

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4
5

6 EXAMINER HEARING
7

8 IN THE MATTER OF:
9

10 Application of Nearburg Producing
11 Company for compulsory pooling and Case 10093
12 a non-standard gas proration unit,
13 Lea County, New Mexico.
14
15
16

17 TRANSCRIPT OF PROCEEDINGS
18

19 BEFORE: DAVID R. CATANACH, EXAMINER
20
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22 STATE LAND OFFICE BUILDING

23 SANTA FE, NEW MEXICO

24 September 19, 1990
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ORIGINAL

CUMBRE COURT REPORTING
(505)984-2244

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A P P E A R A N C E S

FOR THE DIVISION:

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I N D E X

Page Number

Appearances

2

1. xxxxxx
 Examination by
 Examination by
 Examination by

2. xxxxxx
 Examination by
 Examination by
 Examination by

Certificate of Reporter

E X H I B I T S

- Exhibit No. 1
- Exhibit No. 2
- Exhibit No. 3
- Exhibit No. 4
- Exhibit No. 5
- Exhibit No. 6
- Exhibit No. 7
- Exhibit No. 8
- Exhibit No. 9
- Exhibit No. 10

1 P R O C E E D I N G S

2 HEARING EXAMINER: At this time we'll call Case
3 10093.

4 MR. STOVALL: Application of Nearburg Producing
5 Company for compulsory pooling and a non-standard gas proration
6 unit, Lea County, New Mexico.

7 HEARING EXAMINER: Are there appearances in this
8 case?

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

13 HEARING EXAMINER: Are there any other appearances?
14 Would the witnesses please stand to be sworn in.

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

18 EXAMINATION

19 BY MR. CARR:

20 Q. Will you state your full name for the record,
21 please.

22 A. Mark Nearburg.

23 Q. Mr. Nearburg, where do you reside?

24 A. Midland, Texas.

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

1 A. Nearburg Producing Company, vice president.

2 Q. Have you previously testified before the Oil
3 Conservation Division and had your credentials accepted and
4 made a matter of record?

5 A. Yes.

6 Q. Were you qualified as a petroleum landman at that
7 time?

8 A. Yes.

9 Q. Are you familiar with the application filed in this
10 case on behalf of Nearburg Producing Company?

11 A. Yes.

12 Q. Are you familiar with the subject area and the
13 proposed well?

14 A. Yes.

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

17 HEARING EXAMINER: They are.

18 Q. (BY MR. CARR) Mr. Nearburg, would you briefly state
19 what Nearburg seeks in this case.

20 A. Nearburg seeks an order approving all mineral
21 interest in the Morrow formation and underlying Section 31,
22 Township 19 South, Range 36 East, Lea County, New Mexico.

23 Q. What is the objective formation in this case?

24 A. Morrow Pennsylvanian gas formation.

25 Q. In what pool is this located?

1 A. In the North Osudo-Morrow pool.

2 Q. Is that spaced on 640-acre spacing?

3 A. Yes, it is.

4 Q. Have you prepared certain exhibits for presentation
5 in this case?

6 A. Yes, I have.

7 (Thereupon, Exhibit 1 was
8 marked for identification.)

9 Q. Could you identify what has been marked as Nearburg
10 Exhibit No. 1 and review the information on that exhibit for
11 the Examiner.

12 A. Exhibit 1 is land map showing the proration unit in
13 yellow and the test well standard location with the green dot
14 1,650 from the south line and 1,650 from the east line.

15 Q. How much of the ownership under this 640-acre tract
16 has been voluntarily committed to the well?

17 A. 95.53 percent.

18 Q. And at this point in time who has not voluntarily
19 joined in this effort?

20 A. Douglas Cone.

21 Q. Is he the only interest owner not voluntarily
22 committed?

23 A. Yes.

24 (Thereupon, Exhibit 2 was
25 marked for identification.)

1 Q. I would like you to refer to what has been marked as
2 Nearburg Exhibit No. 2 and identify that for the Examiner.

3 A. Exhibit No. 2 is an AFE for the Morrow test well.

4 Q. And what is the total for a completed well as
5 reflected on this AFE?

6 A. \$1,021,320.

7 Q. Are these costs in line with what is being charged
8 by other operators for similar wells in this area?

9 A. Yes.

10 Q. Are these in line with other wells proposed by
11 Nearburg to the Morrow formation?

12 A. Yes.

13 Q. Could you briefly summarize for Mr. Catanach the
14 efforts you have made to obtain the voluntary joinder of
15 Mr. Cone in this well.

