

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, L.L.C., FOR COMPULSORY POOLING,)
 EDDY COUNTY, NEW MEXICO)

CASE NO. 12,351

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

March 2nd, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.
 00 MAR 16 AM 8:55

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner, on Thursday, March 2nd, 2000, 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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March 2nd, 2000
 Examiner Hearing
 CASE NO. 12,351

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A P P E A R A N C E S

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FOR THE APPLICANT:

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FOR ARCH PETROLEUM, INC.:

JAMES G. BRUCE, Attorney at Law
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* * *

ALSO PRESENT:

SONJA LOPEZ, interest owner
DIANA PEACE, interest owner

1 WHEREUPON, the following proceedings were had at
2 10:42 a.m.:

3 EXAMINER ASHLEY: The Division calls Case 12,351.

4 MS. HEBERT: Application of Nearburg Exploration
5 Company, L.L.C., for compulsory pooling, Eddy County, New
6 Mexico.

7 EXAMINER ASHLEY: Call for appearances.

8 MR. CARR: May it please the Examiner, my name is
9 William F. Carr with the Santa Fe law firm Campbell, Carr,
10 Berge and Sheridan. We represent Nearburg Exploration
11 Company, L.L.C., and I have two witnesses.

12 EXAMINER ASHLEY: Additional appearances?

13 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe.
14 I represent Arch Petroleum, Incorporated, which is a wholly
15 owned subsidiary of Pogo Producing.

16 EXAMINER ASHLEY: Additional appearances?

17 MS. LOPEZ: I'm Sonja Lopez. My daughter -- or
18 my sister, Diana Peace are interest owners in the property
19 in question.

20 EXAMINER ASHLEY: Okay. Any additional
21 appearances?

22 Will the witnesses please stand to be sworn in?
23 (Thereupon, the witnesses were sworn.)

24 MR. CARR: Mr. Examiner, at this time Nearburg
25 calls Mr. Wheeler.

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MARK WHEELER,

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

DIRECT EXAMINATION

BY MR. CARR:

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

A. Mark Wheeler.

Q. Mr. Wheeler, where do you reside?

A. Midland, Texas.

Q. By whom are you employed?

A. Nearburg Exploration Company.

Q. And what is your position with Nearburg
Exploration Company?

A. Senior landman.

Q. Have you previously testified before this
Division?

A. Yes, I have.

Q. At the time of that testimony, were your
credentials as an expert in petroleum land matters accepted
and made a matter of record?

A. Yes, they were.

Q. Are you familiar with the Application in this
case?

A. Yes.

1 Q. Are you familiar with the status of the lands in
2 the area which is involved in your Application?

3 A. Yes, I am.

4 MR. CARR: Are Mr. Wheeler's qualifications
5 acceptable?

6 EXAMINER ASHLEY: They are.

7 Q. (By Mr. Carr) Mr. Wheeler, would you briefly
8 state what it is that Nearburg seeks with this Application?

9 A. Nearburg seeks an order pooling all minerals from
10 the surface to the base of the Morrow formation in the west
11 half of Section 19, Township 18 South, Range 27 East, in
12 the following manner: The west half for all formations or
13 pools developed on 320-acre spacing, the northwest quarter
14 for all formations or pools developed on 160s, the west
15 half, northwest quarter, for all formations or pools
16 developed on 80-acre spacing, and the southwest-northwest
17 for all formations or pools developed on 40-acre spacing.

18 Q. And to what well do you propose to dedicate these
19 spacing units?

20 A. Our Rio Pecos "19" Well Number 1, which will be
21 drilled at a standard location in the southwest-northwest
22 of Section 19.

23 Q. Let's go to what has been marked for
24 identification as Nearburg Exhibit Number 1. I'd ask you
25 to first identify it and then explain to Mr. Ashley what

1 this exhibit shows.

2 A. This is a plat of the proposed proration unit and
3 approximate well location in the west half of Section 19.
4 This is a 321.75-acre spacing unit. It's a slightly
5 irregular spacing unit by virtue of the lots on the west
6 side of the section. It also shows the ownership in the
7 area of the minerals.

