

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 COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO

CASE NO. 15637

Consolidated with

APPLICATION OF MEWBOURNE OIL  
COMPANY FOR COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

CASE NO. 15638

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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6

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1 (10:37 a.m.)

2 EXAMINER McMILLAN: I would like to call  
3 Case Number 15637, application of Mewbourne Oil Company  
4 for compulsory pooling, Eddy County, New Mexico, and I  
5 would also like to call at this time Case Number 15638,  
6 application of Mewbourne Oil Company for compulsory  
7 pooling, Eddy County, New Mexico. These two cases shall  
8 be combined in hearing.

9 CLAYTON PEARSON,  
10 after having been previously sworn under oath, was  
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Would you please state your name for the  
15 record?

16 A. Clayton Pearson.

17 Q. And, Mr. Pearson, what is Exhibit 1?

18 A. Exhibit 1 is a Midland Map showing the area  
19 around the proposed project area which is the east half  
20 of Section 3, Township 24 South, Range 28 East, Eddy  
21 County, New Mexico. The proration unit is highlighted  
22 in yellow, and the two proposed wellbores are  
23 highlighted in red.

24 Q. And what are the names of the two wells?

25 A. The two wells are the Yardbirds 3 W0AP Fee #2H

1 and Yardbirds 3 W2AP Fee #1H, and we seek to pool the  
2 Wolfcamp Formation.

3 Q. And the east half of Section 3 is fee lands?

4 A. It's all fee, correct.

5 Q. And are there any depth severances in the  
6 Wolfcamp Formation in the east half of Section 3?

7 A. There are none.

8 Q. Mr. Pearson, I mean, you're proposing two  
9 different Wolfcamp wells in the same half section.  
10 Normally you could just pool one and then subsequently  
11 propose the other well, but do you know at this time  
12 which well will be commenced first?

13 A. We're not certain which one will be drilled  
14 first.

15 Q. Therefore, you'd like to pool both wells at the  
16 same time?

17 A. Correct.

18 Q. What is Exhibit 2?

19 A. Exhibit 2 is the tract ownership found in the  
20 project area for both of these wells. It lists  
21 Mewbourne Oil Company as operator and MRC Permian  
22 Company, et al. as nonoperators representing 96.55  
23 percent. And it subsequently lists the three  
24 uncommitted working interest owners that we seek to  
25 pool: Facowie Energy, the Estate of John P. Bates,

1     deceased, and J.M. Turney and Husband, Steve Turney.

2     Cumulatively, those three parties represent 3.44 percent  
3     in these two wells.

4           **Q.     Have you had contacts with the interest owners?**

5           A.     We have had previous contact with two of the  
6     interest owners listed when we had initially proposed  
7     some previous wells on this acreage.

8           **Q.     And is that the Bates and Turney interests?**

9           A.     That is correct.

10          **Q.     And you've been in touch with them regarding**  
11     **drilling for quite some time?**

12          A.     That's correct, a couple of years now.

13          **Q.     At this time you have not been able to get in**  
14     **touch with Facowie Energy?**

15          A.     Actually, we had much earlier -- much earlier  
16     contact with them as wells a couple years back, and just  
17     recently -- more recently, we have had no contact with  
18     them.

19          **Q.     They haven't responded?**

20          A.     No response.

21          **Q.     No response.**

22                   But to the best of your knowledge, all of  
23     **the interest owners are locatable?**

24          A.     Correct.

25          **Q.     Okay. And in your opinion, have you made a**

1     good-faith effort either to locate the parties involved  
2     in this well or a good-faith effort to obtain their  
3     voluntary joinder in the well?

4           A.     We have.

5           Q.     What is Exhibit 4?

6           A.     Exhibit 4 is the summary of communications --

7           Q.     Or no. Exhibit 4.

8           A.     Excuse me. Exhibit 4 is two copies of the AFEs  
9     for the subject wells. The Yardbirds 3 W0AP Fee #2H has  
10    a completed cost of \$4,815,600, and the completed cost  
11    for the Yardbirds 3 W2AP Fee #1H is \$4,885,500.

12          Q.     That well is being drilled slightly deeper than  
13    the other well?

14          A.     That's correct.

15          Q.     Are these costs in line with the cost of the  
16    other horizontal wells drilled to this depth in this  
17    area of southeast New Mexico?

18          A.     They are.

19          Q.     And what is your recommendation as to the  
20    overhead rates?

21          A.     The overhead rates we are requesting are 7,500  
22    for drilling months and \$750 for producing months.

23                   EXAMINER McMILLAN: For both applications.

24                   THE WITNESS: Correct.

25          Q.     (BY MR. BRUCE) And this is a standard unit in

1     **the Purple Sage; Wolfcamp Gas Pool?**

2           A.     That is correct. It is a standard unit  
3     comprised of 320.25 acres due to two lots found in this  
4     project area.

5           **Q.     Because it's a nonstandard -- because it is a**  
6     **standard unit, notice was not given to the offsets; is**  
7     **that correct?**

8           A.     That's correct.

9                   MR. BRUCE: And, Mr. Examiner, this one, I  
10    have not received a green card back from Facowie Energy  
11    yet. So I will hopefully submit a green card at the  
12    next hearing, so I ask this case -- these cases be  
13    continued to March 16th.