16 A. We talked to Mr. Cone at length and gave him the
17 option of leasing, participating, or farming out. And he
18 elected to be force pooled.

19 Q. And he has indicated that to you in a letter?

20 A. Yes.

21 Q. In your opinion have you made a good faith effort to
22 obtain his voluntary joinder in this project?

23 A. Yes, we have.

24 (Thereupon, Exhibit 3 was
25 marked for identification.)

1 Q. Is what has been marked as Exhibit No. 3 an
2 affidavit confirming that notice of today's hearing has been
3 provided to a number of interest owners including Mr. Cone?

4 A. Yes

5 Q. And since these letters were mailed out you have
6 been able to obtain the joinder of everyone except Douglas
7 Cone; is that correct?

8 A. Yes.

9 (Thereupon, Exhibit 4 was
10 marked for identification.)

11 Q. Could you identify what has been marked as Nearburg
12 Exhibit No. 4.

13 A. This is a letter written to me by Mr. Cone
14 expressing his desire to be force pooled.

15 Q. Have you made an estimate of the overhead and
16 administrative cost that you will incur while drilling the well
17 and then while producing it if it is successful?

18 A. Yes. 6,000 drilling and 600 producing.

19 Q. And are these costs in line with what is being
20 charged by other operators in the area?

21 A. Yes.

22 Q. Have these costs also been incorporated into other
23 forced pooling orders from this division for wells in this
24 immediate area?

25 A. Yes.

1 Q. And do you recommend that these figures be
2 incorporated into any order which results from today's hearing?

3 A. Yes.

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

6 A. Yes, we do.

7 Q. In your opinion will approval of this application be
8 in the best interest of conservation, the prevention of waste,
9 and the protection of correlative rights?

10 A. Yes.

11 Q. Were Exhibits 1 through 4 either prepared by you or
12 have these exhibits been compiled under your direction and
13 supervision?

14 A. Yes.

15 MR. CARR: At this time, Mr. Catanach, we would move
16 the admission of Nearburg Exhibits 1 through 4.

17 HEARING EXAMINER: Exhibits 1 through 4 will be
18 admitted as evidence.

19 MR. CARR: I have nothing further on direct of
20 Mr. Nearburg.

21 EXAMINATION

22 BY THE HEARING EXAMINER:

23 Q. Mr. Nearburg, have you drilled a Morrow well in this
24 area, or is this your first attempt?

25 A. Several within two or three townships. But in this

1 particular township it's the first well.

2 Q. Are the Morrow wells that you've drilled, are they
3 to a comparable depth?

4 A. Yes, and deeper.

5 Q. When was the attempt to secure Douglas Cone's
6 voluntary interest, voluntary agreement with him, when was that
7 commenced?

8 A. In November of 1989.

9 Q. The proposed overhead rates, are those rates that
10 you've charged other operators in this?

11 A. Yes. The number of rates approved by the commission
12 in a non-standard location hearing in Section 6 of 20 South 36
13 East in a hearing of August this year.

14 Q. That was for a non-standard location?

15 A. Yes.

16 Q. And compulsory pooling?

17 A. I don't recall.

18 MR. CARR: It would have had to have been, yes, sir.

19 HEARING EXAMINER: Okay. No further questions of
20 the witness.

21 MR. CARR: At this time we call Mr. Mazzullo.

22 LOUIS J. MAZZULLO,

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

25 EXAMINATION

1 BY MR. CARR:

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

4 A. Louis Mazzullo.

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

6 A. Midland, Texas.

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

8 A. I am a geological consultant, and I am employed on
9 retainer by Nearburg Producing Company.

10 Q. Have you previously testified before the Oil
11 Conservation Division?

12 A. I have.

13 Q. At the time of that testimony were your credentials
14 as a geologist accepted and made a matter of record?

15 A. They were.

16 Q. Are you familiar with the application filed in this
17 case on behalf of Nearburg Producing Company?

18 A. Yes.

19 Q. Have you studied the subject area?

20 A. Yes.

21 Q. And are you familiar with the well proposal?

22 A. I am.

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

25 HEARING EXAMINER: They are.

1 Q. (BY MR. CARR) Mr. Mazzullo, are you prepared to
2 make a recommendation to the Examiner as to the risk penalty
3 that should be assessed against Mr. Cone if he remains
4 nonconsent in this effort?

