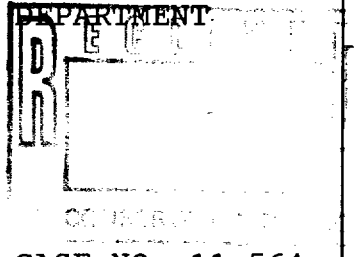
STATE OF NEW MEXICO

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:

APPLICATION OF NEARBURG EXPLORATION COMPANY FOR AN UNORTHODOX GAS WELL LOCATION, EDDY COUNTY, NEW MEXICO

CASE NO. 11,564

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

July 25th, 1996

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, July 25th, 1996, 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

July 25th, 1996
Examiner Hearing
CASE NO. 11,564

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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FOR MALLON OIL COMPANY:

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Santa Fe, New Mexico 87504-2068
By: JAMES G. BRUCE

* * *

WHEREUPON, the following proceedings were had at 8:45 a.m.:

EXAMINER CATANACH: At this time we'll call Case 11,564.

MR. CARROLL: Application of Nearburg Exploration Company for an unorthodox gas well location, Eddy County, New Mexico.

EXAMINER CATANACH: Are there appearances in this case?

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

EXAMINER CATANACH: Any additional appearances?

MR. BRUCE: Mr. Examiner, Jim Bruce from the Hinkle law firm in Santa Fe, representing Mallon Oil Company. I do not have any witnesses.

EXAMINER CATANACH: Any additional appearances?

Okay, will the witnesses please stand to be sworn in at this time?

(Thereupon, the witnesses were sworn.)

MR. KELLAHIN: Mr. Examiner, Nearburg Exploration Company seeks approval to drill at an unorthodox Morrow gas location in the southwest corner of Section 3, using a west-half spacing unit as advertised.

You may recall that approximately two months ago, you heard a similar case in Section 10. If you'll refer to Exhibit 1 and subsequent exhibits, you'll see the relationship of Section 3 to Section 10.

The case you decided in Section 10 dealt with a well to be drilled in the northwest quarter of 10 using a west-half dedication. There was opposition in that case from Read and Stevens. The end result is, there is a production penalty on the Black River "10" well, located in the northwest quarter of 10.

Nearburg proposes to drill in the west half of 3 at a distance that is the equivalent distance from the common lease line boundary. And as a result, Mallon Oil Company, who is the operator now of the well in the west half of 10, has stipulated with Nearburg with regard to a production penalty.

Mr. Bruce and I have executed a stipulated penalty which we'll present to you. By stipulation then, Nearburg is agreeing to a 20.6-percent production penalty, which is the same percentage used in Division Order R-10,601.

With that introduction, then, I'll present to you two witnesses. Mr. Van Rodgers is a landman to attest to the notifications, and Mr. Jerry Elger is a petroleum geologist who will present the reasons for the unorthodox

well location.

Mr. Rodgers?

VAN RODGERS,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A. Yes, my name is Van Rodgers, R-o-d-g-e-r-s. I'm a landman with Nearburg Producing Company.

Q. On prior occasions, Mr. Rodgers, have you testified before the Oil Conservation Division and qualified as an expert in petroleum land management issues?

A. I have not.

Q. Summarize for us your education and employment experience with regards to that topic.

A. I graduated from Texas Tech University in 1973 with a bachelor of business administration degree.

I've been employed by several oil companies in the Permian Basin, working mainly in west Texas and southeast New Mexico since 1974.

I've been employed with Nearburg Producing Company since March of this year.

Q. As part of your duties, have you familiarized

yourself with the offset operators in the vicinity of the west half of Section 3 that is the subject of this hearing and the proposed spacing unit for this well?

A. Yes, I have.

MR. KELLAHIN: We tender Mr. Rodgers as an expert witness.

EXAMINER CATANACH: He is so qualified.

Q. (By Mr. Kellahin) Let me have you turn, sir, to what is marked as Nearburg Exhibit 1 and simply identify the source of that locator map. What did you use for this map?

A. This is a -- just an ownership map.

Q. All right, this is one of those Midland Map Company --

A. Yes, it is.

Q. -- maps that is utilized by the energy [*sic*] to familiarize yourself with the various operators and lease holders in a particular area?

A. That's correct.

Q. All right. Based upon that information, did you cause to be prepared what is shown as Exhibit Number 2?

A. Yes, I did.

Q. Let's use both of those together and identify for the Examiner the various operators in this particular area. Let's focus first of all in Section 3. The proposed

spacing unit is the west half of Section 3?

A. Yes.

Q. When we move down into Section 10, identify for us what your records show to be the operator in Section 10.

A. It's Mallon Oil Company.

Q. And how is that section configured in terms of the deep gas 320-acre spacing units?

A. There's a producing well in the east half and the proposed location for the new well in the west half.

Q. The new well in the east half is the one I referred to in my opening comments as the proposed Black River "10" Federal Com Well Number 1?

A. Yes, in the west half.

Q. Yes, sir. When we look over in Section 9, identify for us what your company's search shows to be the operator of that section.

A. W.A.D.I. Petroleum, Inc.

Q. And then when we look in Section 4, particularly in the east half of Section 4, do your records reflect that Read and Stevens is the operator of that gas well in the east half of 4?

A. Yes, that's correct.

Q. Okay. Have you provided me with information with regards to those parties to whom notification, then, was subsequently sent?

A. Yes.

MR. KELLAHIN: Mr. Examiner, Exhibit 7 is my certificate of notification to those various operators. Except for Mallon Oil Company, who has entered an appearance in this case, I'm not aware of either of the other two operators entering an appearance.

Q. (By Mr. Kellahin) Are you aware, Mr. Rodgers, if Read and Stevens or W.A.D.I. Petroleum, Inc., have contacted you with regards to any opposition for the approval of this case?

A. No, they have not.

MR. KELLAHIN: Mr. Examiner, we move the introduction at this time of Exhibits 1, 2 and 7.

