

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

20 January 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Producing CASE
Company for an unorthodox gas well 9294
location and a non-standard gas pro-
ration unit, Eddy County, New Mexico.

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

For the Applicant:

1
2 MR. CATANACH: Call next Case
3 Number 9294, application of Nearburg Producing Company for
4 an unorthodox gas well location and a nonstandard gas prora-
5 tion unit, Eddy County, New Mexico.

6 Applicant has requested that
7 this case be continued to the Examiner Hearing scheduled for
8 February 3, 1988.

9 Case Number 9294 will be so
10 continued.

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12 (Hearing concluded.)
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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a correct and true transcript of the hearing in
the Examiner's hearing of case no. 8294,
heard by me on Jan 20 19 88.

David P. Catanach, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

3 February 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Producing CASE
Company for an unorthodox gas well 9294
location and a non-standard gas pro-
ration unit, Eddy County, New Mexico.

BEFORE: Michael E. Stogner, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

For the Applicant:

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MR. STOGNER: Call next Case Number 9294, which is the application of Nearburg Producing Company for an unorthodox gas well location and a nonstandard gas proration unit, Eddy County, New Mexico.

The applicant has requested that this case be continued to the Examiner's hearing scheduled for February 17th, 1988.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I Certify that the foregoing is
a correct and true transcript of the proceedings in
the Oil Conservation Hearing of Case No. 9204,
heard by me on 13 February 1955.

Michael J. Hagan Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
3 OIL CONSERVATION DIVISION
4 STATE LAND OFFICE BUILDING
5 SANTA FE, NEW MEXICO

6 17 February 1988

7 EXAMINER HEARING

8 IN THE MATTER OF:

9 Application of Nearburg Producing Company for an unorthodox gas well location and a non-standard gas pro- CASE
10 ration unit, Eddy County, New Mexico. 9294

11
12
13 BEFORE: David R. Catanach, Examiner

14
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16 TRANSCRIPT OF HEARING

17
18
19 A P P E A R A N C E S

20
21 For the Division:

22
23 For the Applicant:

24 William F. Carr
25 Attorney at Law
CAMPBELL & BLACK, P.A.
P. O. Box 2208
Santa Fe, New Mexico 87501

A P P E A R A N C E S

For Liberty Nat'l. Bank: W. Thomas Kellahin
Attorney at Law
KELLAHIN, KELLAHIN & AUBREY
P. O. Box 2265
Santa Fe, New Mexico 87504

I N D E X

MARK NEARBURG

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Redirect Examination by Mr. Carr	21

LOUIS MAZZULLO

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E X H I B I T S

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Nearburg Exhibit One, C-101 & C-102

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Nearburg Exhibit Two, Land Map

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Nearburg Exhibit Three, Letters

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Nearburg Exhibit Four, Map

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Nearburg Exhibit Five, Cross Section

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MR. CATANACH: Call next Case Number 9294, which is the application of Nearburg Producing Company for compulsory pooling, unorthodox gas well location, and a nonstandard gas proration unit, Eddy County, New Mexico.

Call for appearances.

MR. CARR: Mr. Examiner, I'm William F. Carr with the law firm Campbell & Black, P. A., appearing on behalf of Nearburg Producing Company and I have two witnesses.

MR. CATANACH: Are there other appearances in this case?

MR. KELLAHIN: Yes, Mr. Examiner. I'm Tom Kellahin of the Santa Fe firm of Kellahin, Kellahin & Aubrey, appearing on behalf of Liberty National Bank, Trustees for Lynette W. Layton and Patsy Lucille Carmoney.

I do not plan to present a witness at this time.

MR. CATANACH: All right. Will the witnesses please stand and be sworn in?

(Witnesses sworn.)

1 MR. CATANACH: Mr. Carr.

2
3 (Thereupon Mr. Carr presented his opening statement.)
4

5 MARK NEARBURG,

6 being called as a witness and having been duly sworn upon
7 his oath, testified as follows, to-wit:

8
9 DIRECT EXAMINATION

10 BY MR. CARR:

11 Q Will you state your name and place of
12 residence?

13 A Mark Nearburg, Dallas, Texas.

14 Q Mr. Nearburg, by whom are you employed
15 and in what capacity?

16 A Nearburg Producing Company, Vice Presi-
17 dent.

18 Q Have you previously testified before the
19 Commission or one of its examiners and had your credentials
20 accepted and made a matter of record?

21 A Yes.

22 Q And how were you qualified at that time,
23 as a landman?

24 A Landman. Landman.

25 Q Are you familiar with the application

1 filed on behalf of Nearburg in this case?

2 A Yes.

3 Q Are you familiar with the subject area?

4 A Yes.

5 MR. CARR: Are the witness'
6 qualifications acceptable?

7 MR. CATANACH: They are.

8 Q Would you briefly state what Nearburg
9 seeks with this application?

10 A Nearburg seeks compulsory pooling, unor-
11 thodox gas well location, and approval of a nonstandard gas
12 proration unit in Eddy County, New Mexico, to test the Mor-
13 row formation.

