

NEW MEXICO OIL CONSERVATION DIVISION

EXAMINER HEARINGSANTA FE, NEW MEXICOHearing Date AUGUST 10, 2000 Time 8:15 A.M.

NAME	REPRESENTING	LOCATION
William E. Jam	Empire Energy Inc.	El Paso
John E. Jensen	" "	Santa Fe
SCOTT HALL	MILLER LAW	ST
MARK WHEELER	NEARBURG EXPL.	Midland
Ted Gendron	Nearburg Prod	Midland
Rusty Rice	Papadimitriou	Dallas
LARRY SWART	NM & O Operating Company	Tulsa
Mark P. Jones	McLean Oil Co.	Dallas
Jim Smith	McLean Oil Co.	Dallas
George Scott	Goshute	
Jim Miller	—	Santa Fe
Goodwin Johnson	Hayco	Roswell
VERNON D. DYER	Hayco	Roswell

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. 12,465
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR COMPULSORY POOLING,)
EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

August 10th, 2000

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MARK ASHLEY, Hearing Examiner on Thursday, August 10th, 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.

* * *

I N D E X

August 10th, 2000
Examiner Hearing
CASE NO. 12,465

	PAGE
EXHIBITS	3
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>MARK WHEELER</u> (Landman)	
Direct Examination by Mr. Hall	5
Examination by Examiner Ashley	11
<u>TED GAWLOSKI</u> (Geologist)	
Direct Examination by Mr. Hall	12
Examination by Examiner Ashley	16
REPORTER'S CERTIFICATE	19

* * *

E X H I B I T S

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

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A P P E A R A N C E S

FOR THE DIVISION:

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FOR THE APPLICANT:

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 Santa Fe, New Mexico 87501
 By: J. SCOTT HALL

* * *

1 WHEREUPON, the following proceedings were had at
2 8:15 a.m.:

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8 EXAMINER ASHLEY: This hearing will now come to
9 order for Docket Number 22-00. Please note today's date,
10 August 10th, 2000. I'm Mark Ashley, appointed Hearing
11 Examiner for today's cases.

12 Before we call the first case, I'd like to review
13 the docket for continuances and dismissals.

14 (Off the record)

15 EXAMINER ASHLEY: The Division calls Case 12,465,
16 Application of Nearburg Exploration Company, L.L.C., for
17 compulsory pooling, Eddy County, New Mexico.

18 Call for appearances.

19 MR. HALL: Mr. Examiner, Scott Hall, Miller
20 Stratvert Torgerson law firm in Santa Fe on behalf of the
21 Applicant, Nearburg Exploration Company, with two witnesses
22 this morning.

23 EXAMINER ASHLEY: Additional appearances?

24 Will the witnesses please rise to be sworn in?

25 (Thereupon, the witnesses were sworn.)

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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. HALL:

Q. For the record, would you please state your name, sir?

A. Mark Wheeler.

Q. And where do you live and by whom are you employed?

A. Midland, Texas; Nearburg Exploration Company.

Q. And what do you do for Nearburg?

A. I'm senior landman.

Q. You've previously testified before the Division and had your credentials as an expert petroleum landman accepted as a matter of record?

A. Yes, sir.

Q. And you're familiar with the Application and the lands that are the subject of this case?

A. Yes, sir.

MR. HALL: At this point we'd tender Mr. Wheeler as an expert petroleum landman.

EXAMINER ASHLEY: Mr. Wheeler is so qualified.

Q. (By Mr. Hall) Mr. Wheeler, would you briefly explain to the Examiner what it is Nearburg seeks by this

1 Application?

2 A. Nearburg seeks an order pooling all mineral
3 interests underlying the east half of Section 19, Township
4 18 South, Range 28 East, Eddy County, in the following
5 manner:

6 The east half to form a standard 320-acre gas
7 spacing and proration unit for all formations and/or pools
8 developed on 320-acre spacing within that vertical extent,
9 including the Undesignated North Illinois Camp-Morrow Gas
10 Pool and the Undesignated South Empire-Morrow Gas Pool;

11 The northeast quarter for all 160-acre
12 formations;

13 The north half, northeast quarter, for all 80-
14 acre formations;

15 And the northwest quarter of the northeast
16 quarter for all 40-acre formations, including the Artesia-
17 Queen-Grayburg-San Andres Pool.

