

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:

APPLICATION OF MEWBOURNE OIL  
COMPANY FOR A NONSTANDARD  
OIL SPACING AND PRORATION UNIT  
AND COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

CASE NO. 15635

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 2, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER  
LEONARD LOWE, TECHNICAL EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Leonard Lowe, Technical Examiner, and Gabriel Wade, Legal Examiner, on Thursday, March 2, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (10:00 a.m.)

2 EXAMINER McMILLAN: Okay. I would like to  
3 call Case Number 15635, application of Mewbourne Oil  
4 Company for a nonstandard oil spacing and proration unit  
5 and compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of  
8 Santa Fe representing the Applicant. And I have two  
9 witnesses who are Mr. Pearson and Mr. Cless, who were  
10 previously sworn and qualified.

11 EXAMINER McMILLAN: Are there any other  
12 appearances?

13 Okay. There was a pre-hearing statement  
14 from Cimarex. However, they are not present.

15 MR. BRUCE: Yeah. And they are not being  
16 pooled.

17 EXAMINER WADE: So just to clarify, your  
18 original application notice did ask for compulsory  
19 pooling of Cimarex?

20 MR. BRUCE: Yes.

21 EXAMINER WADE: Now Mewbourne and Cimarex  
22 have come to an agreement?

23 MR. BRUCE: They're coming to terms, but  
24 they're not being pooled.

25

1                                   CLAYTON PEARSON,  
2           after having been previously sworn under oath, was  
3           questioned and testified as follows:

4                                   DIRECT EXAMINATION

5   BY MR. BRUCE:

6           **Q.   Mr. Pearson, could you identify Exhibit 1 for**  
7           **the Examiner?**

8           A.   Exhibit 1 is a Midland Map showing the area  
9           around the proposed well.  It also highlights the  
10          project area for the proposed well, which is the Hoss  
11          2/11 B2BO Federal Com #2H well.  The wellbore is  
12          represented by the red line.  The surface location will  
13          be in Unit Letter B of Section 2, with a bottom-hole  
14          location in Unit Letter O of Section 11.

15          **Q.   And what formation is being pooled in this**  
16          **application?**

17          A.   The Bone Spring Formation.

18          **Q.   And are there any depth severances in the Bone**  
19          **Spring Formation?**

20          A.   There are none.

21          **Q.   And what type of land is involved in the well**  
22          **unit?**

23          A.   This is a mix of federal, state and fee lands.

24          **Q.   And will the producing interval of the well be**  
25          **orthodox?**

1           A.     Yes.

2           **Q.     Can you identify Exhibit 2 for the Examiner?**

3           A.     Exhibit 2 is the tract ownership found in this  
4     proration unit, which consists of 320 acres. It lists  
5     all the different parties and their various percentages,  
6     and it notes that we seek to pool EOG Resources, Inc.,  
7     their 1.26 percent working interest that is uncommitted  
8     as of this date.

9           **Q.     And what is Exhibit 3?**

10          A.     Exhibit 3 is a summary of communications we've  
11     had just with EOG Resources. We mailed the well  
12     proposal and proposed JOA to EOG back in December of  
13     2016. We've had a couple of phone conversations and  
14     follow-up voice mails that we have not heard any  
15     response back to.

16          **Q.     In your opinion, have you made a good-faith**  
17     **effort to obtain the voluntary joinder of EOG Resources**  
18     **in the well?**

19          A.     We have.

20          **Q.     What is Exhibit 4?**

21          A.     Exhibit 4 is a copy of our AFE that was sent to  
22     all the working interest parties. It shows the  
23     completed well costs to be \$7,222,200.

24          **Q.     And is this cost in line with the cost of**  
25     **similar horizontal wells drilled in this area of**

1     southeast New Mexico?

2           A.     It is.

3           Q.     And do you have a recommendation as to the  
4     supervision and overhead rates?

5           A.     We are requesting \$8,000 for drilling months  
6     and \$800 for producing months.

7           Q.     And are these amounts equivalent to those  
8     normally charged by Mewbourne and other operators in  
9     this area for wells of this type?

10          A.     They are.

11          Q.     Do you request that the rates be adjusted  
12     periodically as provided in the COPAS accounting  
13     procedure?

14          A.     Yes.

15          Q.     And does Devon [sic] request the cost plus 200  
16     percent risk charges in the event EOG goes nonconsent in  
17     the well?

