

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. 12,901
)
APPLICATION OF NEARBURG EXPLORATION)
COMPANY, LLC, FOR COMPULSORY POOLING,)
LEA COUNTY, NEW MEXICO)
)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Hearing Examiner

August 1st, 2002

Santa Fe, New Mexico

RECEIVED

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Oil Conservation Division

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Hearing Examiner, on Thursday, August 1st, 2002, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

I N D E X

August 1st, 2002
 Examiner Hearing
 CASE NO. 12,901

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* * *

A P P E A R A N C E S

FOR THE APPLICANT:

HOLLAND & HART, L.L.P., and CAMPBELL & CARR
110 N. Guadalupe, Suite 1
P.O. Box 2208
Santa Fe, New Mexico 87504-2208
By: WILLIAM F. CARR

* * *

ALSO PRESENT:

DAVID R. CATANACH
Hearing Examiner
New Mexico Oil Conservation Division
1220 South Saint Francis Drive
Santa Fe, NM 87501

BRETT BRACKEN
Hanley Petroleum
Midland, Texas

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

1 WHEREUPON, the following proceedings were had at
2 9:18 a.m.:

3
4
5
6
7 EXAMINER BROOKS: We'll call Case 12,901, the
8 Application of Nearburg Exploration Company, LLC, for
9 compulsory pooling, Lea County, New Mexico.

10 Call for appearances.

11 MR. CARR: May it please the Examiner, my name is
12 William F. Carr with the Santa Fe office of Holland and
13 Hart, L.L.P.

14 We represent Nearburg Exploration Company, and I
15 have two witnesses.

16 EXAMINER BROOKS: Any other appearances?

17 Will the witnesses please stand to be sworn?

18 (Thereupon, the witnesses were sworn.)

19 MR. CARR: Mr. Examiner, at this time we call Bob
20 Shelton.

21 Mr. Examiner, I would request that the record
22 reflect that Mr. Shelton testified in the previous case and
23 that his credentials as an expert in petroleum land matters
24 have been accepted and made a matter of record.

25 EXAMINER BROOKS: So noted.

1 ROBERT G. SHELTON,
2 the witness herein, after having been first duly sworn upon
3 his oath, was examined and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. CARR:

6 Q. Mr. Shelton, are you familiar with the
7 Application filed in this case on behalf of Nearburg
8 Exploration Company?

9 A. Yes, sir, I am.

10 Q. Are you familiar with the status of the lands in
11 the area which is the subject of this case?

12 A. Yes, sir, I am.

13 Q. Would you briefly state what it is that Nearburg
14 seeks with this Application?

15 A. We seek a pooling order for the east half of
16 Section 7, Township 21 South, Range 35 East, Lea County,
17 New Mexico, for a Morrow well at a standard location.

18 Q. Are you also seeking the pooling of the northeast
19 quarter for any formation developed on 160 acres?

20 A. Yes, we are.

21 Q. And the southeast of the northeast in pools
22 developed on 40-acre spacing?

23 A. Yes, sir, we are.

24 MR. CARR: Mr. Examiner, the pools that are
25 involved in each of these spacing units are set forth on

1 the compulsory pooling form that we submitted.

2 In 320-acre spacing units, they're the
3 Undesignated Osudo-Morrow Gas Pool, the Undesignated
4 Wilson-Atoka Gas Pool and the Undesignated Wilson-Morrow
5 Gas Pool that fall between those Morrow Pools.

6 As to 160-acre spacing, the subject pool would be
7 the Wilson-Yates-Seven Rivers Associated Pool. There are
8 no 40-acre pools. We've included 40-acre spacing in hopes
9 we get lucky.

10 We also, when we advertised the case, requested
11 pooling of 80-acre spacing units. There are no 80-acre
12 pools, and that portion of the case should be dismissed.

13 EXAMINER BROOKS: Okay.

14 Q. (By Mr. Carr) Mr. Shelton, could you identify
15 the well to which these units will be dedicated?

16 A. It will be our Nearburg Packer "7" State Com
17 Number 1 wellbore.

18 Q. And what is the location of this well?

19 A. The location of the well is a vertical wellbore
20 1980 feet from the north line and 660 from the east line of
21 Section 7.

