

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

IN THE MATTER OF THE HEARING	)	
CALLLED BY THE OIL CONSERVATION	)	
DIVISION FOR THE PURPOSE OF	)	
CONSIDERING:	)	CASE NO. 11,364
	)	
APPLICATION OF NEARBURG	)	
EXPLORATION COMPANY	)	
_____	)	

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

ORIGINAL

BEFORE: DAVID R. CATANACH, Hearing Examiner

**RECEIVED**

SEP 7 1995

August 24th, 1995

Oil Conservation Division

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 24th, 1995, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

\* \* \*

## I N D E X

August 24th, 1995  
 Examiner Hearing  
 CASE NO. 11,364

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\* \* \*

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

## FOR THE DIVISION:

RAND L. CARROLL  
Attorney at Law  
Legal Counsel to the Division  
2040 South Pacheco  
Santa Fe, New Mexico 87505

## FOR THE APPLICANT:

KELLAHIN & KELLAHIN  
117 N. Guadalupe  
P.O. Box 2265  
Santa Fe, New Mexico 87504-2265  
By: W. THOMAS KELLAHIN

\* \* \*

1 WHEREUPON, the following proceedings were had at  
2 8:18.m.:

3 EXAMINER CATANACH: At this time we'll call Case  
4 11,364.

5 MR. CARROLL: Application of Nearburg Exploration  
6 Company for compulsory pooling, Eddy County, New Mexico.

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

9 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin of  
10 the Santa Fe law firm of Kellahin and Kellahin, appearing  
11 on behalf of the Applicant, and I have two witnesses to be  
12 sworn.

13 EXAMINER CATANACH: Any additional appearances?  
14 Will the two witnesses please stand to be sworn  
15 in?

16 (Thereupon, the witnesses were sworn.)

17 MR. KELLAHIN: Mr. Examiner, we call Bob Shelton.  
18 Mr. Shelton is a petroleum landman with Nearburg Production  
19 and Exploration Company. He is our first witness.

20 ROBERT G. SHELTON,  
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. KELLAHIN:

25 Q. For the record, Mr. Shelton, would you please

1 state your name and occupation?

2 A. My name is Bob Shelton. I'm with Nearburg  
3 Producing Company in Midland, Texas.

4 Q. What is your occupation, sir?

5 A. Landman.

6 Q. And by whom are you employed?

7 A. Nearburg Producing Company.

8 Q. On prior occasions have you qualified as an  
9 expert in matters of petroleum land management before the  
10 Oil Conservation Division?

11 A. Yes, I have.

12 Q. Do your duties as a petroleum landman include an  
13 attempt to consolidate the various interest owners for the  
14 formation of a spacing unit for a well in the North Dagger  
15 Draw-Upper Penn Pool for the southwest quarter of Section  
16 22, 19 South, 25 East?

17 A. Yes, they do.

18 Q. This is identified as the Ross Ranch 22 Well  
19 Number 8, is it?

20 A. That is correct.

21 MR. KELLAHIN: We tender Mr. Shelton as an expert  
22 witness.

23 EXAMINER CATANACH: He is so qualified.

24 Q. (By Mr. Kellahin) Mr. Shelton, let's turn to  
25 what is marked as Exhibit 1 and use that locator map to

1 identify for the Examiner the proposed proration spacing  
2 unit for which you're seeking a pooling order.

3 A. This is a land map of the northeast portion of  
4 the Dagger Draw North-Upper Pennsylvanian Pool.

5 Shown in yellow is the southwest quarter of  
6 Section 22, which is the 160-acre spacing unit proposed for  
7 the Ross Ranch 22 Number 8 well, which is shown by the red  
8 dot. The location of this well is 990 from the south and  
9 660 from the west.

10 Q. Will that be a standard well location for  
11 production if obtained from this particular pool?

12 A. Yes, it will be.

13 Q. And will this be a standard size spacing and  
14 proration unit consisting of 160 acres?

15 A. Yes, that's correct.

16 Q. As part of your work, have you identified and  
17 tabulated for the Examiner the various interest owners that  
18 would have the opportunity to participate in the costs and  
19 the production from this well?

20 A. Yes, those interests and companies are shown on  
21 Exhibit Number 2. It shows the southwest quarter of  
22 Section 22 and represents on the page the ownership of the  
23 working interest share, also some mineral interest  
24 ownership that is currently uncommitted at this time.

25 Panhandle Royalty has now -- You can see Nearburg

1 has 58 percent, basically, and Panhandle Royalty with their  
2 11 percent has committed to participate and has executed an  
3 operating agreement.

4 The Yates Companies, from Yates Petroleum through  
5 Sharbro Oil Company, have all verbally agreed to  
6 participate. They have not signed an AFE, but they have  
7 indicated that they will at some point in the future.