18          A.     We do.

19                     You mentioned Devon again requesting that.  
20     I need to clarify. Mewbourne requests those.

21          Q.     Mewbourne. I should have done that case last.

22                     And was EOG notified of this hearing?

23          A.     They were.

24          Q.     And is that reflected in Exhibit 5?

25          A.     Yes.

1           **Q.   Exhibit 5 also lists Panhandle Royalty. Have**  
2 **you come to terms with Panhandle Royalty?**

3           A.   Exhibit 5 -- actually, in this well, they have  
4 no ownership in this specific --

5           **Q.   Formation?**

6           A.   -- formation. That's correct. So --

7           **Q.   And does Exhibit 6 list all of the offset**  
8 **operators or interest owners to the proposed well unit?**

9           A.   Yes.

10                   MR. BRUCE: Mr. Examiner, I will submit the  
11 Affidavit of Notice at the last -- at the next hearing.  
12 I do need to continue this. I received everything back  
13 except for Kaye Gassie, G-A-S-S-I-E. So it will have to  
14 be continued for two weeks.

15                   EXAMINER WADE: But everybody was  
16 locatable?

17                   MR. BRUCE: As far as I know. I looked  
18 online --

19                   THE WITNESS: Yes.

20                   MR. BRUCE: -- and it was delivered, but --

21           **Q.   (BY MR. BRUCE) Mr. Pearson, were Exhibits 1**  
22 **through 6 either prepared by you or under your**  
23 **supervision or compiled from company business records?**

24           A.   Yes.

25           **Q.   And in your opinion, is the granting of this**

1     **application in the interest of conservation and the**  
2     **prevention of waste?**

3             A.     Yes.

4                     MR. BRUCE:  Mr. Examiner, I tender the  
5     admission of Exhibits 1 through 6.

6                     EXAMINER McMILLAN:  Exhibits 1 through 6  
7     may now be accepted as part of the record.

8                     (Mewbourne Oil Company Exhibit Numbers 1  
9                     through 6 are offered and admitted into  
10                    evidence.)

11                    CROSS-EXAMINATION

12     BY EXAMINER McMILLAN:

13             **Q.     What's the pool name?**

14             A.     It is the San Lorenzo North-Bone Spring.

15             **Q.     Code?**

16             A.     53610.

17             **Q.     5360?**

18             A.     53610.

19             **Q.     Any depth severances?**

20             A.     Not in the Bone Spring, no, sir.

21             **Q.     This does not have an API?**

22             A.     It does not yet have an API.  It's pending APD.

23                     EXAMINER McMILLAN:  I don't have any more  
24     questions.

25                     Go ahead.



1 EXAMINER LOWE: I don't have any questions.

2 EXAMINER McMILLAN: Thank you very much.

3 EXAMINER WADE: I don't have any questions.

4 EXAMINER McMILLAN: Thank you very much.

5 NATE CLESS,

6 after having been previously sworn under oath, was

7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you please state your name for the  
11 record?

12 A. Nate Cless.

13 Q. Mr. Cless, could you identify Exhibit 8 for the  
14 Examiner?

15 A. Exhibit 8 is a net isopach map of the Lower  
16 Bone Spring Sand, as well as a structure map on the base  
17 of the 2nd Bone Spring Sand. And I've also identified  
18 the horizontal 2nd Bone Spring laterals on this map, and  
19 they're highlighted with the solid green lines. And  
20 then the dashed green arrow is our proposed wellbore,  
21 and our proposed proration unit is outlined in the black  
22 square.

23 Q. And what is Exhibit 9?

24 A. Exhibit 9 is a three-well cross section. It's  
25 running from north to south covering the 2nd Bone

1 interval in this particular area. We'll be going by --  
2 I guess the last well in the cross section, we'll be  
3 going right next to this guy. But you can see I've  
4 identified the horizontal target in the 2nd Bone Spring  
5 Sand, so we'll be landing in the lower part of the 2nd  
6 Bone Sand. You can just see it's got a uniform  
7 thickness across this entire interval.

8 **Q. And in your opinion, will each quarter-quarter**  
9 **section contribute more or less equally to production?**

10 A. Yes, sir.

11 **Q. And what is Exhibit 10?**

12 A. Exhibit 10 is just a production data table of  
13 all the 2nd Bone Spring horizontals in this particular  
14 area. There are seven wells that are listed on here,  
15 five of which are operated by Mewbourne. And then I've  
16 listed the cumulative oil, gas and water. And all of  
17 these wells in this particular area, in the 2nd Bone  
18 Spring Formation, are north-south laterals.

