

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. 12,470
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, L.L.C., FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MARK ASHLEY, Hearing Examiner

August 10th, 2000

Santa Fe, New Mexico

OIL CONSERVATION DIV.
00 AUG 16 AM 11:58

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. 12,470

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* * *

EXHIBITS

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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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 Suite 1 - 110 N. Guadalupe
 P.O. Box 2208
 Santa Fe, New Mexico 87504-2208
 By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 9:48 a.m.:

3 EXAMINER ASHLEY: The Division now calls Case
4 12,470, Application of Nearburg Exploration Company,
5 L.L.C., for compulsory pooling, Lea County, New Mexico.

6 Call for appearances.

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

11 I would request that the record reflect that Mr.
12 Wheeler and Mr. Gawloski testified in an earlier case, that
13 they were placed under oath and remain under oath for the
14 purposes of testimony in this manner.

15 EXAMINER ASHLEY: Okay, the record will reflect
16 that, that both witnesses are still under oath.

17 MR. CARR: At this time we call Mark Wheeler.

18 MARK WHEELER,
19 the witness herein, having been previously duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

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

24 A. Mark Wheeler.

25 Q. Where do you reside?

1 A. Midland, Texas.

2 Q. By whom are you employed?

3 A. Nearburg Exploration Company.

4 Q. Mr. Wheeler, what is your position with Nearburg
5 Exploration Company?

6 A. Senior landman.

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

9 A. Yes, sir.

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

13 A. Yes, sir.

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

16 A. Yes, sir.

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

19 A. Yes, I am.

20 MR. CARR: Are Mr. Wheeler's qualifications
21 acceptable?

22 EXAMINER ASHLEY: They are.

23 Q. (By Mr. Carr) Would you briefly summarize for
24 Mr. Ashley what it is that Nearburg seeks with this
25 Application?

1 A. I would, except I didn't bring...

2 (Off the record)

3 THE WITNESS: Nearburg seeks an order pooling all
4 minerals from the surface to the base of the Bone Springs
5 formation in the northeast southeast of Section 13,
6 Township 19 South, Range 33 East, for all formations or
7 pools developed on 40-acre spacing. Those pools are in the
8 Undesignated Tonto-Seven Rivers Pool, the Undesignated
9 Southeast Buffalo-Bone Spring Pool and the Undesignated
10 East Gem-Delaware Pool.

11 This will be dedicated to our Panama 13 Federal
12 Well Number 2, to be drilled at a standard location in the
13 northeast quarter, southeast quarter, of said Section 13 at
14 a location 1650 feet from the north line and 990 feet from
15 the east line of the said Section 13.

16 Q. (By Mr. Carr) Would you refer to what has been
17 marked for identification as Nearburg Exhibit Number 1,
18 identify that and review it for the Examiner, please?

19 A. Exhibit Number 1 is a land map which shows the
20 spacing unit for the proposed well, standard 40-acre
21 spacing unit, northeast southeast of Section 13, our
22 proposed well location for this well, and it shows the
23 leasehold ownership in the area.

24 Q. And the location for the well is 1650 from the
25 south line, not from the north line; is that correct?

1 A. Yes, sir.

2 Q. What is the status of the acreage in the
3 northeast quarter, southeast quarter of Section 13?

4 A. It's all federal.

5 Q. And what is the primary objective in the well?

6 A. Bone Springs.

7 Q. Is there a secondary objective?

8 A. Yes, the Delaware formation.

9 Q. Let's go to what has been marked Nearburg Exhibit
10 2. Would you identify this and review it for Mr. Ashley?

11 A. This is a lease -- ownership breakdown for this
12 40-acre spacing unit, the northeast southeast of Section
13 13. It shows a breakdown of all the working interest
14 owners, both from the surface to the top of the Bone Spring
15 and from the top of the Bone Spring to the base of the Bone
16 Spring.

17 I've also listed the status of the parties that
18 we have received signatures for our AFE.

19 Q. Mr. Wheeler, what is the status of your
20 negotiations with EOG Resources?

21 A. EOG Resources has verbally committed to grant a
22 farmout -- actually a term assignment to Nearburg. We do
23 not have the paperwork signed on that, but I expect to have
24 that shortly.

25 Q. And at that time we will advise the Division, and

1 EOG would no longer be subject to pooling?

2 A. That's correct.

3 Q. What percentage of the working interest in this
4 spacing unit is voluntarily committed to the well?

5 A. At this time, approximately 63.5 percent.

6 Q. Are there any interest owners in the spacing unit
7 whom you've been unable to locate?

8 A. No, sir, we've contacted all of them.

9 Q. And in your opinion, have you made a good-faith
10 effort to identify and obtain the voluntary participation
11 of all interest owners in this spacing unit?

