

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
SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15636

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
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1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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25

1 (10:25 a.m.)

2 EXAMINER McMILLAN: At this time I'd call
3 the hearing back to order.

4 I'd like to call Case Number 15636,
5 application of Mewbourne Oil Company for a nonstandard
6 spacing and proration unit and compulsory pooling, Eddy
7 County, New Mexico.

8 Let it be noted that these are the same two
9 witnesses, and they're still under oath.

10 MR. BRUCE: Yes, sir.

11 EXAMINER McMILLAN: And they've been sworn
12 in, and they are expert witnesses.

13 CLAYTON PEARSON,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Will you please state your name for the record?

19 A. Clayton Pearson.

20 Q. Mr. Pearson, would you identify Exhibit 1 for
21 the Examiner?

22 A. Exhibit 1 is a Midland Map showing the area
23 around the proposed well which is the Hoss 2/11 W2BO
24 Federal Com #1H, which is located in the east half of
25 Section 2 and the east half of Section 11, Township 25

1 South, Range 28 East, Eddy County, New Mexico. We seek
2 to pool the Wolfcamp Formation.

3 Q. And what type of land is involved in this
4 application?

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

6 Q. Okay. And the well location will be orthodox;
7 is that correct?

8 A. Correct.

9 Q. Would you identify Exhibit 2 and discuss who
10 needs to be pooled in this case?

11 A. Exhibit 2 is the tract ownership found in the
12 project area. It lists out the various parties and
13 their interest in the project area. We seek to pool
14 Panhandle Royalty Company with 2.34 percent and EOG
15 Resources, Inc. with 0.95 percent. We seek to pool a
16 total interest of 3.29 percent.

17 Q. There are no unlocatable interest owners?

18 A. That's correct.

19 Q. And what is Exhibit 3?

20 A. Exhibit 3 is a summary of communication we've
21 had with these parties we seek to pool. First is
22 Panhandle Royalty Company, which we initiated
23 communication back in October of 2016. We initially
24 sent a lease offer and were discussing leasing this
25 interest, and over the next several months, you'll see

1 we've gone back and forth on a lease offer. And then we
2 were notified that Panhandle is thinking about
3 participating in the well but didn't have a definitive
4 answer, and so they let us know it would be okay to list
5 them on this pooling application. And to this date, we
6 still do not have a final answer on what they wish to do
7 with their interest.

8 Next is a summary of our communication with
9 EOG in which we mailed a well proposal and JOA back in
10 December of 2016. We had some various communications
11 via the phone over the next couple of months, but we
12 have since not heard anything else.

13 **Q. In your opinion, have you made a good-faith**
14 **effort to obtain the voluntary joinder of Panhandle and**
15 **EOG in the well?**

16 A. We have.

17 **Q. And what is Exhibit 4?**

18 A. Exhibit 4 is a copy of our AFE which shows the
19 completed well costs to be \$8,657,600.

20 **Q. And in your opinion, is that cost fair and**
21 **reasonable and in line with the cost of other wells**
22 **drilled of this type in this area of southeast New**
23 **Mexico?**

24 A. It is.

25 **Q. What overhead rates do you request?**

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

3 Q. And are these amounts equivalent to those
4 normally charged by Mewbourne and other operators in
5 this area?

6 A. Yes.

7 Q. Do you request that the rates be adjusted
8 periodically as provided by the COPAS accounting
9 procedure?

10 A. We do.

11 Q. And do you request the maximum cost plus 200
12 percent risk charge in the event the interest owner goes
13 nonconsent in the well?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, this case will
16 also have to be continued. I did get a green card back
17 from Panhandle Royalty, but not from EOG even though I
18 got a green card back in the prior case from EOG. And
19 for the record, I've had trouble getting green cards
20 back from EOG for about nine or 12 months. I don't know
21 why.

22 Q. (BY MR. BRUCE) And does Exhibit 6 list the
23 offset operators or working interest owners to the
24 proposed nonstandard unit?

25 A. It does.

1 MR. BRUCE: And, Mr. Examiner, these are
2 the same interest owners who were notified of the prior
3 case which involves the same sections. And, once again,
4 that one interest owner, Katie Gassie, I have not
5 received a green card back from her. So, again, I will
6 submit that affidavit at the continued hearing on March
7 16th.

8 Q. (BY MR. BRUCE) Mr. Pearson, were Exhibits 1
9 through 4 and 6 either prepared by you or under your
10 supervision?

11 A. Yes.

12 Q. And in your opinion, is the granting of this
13 application in the interest of conservation and the
14 prevention of waste?

15 A. Yes.

16 MR. BRUCE: Mr. Examiner, I move the
17 admission of Exhibits 1 through 4 and 6.

18 EXAMINER McMILLAN: Exhibits 1 through 4
19 and Exhibit 6 may now be accepted as part of the record.

20 (Mewbourne Oil Company Exhibit Numbers 1
21 through 4 and 6 are offered and admitted
22 into evidence.)

23 MR. BRUCE: And I have no further questions
24 of the witness.

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. Okay. The status is pending, right?