EXAMINER CATANACH: Exhibits 1, 2 and 7 will be admitted as evidence.

Mr. Bruce, do you have any questions of this witness?

MR. BRUCE: No, sir.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Rodgers, who's the operator in the east half of Section 3?

A. American Exploration Company out of Houston.

Q. They were not notified because the well does not encroach toward their acreage; is that correct?

A. That's correct.

EXAMINER CATANACH: Okay. I have nothing further of the witness.

MR. KELLAHIN: Mr. Examiner, we will call at this time Mr. Jerry Elger.

JERRY B. ELGER,

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

DIRECT EXAMINATION

BY MR. KELLAHIN:

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

A. Jerry Elger, petroleum geologist for Nearburg Producing Company.

Q. And where do you reside, sir?

A. In Midland, Texas.

Q. On prior occasions, have you testified before the Division and qualified as an expert in petroleum geology?

A. Yes, I have.

Q. Pursuant to your employment and based upon your experience, have you developed a geologic interpretation for Nearburg's proposed well in this spacing unit?

A. Yes, I have.

Q. As a result of that study, do you have recommendations to the Examiner with regards to a proposed

unorthodox well location in that spacing unit?

A. Yes, I do.

MR. KELLAHIN: We tender Mr. Elger as an expert witness.

EXAMINER CATANACH: He is so qualified.

Q. (By Mr. Kellahin) Mr. Elger, let's refer to Exhibit 3 and take a moment and identify for us the wells in the area that's shown on Exhibit Number 3.

A. Exhibit Number 3 is a production map, the area around the subject Application.

Q. As part of the information shown on Exhibit 3, are you showing production and completion dates?

A. Yes, I am.

Q. In the west half of 3 there is a prior well up in the northwest quarter of 3?

A. That's correct.

Q. Summarize that well for us.

A. That well was drilled as a Morrow well. It was completed in July of 1976. It produced about three-quarters of a BCF from the Morrow and is presently plugged.

Q. So the west half of 3 is available for a well to be drilled and, if completed for production below the top of the Wolfcamp, then the east half -- the west half of 3 could be dedicated to that well?

A. That's correct.

Q. You've also shown production and completion dates for other wells in this area?

A. Yes, I have.

Q. Are you looking at only the Morrow wells?

A. The Morrow is the primary objective of this Application, but we would certainly -- The Atoka is prospective and the Strawn could be prospective.

Q. The production information here, unless otherwise indicated, is reflective of production from the Morrow formation?

A. No, it includes all of the formations I mentioned.

Q. All right, so anything below the top of the Wolfcamp, then, would be cumulative in the gas produced by the wells shown on the display?

A. Right, and it's been identified by what formation the production is from.

Q. All right, let's turn to Exhibit Number 4 and look at the structure map. Why have you chosen to develop a structure map on the top of the lower Morrow?

A. In this particular area the Morrow is very sensitive. Part of the trapping of hydrocarbons within some of the Morrow sands is related to structure, structural position.

Q. While this particular well would be located and

subject to the South Carlsbad Morrow Gas Pool, we are, in fact, in close proximity to the Whites City Penn Pool, are we not?

A. That's correct.

Q. The Whites City Penn Pool, I think, is down in Section 9 and to the southwest?

A. That is correct.

Q. Why have you bothered to prepare a structure map on the lower Morrow? Why is that of any use to you?

A. Again, certain sands within the Morrow have been production tested or drill stem tested that are offstructure and have been shown to be water-bearing within reservoir portions of those individual sand packages.

Q. As part of your geologic analysis, then, you include a structure map in order to hopefully locate yourself higher on structure and thereby avoid or minimize the water component of the reservoir?

A. That's correct.

Q. Let's see how you've mapped the other geologic information. If you'll turn to Exhibit 5, let's unfold that display, and before we talk about the specific details let's first talk about the two-well cross-section that's shown on the left side of that display.

First of all, find those two wells for us, and then let's talk about some of that information.

A. The two wells that are the key wells for this prospect are the Read and Stevens, formerly BTA, drilled well in the southeast quarter of Section 4 and also the O'Neil well, which is currently operated by Mallon, in the east half of Section 10. Also, one of the key wells is the previously drilled and now currently plugged well in the northwest quarter of Section 3. All of those wells are key wells to this particular prospect.

Two of the wells, the well in the southeast of 4 and the east half of Section 10, are displayed as cross-section A-A' on the left side of this montage.

I've color-coded the sand units as to the individual isopach displays on the right-hand side of the montage, the yellow-shaded sand being the isopach of the area outlined in yellow on the upper right-hand side of the montage, and the orange-shaded sand or what I've referred to as lower middle Morrow sands, on the lower right-hand side of this montage.

And I've isopached each one of those sandbodies as to a net sand isopach map of porosity developed within each one of those units.

Q. All right. Let's now go to the isopach, and let's look at the upper middle Morrow, which is the area shaded in yellow?

A. That's correct.

Q. Let me have you describe for the Examiner the basis for your conclusion that an unorthodox well location in the west half of 3 is necessary in order to have the optimum location for accessing the upper middle Morrow.

A. Okay, the legend for this map -- if the well has been shaded orange, it identifies it as a well that has produced natural gas from this particular sand package. In the case of the well in Section 3, you can see that that well is colored orange, and it produced natural gas. In fact, all of the reserves, the three-quarters of a BCF that were produced from that particular well, were out of this particular sand unit. The well in the southeast of 4 produces from this unit, the wells in Section 9 produce from this particular sand, and the well in the east half of Section 10 produces from this particular sand.

The numbers that appear by each well represent the gross -- the net sand isopach values using an 8-percent sand cutoff, over -- in the numerator, and in the denominator is the gross sand thickness.

So you see there are several wells that have been identified as having fairly thick sand units but with relatively little porosity.