22 Q. Let's go to what has been marked Nearburg Exhibit
23 Number 1. I'd ask you to identify and review that, please.

24 A. This is a locator map that shows the east-half
25 Section 7 spacing unit and the offset sections. It shows

1 the location of the well in red at the standard 1980-660
2 location.

3 Q. What is Exhibit 2?

4 A. Exhibit 2 is an ownership map of the 320-acre
5 spacing unit, Nearburg Producing Company currently with an
6 ownership position of 71.875 percent, Chevron 17.656,
7 Phillips Petroleum with 7.344 and Wilson Oil Company, Ltd.,
8 with 3.125 percent.

9 The lease is actually divided -- or the acreage,
10 it's a state lease -- it's divided into two separate
11 tracts. The southeast quarter is a tract owned in
12 leasehold interest by OXY, which Nearburg has a term
13 assignment on that tract. And the ownership interest of
14 Chevron, Phillips and Wilson Oil Company are all derived
15 out of the northeast quarter.

16 Q. The primary objective for the well is the Morrow
17 formation, is it not?

18 A. That is correct.

19 Q. Are there any real secondary objectives in the
20 well?

21 A. Oh, the Bone Springs is a secondary objective,
22 that's cor- -- it is.

23 Q. What percent of the working interest in the
24 proposed spacing units is currently committed to the well?

25 A. Phillips Petroleum Company has executed AFEs, and

1 they have agreed to participate. Nearburg obviously is
2 participating in the well.

3 Chevron has -- We had a letter agreement with
4 Chevron providing that they would either farm out their
5 interest to Nearburg or participate in the well. We have
6 made a geologic presentation to them, and I believe that we
7 will come to an agreement with Chevron.

8 Q. So at the present time you have approximately 79
9 percent of the working interest committed?

10 A. That's right, and Chevron, I'm sure, will be too.

11 Q. And you're anticipating that you probably are
12 only going to be pooling Wilson Oil Company in this matter?

13 A. That is correct.

14 Q. Could you review for Mr. Brooks the effort you
15 have made to obtain voluntary participation in this well
16 from all affected interest owners?

17 A. All of them -- There's a set of exhibits here,
18 Number 3, that show various conversations, letters, back
19 and forth between the companies and an agreement that's
20 been signed by Chevron, which is the letter agreement
21 spoken about previously. I will note only on one Exhibit
22 -- It's a memorandum from Duke Roush.

23 Q. That, I believe, is included as our last
24 exhibit --

25 A. Oh, okay.

1 Q. -- the one concerning Mr. Wilson?

2 A. Yes.

3 Q. In your opinion, have you made a good-faith
4 effort to locate and obtain the voluntary participation of
5 all interest owners in the well?

6 A. Yes, sir, we have.

7 Q. And your first contact with these interest owners
8 was May 31st of this year?

9 A. That's correct.

10 Q. And Exhibit 3 that you've just referenced are the
11 letters evidencing your communication with these interest
12 owners?

13 A. That's correct.

14 Q. Are there any interest owners that you've been
15 unable to locate?

16 A. No, there is not.

17 Q. Let's go to the AFE, which is numbered Exhibit
18 Number 4, and I'd ask you to review that, please.

19 A. The AFE is for our Packer "7" State Com Number 1
20 well, which is a 12,500-foot Morrow wildcat test, shows a
21 dryhole cost of \$954,494 and a completed well cost of
22 \$1,330,026.

23 Q. Are these costs in line with what's charged by
24 other operators for similar wells in the area?

25 A. Yes, sir, they are.

1 Q. In fact, you've drilled other Morrow wells in the
2 area, have you not?

3 A. Quite a few actually, yes, we've been very
4 active.

5 Q. And these are consistent with the actual costs
6 incurred in the drilling of those wells?

7 A. Yes, sir, they are.

8 Q. Is Exhibit Number 5 the accounting procedure for
9 joint operations which will be a part of the joint
10 operating agreement for this well?

11 A. Yes, the operating agreement with these
12 provisions has been sent to both Chevron and to Phillips,
13 and we anticipate using this accounting procedure in that
14 operating agreement.

