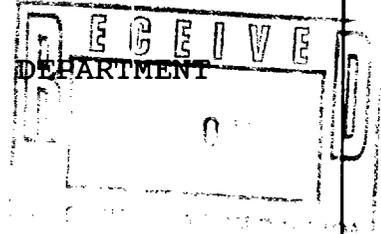


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



IN THE MATTER OF THE HEARING CALLED BY)
THE OIL CONSERVATION DIVISION FOR THE)
PURPOSE OF CONSIDERING:)
APPLICATION OF NAUMANN OIL AND GAS,)
INC., FOR COMPULSORY POOLING, EDDY)
COUNTY, NEW MEXICO)

CASE NO. 11,606

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

September 26th, 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, September 26th, 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.

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 Examiner Hearing
 CASE NO. 11,606

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* * *

A P P E A R A N C E S

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By: TANYA M. TRUJILLO

* * *

1 WHEREUPON, the following proceedings were had at
2 10:51 a.m.:

3 EXAMINER CATANACH: At this time I'll call Case
4 11,606, which is the Application of Naumann Oil and Gas,
5 Inc., for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances in this case.

7 MS. TRUJILLO: Mr. Examiner, I'm Tanya Trujillo
8 from Campbell, Carr, Berge and Sheridan in Santa Fe, New
9 Mexico, here today on behalf of the Applicant, Naumann Oil
10 and Gas.

11 EXAMINER CATANACH: Any other appearances?

12 MS. TRUJILLO: We have two witnesses to present,
13 Mr. Examiner.

14 EXAMINER CATANACH: Will the witnesses please
15 stand to be sworn in?

16 (Thereupon, the witnesses were sworn.)

17 MS. TRUJILLO: Mr. Frye?

18 DAVID N. FRYE,

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

21 DIRECT EXAMINATION

22 BY MS. TRUJILLO:

23 Q. Would you state your name and place of residence
24 for the record, please?

25 A. I'm David Nichols Frye from Plano, Texas.

1 Q. And by whom are you employed?

2 A. I'm President of Logro Corporation.

3 Q. And what is your relationship with the Applicant
4 Naumann?

5 A. Naumann Oil and Gas and Logro Corporation are
6 partners in this prospect.

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

9 A. Yes, I have.

10 Q. And at that time were your credentials accepted
11 and made a matter of the record?

12 A. Yes, they were.

13 Q. Are you familiar with the Application filed in
14 this case on behalf of Naumann?

15 A. Yes, ma'am.

16 Q. And are you familiar with the status of the lands
17 in the subject area?

18 A. Yes.

19 MS. TRUJILLO: Mr. Examiner, are the witness's
20 qualifications acceptable?

21 EXAMINER CATANACH: They are.

22 Q. (By Ms. Trujillo) Mr. Frye, could you state
23 briefly what Naumann seeks with this Application?

24 A. Naumann is seeking to pool all the minerals from
25 the surface to the base of the Morrow formation, underlying

1 the south half of Section 33 of 17 South, 30 East, as to
2 those formations that can be developed on 320-acre spacing
3 and proration units.

4 The unit is for the Sand Tank Federal 33 Number
5 1, which is to be located 1650 feet from the south line and
6 2100 feet from the west line of Section 33.

7 Q. Okay. Could you turn to what has been marked as
8 Naumann Exhibit Number 1?

9 A. Yes.

10 Q. Would you explain this for the Examiner, please?

11 A. This is a plat of the lands that we intend to
12 pool.

13 It shows two tracts, Tract 1 being owned entirely
14 by Phillips Petroleum Corporation in the southwest quarter
15 of Section 33, Tract 2 being our tract, the southeast
16 quarter, which is owned 18.75 percent by Logro Corporation
17 and 81.25 percent by Anadarko Petroleum.

18 Q. And I'll just point out for the record, it
19 indicates a proposed location, but it appears that there's
20 a typographical error there.