The well in the west half of Section 3 I would categorize as a well that has only marginal porosity, even though it has 68 feet of gross sand. I think that's one of

the main ingredients why that well was only a marginal producer, having cumulative production of three-quarters of a BCF which is -- for the depth and cost of these wells is just a marginal-type well.

Q. Is Exhibit 5 the identical exhibit that you introduced before Examiner Catanach when he heard Case 11,481 that resulted in Order 10,601?

A. Yes, sir, it is.

Q. In looking at the upper middle Morrow, the yellow sand package here, under this interpretation you have concluded that there is a reasonable probability of recoverable gas reserves in the west half of 3, that could not be accessed if the well was at a standard location?

A. That's correct. As you can see by the isopach values, where the well is -- the proposed location exists, we anticipate roughly 20 feet of sand equal to or greater than 8-percent porosity, versus a legal location which would be 1650 from the south line, would put it back where it would be more like the well that has previously been drilled in the west half of Section 3, with 13 to 15 feet of porosity that equals or exceeds 8 percent.

Q. In order to provide an opportunity for the interest owners in the west half of 3 to recover their share of gas out of this particular sand member, is the unorthodox well location necessary?

A. Yes, it is.

Q. In the absence of that well, then, the conclusion would be, there's a reasonable probability that the Read and Stevens well would produce that gas?

A. Yes.

Q. Let's look at the deeper of the middle Morrow, the orange sand package that you've isopached for us on the lower right-hand corner of the display, and go through your analysis here on why you have recommended the unorthodox location.

A. All right. Again, the same symbolism applies to this particular isopach as the late middle isopach, and that is, the wells that have produced natural gas from this particular unit have been identified and shaded orange.

Wells that have been identified as being water-bearing in this particular sand have been shaded blue.

Wells -- And there is one well that exists in this local area that has been identified as being very close to what I have interpreted as being a gas-water contact, is the key well in the east half of Section 10. That well has been shaded half blue and half orange, indicating the presence of some natural gas and also some water.

If we look at the two-well cross-section, A-A', we see that this particular sand, this lower middle Morrow

sand, has been production tested in each of those key wells, the well in the southeast of 4 and the well in the east half of 10.

Q. How have you demonstrated your conclusions about the location of the gas-water contact on this portion of the display? How is that shown?

A. Again, that particular contact has been identified based on the production testing of this O'Neil well in the east half of Section 10.

Q. It conforms to what structural position on the structure map?

A. Oh, just right close to 8300 subsea.

Q. Okay.

A. The production tests of that particular sand, which was perforated between 11,481 to -98, was treated with 2000 gallons of acid and flowed one million cubic feet of gas, but it also flowed two to four barrels of water per hour, and that's where -- that is the basis for this gas-water contact.

The proposed location, as displayed on that isopach, indicates that we would be structurally high and encounter this particular sand structurally high to this O'Neil well in the east half of Section 10, thereby acquiring this -- or encountering this particular sand above the gas-water contact and hopefully far enough above

it that the entire sandbody would be gas-bearing rather than water-bearing.

Q. Mallon Oil Company operates the O'Neil well in the east half of 10?

A. Yes, they do.

Q. And apart from the fact that Nearburg obtained the unorthodox location for the west half of 10 by contractual agreements, then Nearburg has agreed that Mallon will operate and drill the well in the west half of 10 pursuant to this approved order for this location?

A. That's correct.

Q. What do you achieve at the proposed location for the well in 3 that you cannot obtain if that well was required to be at a standard location?

A. Two ingredients relative to this lower middle Morrow sand, and those ingredients are, again, structure -- If we would move this dot to a legal location of 1650 out of the southwest quarter, we would have the risk of drilling the well structurally flat to the O'Neil well which was nonproductive in this particular sand unit.

And also based on the geometry of how the sand is oriented in here, that orientation being northwest to southeast across the southwest quarter of Section 3 with a maximum thickness crowding the south part of that quarter section, we would be also in danger of moving the

location -- or drilling a well at a location where the sand quality would be deteriorating to the north.

Q. Has Mallon Oil Company commenced operations to drill the well in Section 10 at its proposed unorthodox location that's approved by the Division?

A. They have not yet, but they are very close to it.

Q. All right. In order to protect the correlative rights of the interest owners in the west half of 3, is the approval of this request for an unorthodox location necessary in order to have an opportunity to recover your share of gas in this spacing unit from this particular formation?

A. Yes, it is.

MR. KELLAHIN: That concludes my examination of Mr. Elger, Mr. Catanach.

We move the introduction of his Exhibits 3, 4 and 5.

EXAMINER CATANACH: Exhibits 3, 4 and 5 will be admitted as evidence.

MR. KELLAHIN: In addition, Mr. Catanach, the stipulation you have before you as Exhibit 6 is not executed. I would like to substitute for you what Mr. Bruce and I have just signed as the original of that exhibit, upon which the parties have agreed as to the stipulated penalty.

EXAMINATION

BY EXAMINER CATANACH:

Q. Mr. Elger, is it my understanding that Mallon is going to drill a well in the west half of Section 10?

A. Yes.

Q. Nearburg is an interest owner in that well?

A. That's correct.

Q. The well in the northwest quarter of Section 3, that encountered -- is that 13 feet of sand in that late --

A. It's 13 feet of net sand, using the cutoff which I've identified in the very lower right side of each one of these maps, a density porosity of equal to or greater than 8 percent as a cutoff.

That well encountered 13 feet of sand which met those parameters, out of 68 feet of total gross sand.

Q. Is it your opinion that the amount of net sand encountered in that well was the only reason that that well did not produce in greater quantities?

A. I believe that's the main contributing factor. But I also understand that that well did have some mechanical problems, downhole mechanical problems, but the operator felt -- and obviously felt that there was not commercial quantities of gas left in that particular wellbore to warrant a sidetrack hole or anything of that nature, so they abandoned the well.

