

**KELLAHIN AND KELLAHIN**

ATTORNEYS AT LAW

EL PATIO BUILDING

117 NORTH GUADALUPE

POST OFFICE BOX 2265

SANTA FE, NEW MEXICO 87504-2265

TELEPHONE (505) 982-4285  
TELEFAX (505) 982-2047

W. THOMAS KELLAHIN\*

\*NEW MEXICO BOARD OF LEGAL SPECIALIZATION  
RECOGNIZED SPECIALIST IN THE AREA OF  
NATURAL RESOURCES-OIL AND GAS LAW

JASON KELLAHIN (RETIRED 1991)

April 3, 2002

**VIA FACSIMILE**

Mr. David K. Brooks, Esq.  
Oil Conservation Division  
1220 South Saint Frances Drive  
Santa Fe, New Mexico 87505

Re: **PENROC OIL CORPORATION'S REPLY IN SUPPORT OF  
OXY USA WTP'S MOTION TO DISMISS NEARBURG APPLICATION**  
NMOCD Case 12820  
Application of Nearburg Exploration Company L.L.C.  
for compulsory pooling, Lea County, New Mexico  
W/2 Sec 5, T19S, R33E (Gem North "5" Federal Com Well No. 1)

Dear Mr. Brooks:

On behalf of Penroc Oil Corporation's please find enclosed its response in support of OXY USA WTP LP's motion to dismiss the Nearburg compulsory pooling application

Despite the fact that Nearburg has continued this case from April 4 to April 18, an immediate decision by the Division on this motion is critical. Penroc has a rig moving on this well tomorrow and is about to incur more than \$150,000 in costs on this well which will be wasted if Nearburg is allow to proceed with a pooling case. See Affidavit of M. Y. Merchant attached.

Very truly yours,



W. Thomas Kellahin

cc: Mr. Michael E. Stogner, Hearing Examiner  
William F. Carr, Esq.  
Attorney for Nearburg Exploration Company, Inc.  
OXY USA WTP Lp.  
Attn: Richard Foppiano  
Penroc Oil Corporation  
Attn: M. Y. "Merch" Merchant

02 APR -3 AM 2:36

01 OCT 1991 10:01 AM

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

**IN THE MATTER OF THE APPLICATION OF CASE NO. 12820  
NEARBURG EXPLORATION COMPANY L.L.C.  
FOR COMPULSORY POOLING  
LEA COUNTY, NEW MEXICO**

**RESPONSE OF PENROC OIL CORPORATION  
IN SUPPORT  
OF OXY 'S MOTION TO DISMISS  
TO NEARBURG'S APPLICATION**

Comes now Penroc Oil Corporation ("Penroc"), by its attorneys, Kellahin and Kellahin, and in support of OXY's motion to dismiss Nearburg Exploration Company L.L.C.'s ("Nearburg") compulsory pooling application states:

Nearburg, in its response, argues "OXY's approved Sundry Notice is nothing more than agency authorization to proceed with proposed activity on certain acreage. The agency approval, without action having been taken pursuant to that approval, should not be allowed to preclude another owner (from compulsory pooling)." Nearburg cites to Case 12407 for support and stated "It was only after BTA acted on its approved APD and commenced drilling that the S/2 of the section was deemed no longer available for an E/2 pooling application."

In accordance with the precedent cited by Nearburg, Penroc Oil Corporation ("Penroc") has commenced operations on the Nellie Federal Well No. 1 located in Unit O of Section 5, T19S, R33E which is dedicated to the S/2 of this section. OXY has transferred its 50% interest and operations to Penroc Oil Corporation, the owners of the other 50% working interest in the spacing unit, who had commenced operation on the well. **See Exhibits "A" attached.**


Penroc has conclude that the Nellie well can be restored to production from the Morrow formation and is in the process of having a rig move onto the location. The estimate costs of this operating to Penroc are in excess of \$150,000. **See Exhibit "A" attached.** An analysis of the well indicate the reasonable possibility that the well want produce an estaimted 2.5 BCF of gas.

Penroc has now done exactly what Nearburg said must be done to preclude Nearburg from pooling the W/2 of this section. Penroc should be allowed to complete its work on this well and to take any appropriate further action to protect their correlative right.

NMOCD Case 12820  
PENROC'S RESPONSE IN SUPPORT OF  
OXY'S MOTION TO DISMISS APPLICATION  
-Page 3-


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WHEREFORE PENROC OIL CORPORATION requests that the  
Division Hearing Examiner grant Oxy's motion and dismiss Oil  
Conservation Division Case 12820.

