

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 9909

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Producing Company for
compulsory pooling, Lea County, New Mexico

TRANSCRIPT OF PROCEEDINGS

BEFORE: MICHAEL E. STOGNER, EXAMINER

STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

April 18, 1990

ORIGINAL

A P P E A R A N C E S

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1 WHEREUPON, the following proceedings were had
2 at 8:50 a.m.:

3 EXAMINER STOGNER: At this time I'll call
4 Case Number 9909, which is the Application of Nearburg
5 Producing Company for compulsory pooling, Lea County,
6 New Mexico.

7 I'll call for appearances.

8 MR. CARR: May it please the Examiner, my
9 name is William F. Carr, with the law firm Campbell and
10 Black, P.A., of Santa Fe. We represent Nearburg
11 Producing Company, and I have two witnesses.

12 EXAMINER STOGNER: Are there any other
13 appearances in this matter?

14 MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin
15 of the Santa Fe law firm of Kellahin, Kellahin and
16 Aubrey. I'm appearing today on behalf of Foran Oil
17 Company, F-o-r-a-n, and Terra, T-e-r-r-a, Resources,
18 Inc. I have no witnesses to present.

19 EXAMINER STOGNER: Are there any other
20 appearances? If not, will the witnesses please stand
21 and be sworn.

22 (Thereupon, the witnesses were sworn.)

23 EXAMINER STOGNER: Mr. Carr?

24 MR. CARR: At this time we would call Mr.
25 Nearburg.

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MARK NEARBURG,

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

EXAMINATION

BY MR. CARR:

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

A. Mark Nearburg.

Q. Mr. Nearburg, where do you reside?

A. Midland, Texas.

Q. By whom are you employed and in what
capacity?

A. Nearburg Producing Company, Land Manager.

Q. Have you previously testified before this
Division and had your credentials as a landman accepted
and made a matter of record?

A. Yes.

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

A. Yes, I am.

Q. Are you familiar with the subject well and
the surrounding area?

A. Yes.

MR. CARR: Are the witness's qualifications
acceptable?

EXAMINATION

BY EXAMINER STOGNER:

Q. Mr. Nearburg, are you also an officer of this corporation?

A. Yes.

Q. What is your --

A. Vice president.

EXAMINER STOGNER: Vice president.

Mr. Nearburg is so qualified.

EXAMINATION (Resumed)

BY MR. CARR:

Q. Would you briefly state what you seek with this Application?

A. We seek compulsory pooling, pooling all the mineral interests in the northwest Lovington-Pennsylvanian Pool underlying the east half, northwest quarter, Section 17, Township 16 South, Range 37 East, to form a standard 80-acre proration unit to be dedicated to a well drilled 2130 from the west line and 660 from the north line, which is a standard location in the northeast northwest quarter.

We seek the consideration of the costs of drilling and completing the well, allocation of the costs for operating costs and supervision, and designation of Nearburg Producing Company as operator,

1 and a charge for the risk involved in drilling the
2 well.

3 Q. Have you prepared certain exhibits for
4 presentation in this hearing?

5 A. Yes, I have.

6 Q. Would you refer to what has been marked for
7 identification as Nearburg Exhibit Number 1, identify
8 this and then review the information on this exhibit
9 for Mr. Stogner.

10 A. This is a land plat showing the proration
11 unit in yellow, our proposed location with the red dot
12 and arrow. To the east of us in green is the location
13 of the proration unit for the BTA Number 1 8903 JVP,
14 which is 2130 from the north line and 1980 from the
15 east line, and in -- That well has been completed as a
16 Strawn producer.

17 And the orange dot to the east is the BTA
18 Number 2 8903 JVP. It's 1980 from the north line and
19 810 from the east line, and it's currently drilling
20 below 10,000 feet.

21 Q. Is the BTA Well completed in the northwest
22 Lovington-Pennsylvania pool?

23 A. Yes.

24 Q. Does this plat indicate the offsetting
25 ownership as well as the offsetting development?

1 A. Yes, it does. The well's at a standard
2 location, and this is just a pooling hearing, but it
3 does show some offset ownership.