15 Q. And do these accounting procedures provide for
16 periodic adjustments of overhead and administrative costs?

17 A. Yes, sir, they do.

18 Q. And does Nearburg request that the overhead and
19 administrative costs set by the order in this case also be
20 adjusted in accordance with these procedures?

21 A. Yes, sir, we ask that and we request that.

22 Q. And what are the overhead and administrative
23 costs that you seek in this case?

24 A. \$6000 drilling well rate and \$600 producing well
25 rate is the Application, is what we're requesting.

1 Q. And these are the median costs from the most
2 recent Ernst and Young survey?

3 A. Yes, sir.

4 Q. Is Exhibit Number 6 an affidavit confirming that
5 notice of this hearing has been provided to the affected
6 parties in accordance with the Rules of the Oil
7 Conservation Division?

8 A. Yes, sir, it is, and all parties have received --
9 we've received green cards back from everybody.

10 Q. Could you identify Exhibit Number 7?

11 A. Exhibit Number 7 is a memorandum from Duke Roush
12 concerning this application. As you will note, Mr. Roush
13 had a conversation with Mr. Tug Wilson concerning his
14 interest with Wilson Oil Company. Just recently, we found
15 out Mr. Wilson has suddenly passed away, and that's the
16 primary reason for this hearing, because we do not have a
17 voluntary, obviously, agreement with him.

18 Q. And who is Mr. Squires? Do you know? Mr. Roush
19 indicates there's been conversation with Mr. Squires. Is
20 he the representative of Wilson Oil --

21 A. Yes, that's correct, yeah.

22 Q. And at this time --

23 A. And at this time he will be taking over the
24 estate, I'm assuming, of Mr. Wilson, and we will be
25 visiting with him concerning his participation.

1 Q. They understand that you're going forward and
2 having to pool --

3 A. Yes, they are aware that the hearing is today,
4 that's correct.

5 Q. Does Nearburg Producing Company seek to be
6 designated operator of the well?

7 A. Yes, sir, we do.

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

10 A. Yes, sir, they were.

11 MR. CARR: Mr. Brooks, at this time we'd move the
12 admission of Nearburg Exhibits 1 through 6.

13 EXAMINER BROOKS: You're not offering 7 at this
14 time?

15 MR. CARR: Oh, I'm sorry, I would like to offer 7
16 as well.

17 EXAMINER BROOKS: Okay, Nearburg Exhibits 1
18 through 7 are admitted.

19 MR. CARR: That concludes my direct examination
20 of Mr. Shelton.

21 EXAMINATION

22 BY EXAMINER BROOKS:

23 Q. Okay, this Wilson interest is really the only one
24 you're pooling, correct?

25 A. That's it, really.

1 Q. Then that's a lease interest? You said this was
2 all a state --

3 A. Leasehold.

4 Q. Leasehold.

5 A. Yes, sir.

6 Q. Yeah, you said this was all state --

7 A. State, right.

8 Q. -- all a state lease --

9 A. Correct.

10 Q. -- the entire area is state land?

11 A. Yeah, just almost all of this -- within the whole
12 township is all state, really.

13 Q. Yeah. Is this one state lease or two?

14 A. It is one state lease, divided by leasehold.

15 Q. Yeah, the leasehold ownership is divided, but
16 it's the same lease --

17 A. I believe it's the same lease.

18 Q. -- the same base lease?

19 A. Well -- I don't believe that's right. Let me
20 restate. I think the northeast quarter and the southeast
21 quarter are separate leases, because we're going to have to
22 form a com agreement and have that -- It's going to be a
23 state com well, so we'll have to communitize or com the
24 northeast with the southeast. So it is two separate state
25 leases that will be com'd together.

1 EXAMINER BROOKS: Okay, that's the only questions
2 that I have. Thank you.

3 THE WITNESS: Thank you.

4 MR. CARR: Mr. Examiner, at this time we would
5 call Terry Durham. Mr. Durham is a geophysicist who
6 testified in the previous case, and I would request that
7 the record reflect that his credentials as an expert in
8 geophysical matters are accepted and made a matter of
9 record in this matter.