  
W. Thomas Kellahin  
Kellahin & Kellahin  
P. O. Box 2265  
Santa Fe, New Mexico 87504  
(505) 982-4285

CERTIFICATE OF SERVICE

I certify that a copy of this pleading was hand delivered to counsel for applicant  
this 3rd day of April, 2002

  
W. Thomas Kellahin

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

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

**CASE 12820**

**AFFIDAVIT OF M. Y. (MERCH) MERCHANT**

**STATE OF NEW MEXICO    )  
                                      ) SS  
COUNTY OF LEA            )**

Before me, the undersigned authority, personally appeared M. Y. (Merch) Merchant, who being first duly sworn, stated:

A. My name is M. Y. (Merch) Merchant. I am over the age of majority and am competent to make this Affidavit.

B. I am a petroleum engineer and president of Penroc Oil Corporation. I obtained my engineering degree from the South Dakota School of Mines in December, 1974. I am responsible for operations on the Nellis Federal Well No. 1 located in Unit O of Section 5, T19S, R33E.

C. Based upon my knowledge, experience and education, I am of the opinion that:

(1) OXY USA WTP LPO and Penroc Oil Corporation have a reasonable belief that the Nellis Federal Well No. 1 can be restored to production.

(2) Penroc has assumed operations of the well and operations are in progress.

(3) Nearburg compulsory pooling application unduly interfered with Penroc's right to operate the S/2 of Section 5.

D. My opinions expressed above are based upon and supported by the following reasons and facts:

(1) Well has 800# of pressure on tubing and would not blow down after several days of on-and-off flow. After each flow period, pressures have increased.



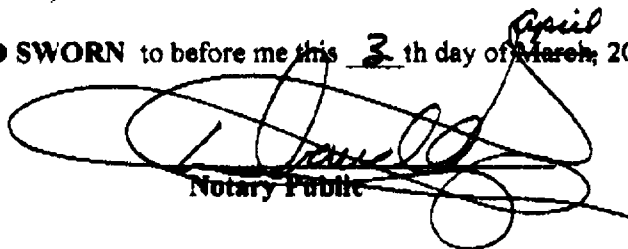
- (2) For description of current activity, see attached Daily Operations Report.
- (3) For immediate future plans, see attached proposal by Mark Clarke, Petroleum Engineer and Field Supervisor/Consultant.
- (4) Letter from John West Engineering Company dated June 27, 1996, with results of sinker bar survey.
- (5) Letter from Amoco Production Company dated January 10, 1983, stating that analysis indicates approximately 2.5 BCF remaining.
- (6) Amoco Production Company Engineering Chart dated July 31, 1978.
- (7) Nellis Federal Well No. 1 Well History from August 23, 1961 to March 10, 1984.

**FURTHER AFFIANT SAYETH NOT:**

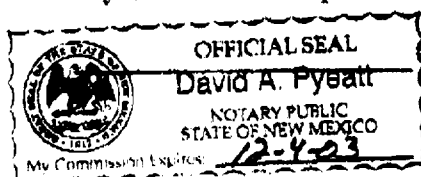
  
M. Y. (Merch) Merchant

STATE OF NEW MEXICO    )  
                                  ) SS  
COUNTY OF LEA         )

SUBSCRIBED AND SWORN to before me this 3 th day of <sup>April</sup> ~~March~~, 2002.

  
Notary Public

**My Commission Expires:**



(SEAL)