5 A. Yes, I am.

6 Q. And what penalty do you recommend?

7 A. I would recommend well cost plus 200 percent
8 penalty.

9 (Thereupon, Exhibit 5 was
10 marked for identification.)

11 Q. And would you refer to what has been marked as
12 Nearburg Exhibit No. 5, and review that for Mr. Catanach.

13 A. Exhibit No. 5 is a structure map that was drawn on
14 the top of the Morrow formation which is the primary reservoir
15 in this area. You may have already seen this exhibit on a
16 previous hearing. But for this particular location the major
17 points to address here is the risk involved in drilling a
18 12,000 plus foot Morrow well with the available control that we
19 have in the area.

20 The only control that we do have is an offset well
21 to the immediate east of this location that has produced
22 277,000 MCF gas before being abandoned from the Morrow
23 formation.

24 The reason we want to step out to the particular
25 location that we've targeted is to increase our chances of

1 intersecting a thicker section of Morrow sand which in this
2 area may serendipitously bring us into more favorable reservoir
3 condition. And to get away from the major bounding fault that
4 I show intersecting that well to the east.

5 Evidently the closer you are to the faults in this
6 area the chance you risk both a chance of having the porosity
7 occluded close in proximity to the fault, and you also decrease
8 the chance of the amount of sand that you are going to
9 intersect in a particular -- in the Morrow. So the point of
10 bringing the location out to where it is is twofold: it's to
11 get away from the fault and to get away from the damaging
12 effects on the porosity of being too close to the fault. And
13 also to, as you can see from the isopach contours as we head to
14 the west we increase the potentials total net pay section in
15 the Morrow.

16 Q. Mr. Mazzullo, you also have on this exhibit a trace
17 for a line of cross-section.

18 A. That's right. The cross-section is a little odd
19 ball, but it is -- will enable us to illustrate the point we're
20 trying to make over here.

21 (Thereupon, Exhibit 6 was
22 marked for identification.)

23 Q. That is marked as Nearburg Exhibit No. 6?

24 A. Exhibit No. 6.

25 Q. Would you review that for Mr. Catanach at this time.

1 A. Exhibit No. 6 is actually a stratigraphic
2 cross-section. The reason I did a stratigraphic cross-section
3 was to illustrate a couple of points. First of all, if I were
4 to draw a structural cross-section across here it would have to
5 be about four times as large as it is right now because the
6 faults that the cross-section goes across are of 1,200 or 1,400
7 foot magnitude. I would never be able to fit it on here. But
8 the main point here is to show how rapidly the stratigraphy
9 changes in the Morrow, as you come away, as you approach and
10 come away from the faults.

11 The line of cross-section is a little zig-zag, but I
12 think it shows for one thing the substrate on which the Morrow
13 is deposited. That being the top of the Mississippian that
14 I've marked on brown, I believe, on your copy, Mr. Examiner.
15 You'll notice that the top of the Mississippian has some fairly
16 rapid changes in stratigraphic level as you go from one side of
17 the fault to the other.

18 The changes that you see on the top of the
19 Mississippian control deposition in the Morrow. When you come
20 to the down-thrown side of the fault, particularly the large
21 fault that we're dealing with that intersects our control well
22 to the east, you see a very rapid increase in the thickness of
23 the lower Morrow section. That is the section between my
24 lower, top of lower Morrow marker and top of Mississippian
25 marker. It is within this fairway, when you get onto the

1 down-thrown side of that fault, that I expect to see an
2 increase in section, perhaps as much as 200 feet more section
3 at the proposed location than we see on the control well to the
4 east.

5 It's this increase in section that I am counting on
6 to give us more potential net pay in the Morrow. It's a very
7 risky thing to assume. It's based on regional mapping in the
8 area.