14 Q Have you prepared certain exhibits for
15 introduction in this case?

16 A Yes.

17 Q Would you refer to what has been marked
18 for identification as Nearburg Exhibit Number One, identify
19 this, and review the information on that exhibit for Mr.
20 Catanach?

21 A This is a copy of the C-101 and 102 forms
22 submitted to Artesia. It was submitted pending a final or-
23 der in this case for approval.

24 Q Has it been approved by the District of-
25 fice subject to receipt of an order in this case?

1 A Yes.

2 Q Would you refer now to the second page of
3 that exhibit, the C-102, and identify the acreage which is
4 the subject of this application?

5 A Yes. The area cross hatched is the north
6 half of Section 7.

7 The northwest quarter, northwest quarter
8 is Lot 1 and that's 39.34 net acres, an undersized surveyed
9 lot.

10 The southwest quarter northwest quarter
11 is Lot 1 and that's 39.34 net acres, an undersized surveyed
12 lot.

13 The southwest quarter northwest quarter,
14 Lot 2, is 39.51 gross and net acres, again an under-surveyed
15 lot.

16 Q And is this what results in a nonstandard
17 unit of 318.85 acres?

18 A Yes.

19 Q And is this due to a variation in the
20 USGS survey?

21 A Yes. And I'd like to point out on the C-
22 102 when it was submitted we had 320 acres on the unit and
23 that's been corrected to 318.85.

24 Q Would you now refer to Nearburg Exhibit
25 Number Two and identify that?

1 A This is a land map of the area showing
2 the proration unit in yellow and the test well location with
3 the red dot. It also shows offset ownership in the surroun-
4 ding acreage.

5 Q Now, the well is -- has been moved toward
6 the west, is that correct?

7 A Yes.

8 Q Who owns the tract to the west?

9 A Nearburg has that tract under lease and
10 it's common mineral ownership with the north half of Section
11 7.

12 Q So that we are actually moving toward a
13 tract that has common ownership with the tract on which the
14 well is located.

15 A Yes.

16 Q What is the primary objective in the pro-
17 posed well?

18 A The Morrow formation.

19 Q Could you review for Mr. Catanach the
20 status of the ownership in the subject tract, and here I'd
21 like you to identify those interests which have not volun-
22 tarily joined in the well?

23 A Okay. There are in excess of 60 mineral
24 owners in this tract. At this point it's necessary to force
25 pool Mr. Fred Bohannon, with -- and these net acre figures

1 are as to the 318.85 unit. Mr. Bohannon has 2.53 net acres.

2 Gail McClease has --

3 Q How do you spell McClease?

4 A I'll spell all these names for you.
5 Would you like me to do that in the testimony or afterward?

6 MR. CATANACH: You can do it in
7 the testimony.

8 A Okay. Fred Bohannon is spelled B-O-H-A-
9 N-N-O-N.

10 Gail McClease, G-A-I-L M-C-C-L-E-A-S-E,
11 Liberty National Bank, Trustee, 14.493
12 net acres.

13 That's a total in the proration unit of
14 17.77 net acres, which is a rounded 5.5 percent of the unit,
15 which nears Nearburg controls 94.43 percent of the unit.

16 Q What is the status of the negotiation
17 with the Liberty National group?

18 A We've been trying to reach agreement
19 intensely the last several weeks on a lease form. I'm going
20 to see them on Friday, if I can make arrangements. We think
21 we can arrange a lease with them; that they've agreed to be
22 represented by Mr. Kellahin at the hearing and we'll
23 continue to force pool them at this point.

24 If we reach agreement on a lease, we will
25 remove them from the forced pooling.

1 Q Have you prepared an AFE for this pros-
2 pect?

3 A Yes, we have.

4 Q Could you review the dry hole and com-
5 pleted well totals?

6 A The dry hole cost is estimated as
7 \$333,585 and a completed well is estimated at \$550,620.

8 Q Does Nearburg operate, or has Nearburg
9 drilled other Morrow wells in this same general area?

10 A Yes, we have.

11 Q And where are those located?

12 A They're located -- in approximately 2-1/2
13 miles to the southwest in Township 19 South, Range 25 East.

14 Q Are these AFE totals that you've reviewed
15 in line with what has been charged for these other Morrow
16 wells that you operate?

17 A Yes, adjusted to current costs.

18 Q Are there other Morrow wells in the im-
19 mediate area of the proposed well?

20 A Yes.

21 Q And are these costs in line with what
22 other operators charge?

23 A Yes.

24 Q Now you have mentioned your efforts to
25 obtain voluntary joinder of the Liberty National interests.

1 A Yes.

2 Q Could you basically review the efforts
3 you've made to obtain the joinder of the other interest own-
4 ers who are going to be pooled?