**DAILY OPERATIONS REPORT  
 NELLIS FEDERAL NO. 1 (OXY)  
 UNIT O, SECTION 5, T 19 S, R 33 E  
 LEA COUNTY, NEW MEXICO**

- 11.27.01 Received letter from Nearburg addressed to Southwest Royalty-drilling proposal.
- 11.28.01 Communicated via phone with Duke Roush on terms. He was suppose to get back with me. No return call. Called D. Roush again. He was walking out of the door, and said "will call back in 30 min". Did not.
- 12.06.01 MYM leaving for overseas via Houston. Called Roush and left a word that he can contact me via e-mail while I am overseas. No e mails.
- 02.04.02 Received certified mail from Carr on forced pooling. "Good faith"! Start locating proper individuals with OXY to return well to production or takeover operations. Worked following three weeks with OXY to get well back and with Duke energy to get line and meter run to produce the well.
- 03.04.02 Work with OXY regarding bringing the well back on production.
- 03.05.02 Continued working with OXY as well as Duke to hook up well to their sales line (Chip Short w/Duke Energy).
- 03.13.02 Inspected location, prepared equipment need to produce the well-cost.
- 03.14.02 Plumb separator, cleaned out regulator. Ruptured disc in supply line. Brought equipment to fix same. Replace level control, dump valve and added Kimray BPV.
- 03.15.02 Big Time Roustabout to loc. Connect gas line to Duke's sales line. With new 3" polyline. Lay vent line. Install new valves on separator. Cleaned out portions of tank bottoms to inspect condition of the storage tank. Replace plug valve on tanks.
- 03.18.02 Roustabout to location. Attempted to flow test the well. Duke's gas line not open. Vent gas. Dumping oil to tank. 4x3 swage on man way leaking. Sent to town for a 3" repair clamp. Replace and close man way.
- 03.19.02 Roustabout to location. Replace manway and gasket material. Opened well to test @ 1200#. Well flowing condensate, gas and some mud. Separator line and separator plugged. SI well. Broke off line and separator. Cleaned out. Jump lines and and bypassed plugged line with 3" new pipe.
- 03.20.02 Flow testing the well. Took samples to Schlumberger.
- 03.21.02 Dig blow down pit and line the same. Cost to date: \$19,100.00.
- 03.21.02 Confer with Merch via e-mail. Decided to wait on the rig and his return.
- 04.02.02 Attempted to rig down at Wrinkle to go to Nellis. Too windy.
- 04.03.02 Changing tubing line on the rig and will rig down at Wrinkle to go to Nellis.

- Mac Copy -

3

3/25/02

Penroc Oil Corporation  
P.O. Box 5970  
Hobbs, New Mexico 88240

Re: Workover Procedure  
Nellis Federal Well No. 1  
Lea County, New Mexico

Dear Merch,

The following work is recommended to return the subject well to production.

The week of March 18<sup>th</sup> 2002, the production facilities were repaired and tied into the gas meter set by Duke Energy. Upon flow testing the well, an emulsified substance filled the separator and tanks, analysis by Dowell Schlumberger showed the emulsion to be oil, gas, drill mud and drill solids. The well was subsequently shut in awaiting availability of a pulling unit rated to 14,000 feet.

The following procedure should be performed as soon as a rig becomes available;

- 1) Blow down well to frac tank or lined earth pit. The casing and tubing appear to be communicated with 800 psi on each. The casing psi drops when flowing the tubing.
- 2) RU pump truck on casing, attempt to circulate 10# brine to kill well and reverse emulsion from tubing. May need coiled tubing to clean out tubing.
- 3) MIRU pulling unit. ND tree, NU BOP. Attempt to pull seal assembly from packer and POH. Last work on well required cutting tubing above seal assembly and jarring remaining fish from hole.
- 4) MU shoe and packer picker, burn over slips and POH with packer.
- 5) MU bit and clean well out to PBTD 13604'.
- 6) MU packer and RBP, RIH to 13,000', set RBP, test same. Test casing for leak.
- 7) Isolate casing leak, squeeze as required.
- 8) Drill out cement, POH w/ RBP.
- 9) Frac perfs 13160' - 13575' w/ 40,000 gallons and 100,000 # 20/40 prop and 30,000 gallons Co2. Final frac design being worked up by Dowell.
- 10) Flow back well, place on production.

The estimated cost of said work is anticipated at \$150,000.00 and should last approximately 2 weeks.

An itemized AFE will be forthcoming and will include the cost of fishing the seal assembly, squeezing a casing leak, and performing a large frac to open up the Morrow interval. In my opinion you would be wise to repair the casing leak, perform a small 7-1/2% acid job, return the well to production and then run a pressure bomb to determine reserves prior to your frac.

Sincerely,



Mark D. Clarke



AREA 806  
393-3842

AREA 805  
393-3117



JOHN WEST  
ENGINEERING  
COMPANY  
EMPLOYEE OWNED

412 North Del Paso  
Hobbs, New Mexico 88240

*W. West*

June 27, 1996

Mr. Jerry Huckaby  
Amoco Production Company  
P.O. Box 1348  
Artesia, New Mexico 88211

Re: Sinker Bar Survey on Nellis Federal No. 1, Lea County, New Mexico

Dear Sir:

On Monday, June 24, 1996, a 1-1/4" sinker bar was run in the captioned well to check depth before running tandem Amerada BHP gauges.