21 A. That's correct. It's -- the location should be
22 -- Let me get to that, I'm sorry. The location should be
23 2100 and -- 2100 feet -- excuse me, location --

24 Q. -- from the west line?

25 A. -- should be from the west line, that's right --

1 Q. Right.

2 A. -- and the well should be over in the southwest
3 quarter.

4 Q. But the location as stated in the Application and
5 presented in the ad is --

6 A. Is correct, yes, ma'am.

7 Q. -- the correct location?

8 Okay. Mr. Frye, what are the primary and
9 secondary objectives of the proposed well?

10 A. The primary objective is the lower Morrow, with
11 secondary objectives of upper Morrow and lower Strawn.

12 Q. Now, Exhibit 1 is also useful to show the
13 ownership breakdown, correct?

14 A. That is correct.

15 Q. And you've already described the areas that you
16 would be pooling?

17 A. That is correct.

18 Q. And what is the exact percentage that has been
19 voluntarily committed to the well?

20 A. To date we have -- 50 percent of the unit has
21 been voluntarily committed, and Phillips Petroleum
22 Corporation, with the other 50 percent, although not
23 committed at this point I'm optimistic that prior to spud
24 we will have there voluntary commitment.

25 Q. Could we move to what we have marked as Exhibit

1 Number 2, please --

2 A. Yes.

3 Q. -- and could describe that for the Examiner?

4 A. Exhibit Number 2 is an authority for expenditure.
5 This -- for the drilling of the well.

6 It was originally called the Loco Hills Fed Com.
7 When we filed our application, we felt like the Sank Tank
8 Federal was a better name.

9 This is the AFE that was attached to the letters,
10 that we sent to the other owners in the area.

11 The AFE indicates the cost of casing or dryhole
12 cost of \$619,000 with an additional \$362,850 required for
13 completion, for a total of \$981,850.

14 Q. Are these costs in line with what has been
15 charged by other operators in the area --

16 A. Yes, they are.

17 Q. -- for similar wells?

18 A. Yes, they are.

19 Q. And has, in fact, Naumann drilled other wells in
20 this area?

21 A. At this point, the most recent well drilled by
22 Naumann in the area was a re-entry, so it's not comparable
23 as far as cost.

24 Q. Mr. Frye, could you summarize what your
25 negotiations have been with Phillips, which is the only

1 party that you are pooling today, regarding joinder?

2 A. We've been in contact with Phillips for a very
3 long time, trying to obtain a farmout or -- of this tract.
4 However, on July 30th of 1996, I sent a well proposal to
5 Phillips, asking for their participation or, in the
6 alternative, a farmout of their interest.

7 We've talked numerous times on the phone, and I
8 know they're looking seriously at it, and that's why I'm
9 optimistic that we'll have their voluntary joinder.

10 Q. And what would you say was your last contact with
11 Phillips?

12 A. My last contact with Phillips was on the phone
13 about three days ago, and at that point we were still
14 discussing a farmout.

15 Q. Mr. Frye, we've marked Exhibit Number 3 to
16 indicate the notice that you have provided to Phillips; is
17 that correct?

18 A. Yes.

19 Q. And the last page of that exhibit is actually a
20 September 20th letter regarding your negotiations with --
21 on this unit?

22 A. That's correct, the September 20th letter was in
23 response to Phillips' request.

24 When we filed our application to pool all
25 formations from the surface to the base of the Morrow

1 formation, they interpreted that as a possibility that we
2 would try to form smaller units on 80 acres or 40 acres and
3 pool those, and that was not our intent.

4 And that was my letter representing that I would
5 testify to that today.

6 Q. So in your opinion, has Naumann made a good-faith
7 effort to obtain the joinder of Phillips?

8 A. Yes, we have.

9 Q. Have you made an estimate of what the overhead
10 and administrative costs will be while drilling this well
11 and producing the well?

12 A. I believe the cost of \$5603 for a drilling well
13 rate and \$563 for a producing well rate are not only
14 reasonable, but they're customary in the area.

15 Those numbers are based on the Ernst and Young
16 1995 survey for a well of approximately 11,800 feet.

17 Q. And are these costs in line with what is being
18 charged by other operators, as far as you know?

19 A. Yes, I believe they are.

20 Q. Do you recommend that these costs be incorporated
21 into an order which results from this hearing?

22 A. Yes, I do.

23 Q. Mr. Frye, could you confirm for the Examiner that
24 Exhibit Number 4 is the notice affidavit which provides
25 notice to parties in this case?

1 A. Yes, I do -- Yes, it is.

2 Q. And just for the Examiner's reference, Anadarko
3 is also noticed?

4 A. Anadarko and several other parties.

5 The only parties that were properly -- should
6 have properly been noticed in this case were Phillips.
7 Anadarko was noticed because we did not know of a pre-
8 existing joint operating agreement between Anadarko and our
9 predecessor in title, so now we have their voluntary
10 joinder into that.