Q. The well in the southeast quarter of Section 9, did that exhibit similar producing characteristics?

A. The well in the southwest quarter of Section 9 --

Q. Southeast quarter of Section 9.

A. Oh. Yes, that well produced from both of the sand units that I've isopached for this particular display, and I believe one of the key ingredients to that -- both of the wells in the south half of Section 9, the success of both of those wells is the fact that they're also on this portion of this Whites City structure.

As you can see from the production map, those wells -- the well in the southeast quarter first was produced in 1977 and has cumulative natural gas production in excess of 4 BCF. The well in the southwest quarter of Section 9 was completed in 1983, and it's made in excess of 4.8 BCF.

Q. Is that -- The production in those wells, was that predominantly from the late sands?

A. One of the characteristics of this particular field, this whole Whites City field, it's very hard to identify which -- where your reserves come from, based on the fact that many of these wells have one or more units developed within the middle Morrow section. Some have upper Morrow sand developments, some have lower Morrow sand developments. And it was common practice in the Seventies

and Eighties to perforate any and all of the sands that exhibited reservoir characteristics and producing characteristics and therefore take -- go backwards and say most of the reserves came from this sand or that sand.

It's -- My feeling is that the combination of both sands contributed to the significant reserves of each of those wells.

Q. Well, you feel like moving to your proposed location, you're going to gain, you say, about seven feet of net sand in the late interval. Do you think that's significant in terms of reserves and what you're going to recover?

A. That's -- In terms of the net, it is significant. But the main objective of this particular test is the early middle sand, as a -- One of the consequences of targeting this early middle sand is the fact that we hope to improve, based on my interpretation, the net feet of late middle sand that we'll encounter. But the primary target is the early middle Morrow sand, which we don't think has been produced in this west half of Section 3, west half of Section 10 area.

Q. The well in the west half of Section 3 you don't think produced from that interval?

A. No. Again, back to the legend, map legend, the well in the west half of Section 3 that was previously

drilled, that's abandoned now, did production test or drill stem test this particular sand and was found -- the reservoir was found to have water.

Q. You mentioned there was secondary objectives -- Atoka and -- was it Strawn you mentioned?

A. Yes.

Q. Mr. Elger, do you know if the stipulated penalty applies to the Strawn and Atoka?

A. I don't know the answer to that. We've considered them such since really none of the directly surrounding wells has encountered anything productive from either of those formations, the closest well being over in Section 2, and I believe up in the north half of Section 34, that -- But I don't know the answer to that question.

MR. KELLAHIN: Mr. Catanach, if I may respond to your question, my understanding is that in both cases the primary focus of attention for the penalty was the Morrow formation. It is our position that the stipulated penalty in this case applies only to the Morrow.

MR. BRUCE: That's my understanding, Mr. Examiner.

EXAMINER CATANACH: Okay. Mr. Elger, I have no questions, no further questions.

MR. BRUCE: Mr. Examiner, could I just ask a couple?

EXAMINER CATANACH: I'm sorry, Mr. Bruce. Yes.

EXAMINATION

BY MR. BRUCE:

Q. Jerry, in looking at your map, I presume the -- your -- what I call the yellow sand is the primary target?

A. No, sir, the orange sand is.

Q. The orange, okay. But the only production in this immediate area are those Section 9 wells?

A. That's correct. Well, Section 9 and Section 2.

Q. And the Mallon well in Section 10 will test that orange sand also?

A. That's correct.

Q. Okay. Is one of the reasons you're moving a little bit south in Section 3 to get away from any possible drainage effects of that well on the northwest quarter of Section --

A. That's one of the consequences of encroaching to the south, yes. The main ingredient is really structure.

MR. BRUCE: Thank you.

EXAMINER CATANACH: Mr. Kellahin, do you know the -- Is the production penalty going to be enacted in the same manner that was directed in the other Division order, 10,601?

MR. KELLAHIN: Yes, sir.

EXAMINER CATANACH: There will be a

deliverability test conducted semi-annually; is that your understanding?

MR. KELLAHIN: It's my understanding that the parties are in agreement that the terms and conditions of the penalty in Order R-10,601 should apply in the subject case, provided there is a production test determined based upon a deliverability, and that is to be a semi-annual basis.

EXAMINER CATANACH: Okay, I have nothing further.

Do you have anything further in this case?

MR. BRUCE: No, sir.

EXAMINER CATANACH: There being nothing further, Case 11,564 will be taken under advisement.

(Thereupon, these proceedings were concluded at 9:18 a.m.)

* * *

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11564, heard by me on July 25 1996.