5 A We originally -- this applies to all the
6 interest owners in this tract.

7 We began leasing in 1985. In 1987 we ap-
8 proached all of these people again. They refused to lease.

9 In early 1988 we approached them a third
10 time and they still have not returned the leases. We've
11 been in contact with them. They just don't return the
12 paperwork.

13 Q In your opinion have you made a good
14 faith effort to not only locate but obtain voluntary joinder
15 from all interest owners in this -- in the dedicated ac-
16 reage?

17 A Yes. In addition to the leasing approxi-
18 mately forty days prior to the hearing we sent AFE's, oper-
19 ating agreements, and letters asking for these interest own-
20 ers, if they were not going to lease to please participate,
21 sign the AFE and return the operating agreement, which they
22 have not done.

23 Q Mr. Nearburg, would you just identify for
24 the record what has been marked as Nearburg Exhibit Number
25 Three?

1 A Exhibit Number Three are the letters sent
2 to offset owners, mineral owners, in the east half, south-
3 east quarter of Section 12.

4 Additionally notices were sent to owners
5 in the northeast quarter northeast quarter of Section 13 but
6 they no longer apply.

7 Q And was this notice provided in accord-
8 ance with Oil Conservation Division rules?

9 A Yes. By the way, Sections 12 and 13 that
10 I just immediately referenced are in Township 19 South,
11 Range 25 East.

12 Q Mr. Nearburg, have you made an estimate
13 of the overhead and administrative costs while drilling this
14 well and also while producing the well if in fact it is suc-
15 cessful?

16 A Yes, \$5500 per month drilling and \$550
17 per month overhead.

18 Q Are these the figures that have been
19 agreed to by the other interest owners who voluntarily
20 joined in the well?

21 A Yes.

22 Q Are they in line with the wells to the
23 southeast, or southwest that you previously referenced?

24 A Yes. They've been increased slightly to
25 reflect the increased cost of overhead on gas wells.

1 Q Do you recommend that these figures be
2 incorporated into order which results from the hearing?

3 A Yes.

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

6 A Yes.

7 Q In your opinion will granting this appli-
8 cation be in the best interest of conservation, the preven-
9 tion of waste and the protection of correlative rights?

10 A Yes.

11 Q Were Exhibits One through Three prepared
12 by you or compiled under your direction and supervision?

13 A Yes.

14 MR. CARR: At this time, Mr.
15 Catanach, I move the admission of Nearburg Producing Company
16 Exhibits One through Three.

17 MR. CATANACH: Exhibits One
18 through Three will be admitted into evidence.

19 MR. CARR: That concludes my
20 direct. I pass the witness.

21 MR. CATANACH: Mr. Kellahin?

22 MR. KELLAHIN: Thank you, Mr.
23 Catanach.

24

25

CROSS EXAMINATION

BY MR. KELLAHIN:

Q Mr. Nearburg, in the north half of Section 7 you've mentioned the fact that there are some 60 mineral owners, approximately. Are any of those mineral owners the federal government or the State of New Mexico?

A No. This is all fee ownership.

Q Have any of those owners agreed to execute the operating agreement and participate in the drilling of the well?

A Yes. Mr. Fred Bohannon has indicated that he wants to participate. We contacted him again yesterday because he has not returned the operating agreement or the AFE. He stated that he would return that immediately and if we receive that, we will drop him from the forced pooling, also.

Q Other than Mr. Bohannon, do you have the other interest committed to you by way of lease as opposed to having executed the operating agreement?

A Yes, all leases.

Q So the only parties that potentially could execute the proposed operating agreement are those listed to be pooled?

A Yes, and any of those that would like to participate are welcome to.

1 Q In the event Liberty National Bank is un-
2 able to reach a voluntary agreement with you for a lease, do
3 you propose to have the terms of the operating agreement ap-
4 ply to the force pooling parties, force pooled parties?

5 Well, let me make myself clear.

6 A Yes.

7 Q Obviously, from the look on your face you
8 hadn't a clue as to what I was asking you.

9 A Never had that question asked.

10 Q All right. Typically the forced pooling
11 order does not tell you a great many things about your oper-
12 ation.

13 A Uh-huh.

14 Q Because we don't have other mineral in-
15 terest owners that will execute the operating agreement, I'm
16 interested in whether or not in the absence of Mr. Bohannon
17 executing the operating agreement, and the fact that the
18 forced pooling order is -- is -- doesn't speak to many of
19 the procedures and operations on the well, --

20 A I'm with you now.

21 Q -- will you apply the terms of that oper-
22 ating agreement for your accounting procedures, and every-
23 thing else for the drilling of the well?

24 A Oh, yes. Yes, subject to the -- I'm not
25 sure of the exact article and subparagraph, but as to the

1 royalties payable in the operating agreement, as long as
2 that does not interfere with what the Commission sets in the
3 forced pooling for a royalty to penalty and payout, yes, we
4 would operate under the operating agreement in COPAS.