8 Q. And what is the status of the lands in the west
9 half of Section 19?

10 A. It's all fee lands.

11 Q. And the primary objective in the proposed well is
12 what formation and pool?

13 A. The Morrow formation, and it would be in an
14 Undesignated Red Lake-Penn Gas Pool.

15 Q. Let's go to Nearburg Exhibit Number 2.

16 A. Yes.

17 Q. Would you identify this and review it, please?

18 A. This is an ownership breakdown of the west half
19 of Section 19, as of February 22nd, which was the last date
20 that we updated this. There's been no further changes to
21 this since we updated it. It shows the status of the
22 percentages of primarily -- Nearburg and Arch have the vast
23 majority, about 90 percent, of the minerals leased. The
24 other 10 percent of the minerals are either leased by
25 another company, Yates Petroleum, or one of their

1 subsidiaries, Sharbro, and the Estate of Lillie Yates, or
2 they are unleased mineral interests at this point.

3 Q. What percentage of the working interest has been
4 voluntarily committed to this well?

5 A. Approximately 47 percent.

6 Q. And how many interest owners are going to be
7 subject to a pooling order?

8 A. On this Exhibit Number 2, all of the owners that
9 are shown as "No Answer" or "Unlocatable" should be subject
10 to the pooling order.

11 Q. And when you say "No Answer", you have contacted
12 them and they have not agreed to --

13 A. We have received green cards back from all of the
14 parties that are shown as "No Answer", we just have not
15 been able to reach a voluntary agreement for leasing or
16 participation at this point. We have had some of the
17 unleased mineral owners sign AFEs, and we have had -- there
18 are a few parties that we have been unable to locate.

19 Q. When we look at the ownership breakdown, when we
20 look at Nearburg's interest and the interest held by Arch,
21 we are over 90 percent of the working interest in those two
22 owners; is that correct?

23 A. Yes, sir.

24 Q. When did you first start working on this project?

25 A. We started -- We had a broker start trying to

1 lease this approximately six months ago. We made our
2 proposal for the well in late December of 1999, but we
3 contacted all of the parties that at that point were not
4 leased.

5 Q. And is the December 8th, 1999, letter marked as
6 Nearburg Exhibit Number 3?

7 A. That was our initial contact with Pogo or Arch.
8 Arch is a wholly owned subsidiary of Pogo, and we were
9 initially under the impression that we were to supposed to
10 address everything to Pogo.

11 Q. Just summarize the efforts you have made to
12 locate individuals and to obtain their voluntary
13 participation. You started six months ago with a broker?

14 A. We had a broker contact -- And we've done quite a
15 bit of leasing in here. That's where our 43 percent,
16 approximately, has been derived, is from leasing. And we
17 continue to have continuing negotiations with unleased
18 mineral owners as far as leases. In fact, this week I've
19 been in contact with several of the smaller interest
20 owners, and I think we will be able to work out leasing
21 arrangements prior to drilling this well. But there are
22 some that we have not heard back from.

23 We have tried to locate all the owners. We've
24 been successful in locating every one except the few that
25 are shown as "Unlocatable", and on those interests we have

1 done Internet searches, we've done county record searches,
2 we've tried to contact relatives or other people that might
3 know them and have thus far been unable to locate them. In
4 at least one case, one of the individuals is incarcerated,
5 so...

6 Q. But still could execute a document?

7 A. I'm not sure about that, actually. He's
8 incarcerated in Texas. I don't think he can.

9 Q. In Huntsville?

10 A. Yes.

11 Q. In your opinion, have you made a good-faith
12 effort to locate all owners of interest in the proposed
13 spacing units and obtain their voluntary joinder in the
14 proposed well?

15 A. Yes, sir, we have.

16 Q. Let's look at what has been marked as Nearburg
17 Exhibit Number 4. I'd ask you to identify it and review it
18 for Mr. Ashley.

19 A. This is Nearburg's AFE for the proposed Rio Pecos
20 "19" Number 1 well. The dryhole cost, shown on page 2,
21 totals \$470,406. The completed well cost, shown in the
22 right-hand column on page 2, is \$802,274.