David K. Catanach, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

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

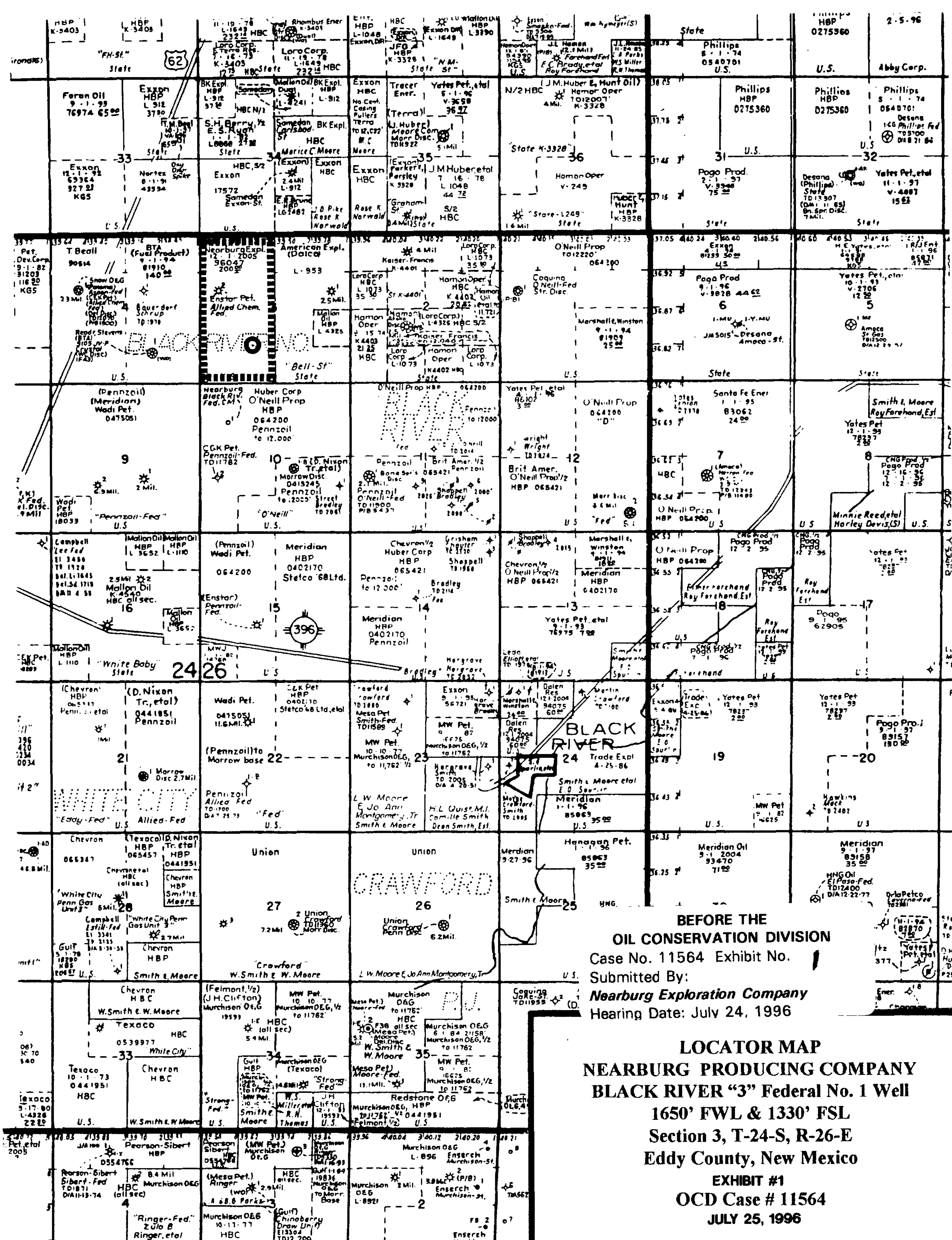
I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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 July 26th, 1996.

STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998



BEFORE THE OIL CONSERVATION DIVISION

Case No. 11564 Exhibit No. 1

Submitted By:

Nearburg Exploration Company

Hearing Date: July 24, 1996

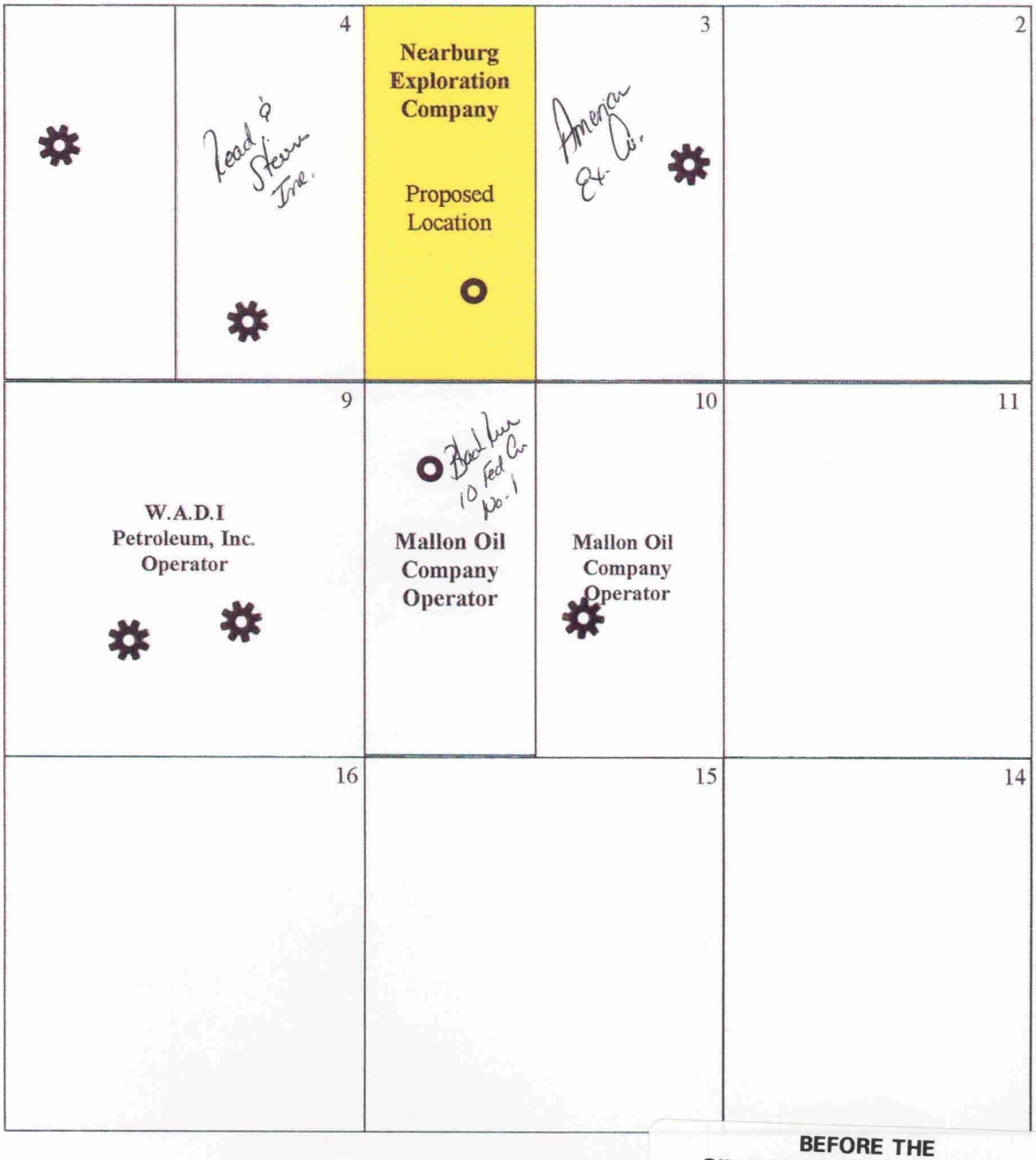
LOCATOR MAP
NEARBURG PRODUCING COMPANY
BLACK RIVER "3" Federal No. 1 Well
1650' FWL & 1330' FSL
Section 3, T-24-S, R-26-E
Eddy County, New Mexico