4 A. It's proposed, yes, sir. Oh, on the API?

5 Q. Well, I mean --

6 A. We proposed the well, and we do not have an API
7 number yet. We have not spud the well.

8 Q. And this is also part of the Purple Sage;
9 Wolfcamp Gas Pool?

10 A. Correct.

11 Q. Any depth severances?

12 A. There are none.

13 Q. And no unlocatable interests, correct?

14 A. Correct.

15 Q. And your surface is 185, 1,700?

16 A. Yes, sir, that's correct.

17 Q. Bottom hole, 31650 [sic]?

18 A. Yes, sir.

19 EXAMINER McMILLAN: Go ahead.

20 EXAMINER LOWE: No questions.

21 EXAMINER WADE: And I have no questions.

22 EXAMINER McMILLAN: Thank you very much.

23

24 NATE CLESS,

25 after having been previously sworn under oath, was

1 questioned and testified as follows:

2 DIRECT EXAMINATION

3 BY MR. BRUCE:

4 **Q. Please state your name for the record.**

5 A. Nate Cless.

6 **Q. Could you identify Exhibit 8 for the Examiners?**

7 A. Exhibit 8 is a structure map and activity map.
8 The structure map is on top of the Wolfcamp Formation,
9 and the structure is dipping from the west to the east.
10 I've identified the blue wells on here. The blue sticks
11 on here identify the Wolfcamp Shale, wells that have
12 been drilled in this particular area.

13 **Q. And I'll ask you more about this in a minute,**
14 **but the nonstandard unit's two miles, that's not**
15 **impairing any offset operators or working interest**
16 **owners' ability to drill their own wells in their**
17 **acreage, is it?**

18 A. Correct.

19 **Q. What is Exhibit 9?**

20 A. Exhibit 9 is a three-well cross section going
21 through the wells in this particular area. Again, these
22 are the same three wells I've shown on my previous -- in
23 the previous case. This is just covering the Wolfcamp
24 Formation. So the very top of the cross section is the
25 top of the Wolfcamp and then what we list -- or how we

1 identify the Wolfcamp with the Wolfcamp Sand, the
2 Wolfcamp A, B, C. And, again, when we're targeting this
3 particular well, it's the lower part of the Wolfcamp
4 Shale so what we call the Wolfcamp D [sic]. And you can
5 see that interval as being very uniform and consistent
6 across this area.

7 Q. And do you expect each quarter section in the
8 well unit to contribute more or less equally to
9 production?

10 A. Yes, sir.

11 Q. And what is Exhibit 9 -- excuse me -- 10?

12 A. Exhibit 10 is a production data table of the --
13 of the offset Wolfcamp horizontals -- Wolfcamp Shale
14 horizontals which have been drilled in this particular
15 area. There are four particular wells, three of which
16 are operated by Mewbourne. All of these wells are
17 north-south. And these wells were drilled in 2012, 2014
18 and 2015, and you can see the cumulative production of
19 this particular well in that amount of time.

20 Q. And, again, produced quite a bit of gas?

21 A. Correct.

22 Q. Again, is the reason for the nonstandard unit
23 to reduce well costs attributed to the drilling of these
24 wells?

25 A. Correct.

1 Q. And is Exhibit 11, that's the planning report
2 for the -- horizontal planning report for the well?

3 A. Yes, sir, it is.

4 Q. And just for the record, again, how many,
5 roughly, completion stages per mile does Mewbourne
6 usually use?

7 A. There are roughly 20 to 30 stages per mile. So
8 this being a two-mile lateral, there will be roughly 40
9 to 50 stages.

10 Q. Were Exhibits 8, 9, 10 and 11 either prepared
11 by you or compiled from company business records?

12 A. They were.

13 Q. And in your opinion, is the granting of this
14 application in the interest of conservation and the
15 prevention of waste?

16 A. Yes, sir.

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

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

21 (Mewbourne Oil Company Exhibit Numbers 8
22 through 11 are offered and admitted into
23 evidence.)

24 MR. BRUCE: And I pass the witness.

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. Are you expecting other wells in this project
4 area?

5 A. Yes. There have been a number of wells which
6 have been drilled in the Upper Wolfcamp sands just to
7 the north of here, so we plan on eventually putting a
8 well in the Wolfcamp sands up there. And just also kind
9 of in the middle part of this cross section, what we
10 call the Wolfcamp sea shale, there have been some wells
11 that have been drilled in that particular -- we
12 certainly have more plans for the Wolfcamp in this area.

13 Q. Similar reserves?

14 A. Yes.

15 EXAMINER McMILLAN: Go ahead, Leonard.

16 EXAMINER LOWE: I got no questions.

17 EXAMINER WADE: I have no questions. Thank
18 you.

19 EXAMINER McMILLAN: And I believe the
20 landman said you're not affecting correlative rights by
21 having the two-mile -- the offset owners' opportunity.

22 I don't have any other questions. Thank
23 you for the good presentation.

24 THE WITNESS: Thank you.

25 EXAMINER McMILLAN: So Case Number 15636

1 shall be continued to March the 16th.

2 (Case Number 15636 concludes, 10:36 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
22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2017
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