 the east half of Section 28, Township 21 South, Range 27
15 East in Eddy County, and we seek an order pooling the east
16 half of Section 28 from surface to the base of the Morrow
17 formation for pools spaced on 320 acres.

18 Q. Referring to Exhibit 2, what is the ownership in
19 the well unit?

20 A. The ownership of the 320 is Nadel and Gussman
21 Permian and its internal partner in this case, Rubicon Oil
22 and Gas, together own 25 percent; Redfern Enterprises owns
23 17.856 percent; Devon Energy, 17.786 percent; and OXY USA
24 at 39.375 percent.

25 Q. Which of these parties do you seek to pool?

1 A. We seek to pool Devon Energy and OXY, USA.

2 Q. By the way, what is the well's footage location?

3 A. Currently it's been staked at 660 from the north
4 line and 1150 from the east line of Section 28.

5 Q. Let's discuss your efforts to obtain the joinder
6 of the parties. What is Exhibit 3?

7 A. Okay, Exhibit 3 contains our correspondence sent
8 out to the working interest owners back in February, along
9 with an AFE.

10 Q. Have you had follow-up discussions with these
11 parties?

12 A. Yes. Yes, we have. Made a couple calls to
13 Devon, had one call with OXY. And the other parties have
14 elected to participate, being Redfern and Rubicon.

15 Q. Okay. And OXY and Devon at this point haven't
16 made up their minds?

17 A. No, that's correct, they have not responded.

18 Q. Attached to the back of Exhibit 3 are letters
19 from Diamond Head, which is Redfern, the Redfern group, is
20 it not?

21 A. Yes, that's correct.

22 Q. And Rubicon, indicating that they support your
23 Application?

24 A. Yes, that's correct.

25 Q. In your opinion, has Nadel and Gussman made a

1 good faith effort to obtain the voluntary joinder of the
2 interest owners in this well?

3 A. Yes.

4 Q. Would you identify Exhibit 4 and discuss the cost
5 of the proposed well?

6 A. Okay, Exhibit 4 is a copy of the AFE for the
7 well. The well's proposed depth is approximately 11,900
8 feet. It has an estimated dryhole cost of \$652,919 and a
9 completed well cost of \$370,995.

10 Q. Or completion cost, right?

11 A. Completion cost, yes, sir.

12 Q. So a total of just a little over a million
13 dollars?

14 A. Yeah, the total cost would be \$1,023,914.

15 Q. Now, is this cost in line with the cost of other
16 wells drilled to this depth in this area of the state?

17 A. Yes.

18 Q. And does Nadel and Gussman request that it be
19 designated operator of the well?

20 A. Yes.

21 Q. Do you have a recommendation, the amounts which
22 Nadel and Gussman should be paid for supervision and
23 administrative expenses?

24 A. Yes, sir, we request that \$6500 a month be
25 allowed for a drilling well and \$650 a month be allowed for

1 a producing well rate.

2 Q. And are these amounts equivalent to those
3 normally charged by Nadel and Gussman and other operators
4 in this area for wells of this depth?

5 A. Yes, sir.

6 Q. Do you request that this rate be adjusted
7 periodically, as provided in the COPAS accounting
8 procedure?

9 A. Yes.

10 Q. And were all interest owners notified of this
11 hearing?

12 A. Yes.

13 Q. And is Exhibit 5 my affidavit of notice?

14 A. Yes.

15 Q. Were Exhibits 1 through 5 prepared by you or
16 under your supervision or compiled from company business
17 records?

18 A. Yes, sir.

19 Q. In your opinion, is the granting of this
20 Application in the interests of conservation and the
21 prevention of waste?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of Nadel and Gussman Exhibits 1 through 5.

25 EXAMINER BROOKS: One through 5 are admitted.

1 MR. BRUCE: And I pass the witness. I don't
2 believe I have any questions on this Application, I believe
3 you covered everything I normally ask. Mr. Catanach?

4 EXAMINER CATANACH: I just have one.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Has the well location been approved by the BLM,
8 Mr. Jolliffe?

9 A. No, it has not yet.

10 Q. So that's a tentative location, that's not --

11 A. That's right, it's been staked but it's not been
12 permitted yet, that's correct.

13 EXAMINER CATANACH: Okay.

14 EXAMINER BROOKS: Anything further?

15 MR. BRUCE: Nothing further with this witness,
16 Mr. Examiner.

17 EXAMINER BROOKS: The witness may stand down.
18 Call your next witness.

19 MR. BRUCE: Call Mr. Logan to the stand.

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

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would you please state your name and city of

1 residence for the record?

2 A. Keith Logan, I live in Midland, Texas.

3 Q. Who do you work for?

4 A. I work for Nadel and Gussman Permian.

5 Q. What's your job with Nadel and Gussman?

6 A. I'm an exploration geologist.

7 Q. Have you previously testified before the
8 Division?

9 A. Yes, I have.

10 Q. And were your credentials as an expert geologist
11 accepted as a matter of record?

12 A. Yes, they were.

13 Q. Does your area of responsibility at Nadel and
14 Gussman include southeast New Mexico?

15 A. Yes, it does.

16 Q. And are you familiar with the geology involved in
17 this location?

18 A. I've worked this area for several years, yes.

19 MR. BRUCE: Mr. Examiner, I'd tender Mr. Logan as
20 an expert petroleum geologist.

21 EXAMINER BROOKS: So qualified.

22 Q. (By Mr. Bruce) Mr. Logan, could you identify
23 Exhibit 6, the production plat, and discuss production in
24 this area?