12 A. Yes, sir, we have.

13 Q. Would you summarize those efforts for Mr. Ashley?

14 A. We forwarded an AFE on June the 29th for this
15 well to all parties. We received all of our green cards
16 back.

17 Within that letter we also offered to acquire
18 their interests via farmout or term assignment under
19 mutually acceptable terms if they did not want to
20 participate in the well. We've had some subsequent
21 conversations with some of the owners, and we've not heard
22 back from some of the owners, other than getting their
23 green card back.

24 Q. You have previously pooled interests in the north
25 half of the section; is that right?

1 A. Yes, sir, we have.

2 Q. The same owners that you have been working with
3 in pooling for prior wells drilled --

4 A. Yes, sir.

5 Q. There are certain owners in this area from whom
6 you've never been able to get a response?

7 A. We've never heard anything from some of them.

8 Q. The names and the status of the interest as set
9 forth on Exhibit 2 is current as of today, and EOG is the
10 one you're anticipating will change?

11 A. Yes, sir, it's current except for EOG's, and
12 again we don't have the final paperwork on that, so...

13 Q. Is Exhibit Number 3 your June 29th letter with
14 the attached AFEs which you provided to all those interest
15 owners who -- working interest owners in --

16 A. Yes, sir, and also the ones that we received back
17 executed.

18 Q. What is Nearburg Exhibit Number 4?

19 A. That's our AFE.

20 Q. Would you review the totals set forth on this
21 exhibit?

22 A. The dryhole cost is \$551,470, the completed cost,
23 \$942,498.

24 Q. Are these costs in line with what has been -- the
25 costs actually incurred by Nearburg in drilling similar

1 wells in the area?

2 A. Yes, sir.

3 Q. Is Exhibit Number 5 an affidavit with attached
4 letter confirming that notice of this Application has been
5 provided to all affected interest owners in accordance with
6 Oil Conservation Division rules and regulations?

7 A. Yes, sir.

8 Q. Have you made an estimate of the overhead and
9 administrative charges to be incurred while drilling and
10 while producing the well if it is successful?

11 A. Yes, sir, we have. During the drilling phase
12 \$4741 per month, and during the producing phase \$598 per
13 month.

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

15 A. This is the mean number in the 1999-2000 Ernst
16 and Young survey.

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

20 A. Yes, sir.

21 Q. Does Nearburg Producing Company seek to be
22 designated operator of the proposed well?

23 A. Yes, sir.

24 Q. Do you request that the order be expedited?

25 A. Yes, sir, we have a term assignment on a large

1 interest in this particular proration unit that expires

2 October the 18th. We would desire to get this well drilled
3 prior to that date.

4 Q. And be able to provide the AFE and the order and
5 give people an opportunity to --

6 A. -- to responde.

7 Q. -- participate prior to that time?

8 A. Yes, sir.

9 Q. Were Exhibits 1 through 5 prepared by you or
10 compiled at your direction?

11 A. Yes, sir.

12 MR. CARR: At this time, Mr. Ashley, we would
13 move the admission into evidence of Nearburg Exhibits 1
14 through 5.

15 EXAMINER ASHLEY: Exhibits 1 through 5 will be
16 admitted as evidence at this time.

17 MR. CARR: And that concludes my direct
18 examination of Mr. Wheeler.

19 EXAMINATION

20 BY EXAMINER ASHLEY:

21 Q. Mr. Wheeler, there was a well drilled in the
22 north half of Section 13 that Nearburg operated that was --

23 A. We have not started the drilling of that well
24 yet.

25 We had a force pooling hearing on that well about

1 a month ago, and the order has been received, and we have
2 sent that order out to all the parties that are affected,
3 and we are still under the response period for that.

4 But there will be a well drilled in the north
5 half.

6 Q. Do you remember what the order number is for
7 that?

8 A. I don't have that with me. The name of the well
9 is Stetson 13 Fed Number 1. I believe that was heard
10 approximately one month ago.