EXHIBIT #1

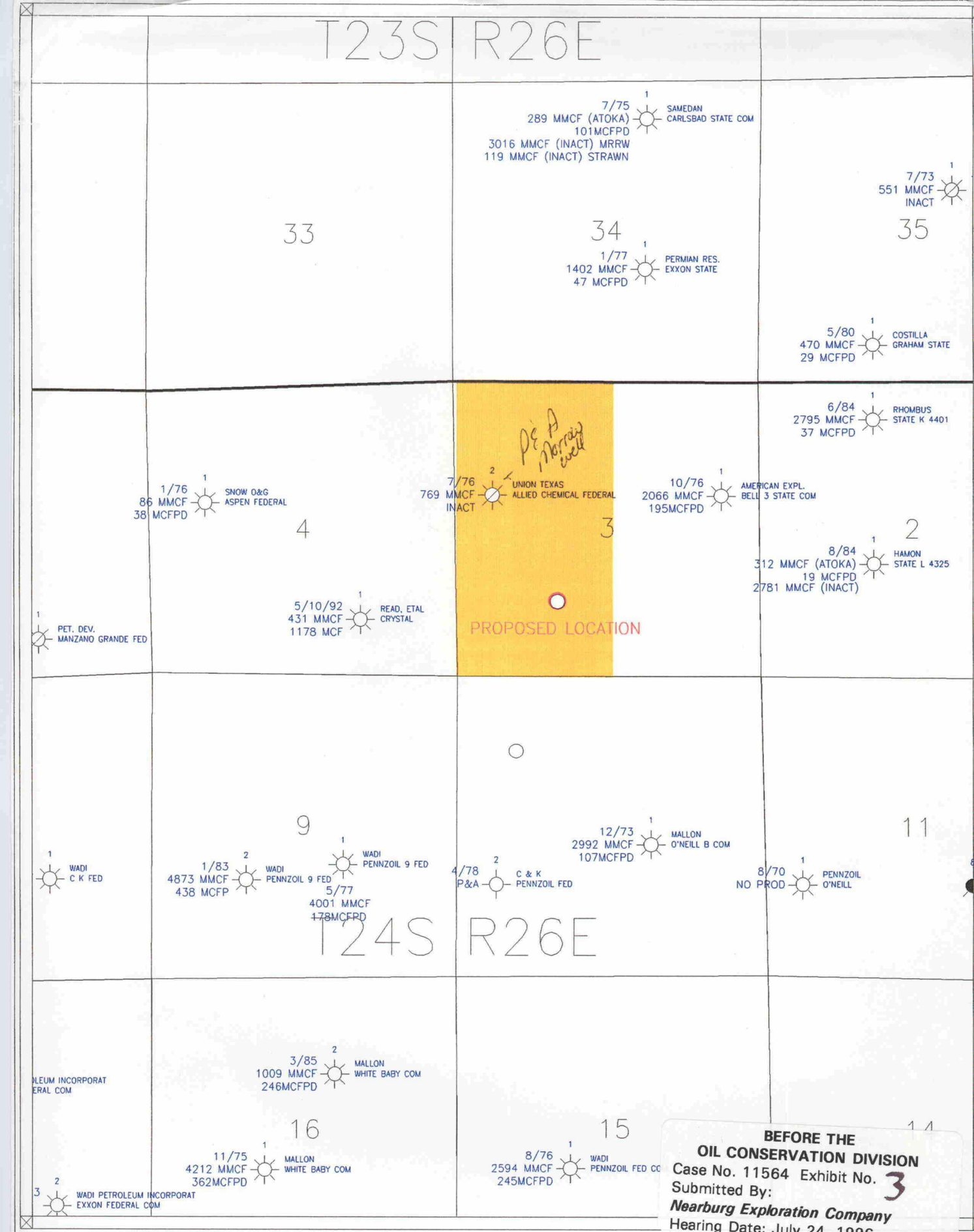
OCD Case # 11564

JULY 25, 1996

NEARBURG PRODUCING COMPANY
BLACK RIVER "3" Federal No. 1 Well
1650' FWL & 1330' FSL
Section 3, T-24-S, R-26-E
Eddy County, New Mexico
EXHIBIT #2
OCD Case # 11564
JULY 25, 1996



BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11564 Exhibit No. 2
Submitted By:
Nearburg Exploration Company
Hearing Date: July 24, 1996



BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11564 Exhibit No. 3
Submitted By:
Nearburg Exploration Company
Hearing Date: July 24, 1996

N

LEGEND

COMPLETION DATE

CUM. MRRW/PENN PRODUCTION TO 1/96

DAILY RATE (1/96)