25 A. Okay, what I'm showing here is really just the

1 deeper wells that penetrated the Morrow formation in the
2 area. There is some shallower Delaware production in this
3 area. But as you can see, the red circles signify Morrow
4 production, green is Atoka, and then blue is the Strawn
5 production, all gas-producing formations in this area.

6 Our primary objective here is the Morrow
7 formation, with secondary objective of course being the
8 Atoka and the Strawn.

9 What I've included on this production map is --
10 the top number is the current producing rate in MCF per
11 day. The lower number is the cumulative production in BCF.

12 So as you can see, to the west you've got some --
13 in the west half of Section 28 you've got a well that made
14 3.9 BCF, and then the one west of there made 1.5 BCF. But
15 there is also in the southeast quarter of Section 28 a well
16 that was drilled by KCS Medallion back in 1999 that was
17 essentially dry in the Morrow. It was ultimately completed
18 in the Delaware.

19 Q. That's the black dot on the map?

20 A. That is the black dot. And then to the east, in
21 the west half of Section 27 you've got another well that
22 penetrated the Morrow but produced only out of the Atoka.

23 Q. And we'll get to this more in a minute. When you
24 say the Morrow, is there any specific zone in the Morrow
25 that's the primary objective?

1 A. Well, we're -- I might want to address that when
2 we get to -- we're looking for both middle and lower Morrow
3 here.

4 Q. Okay.

5 A. What we're hoping is, we're going to be in a
6 favorable structural position to find the lower Morrow.

7 Q. Well, let's move on to your structure map. Can
8 you identify that?

9 A. The next exhibit, or Exhibit 7, is a structure
10 map, top of the lower Morrow. And as you can see coming
11 down through the northeast quarter of Section 21, I'm
12 showing a kind of a nose going down through there. If you
13 get off of this structural nose, the lower Morrow is west.
14 So what we're hoping is to be in a position where both the
15 lower Morrow and the middle Morrow have a chance to
16 produce. You know, you've got the well to the east of you
17 that -- in Section 27, that didn't produce out of the
18 Morrow, but it was low. It was low, so even if it had
19 found sands in the lower Morrow, they would have been too
20 low to produce.

21 Q. So structure is important in the lower Morrow?

22 A. In the lower Morrow, yes.

23 Q. But not in the other Morrow zones?

24 A. Well, the middle Morrow -- In fact, you can see
25 off the west half of Section 28, the old Mewbourne

1 Esperanza well, you know, in -- I guess that's location
2 L -- is fairly low but made a pretty good middle-Morrow
3 producer.

4 Q. Okay. Let's move on to your cross-section,
5 Exhibit 8. Would you identify that and tell the Examiner
6 what that shows in the Morrow?

7 A. Well, what I'm really wanting to show here is,
8 this is more of a nomenclature than it is anything, when I
9 get into some of my isopachs -- you know, this cross-
10 section is going from -- get it out here -- going from the
11 west, west side of the prospect, it goes slightly north and
12 then back again to the east of the prospect location in
13 Section -- to the well in Section 27.

14 What I'm really trying to show here, like I say,
15 is, in the middle Morrow -- My datum on this cross-section
16 is the -- what I mapped, that lower -- the lower Morrow
17 point or middle Morrow shale or whatever you want to call
18 it, but it's my structural point, is the line going across
19 there.

20 Above that line I've got a zone colored blue, a
21 zone colored green. Those are what I call the middle
22 Morrow blue and the middle Morrow green. Below that line
23 I've got what's called the lower Morrow yellow, lower
24 Morrow orange and the lower Morrow brown.

25 In this prospect the objectives really, from what

1 I've seen, will be the middle Morrow blue and green and the
2 lower Morrow yellow and brown sand. And what we're hoping
3 is that we'll be high enough to have potential in the lower
4 Morrow sands, if they're developed.

5 Q. Do the colors on this cross-section -- are they
6 the same colors used on your next set of exhibits, the
7 isopachs?

8 A. Yes, they are.

9 Q. Okay, why don't we move on to those? You've got
10 a set of four isopachs, Mr. Logan, 9 through 12. Why don't
11 you just briefly run through those and tell the Examiner
12 what you are hoping to achieve with this well.

13 A. Well, the first isopach is the middle Morrow blue
14 sand. It's a net isopach, porosity greater than a
15 crossplot of about 8 percent. As you can see, you've got
16 potential -- you've got wells that produce out of the
17 middle Morrow blue to the northeast of you, to the west of
18 you.