23 Q. Are these costs in line with what is charged for
24 similar wells in this area?

25 A. Yes, they are.

1 Q. Has Nearburg drilled additional wells in this
2 area?

3 A. Fairly close to this area, yes, sir.

4 Q. Have they drilled a number of other deep wells
5 that are comparable to this well?

6 A. Yes, sir, we have.

7 Q. Have you made an estimate of the overhead and
8 administrative costs to be incurred while drilling the well
9 and also while producing it if, in fact, it is successful?

10 A. Yes, sir.

11 Q. And what are those figures?

12 A. \$5485 a month for the drilling rate, and \$600 per
13 month for the producing rate.

14 Q. And what is the source of these figures?

15 A. The 1999 Ernst and Young survey.

16 Q. Do you recommend that these figures be
17 incorporated into any order that results from today's
18 hearing?

19 A. Yes, sir.

20 Q. Would you identify what has been marked as
21 Nearburg Exhibit Number 5?

22 A. This is our proposed AFE for this well. This
23 operating -- Did I say AFE? I'm sorry, proposed joint
24 operating agreement, has been forwarded to most of the
25 parties involved.

1 There are a few of the minor parties that we have
2 not heard anything back from that -- until we got to the
3 point that we felt like we were either going to have a
4 lease or have them participate. All of the major parties,
5 larger parties and people who have signed their AFEs have
6 received a copy of this.

7 Q. Does Nearburg request that the overhead figures
8 approved by the Division in its pooling order be subject to
9 increases in accordance with the COPAS guidelines as set
10 out in the accounting procedures for joint operations which
11 are attached to the JOA?

12 A. Yes, sir, we do.

13 Q. And those provisions are applicable to all those
14 who are voluntarily in the well, and you're asking they be
15 made applicable to those who are pooled?

16 A. Yes, sir.

17 Q. Is Exhibit Number 6 an affidavit confirming that
18 notice of today's hearing has been provided to affected
19 owners in accordance with Oil Conservation Division rules?

20 A. Yes, sir.

21 Q. Is attached to that exhibit the notice letter and
22 attached return receipts?

23 A. Yes.

24 Q. Does Nearburg Producing Company, L.L.C., seek to
25 be designated operator of the proposed well?

1 A. Yes, sir, we do.

2 Q. How soon does Nearburg propose to drill?

3 A. Hopefully the latter part of April. We have a
4 rig coming available in the latter part of April.

5 Q. Were Exhibits 1 through 6 either prepared by you
6 or compiled under your direction?

7 A. Yes, sir.

8 MR. CARR: At this time, Mr. Ashley, we would
9 move the admission into evidence of Nearburg Exhibits 1
10 through 6.

11 EXAMINER ASHLEY: Exhibits 1 through 6 will be
12 admitted as evidence.

13 MR. CARR: And that concludes my direct
14 examination of Mr. Wheeler.

15 EXAMINER ASHLEY: Mr. Bruce?

16 MR. BRUCE: No questions.

17 EXAMINER ASHLEY: Ms. Lopez, do you have a
18 statement you'd like to make at this time?

19 MS. LOPEZ: When we received the first letter on
20 -- dated the 19th of January, my sister Diana contacted
21 Nearburg, because we were -- you know, we didn't know
22 exactly what they were wanting or how to do this. So we
23 wanted to know exactly what the charges were that we were
24 going to be incurring.

25 She was informed that it was roughly going to be

1 \$64 if they hit a dry well, and a hundred and something if
2 they hit a working well.

3 They contacted my brother Larry, and he said he
4 wanted it in writing. So he was going to have his wife
5 contact Nearburg and explain to them that they wanted it in
6 writing, that we wanted something in writing.

7 We talked to my brother last night. He informed
8 us that when she contacted them, they told her it was too
9 expensive to send out letters of this nature, and that when
10 she asked about what we were going to be incurring, they
11 said, Well, it would be about \$10,000.

12 And most of us, you know, don't work or don't
13 make that kind of money, so we wanted to know exactly how
14 this was supposed to be paid out, and -- this nature. And
15 they said, Oh, they didn't expect to hit anything.