5 Q One of the issues of concern to the bank
6 was the operator's insurance coverage in terms of insurance
7 and the liability to third parties that might occur. What
8 is your arrangement or your proposed arrangement on insur-
9 ance liability, Mr. Nearburg?

10 A Mr. Bohannon has discussed this with me
11 and we checked, we have an umbrella policy that covers all
12 interest owners under our operating agreement.

13 Q And would that also --

14 A That covers anyone who signs the oper-
15 ating agreement.

16 Q All right. Would -- do you know whether
17 or not that coverage extends to those working interest
18 owners or mineral owners involuntarily committed to the well
19 by forced pooling?

20 A No, I don't know. It would after they
21 came in as a working interest owner but I'm not sure about
22 the interval. I can check on that.

23 Q As you may know, Mr. Nearburg, the Com-
24 mission's compulsory pooling orders when they're entered
25 give a party only two choices. One is to within the elec-

1 tion period prepay their proportionate share of the cost of
2 the well or the other election is simply to go nonconsent.

3 In your direct testimony you said you
4 would continue your efforts to reach a voluntary agreement
5 with Liberty Bank on a lease terms.

6 A Uh-huh.

7 Q Will you agree to allow them the
8 opportunity within that election period to execute the lease
9 form that you're proposing to them?

10 A Certainly. I'll make one more trip to
11 see them.

12 Q Let's talk about the area that is still
13 being negotiated with the bank. There is an agreement on
14 the bonus and on the royalty, is there not?

15 A Yes, there is.

16 Q And the issue unresolved is whether or
17 not transportation costs will be deducted from the
18 calculation of the royalty to be paid to the bank.

19 A Yes. Their lease differs from all of our
20 other leases in how their royalty is delivered. It's
21 outdated given the current gas marketing situation.

22 Q Are all the lease forms that you've
23 obtained from these other mineral owners in the spacing unit
24 on your lease form?

25 A I'm sorry, question again?

1 Q Yes, sir. I want to know the types of
2 lease forms utilized by you or obtained by you in putting
3 together the spacing unit.

4 A Hall Poorbaugh from Roswell, Form 342P.
5 Hall Poorbaugh Printers, Form 342P. I'm not sure of the
6 year of revision. I believe it was '81.

7 Q Have you obtained any leases from mineral
8 owners in the spacing unit on forms other than the Poorbaugh
9 form?

10 A No.

11 Q Describe for us briefly, Mr. Nearburg,
12 what the provisions are in that lease form for handling the
13 calculation of royalty insofar as it deals with transporta-
14 tion costs.

15 A I do not have the lease form in front of
16 me but it speaks of the price at the wellhead, which is ab-
17 sent -- the two leases read similar with the exception that
18 the leases we use refer to the wellhead.

19 The Oklahoma -- the Libert National Bank
20 lease has no reference point as to where the price has the
21 deductions made or the additions made for marketing and
22 transportation, treating compression.

23 It's a very --

24 Q Your lease form --

25 A -- fine line.

1 Q Your lease form, your interpretation of
2 your lease form is that it is a price calculated based upon
3 the wellhead price?

4 A Yes.

5 Q And what would be the impact as best you
6 can quantify it of charging back against the royalty trans-
7 portation costs?

8 A If you assume the price you're receiving
9 for the gas is \$1.50 per MCF in the area where we're lo-
10 cated, if you were taking the gas to California the -- to
11 get to the California border the transportation would add up
12 to somewhere between 50 and 60 cents per MCF or roughly a
13 third of the price of the gas at the wellhead.

14 Q Do you have a gas contract for the gas to
15 be produced from this well if it is able to produce gas?

16 A No, we do not, but we have an agreement
17 with Gas Company of New Mexico to utilize an existing meter
18 that we're producing through to sell the gas.

19 Q Do your existing contracts with the pur-
20 chaser provide to add this well to that contract?

21 A No, they do not, but before production is
22 obtained it's hard to reach a commitment with the gas com-
23 pany.

24 Q You don't have --

25 A We have had detailed discussions, though,

1 of the arrangements that we know there's capacity and we
2 know that physically it's very possible. Administratively
3 it's --

4 Q What's your estimate of the probable
5 range of gas price for production from the well? Do you
6 have a range of probability?

7 A How big a shell did you load in that gun?
8 I have no idea. I -- I don't know. That's an impossible
9 question.

10 Q Do you have a commencement date for the
11 well, Mr. Nearburg?

12 A Yes, by tomorrow midnight.

13 Q And if you don't commence it by then, if
14 you don't commence it by tomorrow at midnight, do you have
15 any leases that expire?

16 A Several. Probably between midnight
17 tomorrow night and the end of March all of the leases. They
18 occur in stages.