19 You do have a well south and southeast of you
20 that didn't really have any sand, any porous sand in that
21 interval, but what we're hoping to do is find that sand.
22 There's definitely some risk because you do have a dry hole
23 in the Morrow south of you and a dry hole to the east of
24 you, out of the Morrow formation.

25 Q. Now, the first two maps, the blue and the green,

1 are the middle Morrow sands?

2 A. Middle Morrow sands, yes.

3 Q. Okay. And then what are the final two maps? Are
4 those --

5 A. The final two are ones we hope to have an
6 opportunity to find in a structurally favorable position.
7 The lower Morrow yellow, which is the first sand in the
8 lower Morrow, and then the next isopach is the lower Morrow
9 brown, which is really the lowest Morrow sand that produces
10 in the area.

11 Q. Now, comparing this map with your production --
12 or any one of these maps with your production plot, this
13 will be the fifth Morrow well drilled in this section,
14 correct?

15 A. Yes.

16 Q. To test the Morrow?

17 A. Yes.

18 Q. And two of those wells have been dry or
19 noncommercial, have they not?

20 A. Well, yes, the one in the northwest quarter has
21 been, I'd say, noncommercial also.

22 Q. Okay. In your opinion, should the maximum cost-
23 plus-200-percent penalty be assessed against any
24 nonconsenting interest owners?

25 A. Yes, it should.

1 Q. And were Exhibits 6 through 12 prepared by you or
2 under your supervision?

3 A. They were prepared by me.

4 Q. In your opinion, is the granting of this
5 Application in the interests of conservation and the
6 prevention of waste?

7 A. Yes, it is.

8 MR. BRUCE: Mr. Examiner, I'd move the admission
9 of Nadel and Gussman Exhibits 6 through 12.

10 EXAMINER BROOKS: Six through 12 are admitted.

11 MR. BRUCE: And I have nothing further of this
12 witness.

13 EXAMINATION

14 BY EXAMINER BROOKS:

15 Q. How did there get to be two Morrow wells in the
16 southwest quarter?

17 A. Well, the well in Location K was the old -- well,
18 Cities Service or OXY Collie well. It was abandoned -- I
19 can't tell you exactly when it was abandoned, but then the
20 Mewbourne well was drilled in 1999.

21 Q. So they're not both producing?

22 A. No. No, they aren't.

23 Q. But the one to the more easterly direction looks
24 like by far the better well in terms of what it has
25 produced.

1 A. Right.

2 Q. It's the one that's abandoned?

3 A. Yes. Yes, it is.

4 Q. I always like to ask these sarcastic questions of
5 geologists, but you know, how do you know these zero
6 contour lines that run like so and like so, with the zero
7 going right down the middle here?

8 A. Well, you don't know that. I mean, there's
9 definitely risk.

10 And you know, if you want to talk about risk in
11 the Morrow, I have seen a well with a hundred feet of
12 Morrow pay offset by a 40-acre offset with zero pay. So --

13 Q. Right.

14 A. -- you know, there's going to be risk. What
15 we're hoping in this area is that we're not looking for
16 just one sand.

17 Q. Do you have anything other than well control to
18 assist your geology in this area?

19 A. No.

20 EXAMINER BROOKS: I guess that's all. Mr.
21 Catanach?

22 EXAMINER CATANACH: Just a couple.

23 EXAMINATION

24 BY EXAMINER CATANACH:

25 Q. Mr. Logan, the well in the southeast quarter of

1 that section --

2 A. Yes.

3 Q. -- you said -- was it in the lower -- in the
4 lower Morrow section it was wet; is that your testimony?

5 A. Yes, it's too low to produce out of the --

6 Q. What happened to that in the middle Morrow
7 section?

8 A. Well, you know, it was drilled roughly the same
9 time as the Mewbourne well. And it's on the cross-section,
10 it's the KCS well. It's the next to the last on the right
11 side.

12 Q. Uh-huh.

13 A. What I understand happened -- I didn't get all
14 the data on that well, but the middle Morrow sand, what I
15 colored as pink, was perforated. But they ran an RFT on
16 that and it only had like 1000 pounds. So it was fairly
17 well drawn down, so even though it looked fairly good they
18 weren't able to make a well out of it.

19 Q. So they didn't test any of the other -- the blue
20 or the green sands?

21 A. No. My understanding is, all they tested was
22 that pink interval. The blue and the green, those look
23 really -- have such low porosity, I can't imagine them
24 doing much.

25 EXAMINER CATANACH: Okay, that's all I have.

1 MR. BRUCE: That's all I have in this matter, Mr.
2 Examiner.

3 EXAMINER BROOKS: Very good. Case Number 13,043
4 will be taken under advisement.

5 (Thereupon, these proceedings were concluded at
6 8:37 a.m.)

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17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. 13043.
21 heard by me on April 10, 2003.
22 David K. Brooks Examiner
23 Oil Conservation Division
24
25

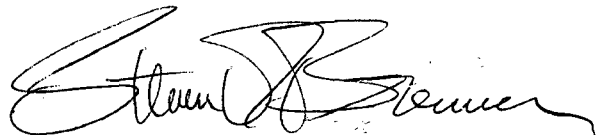
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL April 11th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006