16 THE WITNESS: I'm interested in knowing who they
17 talked to.

18 MS. LOPEZ: I don't know, my sister --

19 MR. WHEELER: They didn't speak to me. I did
20 speak with --

21 MS. LOPEZ: -- with Diana.

22 MR. WHEELER: -- you, yes, with Diana on the
23 phone, and --

24 MS. LOPEZ; Right, and my sister-in-law talked to
25 someone and they said, Oh, we're not expecting to hit

1 anything.

2 EXAMINER ASHLEY: Somebody at Nearburg told you
3 that?

4 MS. LOPEZ; Yes. And so we're new to this. We
5 just got all this the first of January, actually, so we
6 weren't sure exactly what they were wanting, and we had
7 questions that we wanted answered before we signed the
8 lease.

9 And next thing we know, we're getting this thing
10 saying we're having a hearing. And that's about it.

11 EXAMINER ASHLEY: Okay, thank you.

12 Mr. Carr?

13 MR. CARR: May I follow up with a couple of
14 questions?

15 EXAMINER ASHLEY: Sure.

16 FURTHER EXAMINATION

17 BY MR. CARR:

18 Q. Mr. Wheeler, to your recollection, have you
19 talked with the Lopez family or representatives of their
20 family?

21 A. I spoke with Mrs. Peace on the phone. And I was
22 the one that told them that based on their working interest
23 percentage of 0.04 percent, divided three ways, as I
24 understand it, that their interest would be the number she
25 initially mentioned, which I think was around \$60 or \$64 or

1 \$0.

2 Q. And is that number based on the AFE, the
3 estimated costs for this well?

4 A. Right, that is an estimate. I mean, that's our
5 best guessed estimate. There certainly could be overruns
6 or whatever. But I told her that if the well ran according
7 to AFE, that would be the approximate --

8 Q. And is that the amount that they would need to
9 pay to voluntarily commit their interest to this well?

10 A. We actually, I believe, would only prebill them
11 for -- I'm not sure for a small amount like that we would
12 even prebill, but we would just prebill for the dryhole
13 cost, not the completing cost. But we did talk about if
14 the well was dry or if it wasn't completed, if --

15 Q. Can you put those numbers for the Lopez family in
16 writing --

17 A. Certainly.

18 Q. -- and send that to them?

19 A. Certainly.

20 Q. And are you hopeful that you would drill a
21 successful well at this location?

22 A. We're going to be expending the vast majority of
23 the \$800,000, so yes, we're hopeful we will have a
24 completion.

25 Q. And following this hearing and the entry of an

1 order in this case, is it your understanding that they
2 would have at least 30 days after the order to pay their
3 proportionate share and therefore commit their interest to
4 the well?

5 A. Yes, sir.

6 Q. And then if they did that, they would receive
7 that, albeit small, share of production after costs from
8 the well?

9 A. Yes, sir.

10 EXAMINATION

11 BY EXAMINER ASHLEY:

12 Q. Okay, Mr. Wheeler, where on Exhibit 3 does Ms.
13 Lopez -- is she listed on this exhibit?

14 A. The original interest for the Redford, Peace and
15 Lopez was sent out to a Moran. Let me see if I can locate
16 that for you.

17 Okay. Now, she mentioned that there was a
18 January contact. The original AFE went out on December
19 27th, and the letter is attached in Exhibit 3. When we
20 were notified that -- Let me see if I can locate the Moran
21 letter. Okay, it's about halfway through. It's after --
22 If you see James and Judith Brown, then there's Louise
23 Richardson, then there's Marjorie Moran, personal
24 representative of the Estate of Ernest L. Redford,
25 Deceased.

1 Q. This is in Exhibit 3?

2 A. Yes, a letter dated December 27th. That was the
3 original letter that was -- The county records that we --
4 that our broker found indicated that this should have been
5 sent to this Marjorie Moran.

6 We were subsequently notified, I believe by Mrs.
7 Peace, that that interest had been split under the estate
8 and was now owned by Larry Redford, Diana Peace and Mrs.
9 Lopez.

10 And so we, on January 19th, then, sent out a
11 revised letter to each of them, indicating their individual
12 shares, which we received green cards back on.

13 Q. Okay. Now, why is there an asterisk by that name
14 on Exhibit 2?

15 A. The asterisk is there because initially it was
16 sent to Moran, and then if you notice it says "Redford,
17 Peace and Lopez". Actually, that 0.13 acres should be
18 divided into thirds for each of these heirs. And the
19 percentage, the 0.04, should be divided into thirds.