18 Said units are to be dedicated to Nearburg's
19 proposed Pathfinder 19 State Com Number 1 well, to be
20 drilled at a standard location 660 feet from the north line
21 and 1980 feet from the east line of said Section 19.

22 Q. Does Nearburg Exploration seek to be designated
23 operator of the proposed well?

24 A. Yes, sir.

25 Q. If you would, please, sir, refer to Exhibit 1 and

1 explain that to the Examiner.

2 A. Exhibit 1 is a land map showing the proration
3 unit for this proposed well.

4 It also has a dot showing the location of the
5 well and shows the leasehold ownership in the area around
6 the well.

7 Q. And what is the primary objective of the well?

8 A. The Morrow formation.

9 Q. All right, let's look at Exhibit 2. If you would
10 explain that to the Hearing Examiner, please, sir.

11 A. This is an ownership breakdown of the leasehold
12 interests in the east half of Section 19.

13 I have marked beside the two parties that have
14 already executed our AFE and have a breakdown by percentage
15 of the ownership.

16 Q. Why don't you identify for the record the parties
17 you seek to pool here today?

18 A. The parties -- We're negotiating with several of
19 these.

20 I don't anticipate ultimately they will be
21 pooled, but at this point the parties we're seeking to pool
22 are the Yates Petroleum group, Phillips Petroleum, Kaiser-
23 Francis Oil Company and Wilson Oil Company in Denver.

24 Q. All right. And what percentage is dedicated to
25 the well now?

1 A. Approximately 63.3 percent.

2 Q. All right. Let's turn to Exhibit 3, please, sir,
3 your AFE. If you would review the totals on that exhibit
4 for the Examiner.

5 A. The dryhole cost estimate for this well is
6 \$574,438. The completed well estimate is \$923,531.

7 Q. And are these costs in line with what's being
8 charged by other operators for similar wells in the area?

9 A. Yes, sir.

10 Q. And do these rates compare favorably with the
11 Ernst and Young Survey?

12 A. We haven't discussed the overhead rates yet.

13 Q. All right. Let's talk about the drilling and
14 operating rates, if you would, please. What are those
15 rates that you seek?

16 A. We're requesting a rate of \$6000 per month during
17 the drilling of the well and \$650 per month during the
18 producing phase.

19 Q. And these rates are in line with what's being
20 charged by other operators and compare favorably with the
21 Ernst and Young survey, do they not?

22 A. Yes, sir.

23 Q. Do you ask that these rates be incorporated into
24 any order that issues from the Division?

25 A. Yes.

1 Q. If you would, please, sir, refer to Exhibit 4.
2 Is Exhibit 4 a compilation of your letter seeking joinder
3 of the various parties in the well?

4 A. Yes, sir.

5 Q. Would you summarize your efforts to obtain their
6 joinder?

7 A. We initiated contact with leasehold owners in the
8 east half of Section 19 as far back as December, 1999.

9 The Exhibit 4 is a chronological order of many of
10 the different parties that we've been able to sign up,
11 either through term assignments or farmouts, and then also
12 has our AFE that we sent out to the parties that are still
13 undecided.

14 Q. All right. With respect to these Phillips
15 interests, have you had an affirmative response from them
16 as of yet?

17 A. No, we have not. But I did hear this last week
18 that they're in the process of farming out their interests
19 to Marbob's group, and Marbob will participate with that
20 interest when they have it.

21 Q. But you don't have that --

22 A. At this time there's no signed agreement, so
23 we're continuing to list them as a party to the pooling.

24 Q. And what is the status of the Kaiser-Francis
25 interest?

1 A. We have made several contacts with Kaiser-
2 Francis, and I believe that they're going to farm out to
3 us, but we have not gotten a formal agreement from them.

4 Q. And what is the status of the Yates Petroleum
5 Company?

6 A. Yates indicated that they would participate in
7 the well, but at this time I still have not received their
8 AFE.

9 Q. And the remaining party, I believe, is the Wilson
10 entities? What is that status?

11 A. My understanding of the last conversation that I
12 heard about on that, they are probably going to participate
13 also.

14 Q. Mr. Wheeler, in your opinion have you made a
15 good-faith effort to obtain the voluntary joinder of all of
16 these interest owners?