4 Q. What is the primary objective? The Strawn
5 formation?

6 A. Yes.

7 Q. Would you identify Exhibit Number 2 and
8 review that for Mr. Stogner?

9 A. The northeast northwest quarter in our 80-
10 acre proration unit is a fee ownership tract with many
11 different owners. And the southeast northwest quarter
12 is a state tract that Nearburg purchased at a state
13 sale, which includes the west half of the northwest
14 quarter.

15 Nearburg owns 100 percent of the state tract
16 in the southeast quarter, northwest quarter. But under
17 the unit, taking into account the ownership in the
18 northeast quarter, northwest quarter, the unit
19 ownership as represented on Figure 2 shows the interest
20 that Nearburg owns in leasehold or by farmout.

21 Below Nearburg are the remaining interest
22 owners being pooled today. I would point out that
23 Adolph Schweizer and Ann Fox, we have not been able to
24 locate them. There's not sufficient evidence in the
25 records to find them.

1 Q. What efforts have you made?

2 A. We've reviewed all the county records, the
3 tax records, voter registration records, tracked them
4 as far as we could and can't find them.

5 Q. Now, on Exhibit Number 2, could you review
6 for Mr. Stogner the status of your negotiations with
7 each of these interest owners?

8 A. Okay.

9 Q. Where do you stand with Foran Oil Company?

10 A. We have agreements in process with every
11 company listed, with the exception of Rebel Oil
12 Company. Everyone has agreed to farm out, with the
13 exception of Rebel.

14 These trades are in progress. We should be
15 receiving the paperwork this week. But as of this
16 date, we do not have anything signed in writing from
17 these people, with the exception of Roy G. Barton who
18 has returned a signed AFE.

19 Other than that, we have a lot of things that
20 have been finalized verbally, but nothing in writing.

21 Q. Would you identify what has been marked as
22 Nearburg Exhibit Number 3?

23 A. Exhibit Number 3 is an AFE for the well.
24 Cost of casing point is \$436,700; completion cost,
25 \$281,805; and total well costs, \$718,505.

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

3 A. Yes, and we have extensive experience in
4 drilling these wells in this area, and it's a good AFE.

5 Q. In your opinion, have you made a good-faith
6 effort to obtain voluntary joinder of all interest
7 owners in this tract?

8 A. Yes.

9 Q. And you have drilled other Strawn wells in
10 the area?

11 A. Yes.

12 Q. Would you identify Nearburg Exhibit Number 4
13 and simply review that for Mr. Stogner?

14 A. Exhibit Number 4 are March 13th letters
15 offering people an option to farm out or requesting
16 that they participate in the well.

17 Behind all of those letters is a short letter
18 to each of these same people, presenting them with the
19 AFE that we have submitted for the record today.

20 Q. Have you made an estimate of overhead and
21 administrative costs to be incurred while drilling this
22 well and also while producing if in fact it is
23 successful?

24 A. Yes, we used the most recent Ernst and Young
25 report for overhead rates, and it's \$7000 drilling and

1 \$700 producing.

2 Q. And these costs are in line with what other
3 operators are using in the area?

4 A. Yes.

5 Q. Do you recommend that these figures be
6 incorporated into any order which results from this
7 hearing?

8 A. Yes, I do.

9 Q. And Nearburg Producing Company is seeking to
10 be designated the operator of this well?

11 A. Yes.

12 Q. Is Exhibit Number 5 a copy of an affidavit
13 with attached letters confirming that notice has been
14 provided of this hearing as required by Oil
15 Conservation Division Rules?

16 A. Yes.

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

21 A. Yes.

22 Q. Were Exhibits 1 through 5 either prepared by
23 you or compiled at your direction?

24 A. Yes.

25 MR. CARR: At this time, Mr. Stogner, we

1 would move the admission of Exhibits 1 through 5.

2 EXAMINER STOGNER: Exhibits 1 through 5 will
3 be admitted into evidence.

4 Q. (By Mr. Carr) Mr. Nearburg, do you intend to
5 have a geological witness testify concerning the risk
6 involved in the drilling of this well?