20 And thus we came up with the -- I came up with
21 the amount on the phone the day I talked to Mrs. Peace and
22 told her what I felt like their estimated share would be if
23 they participated.

24 Letters in December and January also reiterated
25 an offer that had been made to lease their interest by our

1 broker previously, and we're still prepared to take a lease
2 on their interest if they desire.

3 EXAMINER ASHLEY: Do you have anything further,
4 Mr. Carr?

5 MR. CARR: I have nothing further of this
6 witness, Mr. Ashley.

7 EXAMINER ASHLEY: Mr. Bruce, do you have anything
8 further?

9 MR. BRUCE: No questions, Mr. Examiner.

10 EXAMINER ASHLEY: Ms. Lopez?

11 MS. LOPEZ: (Shakes head)

12 EXAMINER ASHLEY: I do have a couple more
13 questions.

14 Q. (By Examiner Ashley) Are any of the proposed
15 proration units owned 100 percent or leased 100 percent by
16 Nearburg?

17 A. The proposed -- Are you talking about the 40s,
18 the 80s or --

19 Q. Yes.

20 A. I don't believe so, no, sir.

21 Q. All of them had diverse ownership?

22 A. Yes, sir.

23 Q. Okay.

24 A. This Exhibit 1 shows the nature or the
25 subdivisions out here. And in actuality, I believe in

1 every case where we own a undivided interest, Arch also has
2 undivided interests leased, in every case.

3 As a personal note, I'd like to say that I would
4 love to know who Mrs. Lopez or her sister-in-law contacted,
5 because I can't imagine anyone at Nearburg being that
6 impertinent to a royalty owner, and I'd like -- if we can
7 locate who that is. It certainly was not done with my
8 knowledge or blessing, and we would -- I attempted in my
9 conversation with Mrs. Peace to be as up front as possible
10 with them, and that's the way we intend to be.

11 EXAMINER ASHLEY: Ms. Lopez, you don't have any
12 idea who you talked to at Nearburg?

13 MS. LOPEZ: It was my sister-in-law, and she was
14 in Texas.

15 MS. PEACE: Larry Redford, it was his wife, and
16 he lives in Odessa, Texas.

17 EXAMINER ASHLEY: Okay.

18 MS. LOPEZ: -- phone number and see if she --

19 THE WITNESS: I would like to know who she
20 contacted, because that kind of response is not called for,
21 and I apologize for it if that occurred, so...

22 EXAMINER ASHLEY: Okay, I will let --

23 MS. LOPEZ: The person about the lease -- didn't
24 even want the lease, was January 19th. My sister, who was
25 executor of my dad's estate, the first, never informed us

1 that there was anybody -- You know, they said something
2 about a lease, but that was all they would tell us.

3 EXAMINER ASHLEY: Okay, just one final question.

4 Q. (By Examiner Ashley) Did you say this was
5 proposed for the Undesignated Red Lake-Penn Gas Pool?

6 A. I believe this is located within one mile of the
7 Red Lake-Penn Gas Pool, so...

8 Q. Okay, and the Morrow is your primary objective.
9 Do you have a secondary objective?

10 A. We have a geological witness --

11 Q. Okay.

12 A. -- coming up next. I would let him speak to
13 that, but --

14 EXAMINER ASHLEY: Okay, that's fine. And I'll
15 let you visit with Ms. Lopez --

16 THE WITNESS: Sure.

17 EXAMINER ASHLEY: -- outside the hearing.

18 THE WITNESS: Thank you.

19 MR. BRUCE: Mr. Examiner?

20 EXAMINER ASHLEY: Yes.

21 MR. BRUCE: Just one question, something you
22 brought up.

23 EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Wheeler, did you say -- Does Nearburg own

1 interest under the well site?