11 The other parties that were noticed was an error.
12 They have no interest and should not have been given
13 notice.

14 Q. Will Naumann call a technical witness to testify
15 regarding the risk associated with this proposed well?

16 A. Yes, they will.

17 Q. Mr. Frye, were Exhibits 1 through 4 prepared by
18 you or compiled under your direction?

19 A. Yes.

20 MS. TRUJILLO: Mr. Examiner, I offer Exhibits 1
21 through 4, and I do not have any further questions for Mr.
22 Frye.

23 EXAMINER CATANACH: Exhibits 1 through 4 will be
24 admitted as evidence.

25 I have no questions of the witness. He may be

1 excused.

2 THE WITNESS: Thank you.

3 H. JACK NAUMANN, JR.,

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

6 DIRECT EXAMINATION

7 BY MS. TRUJILLO:

8 Q. Okay, for the record, could you state your name,
9 please, and place of residence?

10 A. Jack Naumann, Midland, Texas.

11 Q. And by whom are you employed?

12 A. By Naumann Oil and Gas.

13 Q. And what is your position there?

14 A. President of Naumann Oil and Gas.

15 Q. Have you previously testified before this
16 Division?

17 A. Yes, I have.

18 Q. And at that time were your credentials accepted
19 and made a matter of the record?

20 A. Yes, they were.

21 Q. Are you familiar with the Application filed in
22 this case on behalf of Naumann?

23 A. Yes, I am.

24 Q. And have you made a geological study of the area
25 surrounding this proposed well?

1 A. I have.

2 MS. TRUJILLO: Mr. Examiner, are the witness's
3 qualifications acceptable?

4 EXAMINER CATANACH: They are.

5 Q. (By Ms. Trujillo) Mr. Naumann, could you move to
6 what we have marked as Exhibit Number 5, please --

7 A. Okay.

8 Q. -- and describe that for the Examiner?

9 A. Exhibit Number 5 is a structural map on the top
10 of the lower Morrow, and basically what we're looking at
11 here is the very top of the sand sequence and trying to
12 make an analog to where the possibility of lower Morrow
13 channels could be deposited.

14 Q. And it indicates a cross-section trace?

15 A. That's correct. We have got an A-A' going
16 through two wells, one which is a lower Morrow producer in
17 Section 34.

18 Q. That would be another exhibit --

19 A. That's correct.

20 Q. -- later on?

21 Okay, what does Exhibit Number 6 show?

22 A. Exhibit Number 6 is an isopach using a cutoff of
23 a gamma ray API, 60 units, to hopefully identify the trend
24 where the lower Morrow channelized sands will be deposited.

25 We've got in Section 34 the single lower Morrow

1 well notated by a yellow coloration, which is also included
2 in our cross-section. And of course, our proposed
3 location, the southwest of Section 33.

4 Q. And the yellow well is a producing well now?

5 A. That's correct.

6 Q. Okay. What does Exhibit Number 7 indicate?

7 A. Exhibit Number 7 is an upper Morrow -- what we
8 term the upper Morrow isopach map, and this encapsulates
9 numerous beach-type sand deposits. Some of these are kind
10 of small and lenticular.

11 We're trying to just basically get a gross
12 average of where we might encounter these. This is not a
13 primary objective of this well, it's a secondary objective.

14 And again, we've got two wells colored in a kind
15 of a pinkish color there that are upper Morrow producers.

16 Q. And Exhibit Number 8?

17 A. Exhibit Number 8 is an isopach of what we term
18 the lower Strawn or the -- the Strawn interval out in
19 through here, which again is similar to the upper Morrow in
20 the sense that these are all carbonates, but they are small
21 packages, the porosities are very irregular, and we're
22 trying to kind of get a gross average of where we think we
23 might have a good chance of possibly picking up more than
24 one of these.

25 Again, this is a secondary objective that we

1 have. There are Strawn producers notated by the blue
2 coloration that we do have here next door to us.