7 A. Yes, we do. We're drilling -- As you can see
8 from the plat, the two wells located in the south half
9 of the northwest quarter are Strawn dry holes, and --
10 in addition to numerous other Strawn dry holes -- and
11 we will be seeking a 200-percent risk penalty.

12 Q. But the supporting data will be provided by a
13 geological witness?

14 A. Yes.

15 MR. CARR: I have nothing further of Mr.
16 Nearburg on direct.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Nearburg, on Exhibit Number 2, of the
20 parties other than the Schweizer and the Fox
21 interest --

22 A. Yes.

23 Q. -- when were they notified?

24 A. By the March 22nd letter.

25 Q. Was that the first notification or trying to

1 reach an agreement with these parties?

2 A. We had been talking with Foran prior to that.

3 Q. Just Foran?

4 A. Uh-huh.

5 Q. And when did you start talking with Foran?

6 A. Oh, I'd have to go back and look in my log.

7 Q. Can you have a rough estimate?

8 A. Probably in February.

9 Q. In February of this year?

10 A. February, uh-huh.

11 Q. Now so far, of these parties you have had
12 either verbal or written agreement other than Rebel.
13 And what was Rebel's objection, if any?

14 A. They said that their interest was so small
15 that they weren't interested in doing anything and that
16 they would just as soon be force-pooled.

17 Q. On Exhibit Number 3, that's your AFE --

18 A. Uh-huh.

19 Q. -- for your proposed Maddux 17C Well Number
20 1. That's the well for this proration unit; is that
21 correct?

22 A. Right.

23 Q. Drilled to 11,900 feet?

24 A. Yes.

25 Q. And what was the overhead charges again?

1 A. \$7000 drilling and \$700 monthly overhead.

2 Q. Okay. And you said you got this out of the
3 latest Ernst and Young. That would be a 1989 survey;
4 is that correct?

5 A. I'm not sure. I could provide it to you.

6 Q. Yes, if you'd make me a copy --

7 A. What it is is a nationwide survey of all the
8 overhead rates.

9 Q. If you've got a copy of that particular page
10 and you were going by the Permian Basin figures; is
11 that correct?

12 A. Well, what they have is, they have a footage
13 depth for all rigs in the United States. I can give
14 you a copy of the report.

15 Q. If you would give me a copy of where you got
16 the \$7000 figure out of the Ernst and Young --

17 A. Sure.

18 Q. That is the latest one because it was Ernst
19 and Whinney prior to that, wasn't it?

20 A. Right, until Arthur Young bought into it.

21 Q. Has \$7000 and \$700 been awarded to a
22 Nearburg-producing compulsory-pooling application in
23 the past two years?

24 A. I'm not sure we've had a pooling in the last
25 two years. I don't think we have. We've had a lot of

1 nonstandard locations, but I don't think we've had any
2 poolings.

3 EXAMINER STOGNER: I stand corrected.

4 Thank you, Mr. Nearburg. I have no other
5 questions of this witness.

6 FURTHER EXAMINATION

7 BY MR. CARR:

8 Q. Mr. Nearburg, is the \$7000/\$700 figure,
9 figures that you've been talking about, are those
10 included in the operating agreement which is being
11 circulated to those other interest owners who you hope
12 to reach voluntary agreement with?

13 A. Yes, they are.

14 Q. I have nothing further.

15 EXAMINER STOGNER: Thank you, Mr. Carr.

16 MR. CARR: At this time we would call Mr.
17 Mazzullo.

18 LOUIS MAZZULLO,

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

21 EXAMINATION

22 BY MR. CARR:

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

25 A. My name is Louis Mazzullo.

1 Q. How do you spell Mazzullo?

2 A. M-a-z-z-u-l-l-o.

3 Q. Mr. Mazzullo, where do you reside?

4 A. Midland, Texas.

5 Q. By whom are you employed and in what
6 capacity?

7 A. I am a geological consultant retained by
8 Nearburg Producing Company.

9 Q. Have you previously testified before the Oil
10 Conservation Division and had your credentials as a
11 geologist accepted and made a matter of record?