Maximum depth reached - 8393 feet.

The sinker bar went to 4500' and started slowing down. At 5500', the bar would only go real slow. At 8393' it almost stopped. It appeared to be heavy drilling mud on the tools. The sinker bar was heavier than the BHP gauges and we did not attempt to run them.

Respectfully Submitted,

West-Test, Inc., A Subsidiary of  
John West Engineering Company

By

*John W. West*  
John W. West, P.E.

JWW/jt

cc: Mike Mackow



S. J. Okerson  
District Superintendent

January 10, 1983

File: SJO-68-WF

Re: AFE No. 63003  
Nellis Federal No. 1

Conoco, Inc.  
Box 460  
Hobbs, NM 88240

Gentlemen:

Amoco Production Company, as operator of the Nellis Federal No. 1, requests your approval to run a bottom hole pressure build-up and noise log-temperature survey at a gross cost of \$18,000.

The Nellis Federal No. 1 has been producing approximately 3 BCPD x 1 BWPD x 200 MCFD for the past several years. Cumulative production stands at 2.47 BCF and 48 MBC. BHP/Z analysis indicates approximately 2.5 BCF remaining with an estimated current bottom hole pressure of 3000 PSI. Because of the high bottom hole pressure and remaining reserves and low production rate, additional stimulation appears warranted. Amoco proposes, at this time, to run an accurate bottom hole pressure build-up test and a noise log-temperature survey to test for productive intervals. This date will be used in the analysis of future stimulation treatments.

If this expenditure meets with your approval, indicate by signing below and return to the above address. Any further questions may be directed to Steve Schultz, (505) 393-1781, extension 296.

Yours very truly,

JOINT OWNERS APPROVAL

Company: CONOCO INC.

By:

Date: 1/26/83

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HOBBS  
DISTRICT  
FEB 8 1983

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Amoco Production Company (USA)  
Post Office Box 68  
Hobbs, New Mexico 88240

RECEIVED  
HOBBS DIVISION  
JAN 14 '83

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|--------------------|--|
| Div. Manager       |  |
| Asst. Div. Manager |  |
| Div. Off. Mgr.     |  |
| Div. Engr.         |  |
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| Cons. Coord.       |  |
| Training Coord.    |  |
| Adm. Supv. - AFE   |  |
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| Sup. Prod. Eng.    |  |
| Sup. Resv. Eng.    |  |
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| Prod. Supv. - F    |  |