19 **Q. The nearby wells were drilled what, three or**  
20 **four years ago?**

21 A. Yes. For the most part, most of them were  
22 drilled in 2013.

23 **Q. What is Exhibit 11?**

24 A. Exhibit 11 is just the horizontal well plan we  
25 have for this particular well. It shows our surface

1 location. Our landing point and first take point -- or  
2 our first perforation will be 330 from the north, 1,650  
3 from the east line of Section 2. And then our bottom  
4 hole will be 330 from south, 1,650 from east in Section  
5 11. So this will be legal setbacks.

6 **Q. This is a two-mile lateral. How many**  
7 **completion stages?**

8 A. Again, we typically run 20 to 30 per mile, so  
9 this will probably be 40 to 50 completion stages. I  
10 believe we plan on pumping 13 million gallons and 13  
11 million pounds of sand over the course of this two-mile  
12 lateral.

13 **Q. And completion techniques have changed quite a**  
14 **bit since 2013?**

15 A. They have. And that's why -- we've -- we've  
16 completed some other 2nd sands with these newer -- newer  
17 slick-water frac jobs and bigger volumes, and we've had  
18 a lot more -- lot more success. And most of the drills  
19 back in 2013, they were economic back then. The price  
20 of oil was still 100 bucks a barrel. But things have  
21 changed a little bit, and so we changed our completions  
22 a little bit and got better results.

23 **Q. Were Exhibits 8 through 11 either prepared by**  
24 **you or compiled from company business records?**

25 A. Yes, sir.

1           **Q.   And is the granting of this application in the**  
2   **interest of conservation and the prevention of waste?**

3           A.   Yes, sir.

4                       MR. BRUCE:   Mr. Examiner, I move the  
5   admission of Exhibits 8 through 11.

6                       EXAMINER McMILLAN:   Exhibits 8 through 11  
7   may now be accepted as part of the record.

8                       (Mewbourne Oil Company Exhibit Numbers 8  
9                       through 11 are offered and admitted into  
10                      evidence.)

11                               CROSS-EXAMINATION

12   BY EXAMINER McMILLAN:

13           **Q.   Here's my question.   How much additional**  
14   **reserves are you picking up for two versus a one-mile?**

15           A.   I mean, in theory, you're doubling your  
16   reserves, but the main benefit is the cost.   You're  
17   spending about 1.6 times the cost to get twice the  
18   reserves, and so it's a better economic advantage to do  
19   that.

20                               CROSS-EXAMINATION

21   BY EXAMINER WADE:

22           **Q.   Do you get an economic advantage for also not**  
23   **having to worry about two one-mile lateral setbacks?**

24           A.   That's right.   So instead of having  
25   basically -- instead of having two 660 setbacks, you

1     only have to deal with one, so you're getting more  
2     lateral, basically.  So --

3                                 RECROSS EXAMINATION

4     BY EXAMINER McMILLAN:

5             **Q.     I'm sorry.  I missed that.  It's one --**

6             A.     Roughly, you're spending about 1.6 times the  
7     cost to drill the well, to drill these two-mile  
8     laterals, and you're getting, basically, twice the  
9     reserves.  So --

10            **Q.     Okay.  I was just kind of curious.**

11            A.     So it did make sense to do them.  And we've  
12    typically been -- you know, in areas where we can do it  
13    and we have an interest across both sections, we're  
14    trying to push for these longer laterals.

15            **Q.     And do you expect other laterals in this**  
16    **pool --**

17            A.     Yeah.

18            **Q.     -- in this project area?**

19            A.     We certainly see the 3rd Bone Spring as  
20    potentially having -- or being productive in this area,  
21    and so there are -- there are other areas in the Bone  
22    Spring that look prospective.  And so yes, we do someday  
23    think there will be more.

24                         EXAMINER WADE:  I have no questions.

25                         EXAMINER McMILLAN:  Thank you very much.

1                   Let's take a ten-minute break.

2                   (Case Number 15635 concludes, 10:35 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of those proceedings that  
11 were reduced to printed form by me to the best of my  
12 ability.

13 I FURTHER CERTIFY that the Reporter's  
14 Record of the proceedings truly and accurately reflects  
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither  
17 employed by nor related to any of the parties or  
18 attorneys in this case and that I have no interest in  
19 the final disposition of this case.  
20

21  
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