12 A. Yes.

13 Q. Are you familiar with the Application filed
14 in this case on behalf of Nearburg Producing Company?

15 A. Yes, I am.

16 Q. And are you familiar with the proposed well
17 and the subject area?

18 A. Yes.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 EXAMINER STOGNER: They are.

22 Q. (By Mr. Carr) Mr. Mazzullo, would you refer
23 to what has been marked for identification as Nearburg
24 Exhibit Number 6, identify that and then review the
25 information contained on this exhibit for the Examiner.

1 A. Exhibit Number 6 is a seismic structure map,
2 or structure map drawn -- benefitted by several lines
3 of seismic data as well as the subsurface control
4 provided by the wells you see on the map.

5 It shows regional structure -- Or it shows
6 structure on top of the Strawn Formation, which is the
7 principal pay horizon, the target horizon here that's
8 the subject of this hearing. It also shows that the
9 regional structure in this particular area is downdip
10 to the northeast.

11 The well -- The two red lines that you see on
12 the map are principal seismic lines that were utilized
13 in determining the location for the Maddux Number 17C
14 Number 1.

15 The Strawn in this area is -- produces out of
16 a series of very small patch reefs, and these patch
17 reefs are very difficult to identify, but they occur
18 very suddenly and sporadically throughout this area.

19 The presence of dry holes completely
20 surrounding a particular area doesn't necessarily
21 condemn even a fraction of the section, because these
22 are very small patch reefs that develop porosity,
23 fairly thick sections of porosity, over a very small
24 areal extent.

25 So what we try to do to identify these

1 reservoirs is to shoot high-density seismic data across
2 the area, utilizing high-resolution seismic to define
3 anomalies that would identify this porosity. That was
4 the purpose of shooting the lines that you see across
5 this area.

6 And we've identified one such anomalous area
7 that's indicated by the stippled pattern that surrounds
8 the location. Our location is indicated by the red dot
9 and the red arrow. The proration unit for this well is
10 indicated by the yellow outline.

11 You'll notice that the stippled area that's
12 -- underlies our proposed location also underlies the
13 location of the BTA Number 1 JVP Well in the southwest
14 of the northeast of the -- quarter of the section.

15 So what is indicated here is that the BTA
16 well is a -- is within a common reservoir to the
17 proposed location, as we see it seismically.

18 Q. Are you prepared to make a recommendation to
19 the Examiner concerning the risk that should be
20 assessed against any non- -- any interest owner who
21 elects not to participate in the well?

22 A. Yes.

23 Q. And what do you recommend?

24 A. A 200-percent penalty.

25 Q. And explain how you get that 200-percent

1 figure.

2 A. The Strawn over here -- The Strawn in this
3 area, as you might well know, is a very difficult
4 target to drill. And you can see just on the basis of
5 this map alone, there are three dry holes surrounding
6 the proposed location. This is a very high-risk
7 venture with a very high risk of failure associated
8 with drilling any one of these Strawn wells in the
9 area.

10 Q. Mr. Mazzullo, could you identify what has
11 been marked as Exhibit Number 7 and review that for Mr.
12 Stogner?

13 A. Exhibit Number 7 is a completion report, Form
14 C-105, filed by BTA Oil Producers pertaining to their
15 Number 1 8903 JV-P Well, which offsets the proposed
16 proration unit here.

17 I would have liked to have provided a
18 meaningful cross-section through this area to show the
19 Examiner the size and extent of the target that we're
20 seeking. Unfortunately, BTA was not willing to release
21 the log on this well, so I couldn't provide the
22 additional geologic evidence I would have liked to.

23 The document here shows that they potential
24 their Number 1 Well for 543 barrels of oil and nearly a
25 million cubic feet of gas per day. And we assume from

1 the seismic evidence and subsurface mapping that
2 they're producing out of the same reservoir that's
3 targeted by the Maddux Number 17C Number 1.