1000. 0. 1000. 2000. 3000. 4000. 5000. feet

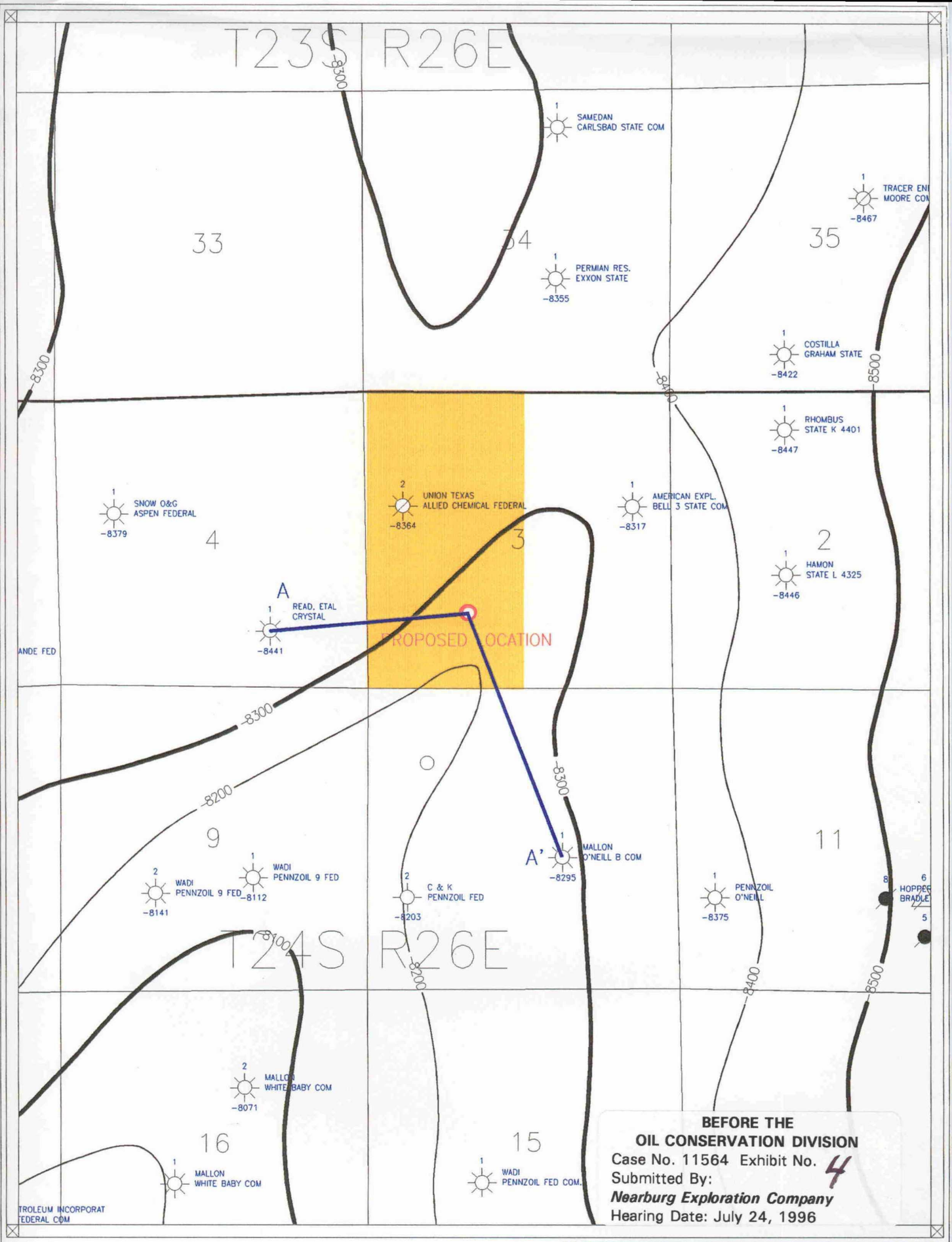
MAP SCALE

Nearburg Producing Company
Exploration and Production
Midland, Texas

BLACK RIVER "3" #1
EDDY COUNTY, NEW MEXICO

PRODUCTION MAP

GEOLOGY BY	DATE	DRAWN BY	FILE NO.
JBE	7/96	LCG/NKM	PROD/3-1.gpf



BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11564 Exhibit No. 4
Submitted By:
Nearburg Exploration Company
Hearing Date: July 24, 1996

N

1000. 0. 1000. 2000. 3000. 4000. 5000. feet

MAP SCALE

Nearburg Producing Company
Exploration and Production
Midland, Texas

BLACK RIVER "3" #1
EDDY COUNTY, NEW MEXICO

STRUCTURE MAP
T/LOWER MORROW

C.I. = 100'

GEOLOGY BY	DATE	DRAWN BY	FILE NO.
JBE	7/96	LCG/NKM	TMRW3#1.gpf

LARGE FORMAT
EXHIBIT HAS
BEEN REMOVED
AND IS LOCATED
IN THE NEXT FILE

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. 11564

APPLICATION OF NEARBURG EXPLORATION COMPANY FOR AN UNORTHODOX GAS WELL LOCATION EDDY COUNTY, NEW MEXICO

STIPULATED PENALTY

Comes now Nearburg Exploration Company, L. L. C. ("Nearburg"), by and through its attorney, W. Thomas Kellahin, and Mallon Oil Company ("Mallon"), by and through its attorney, James Bruce, Hinkle Law Firm, and stipulate as follows:

(1) That Nearburg is the applicant before the New Mexico Oil Conservation Division in the referenced case and seeks approval of an unorthodox gas well location for its Black River "3" Federal Well No. 1 which is to be drilled 1330 feet from the South line and 1650 feet from the West line (Unit K) of Section 3, T24S, R26E, NMPM, Eddy County, New Mexico, to be dedicated to a standard 320-acre gas spacing unit consisting of the W/2 of said Section 3 for production from any pool/formation spaced on 320-acre units including but not limited to the Undesignated South Carlsbad Morrow Gas Pool;