10 EXAMINER BROOKS: So noted.

11 TERRY E. DURHAM,
12 the witness herein, after having been first duly sworn upon
13 his oath, was examined and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. CARR:

16 Q. Mr. Durham, are you familiar with the Application
17 filed in this case?

18 A. Yes, I am.

19 Q. Have you made a geophysical study of the area
20 which is the subject of the Application?

21 A. Actually, no, I have not. This is a geological
22 study.

23 Q. All right.

24 A. There's no geophysics involved in this.

25 Q. The geological study was -- the exhibits actually

1 will show the name of Mr. Gawloski; is that correct?

2 A. Yes, that's correct.

3 Q. And who is he?

4 A. He's the exploration geologist that's worked this
5 area, that I've been working with.

6 Q. Have you worked with him in the development of
7 this information in this prospect?

8 A. Yes, I have.

9 Q. And you've reviewed the exhibits with him?

10 A. Yes, I have.

11 Q. And you can testify as to their accuracy?

12 A. Yes.

13 Q. Let's go to what has been marked Nearburg Exhibit
14 Number 8, and I'd ask you to identify that and review it
15 for Mr. Brooks.

16 A. Exhibit Number 8 is the production map centered
17 on the proposed location in the east half of Section 7.
18 I'll draw your attention to the wells that are circled with
19 a red color. Wells circled with the red color are Morrow
20 producers in this area. The yellow color is shallow
21 production, Yates-Seven Rivers-Queen.

22 I draw your attention to a cross-section, PC-PC',
23 which extends from the north in Section 5 through our
24 proposed location in 7, through Section 18 and 19, and I'll
25 be discussing that as Exhibit Number 9.

1 On the north-end of this cross-section display in
2 Section 5, you'll note the well up there had a production
3 of 27 BCF of gas from the Morrow.

4 You go to the well immediately to the west, it
5 only had a cumulative production from Morrow of .6 BCF, and
6 the well immediately to the southeast only produced 19
7 million cubic feet of gas.

8 EXAMINER BROOKS: In Section 6?

9 THE WITNESS: In Section 5.

10 EXAMINER BROOKS: Okay.

11 THE WITNESS: Yeah.

12 Now, basically this map shows the variability of
13 production in the area. So we've got a big producer in the
14 north half of Section 5, and you go a half a mile to the
15 west or to the southeast and we have subeconomic wells,
16 Morrow wells.

17 Q. (By Mr. Carr) South of our proposed spacing
18 unit, what kind of Morrow wells have you encountered at
19 those locations?

20 A. South of our proposed, Nearburg Producing Company
21 drilled a well immediately to the south in the northeast
22 quarter of Section 18, which was basically just a show well
23 in the Morrow.

24 Q. So basically our location, if we look at the
25 trace for the cross-section, is found between a poor well

1 and a dry hole; is that right?

2 A. Yes, that's correct.

3 Q. If we look at the yellow spots on this exhibit,
4 those are Seven Rivers-Queen wells; is that correct?

5 A. Yes.

6 Q. In the northeast quarter of Section 7, there are
7 some dryhole symbols. Are those Seven River-Queen wells?

8 A. Those are Seven River-Queen dry holes.

9 Q. Okay. And so this would tend to suggest that you
10 don't have a very good prospect in that formation at the
11 proposed location; is that fair?

12 A. Yes, that's correct.

13 Q. All right, let's go to the structural cross-
14 section. Would you review that, please? That's Exhibit
15 Number 9.

16 A. Okay, Exhibit Number 9 is a stratigraphic cross-
17 section. Again, from the production map it extends from
18 the north in Section 5, south through the proposed location
19 into Section 18 and 19.

20 On the left side of the cross-section is the
21 British American North Wilson Deep well that I previously
22 mentioned, that had a cumulative production of 27.7 BCF of
23 gas. This well produced from the lower Morrow "B" sands
24 from four different intervals, and we projected these sands
25 as going through our proposed location.

1 But you'll notice that the next well immediately
2 south on the cross-section was a dry hole. And there was
3 no production from any of these sands. In fact, one of
4 these units became a limestone in this particular area.

5 Proceeding south on this cross-section, into
6 Section 19, notice the Belco Wilson State 1X well. It
7 tested water from this zone in the Morrow. It had some
8 minor production.