3 Q. And Exhibit 9?

4 A. Exhibit Number 9 is, again, a color-coded
5 production map, and I'll just start -- We have a kind of an
6 orangish color, which we have designated Permian, which is
7 basically a consolidation of San Andres and Grayburg
8 production in the other, Bone Springs production, which we
9 find down in Section 3, in a purple, the Strawn notated by
10 the blue, the upper Morrow by the pinkish or reddish color,
11 the lower Morrow in yellow, and we have a singular Atoka
12 well in Section 29 in the southwest.

13 We've also got notated here the cums to date of
14 both gas and of oil of these wells, for their respective
15 horizons.

16 Q. So this is presented just as general information
17 relating to the other wells --

18 A. That's correct.

19 Q. -- possible formation?

20 A. That's correct.

21 And as you can see, the lower Morrow that we're
22 -- our main objective, that's obviously the strongest well
23 out there, and that's our main objective that hopefully
24 we'll encounter.

25 Q. And Exhibit Number 10?

1 A. Exhibit Number 10 is our cross-section. We have
2 a two-well cross-section, A-A', going from the well in the
3 southwest of Section 29 over to the northeast of 34.

4 On each one of these logs we have correlated and
5 annotated the top of the Strawn, the top of the section
6 which we denote the lower Strawn, top of the Atoka, which
7 is basically a shale sequence that we have here, and below
8 that, the Atoka lime, which is productive in the area in
9 the southwest of 29. The upper Morrow section, this is the
10 interval where the beach sand deposits basically are
11 encountered. And then our lower Morrow.

12 And if you'll notice on the right-hand side of
13 the log, that is the rather large deposit of lower Morrow
14 sand, the well that's made close to 8 BCF of gas, 134,000
15 barrels of condensates. It's quite thick and well
16 developed.

17 And in comparison to that, the well in 29 gives
18 you an example of a well that's totally out of the
19 channelized sequence system. You just basically have a
20 shale sequence there.

21 Q. So Mr. Naumann, just to summarize, your
22 conclusions, based on these exhibits, are that your
23 proposed location will offer a couple of options
24 potentially?

25 A. The proposed location, again, primarily, is the

1 lower Morrow. That's, again, obviously the riskiest
2 formation that we have, due to the sinuous nature of the
3 deposition, the channelized deposits in through there.

4 The upper Morrow and the Strawn, I believe, we
5 will probably be able to encounter, and what type of
6 porosity and thickness, obviously, is also at some risk
7 that we have there. But yet, those will be backups.

8 Q. Are you prepared to make a recommendation as to
9 the risk penalty that should be assessed against the
10 nonconsenting interest owner?

11 A. Two hundred percent.

12 Q. And do you believe there's a chance that you
13 could drill a well at the proposed location that would not
14 be a commercial success?

15 A. Yes.

16 Q. Do you ask that this recommended risk penalty be
17 incorporated into any order that's the result of this
18 hearing?

19 A. Yes.

20 Q. And Naumann seeks to be operator of the proposed
21 well?

22 A. That is correct.

23 Q. Mr. Naumann, in your opinion will granting this
24 Application and drilling the proposed well be in the
25 interests of conservation, the prevention of waste and

1 protection of correlative rights?

2 A. Yes, I believe it will be.

3 Q. Were Naumann Exhibits 5 through 10 prepared by
4 you?

5 A. Yes, they were.

6 MS. TRUJILLO: Mr. Examiner, I offer Exhibits 5
7 through 10, and I have no further questions for Mr.
8 Naumann.

9 EXAMINER CATANACH: Exhibits 5 through 10 will be
10 admitted as evidence.

11 EXAMINATION

12 BY EXAMINER CATANACH:

13 Q. Mr. Naumann, your -- the geology in Section 33,
14 within the lower Morrow, what is that based on?

15 A. Well, what we have here are -- it's kind of a
16 twofold -- if you'll look at the isopach map and also look
17 at the structure map on the top of the Morrow I might be
18 able to -- or the lower Morrow, I might be able to explain
19 it.

20 The lower Morrow isopach is kind of a
21 generalization. That's based on a 60-API cutoff on a gamma
22 ray. Typically, where we find that variation, if we've got
23 lower than 60 percent -- or 60 API, not 60 percent, 60 API
24 units, we will have good sand development. Now, the
25 porosity development is suspect at that point.

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 October 6th, 1996.



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 Extension Hearing of Case No. 11606, heard by me on Sept 26 1996.

 , Examiner
Oil Conservation Division