2 A. Yes.

3 Q. It does?

4 A. Some undivided interest, yes.

5 MR. BRUCE: Okay, that's all I have.

6 EXAMINER ASHLEY: Okay. Thank you, Mr. Wheeler.

7 MR. CARR: May it please the Examiner, at this
8 time we call Mr. Elger.

9 JERRY B. ELGER,

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

12 DIRECT EXAMINATION

13 BY MR. CARR:

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

15 A. Jerry Elger.

16 Q. Where do you reside?

17 A. In Midland, Texas.

18 Q. By whom are you employed?

19 A. By Nearburg Producing Company.

20 Q. And what is your position with Nearburg?

21 A. Exploration geologist.

22 Q. Mr. Elger, have you previously testified before
23 this Division and had your credentials as an expert in
24 petroleum geology accepted and made a matter of record?

25 A. Yes, I have.

1 Q. Are you familiar with the Application filed in
2 this case?

3 A. Yes, I am.

4 Q. Have you made a geological study of the area
5 which is the subject of this Application?

6 A. Yes, I have.

7 Q. Are you prepared to share the results of that
8 work with the Examiner?

9 A. Yes.

10 MR. CARR: Are Mr. Elger's qualifications
11 acceptable?

12 EXAMINER ASHLEY: They are.

13 Q. (By Mr. Carr) Mr. Elger, let's go first to what
14 has been marked for identification as Nearburg Exhibit
15 Number 7, and I'd ask you to identify this, please.

16 A. Exhibit Number 7 is a production map. It shows
17 the Morrow producers in the vicinity of the proposed
18 spacing unit, west half of Section 19.

19 Q. Before we go through this exhibit, now, there is
20 an incorrect identification on this exhibit and on the
21 subsequent exhibits. Would you point that out to the
22 Examiner?

23 A. That is correct. The township boundary between
24 Range 26 East and 27 East is the section line boundary that
25 runs north-south on the western margin of Sections 18, 19,

1 30 and 31. You'll see Range 27 East has been indicated on
2 the bottom left of each map, and that is actually -- Range
3 26 East and Range 27 East is to the right of that township
4 boundary.

5 Q. Now, Mr. Elger, we're going to be talking
6 principally about the Morrow. Are there secondary
7 objectives in this well?

8 A. As the production map indicates, the majority of
9 the production from the Pennsylvanian in this area is from
10 the Morrow. There is no Atoka production in the immediate
11 area. There is a preponderance of shallow Seven Rivers-
12 Queen-Grayburg-San Andres producers which have been
13 indicated blue, by the blue shading on this map.

14 Q. All right, let's go to this map, and I'd ask you
15 to review it for the Examiner.

16 A. Again, this is a production map showing the
17 Morrow production history, total cumulative production from
18 every Morrow well surrounding this particular tract.
19 You'll notice a number of commercial Morrow wells to the
20 north, particularly in Section 13 and Section 18. The
21 immediate offsets that have been productive from the Morrow
22 to our proposed location, to the west and to the southeast,
23 are either poor or marginal producers.

24 The structure is a 50-foot contour on the top of
25 the lower Morrow. And as this map indicates, we're

1 basically looking at a regional dip with a rate of about
2 150 feet per mile to the southeast.

3 Q. This exhibit also has a trace on it for a
4 subsequent cross-section, does it not?

5 A. That's correct.

6 Q. And that's Exhibit Number 8?

7 A. Yes, it is.

8 Q. Let's take that out and review that for the
9 Examiner.

10 A. Exhibit Number 8 is a cross-section that
11 incorporates the Atoka and Morrow sections in a suite of
12 wells both to the north and south of the proposed location.

13 The individual sand packages that Nearburg
14 recognizes in this immediate area have been identified as
15 the Morrow "A", the lower "B" and the Morrow upper "C".
16 Again, this is a stratigraphic cross-section, hung on the
17 top of the lower Morrow.

18 I have two additional exhibits which are isopach
19 maps of the two main sands, which are the most productive
20 -- better productive sands that have developed within the
21 Morrow in these wells surrounding the proposed drill site.
22 Those are the lower "B" sand, which is the dark yellow, and
23 the upper "C" sand, which is the ochre-shaded sand.

24 Notice that the upper "C" sand is continuous
25 across all of the wells incorporated on this cross-section.

1 The log characteristics in each of these wells indicates
2 that there's excellent reservoir rock developed both north
3 and south of the proposed drill site. But you'll also
4 notice in the annotation of the wells to the right of the
5 proposed location that when the upper "C" sand was
6 production-tested, the indications were that the sand
7 contained water rather than natural gas.