11 MR. CARR: I can provide the order --

12 EXAMINER ASHLEY: No, that's fine.

13 Q. (By Examiner Ashley) Tell me the name of the
14 well again?

15 A. Stetson 13 Fed Number 1.

16 Q. Did that well have the same objective as this
17 one?

18 A. It was a Morrow test. This is Bone Springs.

19 Q. Okay. Now, your overhead rates for drilling are
20 4,741 per month and \$598 per month?

21 A. Yes, sir.

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

24 MR. CARR: Mr. Examiner, at this time we call Ted
25 Gawloski.

1

TED GAWLOSKI,

2

the witness herein, having been previously duly sworn upon

3

his oath, was examined and testified as follows:

4

DIRECT EXAMINATION

5

BY MR. CARR:

6

Q. State your name for the record, please.

7

A. My name is Ted Gawloski.

8

Q. Where do you reside?

9

A. Midland, Texas.

10

Q. By whom are you employed?

11

A. Nearburg Producing/Exploration.

12

Q. What is your position with Nearburg?

13

A. I'm a senior staff petroleum geologist.

14

Q. Have you previously testified before this

15

Division?

16

A. Yes, I have.

17

Q. At the time of that testimony, were your

18

credentials as an expert in petroleum geology accepted and

19

made a matter of record?

20

A. Yes, they have.

21

Q. Are you familiar with the Application filed in

22

this case on behalf of Nearburg Exploration?

23

A. Yes, I am.

24

Q. Have you made a technical study or geologic study

25

of the area which is the subject of this case?

1 A. Yes, I have.

2 Q. Are you prepared to share the results of your
3 work with Mr. Ashley?

4 A. Yes, sir.

5 MR. CARR: Are Mr. Gawloski's qualifications
6 acceptable?

7 EXAMINER ASHLEY: They are.

8 Q. (By Mr. Carr) Has Nearburg drilled other Bone
9 Spring wells in this area?

10 A. Yes, sir, we have. We have drilled a well
11 approximately a half mile to the south. That is actually a
12 Morrow-depth well that did penetrate the Bone Spring. That
13 was drilled about a year or a year and a half ago.

14 We have also drilled several Bone Spring wells in
15 the Township to the south, 20 South, 33 East. Actually, we
16 just drilled two wells in the last month down in that area
17 right now.

18 Q. Mr. Gawloski, let's go to what has been marked as
19 Nearburg Exhibit Number 6, your cross-section, and I'd ask
20 you to turn to this exhibit and review for the Examiner the
21 zones of interest in this Application.

22 A. The zones of interest and the zones that will be
23 shown in the following geological exhibits are the lower
24 Delaware, what we call the lower Brushy Canyon. I've
25 denoted it as the Sagebrush sand in response to the name of

1 our well that we have found that zone producing in, and the
2 Bone Spring formation, which is the blue line at the bottom
3 that we've denoted in the very bottom of the cross-section.

4 One of the things to note is that this Sagebrush
5 sand is the zone that we recompleted in our Sagebrush 24
6 Fed Com Number 1 well that was an unsuccessful Morrow well,
7 and we've recompleted it up to this zone here in the past
8 two months.

9 Q. Let's go to Exhibit Number 7, your Bone Springs
10 structure map, and I'd ask you to review the information on
11 this exhibit.

12 A. This is a structure map that is on the top of the
13 Bone Spring, which is the blue marker at the bottom of the
14 cross-section, and what this shows is a pronounced -- a
15 structural ridge that extends from the northwest to the
16 southeast across Section 13 and along the proposed location
17 of the Panama 13 Federal Number 2 well.

18 And it also shows the Sagebrush well in Section
19 24 with the half blue marking on it -- purple marking,
20 excuse me. That shows that that well did have a show in
21 the Bone Spring formation. It has not been production-
22 tested.

23 And what we are looking to do is to maintain --
24 to get structurally high to that well with this proposed
25 location. That well had mud log shows, but the

1 calculations show that it might still possibly make water.

2 So what we're looking to do is to get in a structurally
3 updip position with this well.

4 Q. Let's go now to Exhibit 8 and look at the
5 Delaware, your isopach of that interval.

6 A. Exhibit 8 is an isopach of the lower Brushy
7 Canyon, what I've denoted as the Sagebrush sand. If you
8 look at the cross-section, it's the zone that's colored in
9 the bright yellow on there.

10 What this map shows is that there is a trend, a
11 thick trend, that extends across the southeast quarter of
12 13 into the north part of -- across the center part of
13 section 24. I would point out that these contour intervals
14 are two-foot contour intervals, so the zone does not get
15 very thick. The maximum thickness that it gets is only 14
16 feet to date, and that is in our Sagebrush well.

17 And the well in Section 24, the south half of 24,
18 the Matador Esmerelda Federal 24 Number 1, did not have any
19 mud log shows, and it calculates that it is wet. So that
20 zone has the zone in it, but it is nonproductive.