17 A. Yes, sir.

18 Q. Does Nearburg seek the issuance of an expedited
19 order pooling the interests in this case?

20 A. Yes, sir, we do. We have a November 1st deadline
21 under a farmout with Louis Dreyfus that we need to get this
22 well drilled by that time.

23 Q. All right. Were Exhibits 1 through 4 prepared by
24 you or at your direction and control?

25 A. Yes, sir.

1 MR. HALL: We'd move the admission of Exhibits 1
2 through 4, and that concludes our direct of this witness.

3 EXAMINER ASHLEY: Exhibits 1 through 4 will be
4 admitted as evidence.

5 THE WITNESS: I have a quick question for him, if
6 I may ask him a quick question?

7 EXAMINER ASHLEY: That's fine.

8 (Off the record)

9 THE WITNESS: Thank you.

10 EXAMINER ASHLEY: Uh-huh.

11 EXAMINATION

12 BY EXAMINER ASHLEY:

13 Q. Mr. Wheeler, does Nearburg control 100 percent of
14 the interest in any one of these spacing units?

15 A. No, sir.

16 Q. And to your knowledge, are there any 80-acre
17 pools within a mile of this?

18 A. Not to my knowledge. I'm not aware. Our
19 geological expert could testify better what the uphole
20 zones are in this area that might require an 80-acre
21 spacing unit.

22 EXAMINER ASHLEY: Okay. I have nothing further.
23 Thank you.

24 MR. HALL: At this time we would call Ted
25 Gawloski to the stand.

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TED GAWLOSKI,

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

DIRECT EXAMINATION

BY MR. HALL:

Q. For the record, please state your name, sir.

A. My name is Ted Gawloski.

Q. And where do you live and by whom are you employed?

A. I work for Nearburg Producing Company out of Midland, Texas.

Q. And in what capacity?

A. I'm a geologist.

Q. Have you previously testified before the Division and had your credentials as an expert petroleum geologist accepted and made a matter of record?

A. Yes, I have.

Q. And are you familiar with the Application filed in this case?

A. Yes, I am.

Q. And the lands and the geology of the subject area?

A. Yes.

MR. HALL: At this point, Mr. Examiner, we tender Mr. Gawloski as an expert petroleum geologist.

1 EXAMINER ASHLEY: Mr. Gawloski is so qualified.

2 Q. (By Mr. Hall) If you would, Mr. Gawloski, would
3 you present the Examiner with a brief overview of the
4 geology of the Morrow formation in the area of the
5 Application?

6 A. Starting with Exhibit Number 5, the Exhibit
7 Number 5 is a cross-section of the Strawn to Atoka
8 formations in the area. This cross-section starts up in
9 the northwest in Section 6 and goes through Section 7
10 across the proposed location and moves to the east in
11 Section 17 and 20, some of the wells in that direction. It
12 shows the different units in here. Our primary interests
13 are the sands of the Morrow formation, which is in the
14 lower part of the cross-section.

15 The cross-section does show the different units
16 that we'll be mapping. One map will have isopached the
17 sand that's shown in green down at the bottom part of the
18 Morrow "C" sands, and Exhibit 7 will address the isopach of
19 the yellow sand section through here in part of what we
20 call the Morrow "B" sands.

21 And we have Exhibit Number 8, a structure map on
22 the top of the Morrow, which is this red marker in the
23 middle part of the cross-section.

24 Q. Now, is Nearburg seeking a 200-percent risk
25 penalty assessment against the unjoined parties in this

1 case?

2 A. Yes, we are.

3 Q. And what is the basis of that 200-percent penalty
4 request?

5 A. Okay, part of it we could address to Exhibit 5.
6 One of the things you note when we look at the Morrow
7 section here is the discontinuous nature of these sands in
8 the Morrow "C", in particular toward the right of the
9 cross-section, and you can see that there's actually four
10 different units in here that actually come and go.

11 And in the Morrow "B" section, the section thins
12 and pinches out across this area, so there's a lot of
13 discontinuity to the reservoir.

14 Also in Exhibit 6, which is an isopach of our
15 Morrow "C" sand, you'll see that there is -- the closest
16 good producer is about one and a half miles to the north,
17 that's on trend with this well. There is very little -- In
18 the eight surrounding sections there's only one Morrow
19 producer greater than 1 BCF out of that particular horizon.