8 The Read and Stevens Fair Number 1 well, located
9 in Section 30, production-tested the very top part of that
10 upper "C" sand and flowed a mix of gas and formation water.
11 It had characteristics which were indicative of excellent
12 quality reservoir, but again the reservoir appears to
13 contain a mix of gas and water in that particular well.
14 And that well was not productive from the Morrow.

15 The lower "B" sand, which is the other isopach
16 sand that we'll look at on one of the next exhibits, is
17 productive only on one well south of the proposed location.
18 It's not very well developed.

19 As the log indicates, it's present, but the
20 interpretation from the logs is that it's a rather dirty-
21 shaly sand, and when we look at the isopach of that
22 particular sand, we'll see that the reason for the lower
23 "B" being nonproductive is that those wells encountered the
24 lower "B" on the edges of a lower "B" sand channel which,
25 the interpretation is, runs north-south across the proposed

1 location.

2 Q. Let's go to your isopach on the Morrow lower "B"
3 sand, Exhibit Number 9, and I'd ask you to review that.

4 A. Exhibit Number 9 is the isopach of the lower "B"
5 sand. It is a net-sand isopach map, using an 8-percent
6 porosity log cutoff. Again, you'll see the trace of the
7 cross-section, A-A', and the wells which are productive
8 from the Morrow lower "B" are indicated red on this
9 particular display.

10 You'll see a number of wells, particularly in
11 Sections 13, 18, and one to the west of the proposed
12 location, were all perforated in the lower "B" sand
13 interval.

14 Wells which have sand present in the lower "B"
15 interval but it's non-reservoir quality sand are indicated
16 in yellow on this particular display.

17 The numbers exhibited by each well indicate the
18 net sand isopach or the net sand values, using, again, the
19 8-percent log cutoff, versus the gross sand interval that
20 is developed in the lower "B".

21 Again, the interpretation based on the logs from
22 all of the wells drilled in this particular area is that
23 the lower "B" sand was deposited in north-south-oriented
24 stream, which goes partially through the west half of
25 Section 19, the east half of 24, down to the wells to the

1 south of the proposed spacing unit.

2 Q. All right, let's now go to the upper "C" sand,
3 Exhibit Number 10.

4 A. Again, the upper "C" sand, same parameters for
5 the isopach of that particular sand. The interpretation is
6 that it's a north-south-oriented channel deposit. And
7 again, as the cross-section shows, the sand is excellent
8 quality reservoir rock, both north and south of the
9 proposed location.

10 The wells that had shows of gas in that reservoir
11 is located in the northwest quarter of Section 30. There's
12 also a show of gas and a production test in the well in the
13 south half of Section 25. Both of those wells, the
14 reservoir contains a mix of gas and water. The indications
15 are, based on production tests or drill stem tests, that as
16 you progress south from those two wells, the sand is water-
17 bearing.

18 But as you'll notice, again, up in Section 13 and
19 Section 18, you'll see a number of wells that are gas-
20 productive from this same interval. And the well in the
21 southwest quarter of Section 18, again, has been
22 incorporated on the cross-section. It's the Kewanee Oil
23 Feather Number 1, and it was perforated and has an
24 excellent production history from the upper "C" sand
25 interval.

1 I would refer back at this time to -- in
2 conjunction with Exhibit 10, the structure map which was
3 Exhibit Number 7.

4 And you'll notice that the proposed location in
5 the west half of Section 19, structurally, we are
6 anticipating encountering this lower -- or this upper "C"
7 sand interval on the order of 100 feet structurally high to
8 the Read and Stevens Fair Number 1 well, which had a mix of
9 gas and water when it production-tested this particular
10 sand.

11 Therefore, we think the continuity of reservoir
12 rock which exists across Section 19 is highly suggestive
13 that we can drill in the gas column for this particular
14 sand, structurally above the Read and Stevens Fair well and
15 capture some reserves in the upper "C".

16 Q. Are you prepared to make a recommendation to the
17 Examiner concerning the risk penalty which should be
18 assessed against any interest owner who doesn't participate
19 in the well?