21 Q. All right, let's go now to Exhibit 9. Would you
22 identify this?

23 A. Exhibit 9 is a structure map on top of the lower
24 Brushy Canyon marker, and if you refer to Exhibit 6, the
25 cross-section, it would be that red marker on the top of

1 the cross-section, which is a good regional marker for
2 structure out here.

3 And what we're showing is a structural nose that
4 extends again across Section 13 from the northwest to the
5 southeast. The Sagebrush well is shown there as a green
6 hex in the northeast of Section 24. Essentially what we're
7 doing with our location is to move slightly updip and still
8 maintain our isopach in this Delaware zone.

9 I'd also like to point out, there is some other
10 Delaware production off to the west, but it is out of a
11 separate zone in the Delaware; it is not the same zone
12 that's in the well in the north half of 24.

13 Q. Are you prepared to make a recommendation to the
14 Examiner as to the risk penalty that should be assessed
15 against any nonparticipating interest owner?

16 A. Yes.

17 Q. And what is that?

18 A. A 200-percent penalty.

19 Q. And on what do you base that recommendation?

20 A. One is the -- If you refer to the Exhibit Number
21 7, I've showed all the Bone Spring producers in the area,
22 and essentially there's only two Bone Spring producers, a
23 well in Section 15 of 19 South, 33 East, that has made
24 27,000 barrels of oil, and a well in Section 30 of 19
25 South, 34 East, which has made 11,000 barrels of oil.

1 And the ones with the half-purple denote wells
2 that had shows in it. So essentially, there's very little
3 production out here. However, we did see a mud-log show on
4 our well in 24, and we feel that it's a legitimate target,
5 but we just need to gain structural position.

6 Also, if we refer to Exhibit Number 8, the lower
7 Delaware isopach, you'll see there's only one green dot on
8 the entire map. So far there's only one well that is
9 producing out of this zone, and the maximum thickness that
10 it gets is 14 feet. And we do have to have some sort of
11 structural components. We need to stay along that
12 structural ridge, because the well in the south half of 24
13 appears to be wet.

14 Q. In your opinion, could you drill a well at this
15 location that would not be a commercial success?

16 A. Yes, sir.

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

21 A. Yes, sir.

22 Q. Were Exhibits 6 through 9 prepared by you?

23 A. Yes.

24 MR. CARR: At this time, Mr. Ashley, we move the
25 admission into evidence of Nearburg Exhibits 6 through 9.

1 EXAMINER ASHLEY: Exhibits 6 through 9 will be
2 admitted as evidence.

3 MR. CARR: And that concludes my direct
4 examination of Mr. Gawloski.

5 EXAMINATION

6 BY EXAMINER ASHLEY:

7 Q. Mr. Gawloski, on Exhibit 8 you show one well in
8 the northeast quarter of Section 24. That's the Sagebrush
9 24 Fed Com Number 1?

10 A. Uh-huh.

11 Q. That's currently producing from this Sagebrush
12 sand?

13 A. That's correct.

14 Q. What about the Sapphire Federal Unit Number 1?

15 A. That well is producing out of a zone that's
16 higher up in the Delaware, above that Brushy Canyon marker,
17 so it's not the same zone. It was not tested in this --
18 the Mitchell well. So as to its productivity, it's unknown
19 at the time.

20 You can see the perms that are marked on that in
21 the Delaware, and they're above actual -- where the cross-
22 section shows, so it's quite a bit higher in the section.

23 Q. And the other wells in Section 14 and 23 are also
24 producing from this upper interval in the Delaware?

25 A. That's correct.

1 Q. Now, in the Sagebrush 24 Number 1, where is
2 this -- Is this top of the Bone Springs interval the
3 interval that you said had shows in the mud log?

4 A. No, it's farther down in the section, that's why
5 the proposed TD of the well is 9900 feet. It's an interval
6 called the first Bone Springs sand. But we used the marker
7 at the top of the Bone Spring for our structural marker.

8 EXAMINER ASHLEY: All right, thank you.

9 MR. CARR: That concludes our presentation in
10 this case.

11 EXAMINER ASHLEY: There being nothing further in
12 this case, Case 12,470 will be taken under advisement.

13 (Thereupon, these proceedings were concluded at
14 10:10 a.m.)

15 * * *

16
17
18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. 12470,
heard by me on 8-10-00 at 10:10 a.m.

21 Mark Ashley, Examiner
22 Of Conservation Division
23
24
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