19 Q Your soonest expiring leases, though, are
20 as soon as tomorrow?

21 A Midnight. The date on the lease is
22 February 19th, so it would expire at midnight the 18th of
23 February, which would be midnight tomorrow.

24 Q Are you prepared to spud the well today
25 or tomorrow?

1 A Yes, the location is built; everything is
2 ready. We'll move the spudder on tomorrow morning.

3 Q Thank you.

4
5 CROSS EXAMINATION

6 BY MR. CATANACH:

7 Q I just need to get your drilling costs
8 again, if I could.

9 A Sure. Dry hole cost, \$333,585; com-
10 pleted, \$550,620.

11 Q Can we get a copy of that AFE?

12 A Yes.

13 Q How long do you think it will take to
14 finish drilling the well?

15 A Approximately 35 days.

16 MR. CATANACH: That's all I
17 have. You may be excused.

18
19 REDIRECT EXAMINATION

20 BY MR. CARR:

21 Q Mr. Nearburg, is the District Office of
22 the Oil Conservation Division aware of your plans to go for-
23 ward and put the spudder on the location?

24 A Yes, they are. The spudder has been con-
25 tracted and we've contracted a rotary rig to follow up im-

1 immediately once they finish drilling a well that they're cur-
2 rently drilling for us in this area.

3 Q Do you request that this order be expe-
4 dited to the fullest extent possible in view of the readver-
5 tisement and all the other factors?

6 A Yes, please.

7 MR. CARR: I have nothing fur-
8 ther.

9 At this time we'd call Louis
10 Mazzullo.

11
12 LOUIS MAZZULLO,
13 being called as a witness and having been duly sworn upon
14 his oath, testified as follows, to-wit:

15
16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q Will you state your full name for the re-
19 cord, please?

20 A I'm Louis Mazzullo.

21 Q And where do you reside?

22 A Midland, Texas.

23 Q Mr. Mazzullo, by whom are you employed
24 and in what capacity?

25 A I am a geological consultant on retainer

1 by Nearburg Producing Company.

2 Q Have you previously testified before this
3 Division and had your credentials as a geologist accepted
4 and made a matter of record?

5 A Yes, I have.

6 Q Are you familiar with the application
7 filed in this case and the subject area?

8 A Yes, I am.

9 MR. CARR: Are the witness'
10 qualifications acceptable?

11 MR. CATANACH: They are.

12 Q Mr. Mazzullo, would you refer to what has
13 been marked for identification as Nearburg Exhibit Number
14 Four, identify this, and review it for Mr. Catanach?

15 A Exhibit Number Four is a map showing the
16 thickness, the total thickness of the Morrow section which
17 constitutes the reservoir section in this particular area of
18 Township 19 South, 26 East.

19 The numbers you see on each well refer to
20 the thickness between the top of the Morrow Clastics and the
21 top of the Barnett Shale.

22 The thick areas are indicated by the
23 closed contours and these constitute areas where there are
24 presumed build-ups of sandstone which may constitute reser-
25 voir pay in the area.

1 The hatchured areas or the stippled areas
2 refer to those areas that meet a minimum porosity cutoff,
3 net porosity feet cutoff, which I've established through re-
4 gional study of the Morrow in the area. Wells that are pro-
5 ductive from the Morrow in this area usually meet a certain
6 minimum porosity cutoff and this porosity cutoff is present
7 in the areas that show the stippling.

8 The regional dip in this area is to the
9 southeast, so the rocks are dipping to the southeast.

10 The closed areas, there are several
11 closed contour areas that show no porosity build-up. By
12 contrast there are several areas that do not show closed
13 contours that show excellent porosity build-up. So what
14 this document is actually portraying is the stratigraphic
15 rather than structural nature of the Morrow reservoirs in
16 this area, so what it's saying is that it's not necessarily
17 a function of thickness of sand that gives you reservoir.
18 It's the quality of the reservoir itself, the quality of the
19 sand itself that constitute pay in the area.

20 So they don't always -- the good porosity
21 zones don't always correspond to the thickest sands but in
22 the case of our proposed location there is some correspon-
23 dence.

24 Q Now what information did you use in pre-
25 paring Exhibit Number Four?

1 A I used all available well control, every
2 well you see on this map and the surrounding area, as well.
3 Well logs, production histories, and -- and production
4 tests.

5 Q Did you use any seismic information?

6 A No, seismic wouldn't apply in this case.

7 Q And what is the particular reason for
8 proposing a well at this location?

9 A As you see from the map, there is a trend
10 of porosity that leads out of a well in the south half of
11 Section 6 immediately north of our proposed location. That
12 well shows a marginal amount of productive porosity. It
13 was, in fact, productive from the Morrow, although it didn't
14 produce -- it didn't produce up to a BCF of gas, I don't be-
15 lieve. It never made a BCF of gas, but it was a producer.