8 Mr. Jennings, likewise, has indicated that he  
9 will participate but has not completed any of the  
10 paperwork.

11 Tierra Oil Company remains uncommitted. They  
12 have not made a decision on what to do.

13 And Roy Barton has committed interest by  
14 execution of an operating agreement and AFE.

15 Q. Do you have an opinion, Mr. Shelton, as to  
16 whether or not, despite your efforts on a voluntary basis  
17 to consolidate the interest, there in fact will be  
18 remaining parties that require a compulsory pooling order  
19 in order to commit their interest to the well?

20 A. Yes, there will be.

21 Q. Have you satisfied yourself that the tabulation  
22 of parties and their particular interest you've shown is  
23 accurate and correct?

24 A. Yes, it is.

25 Q. Has that been done with the appropriate searches

1 of record title ownership, working interest ownership  
2 and/or title opinions?

3 A. In this case, we have title opinions on this  
4 acreage.

5 Q. All right, sir. Let's turn to your first  
6 communication in writing by which you propose to the other  
7 working interest owners this well and this particular  
8 spacing unit.

9 A. That is marked as Exhibit Number 3, a letter  
10 dated July 19th, 1995, to the working interest owners. As  
11 you can see on the distribution list attached as page 2 of  
12 that letter, you'll note also Kerr-McGee and Atlantic  
13 Richfield at that time were on the distribution, and they  
14 had mineral interests which are now committed.

15 Our proposal was to drill the well at a standard  
16 location in the southwest quarter of Section 22. We  
17 offered the people the right to participate or the right to  
18 grant an oil and gas lease for those people who had mineral  
19 interests which were uncommitted. We supplied them with an  
20 operating agreement and an AFE.

21 Q. Let's turn to the subject of the AFE. Do you  
22 have a copy of the itemized estimate of cost of the well  
23 within the document submitted to the Examiner?

24 A. Yes, that's the exhibit marked Number 4, Nearburg  
25 Producing Company's authority for expenditure for the Ross



1 Ranch Number 8 well, 8100-foot Cisco/Canyon test located  
2 990 from the south, 660 from the west of Section 22.

3 Q. How was this particular AFE prepared?

4 A. This AFE was prepared by Nearburg Producing  
5 Company employees.

6 Q. Have you satisfied yourself that the costs  
7 involved here are consistent with other AFEs that are  
8 currently being circulated and utilized by Nearburg and  
9 other operators in this area?

10 A. Yes, sir, they're very consistent with what's  
11 happening in the wells being drilled in this area and the  
12 costs.

13 Q. Has any potential party that has to pay for any  
14 of these costs objected to these costs?

15 A. No one has objected to this AFE.

16 Q. One of the items indicated in your letter is  
17 that, while this letter is being sent by Nearburg  
18 Exploration Company, you propose to designate Nearburg  
19 Producing Company as the operator.

20 A. That is correct.

21 Q. The Producing Company, in fact, is the producing  
22 company that takes care of your production and operations?

23 A. That is correct.

24 Q. Attached to Exhibit Number 3 are copies of the  
25 return receipt cards indicating that all these parties have

1 received a copy of the well proposal?

2 A. That is correct, all of them were received,  
3 and -- as listed by the green cards.

4 Q. Were you able to contact, then, all of these  
5 parties, at least initially, to propose this well to them?

6 A. We were able, and I had subsequent conversations  
7 with each of the parties.

8 Q. All right, sir, let's turn now to Exhibit Number  
9 5 and have you identify and describe Exhibit 5.

10 A. Exhibit 5 is an operating agreement prepared by  
11 myself and circulated through this letter of proposal to  
12 the parties. This operating agreement in this form has  
13 been executed by Roy Barton and Panhandle Royalty. It's a  
14 standard AAPL Model Form 1982 Operating Agreement, covering  
15 the southwest quarter of Section 22.

16 Q. What do you propose to be the monthly overhead  
17 rates and the producing well rates that are in this joint  
18 operating agreement?

19 A. Those rates are \$5400 drilling well rate and \$540  
20 producing well rate.

21 Q. What is your recommendation to the Examiner as to  
22 those rates with regards to a compulsory pooling order?

23 A. That those rates also be incorporated into the  
24 compulsory pooling order.

25 Q. There's an Exhibit 6, Mr. Shelton.

1           A.     Exhibit 6 is the executed signature pages, the  
2     operating agreement and AFE for Panhandle Royalty and Roy  
3     Barton, who are the two individuals -- one company and one  
4     individual -- who are now committed to this -- to the  
5     drilling operations.

6           Q.     All right.   Simply an effort to demonstrate to  
7     the Examiner the parties that in fact have executed the AFE  
8     as of now?