Amoco Production Company  
ENGINEERING CHART

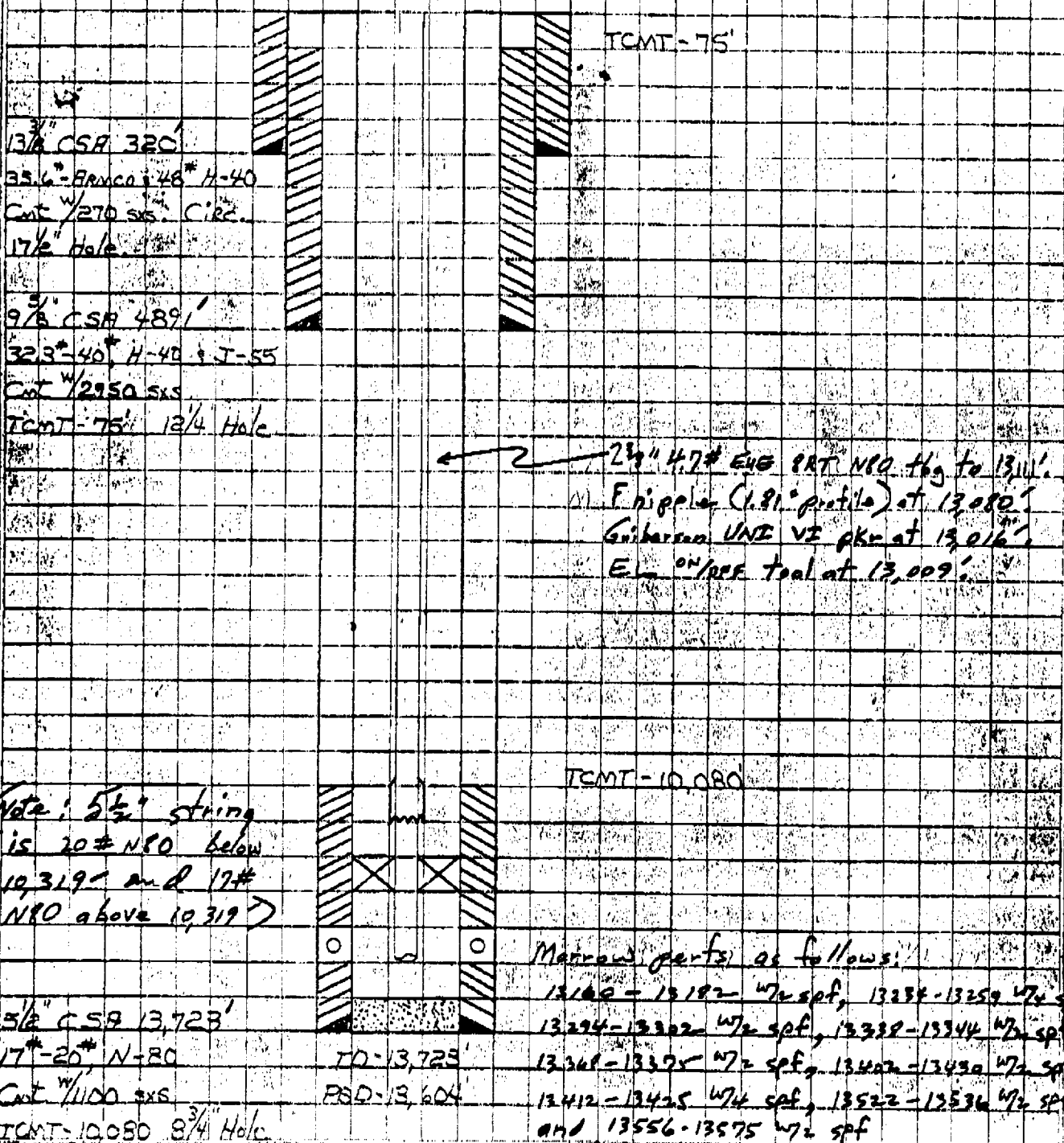
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FILE  
APPN  
DATE 7-31-78  
BY D.W.

SUBJECT Nellis Fed. #1  
Buffalo - Penn

1980 FEL & 660 FSL SEC 5, T19S, R33E  
LEA County, New Mexico

Completed: 11-12-61

Elev: 3716 R.D.B.  
3696 G.L.



Nellis Federal Well No. 1  
 1980' FEL x 660' FSL (N-5-19-33)  
 Lea County, NM (GL @ 3696' and RDB @ 3716')  
Page 1 of the Well History

- 08-23-61: Well spudded by Big West (rig #22).
- 08-24-61: 13-3/8" 35.6# Armco and 48# H40 CSA 320' in a 17-1/2" hole w/270 sx. Cmt circulated.
- 09-11-61: 9-5/8" 32.3# and 40# H40 and J55 CSA 4891' in a 12-1/4" hole w/2950 sx. Tcmt at 75'.
- 11-03-61: 5-1/2" 17# and 20# N80 CSA 13,723' in a 8-3/4" hole w/1100 sx. Tcmt at 10,080'. TD of well at 13,723'. PBD at 13,604'.
- 11-05-61: Perf Morrow (Buffalo Penn Gas) at 13,234'-13,259' and 13,412'-13,425' with 4 spf. Rtg with PSA 13,000' and acidize perfs w/2500 gal 7-1/2% MCA.
- 11-12-61: Well completed. On 24 hour IPT, well flowed 1680 MCFD. DST's were run as follows:
- #1 12,606'-12,658'
  - #2 12,778'-12,790'
  - #3 13,221'-13,248'
  - #4 13,275'-13,292'
  - #5 Failed
  - #6 13,288'-13,342'
  - #7 13,403'-13,426'
  - #8 13,516'-13,534'
- 11-13-73: Add perfs 13,234'-13,425' with 5000 gal 7-1/2% MS acid with 1000 SCF of nitrogen per bbl.  
 PPWO: Flw 4 BCPD x 277 MCFD  
 PAWO: Flw 10 BCPD x 6 BWPD x 322 MCFD thru 48/64" choke
- 03-10-84: Successful workover to fracture stimulate the Morrow interval 13,234'-59' and 13,412'-25', to clean out fill, and to open additional Morrow pay. The Morrow intervals 13,234'-59' and 13,412'-25' were frac with 24,700 gal of gel, 10,500 gal liquid CO<sub>2</sub>, and 20,400 lbs of 20/40 interprop. Fill was tagged at 13,420' before and after the frac job, but the survey showed only the interval 13,234'-59' was stimulated. The Baker Model D packer was retrieved from the wellbore following an unsuccessful attempt to use coil tubing and nitrogen to clean out the fill. A bit was run in the hole and fill was tagged at 13,291' and drilled out to 13,604'. Perf Morrow intervals 13,160'-82', 13,294'-302', 13,338'-44', 13,368'-75', 13,402'-30', 13,522'-36' and 13,556'-75' with a 1-9/16" tubing gun at 2 spf.