20 A. Yes.

21 Q. And what is that?

22 A. It's 200 percent.

23 Q. And just summarize the basis for that
24 recommendation.

25 A. We have two -- The interpretation is that we have

1 two sand channels, again, oriented north-south across the
2 spacing unit, and -- which we hope to intersect at the
3 proposed location.

4 But if you'll refer to the Exhibit Number 7,
5 you'll see that the production histories of wells in the
6 immediate area, there's two wells already existing in
7 Section 19. One was a dry hole, the well in the southeast
8 quarter of 19 was a very -- noncommercial well. The well
9 in the east half of 24, which was productive from the
10 Morrow, was also a noncommercial well. And we are drilling
11 kind of in the middle of this grouping of wells which are
12 not commercial.

13 There's obviously risk anytime you drill Morrow
14 wells. You can have -- we could have -- structurally be
15 off on our gas-water pick for the upper "C" and be wet in
16 that sand, we could be tight in that sand, and that really
17 applies to the upper "B" as well.

18 Q. In your opinion, will the approval of this
19 Application and the drilling of the proposed well be in the
20 best interest of conservation, the prevention of waste, and
21 the protection of correlative rights?

22 A. Yes.

23 Q. Were Nearburg Exhibits 7 through 10 prepared by
24 you?

25 A. Yes.

1 MR. CARR: At this time, Mr. Ashley, we move the
2 admission into evidence of Nearburg Exhibits 7 through 10.

3 EXAMINER ASHLEY: Exhibits 7 through 10 will be
4 admitted as evidence at this time.

5 MR. CARR: That concludes my direct examination
6 of Mr. Elger.

7 EXAMINER ASHLEY: Mr. Bruce?

8 EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Elger, looking at your Exhibit 7, the wells
11 on the north end of this map, what time frame were they
12 drilled?

13 A. Those wells were drilled -- I want to say in the
14 late to mid-1980s.

15 Q. And from the data you've put here, it's a pretty
16 dry gas, there's not much liquid produced?

17 A. That's correct.

18 Q. Of the two zones, or the two primary zones of
19 interest, your Morrow "B" and Morrow "C", is there one that
20 is more important than the other, that seems to produce
21 more, or cannot you tell from the material you have?

22 A. You really can't tell. We find this area
23 attractive in that we really -- as the isopachs indicate,
24 we have the opportunity to potentially get two pay sands,
25 commercial pay sands, in one wellbore. That doesn't often

1 exist in drilling for the Morrow.

2 I really -- If I had to weigh one versus the
3 other, I'd really kind of opt towards the upper "C" as
4 being more of a primary target than the lower "B".

5 Q. And then one final question. On your Exhibit 10
6 you show the gas-water contact. Does that play into your
7 well location? Is the structure at least somewhat
8 important in the "C" zone?

9 A. It does. We know that the gas-water contact is
10 going to roughly parallel strike, which was derived from
11 the structure map, Exhibit Number 7. It's kind of the
12 trace of the strike of those contours that go across there.

13 And we also know that the wells in 30 and 25 had
14 gas shows from that particular sand.

15 MR. BRUCE: Thank you.

16 EXAMINER ASHLEY: Ms. Lopez, do you have any
17 comments?

18 MS. LOPEZ: (Shakes head)

19 THE WITNESS: I can assure Ms. Lopez that we're
20 not about to -- I hope we're not -- Being the originator of
21 this prospect at Nearburg, I certainly hope that it's not a
22 dry hole.

23 EXAMINER ASHLEY: Thank you, Mr. Elger. I have
24 nothing further.

25 MR. CARR: That concludes our presentation in

1 this case.

2 EXAMINER ASHLEY: There being nothing further in
3 this case, Case 12,351 will be taken under advisement.

4 And that concludes today's hearing.

5 (Thereupon, these proceedings were concluded at
6 11:23 a.m.)

7 * * *

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11
12 I do hereby certify that the foregoing is
13 a complete record of the proceedings in
14 the Examiner hearing of Case No. 12351,
15 heard by me on 3-2-98 2000.
16 Mark Kahl, Examiner
17 Oil Conservation Division
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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 March 6th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002