9           A.     That's correct.

10          Q.     This is the same AFE that you've provided to them  
11     by your letter of July 19th, 1995?

12          A.     That is correct, and the operating agreement --  
13     the pages are the same operating agreement.

14                 MR. KELLAHIN:   That concludes my examination of  
15     Mr. Shelton.

16                 We move the introduction of his Exhibits 1  
17     through 6.

18                 EXAMINER CATANACH:   Exhibits 1 through 6 will be  
19     admitted as evidence.

20                                 EXAMINATION

21     BY EXAMINER CATANACH:

22           Q.     Mr. Shelton, do you anticipate Yates will sign  
23     operating agreements for this well?

24           A.     We're currently negotiating those agreements now,  
25     and I have a feeling we will be able to come to a

1 conclusion, but we do not have any agreement at this time.

2 Q. Is this well on fee land?

3 A. Yes, sir, it is.

4 Q. Okay, so there's no problem with the well  
5 location; it's already been approved?

6 A. Yes, sir, that's correct. We have an approved  
7 permit by the New Mexico District Office.

8 EXAMINER CATANACH: Okay, I have no further  
9 questions of this witness.

10 MR. KELLAHIN: Mr. Examiner, we'd like to call  
11 our geologic expert, Mr. Jerry Elger.

12 JERRY B. ELGER,  
13 the witness herein, after having been first duly sworn upon  
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. KELLAHIN:

17 Q. Mr. Elger, for the record would you please state  
18 your name and occupation?

19 A. Jerry Elger, and I'm a petroleum geologist.

20 Q. And where do you reside sir?

21 A. I reside in Midland, Texas.

22 Q. Have you previously testified before the Division  
23 as a petroleum geologist?

24 A. Yes, I have.

25 Q. In fact, you've appeared before this Examiner and

1 other Examiners with regards to compulsory pooling cases in  
2 the Cisco/Canyon portion of the North Dagger Draw-Upper  
3 Penn Pool, have you not?

4 A. That's correct.

5 Q. And we're in the same area that we have recently  
6 testified about?

7 A. Yes.

8 Q. Based upon your geologic studies, do you have  
9 opinions about a risk factor to be assessed in this  
10 particular pooling case?

11 A. Yes, I do.

12 MR. KELLAHIN: We tender Mr. Elger as an expert  
13 petroleum geologist.

14 EXAMINER CATANACH: He is so qualified.

15 Q. (By Mr. Kellahin) Mr. Elger, let's turn to  
16 Exhibit 7, and before we discuss your conclusions, take a  
17 moment and orient the Examiner as to this well, its spacing  
18 unit, and then give us an indication of the significance of  
19 the color code and the legend on the well symbols.

20 A. The map scale is a 1-to-1000, so that the quarter  
21 section that's the pooling for this well is the area in  
22 yellow outlined in the southwest quarter of Section 22.  
23 And the proposed Ross Ranch 22 Number 8 well has been  
24 shaded red in that quarter section.

25 The other coloring on this map, the Cisco/Canyon-

1 Upper Penn producers have been shaded orange, and  
2 Pennsylvanian, Morrow and Atoka gas wells have been shaded  
3 yellow.

4 You'll see a number of wells on this map that  
5 have been plugged back to the Cisco/Canyon that are former  
6 Atoka/Morrow gas producers.

7 Q. When you look in the adjoining section to the  
8 west, Section 21 --

9 A. Yes.

10 Q. -- and the spacing unit up in the northeast  
11 quarter of that section, that is the spacing unit that  
12 includes the Yates Osage saltwater disposal well?

13 A. Yes, it does.

14 Q. And it's also the subject of a compulsory pooling  
15 order issued for the competing applications between you and  
16 Yates in the north half of the northeast of 21?

17 A. Yes, that's correct.

18 Q. Those were identified as the Alto 21 well, and  
19 the other one I have forgotten.

20 A. The Ross EG 14.

21 Q. Yates' well was the Ross EG 14, wasn't it?

22 A. That's correct.

23 Q. All right. And we move north of that into  
24 Section 16, above 21. In the southeast quarter of that  
25 section is a spacing unit for competing pooling cases

1 between you and Yates that dealt with the Arroyo 16 well  
2 and the competing Yates case, which was a well by the name  
3 of what, Jerry?

4 A. I believe it was the Boyd X 9 or 11.

5 Q. I think it was the 9.

6 A. Nine.

7 Q. All right. So we're still in this same immediate  
8 area?

9 A. That's correct.

10 Q. When you look at the assessment of risk insofar  
11 as it affects a pooling order, do you have a recommendation  
12 to the Examiner as to a percentage to be assessed in this  
13 case?

14 A. Yes, I do.

15 Q. And what is that, sir?

16 A. That would be cost plus 200 percent.

17 Q. Describe for us the reasons you have come to that  
18 conclusion.

19 A. Well, if you'll look at -- The structure map  
20 that's presented on Exhibit 7 is on the top of the Canyon  
21 dolomite reservoir.