7  
Nellis Federal Well No. 1  
1980' FEL x 660' FSL (N-5-19-33)  
Lea County, NM (GL @ 3696 - RDB @ 3716')  
Page 2 of the Well History

The .29" perfs entered at zero degree phasing. The 2-3/8" 4.7# EUE 8RT N80 tubing was run in hole to 13,111'. An F nipple with 1.81" profile is set at 13,080'. A Guiberson UNI VI packer is set at 13,016' and an EL on/off tool is located at 13,009'.  
PPWO: Flw 2 BCPD x 1 BWPD x 200 MCFD  
PAWO: Flw 33 BCPD x 0 BWPD x 630 MCFD

JSB/dkc  
WH012-0

**CONFIDENTIAL**  
**PENROC OIL CORPORATION**

**MAILING ADDRESS:**

P.O. BOX 2769  
Hobbs, NM 88241-2769  
Office: (505) 397-3596  
Fax: (505) 393-7051

**PHYSICAL ADDRESS:**

5014 Carlsbad Highway  
Hobbs, NM 88240  
Email:

[mym merch@hotmail.com](mailto:mym merch@hotmail.com)

**FAX TRANSMISSION COVER SHEET**

Date:

4-3-02

Company:

Tom Kellakin

Attention:

Fax Number:

505-982-2047

Sender:

Merch Merchant

YOU SHOULD RECEIVE 12 PAGE (S), INCLUDING THIS COVER SHEET.  
IF YOU DO NOT RECEIVE ALL THE PAGES, PLEASE CALL (505) 397-3596.

MESSAGE:

Tom - Attached are items you requested by  
fax - signed and notarized.

Do you think Penton needs to file protest  
against Deasburg for forced pooling?

PRODUCING OIL AND GAS FOR AMERICA SINCE 1961

NR 11, 2002

VS 47 1 9

District I  
1625 N. French Dr., Hobbs, NM 88240  
District II  
811 South First, Artesia, NM 88210  
District III  
1000 Rio Brazos Road, Ateco, NM 87410  
District IV  
2040 South Pacheco, Santa Fe, NM 87505

State of New Mexico  
Energy Minerals and Natural Resources

Oil Conservation Division  
2040 South Pacheco  
Santa Fe, NM 87505

Form C-104A  
August 11, 2000

Submit 1 copy of the final affected wells  
list along with 2 copies of this form per  
number of wells on that list to  
appropriate District Office

### Change of Operator

#### Previous Operator Information:

OGRID: 157984  
Name: Occidental Permian Limited Partnership  
Address: P.O. Box 50250  
Address:  
City, State, Zip: Midland, TX 79710-0250

#### New Operator Information:

Effective Date: March 1, 2002  
New Ogrid: 017213  
New Name: Penroc Oil Corporation  
Address: P. O. Box 2769  
Address:  
City, State, Zip: Hobbs, NM 88241-2769

I hereby certify that the rules of the Oil Conservation Division have been complied with and that the information on this form and the attached list of wells is true and complete to the best of my knowledge and belief.

New Operator

Signature: Mohammed Y. Merchant

Printed name: Mohammed Y. Merchant

Title: President

Date: 3/11/02 Phone: (505) 397-3596

#### Previous operator complete below:

Previous Operator: Occidental Permian Limited Partnership

Previous OGRID: 157984

OGRID:

Signature: Matthew G. Hyde  
Printed Name: Matthew G. Hyde Attorney In Fact Date

#### NMOCD Approval

Signature: Paul F. Kautz  
Printed Name: Paul F. Kautz

District: PETROLEUM ENGINEER

Date: APR 02 2002