16 By contrast the well immediately to the
17 north of it that shows a contour value of 200, was a dry
18 hole because of lack of porosity, and the well in the north-
19 west of the northeast quarter of Section 7, which shows a
20 very, good, thick section of sand, had -- did not meet the
21 minimum porosity cutoff and was in fact a dry hole in the
22 Morrows. As we'll see in a minute, it had reservoir in it
23 but it was wet and tight.

24 I propose that the porosity that's
25 present in this well is confined to an up-dip position on

1 this particular build-up of sand; that the up-dip position,
2 regional dip being to the southeast, the optimum location
3 would be achieved in this section by moving as close to the
4 west section line as possible. If we get too close to the
5 -- if we get close to the center of the section we've get-
6 ting close to that dry hole control that we have in the
7 northwest of the northeast.

8 Q Was this particular location selected
9 based on your study of the area?

10 A Yes, it's based on a very extensive study
11 of the Morrow, detailed study of the Morrow in the area.

12 Q And what role does structure generally
13 play in this area?

14 A In this particular area the structure --
15 the -- the reservoirs tend to carry some water with them, so
16 structure in this area is important insofar as it determines
17 the position of the gas/water contacts in the individual
18 sandstone build-ups.

19 Q Would you now refer to what has been mar-
20 ked Nearburg Exhibit Number Five, the cross section which is
21 on the wall --

22 A Okay, I'll --

23 Q -- go to that and review the information
24 on that exhibit for Mr. --

25 A Okay, I'll go over --

1 Q -- Catanach?

2 A -- to the wall.

3 The cross section is essentially a dip
4 section. It more or less cuts across -- goes down dip from
5 west to east. It incorporates a well west and north of our
6 section that was productive from the Morrow -- is productive
7 from the Morrow, comes through our proposed location in the
8 northwest quarter of section, and then through the dry hole
9 east of us, northeast of us, and across into Section 8 into
10 a well that's producing from the Strawn.

11 In an up dip position we can see from the
12 results of production tests in the bottom two zones and from
13 log character that there are several sands in the Morrow
14 section. Oh, by the way, this is -- the Isopach zone from
15 the previous exhibit extends from the top of what I've mark-
16 ed as the Middle Morrow to the top of the Barnett. So
17 that's the Isopach interval from Exhibit Number Four.

18 In up dip position the major sand bodies
19 that are developed in the Morrow are more or less tight ex-
20 cept -- with the exception of this upper sand, which is the
21 productive sand in this particular well.

22 Q Now the tight stringers are indicated in
23 brown?

24 A These are indicated in brown; tight rocks
25 are indicated in brown.

1 There are two production tests in these
2 two lower sands that substantiate the fact that these --
3 these sands are tight and in the case of these top two sands
4 I've determined that from the log characters.

5 As you extend down dip of our proposed
6 location you get sands which are in part correlative to the
7 up dip tight sands, a couple of which were drill stem tested
8 and showed west conditions in the reservoir. So these sands
9 here are wet, shown in blue. There are a couple of sands
10 that may have been marginally productive. They probably
11 would not have made very much by comparison to other produc-
12 tive wells in the area. These are indicated in red, and a
13 couple of tight stringers.

14 We propose to get up dip of these wet
15 sands and down dip of the correlative tight zones in those
16 same sands to find the gas reservoirs, which are indicated
17 in red. I hope they come out looking like this and I hope
18 we get a stringer of red, but we'll probably in all likeli-
19 hood find something between a section of sand like this and
20 more -- more probably one or two good, thick sands and de-
21 velop the porosity in the gas reservoir.

22 We propose to get up dip from the west
23 zone, down dip from the tight zones, and stay as close to
24 the west section line, to stay away from the waterleg in the
25 -- in these two sands here and to get up dip of any tight

1 stringers that we might find, which are the marginal sands
2 in some of these better -- from build-ups we presume are
3 there.

4 Q You may return to your seat.

5 A Uh-huh.

6 Q Mr. Mazzullo, are you prepared to make a
7 recommendation to the Examiner as to the risk penalty that
8 should be assessed against any interest owner who does not
9 voluntarily join in the well?

10 A Yes.

11 Q And what is that recommendation?

12 A 200 percent.

13 Q And upon what do you base that recommen-
14 dation?

15 A Well, the risk of drilling a dry hole in
16 the Morrow, as you well know, is high even when you try to
17 pick an optimum location.

18 In addition to that, we are moving to-
19 wards acreage in Section 12, by staying as close to the west
20 section line, we're only moving closer to acreage which is
21 identical in ownership to that on which the well is located,
22 which in fact is -- is the majority interest being owned by
23 Nearburg.

24 Q Well, in your opinion is it possible that
25 a well at the proposed location would not be a commercial

1 success?