(2) That Mallon is the operator of and a working interest owner in two 320-acre gas spacing units in Section 10, T24S, R26E, NMPM consisting of (a) the E/2 of Section 10 dedicated to the O'Neill "B" Com Well No. 1 in Unit J and (b) the W/2 of said Section 10 within which Mallon is commencing operations to drill the Black River "10" Federal Com Well No. 1 at a previously approved unorthodox well location 1330 feet from the North line and 990 feet from the West line of said Section 10 said well being subject to a 20.6% production penalty as established by Division Order R-10601 entered in Case 11481;

(3) In order to protect the correlative rights of Mallon Oil Company and the interest owners in Section 10 and at the same time to provide for the reasonable production of the Nearburg proposed well, the parties stipulate and agree that Nearburg shall request from the Oil Conservation Division a penalty so that the producing allowable for the Black River "3" Federal Well No. 1 shall be 79.4% (being a 20.6% penalty) of the well's actual ability to produce from the Morrow formation into a pipeline under normal operating conditions;

(4) That Mallon Oil Company shall withdraw any protest in this case provided that the Division order entered in this case shall provide for said 20.6% production penalty;

(5) This stipulation shall be made a part of the record in the Examiner's hearing of this matter.

This stipulation is executed this ___day of July, 1996 by the respective attorneys of record for the parties indicated on behalf of said parties.

FOR NEARBURG EXPLORATION COMPANY, L. L. C.

BY_____
W. Thomas Kellahin
Kellahin & Kellahin
P. O. Box 2265
Santa Fe, New Mexico 87504

FOR MALLON OIL COMPANY

BY_____
James Bruce, Esq.
Hinkle Law Firm
P. O. Box 2068
Santa Fe, New Mexico 87504

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

APPLICATION OF NEARBURG EXPLORATION COMPANY FOR AN UNORTHODOX WELL LOCATION EDDY COUNTY, NEW MEXICO.

CASE NO. 11564

CERTIFICATE OF MAILING AND COMPLIANCE WITH ORDER R-8054

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

W. Thomas Kellahin, being first duly sworn, hereby certifies that he is an attorney for the Applicant and responsible for notification in this matter and that the notice provisions of Division Rule 1207 (Order R-8054) have been complied with, that Applicant has caused to be conducted a good faith diligent effort to find the correct addresses of all interested parties entitled to receive notice, that on June 13, 1996, he caused to be mailed by certified mail return-receipt requested the attached notice of this hearing and a copy of the application for the above referenced case, at least twenty days prior to the hearing of this case set for July 25, 1996, to the parties shown in said application and as evidenced by the attached copies of return receipt cards and/or receipts of certified mailing, and that pursuant to Division Rule 1207, notice has been given at the correct addresses provided by such rule.

W. Thomas Kellahin

SUBSCRIBED AND SWORN to before me this 24th day of July 1996, by W. Thomas Kellahin.

Lynda Kellahin, Notary Public
My Commission Expires: June 14, 2000

OFFICIAL SEAL
Lynda Kellahin
NOTARY PUBLIC
STATE OF NEW MEXICO
My Commission Expires: 6/14/2000

BEFORE THE
OIL CONSERVATION DIVISION
Case No. 11564 Exhibit No. 7
Submitted By:
Nearburg Exploration Company
Hearing Date: July 24, 1996

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.

Nearburg Prod. 06\13\96
July 11, 1996

...we can return this ...ace does not ...ticle number. ...and the date delivered.

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Read & Stevens 06\13\96
July 11, 1996
Read & Stevens 06\13\96
July 11, 1996

4a. Article Number: P-334-798-567

4b. Service Type
☐ Registered ☐ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery: 6-13-96

5. Received By: *(Print Name)*

8. Addressee's Address *(Only if requested and fee is paid)*

6. Signature: *(Addressee or Agent)*
X [signature]

PS Form **3811,** December 1994 Domestic Return Receipt

Thank you for using Return Receipt Service.

Is your **RETURN ADDRESS** completed on the reverse side?

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.

Nearburg Prod. 06\13\96
July 11, 1996

...ace does not ...cle number. ...and the date delivered.

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

W.A.D.I. Petroleum, Inc
1010 First City Bank Towner
Corpus Christi, Texas 78478

4a. Article Number: P-334-798-569

4b. Service Type
☐ Registered ☐ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery: 6/18/96

5. Received By: *(Print Name)* Gwen Braganza

8. Addressee's Address *(Only if requested and fee is paid)*

6. Signature: *(Addressee or Agent)*
X [signature]

PS Form **3811,** December 1994 Domestic Return Receipt

Thank you for using Return Receipt Service.

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.

Nearburg Prod. 06\13\96
July 11, 1996

...can return this ...e does not

Write "*Return Receipt Requested*" on the mailpiece below the article number.
The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

W.A.D.I. Petroleum, Inc.
14405 Walter Rd., Suite 400
Houston, Texas 77014

4a. Article Number: P-334-798-570

4b. Service Type
☐ Registered ☐ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery: 6/17/96

5. Received By: *(Print Name)* [signature]

8. Addressee's Address *(Only if requested and fee is paid)*

6. Signature: *(Addressee or Agent)*
X

PS Form **3811,** December 1994 Domestic Return Receipt

Thank you for using Return Receipt Service.

Is your **RETURN ADDRESS** completed on the reverse side?

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, 4a, and 4b.
- Print your name and address on the reverse of this form so that we can return this card to you.

Nearburg Prod. 06\13\96
July 11, 1996

...pace does not ...ticle number. ...and the date delivered.

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:

Mallon Oil Company
999 18th Street, Suite 1700
Denver, Colorado 80202
Attn: Randy Stalcup

4a. Article Number: P 334-798-568

4b. Service Type
☐ Registered ☐ Certified
☐ Express Mail ☐ Insured
☐ Return Receipt for Merchandise ☐ COD

7. Date of Delivery: 6/13/96

5. Received By: *(Print Name)*

8. Addressee's Address *(Only if requested and fee is paid)*

6. Signature: *(Addressee or Agent)*
X [signature]

PS Form **3811,** December 1994 Domestic Return Receipt

Thank you for using Return Receipt Service.