9 The same type of relationships can be seen happening
10 in Osudo North fields to the south. As you come away from the
11 major faults you increase section markedly. As you approach
12 the faults, the major faults, your potential both for porosity
13 occlusion and thinning of the Morrow section increases.

14 So we're talking about a very, very risky Morrow
15 location. All Morrow locations are risky, but this one in
16 particular is even more risky because we have a lack of control
17 wells with which to define a fairway. And the definition of
18 the fairway here is based solely on regional mapping of the
19 Morrow and my understanding of the timing and control of the
20 underlying faults in the area.

21 Q. Based on your study you're recommending that the
22 maximum risk penalty be imposed on Mr. Cone's interest if it
23 remains nonconsent?

24 A. I do.

25 Q. Were Exhibits 5 and 6 prepared by you?

1 A. Yes, they were.

2 MR. CARR: At this time, Mr. Catanach, I would move
3 the admission of Nearburg Exhibits 5 and 6.

4 HEARING EXAMINER: Exhibits 5 and 6 will be admitted
5 as evidence.

6 MR. CARR: That concludes my direct examination of
7 Mr. Mazzullo.

8 EXAMINATION

9 BY THE HEARING EXAMINER:

10 Q. Mr. Mazzullo, is the Morrow the only target
11 formation in this well?

12 A. Well, the Morrow is not the only target formation.
13 There is uphole potential perhaps in the Bone Spring, the
14 Wolfcamp, and the Queen sands up at around 4,000 feet. They
15 are all highly speculative in this area.

16 The Queen sands is perhaps the least speculative of
17 all because there is offset production to the west in the Pearl
18 field, in Pearl field. Some of the wells of which are in
19 Section 36 but they are not shown on the structure map.

20 But the Morrow and Bone Spring lower Permian system
21 is extremely risky, extremely hard to map. It involves a lot
22 of seismic analysis that we're currently undergoing right now.

23 The other risk factor, the other factor that creates
24 such a high cost in this area is the fact that you have to set
25 long stream of intermediate casing down through the Wolfcamp so

1 you have an extra string of casing that's involved. That's
2 part of the reason for the increase in cost on this well. So
3 it's all very risky as you go below the Queen.

4 MR. CARR: I believe, Mr. Catanach, I might note
5 that Mr. Cone's interest is in the Northwest Quarter of the
6 section. And that if a well is successful and made in a
7 shallower horizon his interest would not be affected. All
8 those interests are voluntary anyway.

9 HEARING EXAMINER: I see. I have no further
10 questions of the witness. He may be excused.

11 Anything further in this case?

12 MR. CARR: Nothing further.

13 HEARING EXAMINER: Case 10093 will be taken under
14 advisement.

15
16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
19 the Examiners hearing of Case No. 10093,
20 heard by me on September 18, 1990.
21 David R. Catanach, Examiner
22 Oil Conservation Division
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1 CERTIFICATE OF REPORTER

2

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

5

6 I, Diane M. Winter, Certified Shorthand Reporter and
 7 Notary Public, HEREBY CERTIFY that the foregoing transcript of
 8 proceedings before the Oil Conservation Division was reported
 9 by me; that I caused my notes to be transcribed under my
 10 personal supervision; and that the foregoing is a true and
 11 accurate record of the proceedings.

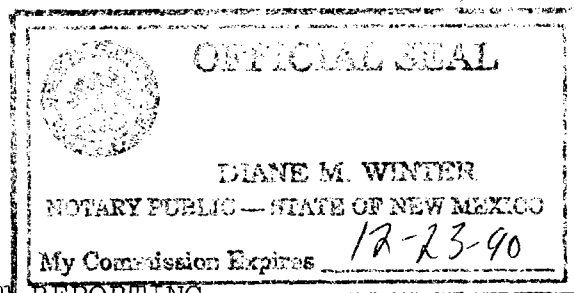
12 I FURTHER CERTIFY that I am not a relative or
 13 employee of any of the parties or attorneys involved in this
 14 matter and that I have no personal interest in the final
 15 disposition of this matter.

16 WITNESS MY HAND AND SEAL September 28, 1990.

17 

18
 19 DIANE M. WINTER
 20 CSR No. 414

21 My commission expires: December 21, 1993



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