2 A It is a possibility, yes. There's always
3 a strong possibility in the Morrow that that could happen.

4 Q Were Exhibits Four and Five prepared by
5 hou?

6 A Yes, they were.

7 MR. CARR: At this time, Mr.
8 Catanach, we would offer Nearburg Exhibits Four and Five.

9 MR. CATANACH: Nearburg Exhi-
10 bits Four and Five will be admitted into evidence.

11 MR. CARR: That concludes my
12 direct examination of Mr. Mazzullo.

13

14 CROSS EXAMINATION

15 BY MR. CATANACH:

16 Q Mr. Mazzullo, what is your minimum
17 porosity cutoff that you calculated (unclear)?

18 A For the entire zone, the Morrow zone as I
19 have it mapped, I use a cutoff of 10 feet of 8 percent
20 porosity, which seems to work in this immediate area. You
21 can't apply that everywhere but you can apply it over here.

22 Q So you've analyzed some of the other
23 producing wells in the area?

24 A Yes. I've analyzed every -- every well
25 in this area.

1 Q What would be your closest producing
2 well, the closest to your proposed location?

3 A That would be the well in the southeast
4 quarter of Section 6, the Dorchester Losee or Liggett, I
5 forget which.

6 MR. NEARBURG: Liggett.

7 A Is it Liggett? It's the Dorchester No. 1
8 Liggett.

9 Q You said that was a marginal producing --

10 A I believe it -- I don't have the figures
11 in front of me but I don't think it made more than a half a
12 BCF of gas; probably paid out all right but that's about it.

13 Q How about the well in Section 1, the
14 southeast quarter of Section 1?

15 A The southeast quarter of Section 1, as I
16 implied in my discussion of the cross section, the zone that
17 it's producing from is rather thin and it's tight and so it
18 consequently has not made more than I believe 225 MCF of
19 gas, somewhere in that vicinity.

20 Q 225 MCF?

21 A It was a quarter BCF, quarter BCF. Now
22 those, these figures are just off the top of my head so they
23 might not be accurate.

24 Q Okay. Your porosity area in Section 7
25 seems to extend further east. Why do you feel that you have

1 to drill close to the west line?

2 A You mean further to the east? Okay, be-
3 cause the dip in this area, if you draw a line of constant
4 dip out of that dry hole, it's going to pass, say, if that
5 dry hole, for example, is at 5700 feet subsea depth, that
6 5700 foot contour line is going to -- is going to head from
7 that dry hole southwest and come pretty close to the loca-
8 tion as it is, so we're only gaining -- we're hoping to gain
9 at least 25 to 50 feet of structure up dip of that proposed
10 -- of that dry hole. If we get any further to the east on
11 the location we're going to be essentially at the same
12 structure as that dry hole, and as I showed you on the cross
13 section, we don't want to do that because we'd probably --
14 we'd be wet if there were reservoir there.

15 MR. CATANACH: Tom, do you have
16 any questions you want to ask?

17 MR. KELLAHIN: Just a few fol-
18 low-up questions, Mr. Examiner.

19

20 CROSS EXAMINATION

21 BY MR. KELLAHIN:

22 Q Looking at the well in Section 6, the
23 Dorchester Liggett Well?

24 A Uh-huh.

25 Q Do you have a copy of that log, Mr. Maz-

1 zullo?

2 A No, I don't. No, I don't. No, we could
3 get one real easy.

4 Q Have you examined it to a sufficient de-
5 gree to determine how the Morrow sand stringers that you've
6 displayed on Exhibit Five compare to the Dorchester Liggett
7 Well?

8 A There are -- there are some of the sands
9 -- some of the sands that are in the Liggett Well correlate
10 to the sands over in Section 1. Excuse me, how they -- how
11 they compare to which, now?

12 Q To the proposed location.

13 A Okay, yeah. My -- my -- the drawing of
14 these Isopach maps are based on regional studies that I have
15 done and published on in this area, so this is -- this lit-
16 tle map I show you is part of a huge study.

17 The trends of these individual sandstone
18 bodies I show are based on regional study and some of the
19 wells -- some of the sands that are present in the Liggett
20 are presumed to trend south/southwesterly into the proposed
21 location. Some of them are correlative to wells in Section
22 1, for example. Some of them are not. But I am implying
23 that a lot of the sands that are present in the Liggett are
24 going to be present at the proposed location; hopefully,
25 better developed.

1 Q You've identified the lower Middle Morrow
2 on the Isopach and that's the interval shown on Exhibit Five
3 from the Middle Morrow down to the top of the Barnett Shale?

4 A Right.

5 Q That interval there?

6 A Uh-huh.

7 Q In looking at display Five, it appears
8 that each of the sand stringers is slightly thicker than the
9 corresponding sand interval in each of the adjacent wells.

10 A Right.

11 Q Am I seeing that correctly?

12 A Yeah, you're seeing that correctly.

13 Q What is the basis for your interpretation
14 to show those thicker than the corresponding thickness in
15 each of the wells on the display?

16 A The implication here is that the deposi-
17 tional environment of the Morrow in this immediate area is
18 primarily fluvial, stream-laid deposits. The streams that
19 flowed -- that deposited these sands flowed in essentially a
20 north to south direction, northwest/southeast, northeast/
21 southwest, but essentially north to south.