9 And then the two wells immediately to the west
10 were also -- immediately to the south, were also wet wells
11 in the Morrow formation.

12 Q. All right, let's go to the isopach, Exhibit 10.
13 Would you review the information on that exhibit for the
14 Examiner?

15 A. This is an isopach map of the lower Morrow "B"
16 zone, which was the zone where the -- primarily the
17 production came from, the British American North Wilson
18 Deep well in Section 5.

19 And this map demonstrates again that you need to
20 stay within these sand trends. If you deviate to the east
21 or west from these trends, you run the risk of drilling a
22 Morrow dry hole.

23 I want to also stress that, you know, there's
24 limited control within the Morrow in terms of subsurface
25 control. We've drawn in this projected thickness of 60

1 feet for our proposed location in the lower Morrow "B"
2 sands, but it is a projection, and we're going to run the
3 risk of having less than that or no sand. So it
4 demonstrates the risk involved in drilling a Morrow well
5 here.

6 Q. Are you prepared to make a recommendation
7 concerning the risk that should be assessed against those
8 who do not voluntarily commit to the well?

9 A. Yes, I am.

10 Q. What is that?

11 A. The maximum 200-percent penalty.

12 Q. In your opinion, you could drill a well at this
13 location that would not be a commercial success; is that
14 correct?

15 A. Yes, that's correct.

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

20 A. Yes, it will.

21 Q. And how soon does Nearburg Producing Company hope
22 to spud the well?

23 A. I'm not familiar with that date.

24 Q. Have you reviewed Exhibits 8 through 10?

25 A. Yes, I have.

1 Q. Can you testify as to the accuracy of those
2 exhibits?

3 A. Yes, I can.

4 MR. CARR: Mr. Examiner, at this time we move the
5 admission into evidence of Nearburg Exhibits 8 through 10.

6 EXAMINER BROOKS: Eight through 10 are admitted.

7 MR. CARR: And that concludes my examination of
8 Mr. Durham.

9 EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. What is the -- given the fact that the well
12 control such as you have appears to be unfavorable, what is
13 it that makes you think that there is an area of potential
14 interest as you've shown with this -- drawn in on your
15 structure map? Is that based on seismic?

16 A. No, it's based on subsurface control. You'll
17 notice the wells in Section 19 and 20 on the south --

18 Q. Yes.

19 A. -- especially on Section 19? Those wells down
20 there encountered a very thick Morrow section, but they
21 were wet. So if we're fortunate enough to drill a well in
22 Section 7 that has a comparable Morrow section, we feel we
23 will be successful. But basically this map is just drawing
24 a trend through Section 7.

25 Q. Yeah, I was wondering what made you think there

1 was a substantial thickening in this area up here in
2 Section 7 and 8 that you've drawn in, when there doesn't
3 seem to be any well control in that area.

4 A. It's just contour interpretation, using the --
5 The dry hole in the west half of Section 7 that had the 10
6 feet of Morrow sand --

7 Q. Yeah.

8 A. -- but was not productive. And projecting trends
9 up from Section 18 and then down from Section 5.

10 Q. Okay, just one other curiosity question: How
11 come you used PC-PC' as the letters to designate -- It
12 looks like you're a long way from the Pictured Cliffs.

13 A. It's the well name, Packer Com.

14 Q. Oh, I see.

15 A. That's the way we keep our cross-sections less
16 confusing in our office.

17 EXAMINER BROOKS: Well, when we hear PC around
18 here, we think Pictured Cliffs, not in Lea County.

19 Okay, if there's nothing further, then Case
20 Number 12,901 will be taken under advisement.

21 MR. CARR: That concludes our presentation.

22 EXAMINER BROOKS: It's over.

23 (Thereupon, these proceedings were concluded at
24 9:39 a.m.)

25

12901
Aug 1, 2002
David K. Brooks

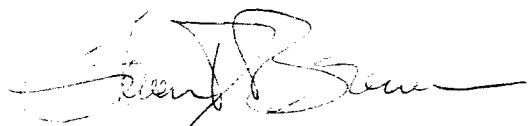
CERTIFICATE OF REPORTER

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 2nd, 2002.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 2002

STEVEN T. BRENNER, CCR
(505) 989-9317