4 Q. Mr. Mazzullo, do you have anything further to
5 add to your testimony?

6 A. No, I don't.

7 Q. Were Exhibits 6 and 7 prepared by you or
8 compiled under your direction?

9 A. Under my direction, yes.

10 Q. At this time, Mr. Stogner, we would move the
11 admission of Nearburg Exhibits 6 and 7.

12 EXAMINER STOGNER: Nearburg Exhibits 6 and 7
13 will be admitted into evidence.

14 MR. CARR: That concludes my direct
15 examination of Mr. Mazzullo.

16 EXAMINATION

17 BY EXAMINER STOGNER:

18 Q. Mr. Mazzullo, were there any other seismic
19 data not shown on Exhibit Number 6 that was considered?
20 I do know that there has been a lot of seismic data
21 collected out there.

22 A. Yes, there were several other lines,
23 primarily to the south of the proration unit, that did
24 not identify that particular anomaly. That anomaly
25 associated with the proposed location has been

1 identified on those two red lines, and the decision was
2 made to place the location between the two lines and
3 where the anomaly was seen on both.

4 We don't have -- There wasn't a line that
5 intersected those two lines through the anomaly.

6 Q. When you say a line was to the south, how far
7 to the south?

8 A. I believe that Nearburg has interests in
9 Section 19 to the southwest. There are several lines
10 that cross Section 19, and I believe one of the lines
11 that goes through Section 19 just barely cuts into the
12 southwest quarter of 17 and is primarily concerned with
13 Section 19.

14 Q. Because you show a break between the -- What
15 do you have? This patch reef in which you're drilling
16 in --

17 A. Uh-huh.

18 Q. -- and it looks like it's the same one in
19 which the BTA Well Number 1 is.

20 A. Right.

21 Q. But there is a break between that patch and
22 the one that's in the southeast corner of the map
23 exhibit.

24 A. Right. I believe also there might be a line
25 that goes up the east section line of Section 17, but

1 I'd have to check that out.

2 I think they bought a spec line that goes up
3 that east section line. It's a rather long line. But
4 it doesn't go through the anomaly -- you know, the
5 anomaly that's associated with the proposed location.

6 Q. With your experience out there, there again,
7 you show a definite --

8 A. Uh-huh.

9 Q. -- reef or a patch reef, several of them on
10 this map, in fact. But your experience out there
11 fairly well indicates that these patch reefs are about
12 this size and once you cross it, that's it?

13 A. That's right. They're usually -- The average
14 size, I would guess, I would say from experience, is
15 two wells. Occasionally you might get one that's three
16 wells, like is indicated -- or even more -- like is
17 indicated down in Section 20, in the southeast of 17.
18 But they're usually very small features, very limited
19 areal extent.

20 EXAMINER STOGNER: I have no other questions
21 of Mr. Mazzullo at this time. Are there any other
22 questions of this witness?

23 MR. CARR: I have nothing further.

24 EXAMINER STOGNER: If not, you may be
25 excused.

1 Mr. Carr, do you have anything further in
2 this case?

3 MR. CARR: No, that concludes our
4 presentation, Mr. Stogner.

5 EXAMINER STOGNER: Mr. Carr, do you know when
6 you might be able to get that copy of that page from
7 Ernst and --

8 MR. CARR: We'll attempt to have it by the
9 end of the week.

10 EXAMINER STOGNER: You wouldn't happen to
11 have that publication at your office, do you, Mr. Carr?

12 MR. CARR: No, I'm going to copy it before I
13 bring it over to you. We don't have it at our office
14 at this time.

15 EXAMINER STOGNER: Okay. Does anybody else
16 have anything further in Case Number 9909?

17 If not, this case will be taken under
18 advisement.

19 (Thereupon, these proceedings were concluded
20 at 9:11 a.m.)

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CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Shorthand 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 April 22, 1990.

STEVEN T. BRENNER
CSR No. 106

My commission expires: October 14, 1990

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 9909, heard by me on 18 April 1990.
Michael T. [Signature], Examiner
Oil Conservation Division