22 Because of that we would expect these
23 sands to take on a lenticular type of shape. They would
24 thicken from the flanks out into the core of the channels
25 and then thin again on the other flank and that's part of

1 what we're implying here on this figure.

2 Q Looking to the west in Section 12 there's
3 a dry hole gas symbol in 12.

4 A That's a gas well symbol.

5 Q Yeah. Did it penetrate the Morrow?

6 A It did. It's producing from the Strawn.
7 It's a Strawn well. The Morrow was tight. There was no
8 porosity.

9 Q And the Dorchester Well immediately to
10 the east, I see a drill stem test. Did it ever produce?

11 A No, they never produced anything out of
12 that well.

13 Q And then the last well on the cross sec-
14 tion going to the east is the --

15 A Uh-huh. That's a well that is currently
16 operated by Nearburg, called the Crusader Rabbit. It's --
17 it was a dry hole in the Morrow when it was originally
18 drilled and Nearburg re-entered it and completed it in the
19 Strawn, a Strawn gas producer.

20 Q There were two drill stem tests and then
21 it was plugged and abandoned August of '78?

22 A Right.

23 Q The Dorchester Liggett Well no longer
24 produces from the Morrow?

25 A I believe it's shut-in. It's so dark I

1 can't tell but I think it's got a shut-in symbol on it.

2 Q And then the last well on the east of the
3 cross section, I've lost track of the name of that one.

4 A Well, that's the Crusader and that's the
5 one that we're --

6 Q All right, when we go to the west of the
7 Dorchester Well, to the far west in Section 1 --

8 A Uh-huh.

9 Q -- that one is still producing, is it?

10 A As far as I could tell from the record.
11 As of the first of the year they were.

12 Q Your latest information --

13 A I mean the first of last year, I'm sorry.
14 I don't have the --

15 Q January of '87?

16 A '87, right.

17 Q And what was your last information on its
18 producing rates?

19 A I didn't have a producing rate. I just
20 had a cumulative production figure --

21 Q As of that time.

22 A -- which I think was a quarter BCF.

23 MR. KELLAHIN: Thank you, I
24 have nothing further.

25 MR. CATANACH: I have no fur-

1 ther questions of the witness.

2 He may be excused.

3 MR. CARR: We have nothing fur-
4 ther, Mr. Catanach.

5 MR. CATANACH: Mr. Carr, were
6 all the parties that we just listed sent this notification
7 again to the parties to make sure that the -- for the unor-
8 thodox location?

9 MR. CARR: For the unorthodox
10 location notice was given to the west and the southwest.
11 Those are the only tracts toward whom the well is being
12 moved.

13 As to the compulsory pooling,
14 we gave notice to the interest owners who had not voluntar-
15 ily joined within the dedicated acreage. The reason there
16 are so many of them is to the southwest in that tract we may
17 have as many as 65 interest owners down there in that, very,
18 very, small, fractional interests in the acreage south and
19 west of the well.

20 MR. CATANACH: If we do find
21 that we have to proceed with a nonstandard proration unit,
22 --

23 MR. CARR: We will have to give
24 them additional notice, and that is the reason we need to
25 resolve that with you as quickly as possible. That notice

1 would have to go out by Wednesday of next week.

2 We also will provide a copy of
3 the AFE for the well.

4 MR. CATANACH: Okay. In that
5 case we'll leave the record open in this case and readver-
6 tise it for March 16th.

7

8 (Hearing concluded.)

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C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9284,
heard by me on February 12, 1988:

David R. Cabanell, Examiner
Oil Conservation Division

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
SANTA FE, NEW MEXICO

16 March 1988

EXAMINER HEARING

IN THE MATTER OF:

Application of Nearburg Production
Company for compulsory pooling
unorthodox gas well location and a
non-standard gas proration unit,
Eddy County, New Mexico.

CASE
9294

BEFORE: David R. Catanach, Examiner

TRANSCRIPT OF HEARING

A P P E A R A N C E S

For the Division:

For the Applicant:

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MR. CATANACH: Call next Case 9294, application of Nearburg Production Company for compulsory pooling, unorthodox gas well location and a nonstandard gas proration unit, Eddy County, New Mexico.

This case was heard on February 17th and had to be readvertised.

Are there any appearance in this case?

There being none, this case will be taken under advisement.

(Hearing concluded.)

C E R T I F I C A T E

I, SALLY W. BOYD, C.S.R., DO HEREBY
CERTIFY that the foregoing Transcript of Hearing before the
Oil Conservation Division (Commission) was reported by me;
that the said transcript is a full, true, and correct record
of the hearing, prepared by me to the best of my ability.

Sally W. Boyd CSR

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 9894,
heard by me on March 16 1988.

David R. Catamb, Examiner
Oil Conservation Division