22 And you'll notice that there is not an extensive  
23 amount of well control off on the east side or right-hand  
24 side of this map. And that -- the reason for that is  
25 because we're moving into a downdip position relative to

1 the top of the reservoir rock, which also means that  
2 there's less reservoir rock available to be hydrocarbon-  
3 bearing.

4 And if you'll also notice, the proposed Ross  
5 Ranch 22 Number 8 well is a stepout -- it's an east stepout  
6 to a well -- several wells drilled in the southeast quarter  
7 of Section 21, but we are moving into a downdip position  
8 relative to the top of the reservoir rock.

9 Q. Let's look at your cross-section to see the  
10 relationship of your proposed location to the offsetting  
11 wells as you've shown them on the cross-section. That's  
12 Exhibit Number 8?

13 A. That's correct.

14 Q. What type of cross-section have you utilized?

15 A. This cross-section is a structural cross-section,  
16 and it incorporates all of the wells that are in -- closest  
17 wells that are in proximity to the proposed Ross Ranch 22  
18 Number 8 test well.

19 What it shows is, the dolomite reservoir rock has  
20 been shaded orange on each one of these log sections, and  
21 in the depth column on each one of the log sections are --  
22 the perforations within that dolomite section have been  
23 shaded red. So you can see approximately how much dolomite  
24 is productive in each one of these nearby wells.

25 Q. What's the component of risk that you're



1 attempting to illustrate with this exhibit?

2 A. Well, you'll notice that as you -- as the cross-  
3 section, which ties a well in the northeast quarter of  
4 Section 28 and then proceeds to the southeast quarter of  
5 Section 21 -- as you approach the Nearburg-proposed  
6 location, those two wells, which are illustrated on the  
7 left-hand side of this cross-section, you'll notice an  
8 increase in the number -- in the limestone interfingering is  
9 starting to occur, as you move from the southwest towards  
10 the northeast direction, toward the Nearburg location.

11 And of course there's also potential risk that  
12 that limestone development will continue to occur in the  
13 vicinity of where we have proposed this well in the  
14 southwest of 22 and thereby limit the amount of reservoir  
15 rock again available to that wellbore.

16 Q. In this reservoir, the limestone is not  
17 reservoir-quality rock, is it?

18 A. That's correct, it is non-reservoir.

19 Q. Were these two exhibits prepared by you?

20 A. Yes, they were.

21 Q. And based upon this work product, your conclusion  
22 and recommendation to the Examiner with regards to risk is  
23 what, sir?

24 A. Cost plus 200 percent.

25 MR. KELLAHIN: That concludes my examination of

1 Mr. Elger.

2 We move the introduction of his Exhibits 7 and 8.

3 EXAMINER CATANACH: Exhibits 7 and 8 will be  
4 admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Elger, where is the oil-water contact in this  
8 reservoir?

9 A. That is very difficult to determine. I don't  
10 know that anybody has specifically identified a subsea  
11 datum relative to the oil-water contact.

12 I know there were some early attempts at 42- --  
13 4300 has been a figure that I've heard mentioned in  
14 numerous other cases involving the Cisco Canyon for this  
15 area, but I do know of wells that are perforated below 4300  
16 feet subsea, so -- and they are good wells. So I don't  
17 think anyone really has a good figure for us. I know it's  
18 below 4300 feet subsea.

19 Q. Okay. Does that well in the northeast quarter of  
20 Section 22, does that represent the furthest east  
21 production in this pool?

22 A. Actually, the two wells -- the well in the east  
23 half of 22 is in the pool, and the well in the -- I believe  
24 there's a well in Section 24, several miles off to the  
25 west, that has also been incorporated into this pool.

1 Q. To the east?

2 A. To the east, right.

3 EXAMINER CATANACH: Okay. I have nothing further  
4 of this witness.

5 MR. KELLAHIN: That concludes our presentation,  
6 Mr. Examiner, with the introduction of what we will mark as  
7 Exhibit Number 9, which is the certificate of mailing and  
8 notification. We would request that that be admitted.

9 EXAMINER CATANACH: Okay, Exhibit Number 9 will  
10 be admitted as evidence.

11 And there being nothing further in this case,  
12 Case 11,364 will be taken under advisement.

13 (Thereupon, these proceedings were concluded at  
14 8:38 a.m.)

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## 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 August 26th, 1995.



STEVEN T. BRENNER  
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is  
 a complete record of the proceedings in  
 the Examiner hearing of Case No. 11364.  
 heard by me on 8/29/95 1995.

, Examiner  
 Oil Conservation Division

1 Q. To the east?

2 A. To the east, right.

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4 of this witness.

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