20 And if you move on to Exhibit 7, this is an
21 isopach of the lower Morrow "B", which is the darker yellow
22 unit on the cross-section. And you can see in the -- Okay,
23 there is no Morrow "B" producers on trend in this entire
24 area. The closest one is over there in Section 20, which
25 is on a separate trend.

1 So we hope to be on a trend that's coming from
2 the northwest, but there's a whole lot -- there's a lot of
3 risk involved in whether or not we're going to find that
4 trend across this area. Now, there's very little control,
5 deep control, in this whole area here.

6 And then Exhibit 8 is a structure map on the top
7 of the Morrow "C". And as you can see, there is no
8 structural closure here to enhance the potential for
9 hydrocarbon entrapment, so basically these traps are
10 stratigraphic in nature.

11 Q. Has Nearburg drilled other Morrow wells in the
12 general area of this well?

13 A. Yes, we have.

14 Q. And in your opinion is there a risk that this
15 well may not be completed as a commercial well?

16 A. Yes, there is.

17 Q. In your opinion, Mr. Gawloski, will granting
18 Nearburg's Application be in the interests of conservation,
19 the prevention of waste and the protection of correlative
20 rights?

21 A. Yes.

22 Q. And were Exhibits 5 through 8 prepared by you?

23 A. Yes, they were.

24 MR. HALL: At this time we'd move the admission
25 of Exhibits 5 through 8, and I'd also offer Exhibit 9,

1 which is our notice affidavit in this case.

2 And that concludes my direct of this witness.

3 EXAMINER ASHLEY: Okay, Exhibits 5 through 9 will
4 be admitted as evidence.

5 EXAMINATION

6 BY EXAMINER ASHLEY:

7 Q. Mr. Gawloski, on Exhibits 6 and 7 can you
8 identify which wells were drilled by Nearburg?

9 A. They are off this map. We have drilled -- We
10 recently drilled a well in Section 32 of an adjacent
11 township, in 18 South, 29 East, just last week, and
12 actually we drilled more than one well in that township,
13 which is -- It's about four or five miles to the east here.

14 Q. So Nearburg doesn't operate any of these wells on
15 either one of these isopach maps?

16 A. No.

17 Q. Do you know of any pools out there that are
18 spaced on 80 acres?

19 A. The only pool that I'm aware of out here that
20 might be on 80s is the Travis-Penn field, which is, I
21 think, located to the southeast of the proposed location.
22 The possibility exists that that Travis-Penn could come up
23 into this area here, although it hasn't been developed up
24 toward this area yet. There's some production farther to
25 the south and east of the proposed location, but it hasn't

1 been developed farther this direction. There's very little
2 deep well control out here. Most of it is Grayburg-San
3 Andres-type well control out here.

4 Q. The only 80-acre spacing that is permitted by the
5 OCD is through special pool rules. So if there's not an
6 80-acre pool within a mile of your proposed location, we
7 don't grant the pooling of 80 acres on that --

8 A. Okay.

9 Q. -- based on that. So that part should be
10 dismissed if there's not a pool within a mile.

11 MR. HALL: We'll investigate that and let you
12 know that.

13 Q. (By Examiner Ashley) Okay. Can you discuss any
14 of your secondary targets?

15 A. The only secondary target that I think is of
16 consequence is, there's some scattered Wolfcamp production
17 out here and some scattered Bone Spring production, but
18 they're really noneconomical to date in this area. A lot
19 of this is virtually unknown as far as the deep horizons
20 go. There's very little well control out here, so we don't
21 really know.

22 Q. Does Nearburg have interest in any of these other
23 surrounding Morrow wells?

24 A. The only -- Well, there's a well that is going to
25 be drilled in Section 18, just to the north, that we will

1 have interest in. The plans are for that well to be
2 spudded here in the next month or so by another operator.
3 That's the only -- in this mapping area that we have
4 interest in right now.

5 EXAMINER ASHLEY: I have nothing further. Thank
6 you.

7 There being nothing further in this case, Case
8 12,465 will be taken under advisement.

9 (Thereupon, these proceedings were concluded at
10 8:40 a.m.)

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16 I hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. 12465.
19 heard by me on 8-10-00 19
20 Mark White, Examiner
21 of 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 August 11th, 2000.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002