14          **Q.     (BY MR. BRUCE) Were Exhibits 1 through 5 either**  
15    **prepared by you or compiled from company business**  
16    **records?**

17          A.     They were.

18          **Q.     And in your opinion, is the granting of the**  
19    **applications in these two cases in the interest of**  
20    **conservation and the prevention of waste?**

21          A.     Yes.

22          **Q.     And no outside parties' correlative rights will**  
23    **be adversely affected by --**

24          A.     That is correct.

25                   MR. BRUCE: Mr. Examiner, I move the

1 admission of Exhibits 1 through 5.

2 EXAMINER McMILLAN: Exhibits 1 through 5  
3 may now be accepted as part of the record.

4 (Mewbourne Oil Company Exhibit Numbers 1  
5 through 5 are offered and admitted into  
6 evidence.)

7 MR. BRUCE: And I have no further questions  
8 of the witness.

9 CROSS-EXAMINATION

10 BY EXAMINER McMILLAN:

11 Q. I didn't understand something you said. You  
12 said you had communications in the past with Facowie,  
13 and now you no longer have had communications?

14 A. We heard back on an initial well proposal back  
15 about two years ago from him, and he didn't wish to  
16 join. And we offered to purchase his interest and  
17 didn't hear anything back or never made any progress  
18 with that deal. So subsequently we've proposed these  
19 two wells more recently and have not heard anything back  
20 to date.

21 Q. So then how do you even know -- how do you know  
22 that your address is correct?

23 A. He had received our initial proposal letter and  
24 then called us.

25 Q. When did he call you?



1           A.     Back, I think, end of 2015 or early 2016. I  
2 believe it was March of 2016.

3           **Q.     Okay. Because it appears to me there is a**  
4 **question of whether or not he's unlocatable.**

5                     MR. BRUCE: Mr. Examiner, we will verify  
6 that for the next hearing. At least on one of the  
7 mailings to him, I showed it as being received by USPS  
8 records but never received any green cards back. But we  
9 can verify that for you.

10                    EXAMINER WADE: Either we're going to get  
11 proof of notice or you're going to publish.

12                    MR. BRUCE: Correct. And if I do have to  
13 publish against them, it'll have to be an extra couple  
14 weeks' continuance. But at this point, I would ask that  
15 it be continued just two weeks.

16                    EXAMINER McMILLAN: Okay. Go ahead,  
17 Leonard.

18                               CROSS-EXAMINATION

19 BY EXAMINER LOWE:

20           **Q.     You mentioned before, of these two wells, what**  
21 **will determine which one you'll drill first?**

22           A.     We have tentatively scheduled to drill the  
23 Yardbirds 3 W2 -- I believe it's the -- the W2AP Fee #1H  
24 to drill first, but I think we're -- on the drilling  
25 schedule, we have it set that way, but just in case

1     there is some sort of flop on the plans from the field  
2     side, either surface locations or whatnot, that'll  
3     determine which one we will drill first, but they will  
4     be drilled back-to-back.

5           Q.     Okay. Okay. Also, which one will be drilled  
6     deeper?

7           A.     The W2AP will be slightly deeper.

8           Q.     Okay. That's all I got for now.

9                   RE CROSS EXAMINATION

10          BY EXAMINER McMILLAN:

11           Q.     And then what happens to the pooling order if  
12     you -- if you -- actually, now that I'm thinking about  
13     it, if it's 320 acres and you go the state allowable for  
14     a horizontal well, you've technically developed the  
15     spacing unit, right?

16                   MR. BRUCE: Correct.

17                   EXAMINER WADE: For one well.

18                   EXAMINER McMILLAN: Yeah. Both of the  
19     wells go whatever, the minimum distance. Then you're  
20     technically developing the whole spacing unit.

21                   MR. BRUCE: That's correct.

22                   EXAMINER McMILLAN: So now I had to  
23     think -- okay. So then if one of the wells doesn't meet  
24     the minimum horizontal distance, you'd have to come back  
25     to hearing, right?

1                   MR. BRUCE: That would be correct. I'm  
2   hoping that doesn't happen.

3                   EXAMINER McMILLAN: I understand that.  
4                   Okay. I don't have any more questions.

5                   THE WITNESS: Thank you.

6                   EXAMINER McMILLAN: Thanks.

7                   NATE CLESS,  
8           after having been previously sworn under oath, was  
9           questioned and testified as follows:

10                   DIRECT EXAMINATION

11   BY MR. BRUCE:

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

13           A. Nate Cless.

14           **Q. Mr. Cless, let's concentrate on the Upper**  
15 **Wolfcamp well, the W0AP. I'd ask you to run through**  
16 **Exhibits 7 through 10.**

17           A. So Exhibit 7 is a gross isopach of the Wolfcamp  
18 Sand in this particular area. On this map, there are  
19 two different colors which identify them, the blue  
20 laterals and the pink laterals. So the blue laterals  
21 are going to be the Lower Wolfcamp Shale, what we're  
22 calling the W2, and then the pink laterals for this  
23 particular case are going to be the Upper Wolfcamp Sand  
24 wells which are being drilled.

25                   You can see I've outlined the location of

1     our proration unit in the east half of Section 3. And  
2     then there are two arrows right there indicating the two  
3     wellbores that we're talking about. The pink arrow is  
4     the W0s in the Upper Wolfcamp Sand, and the blue arrow  
5     is going to be the W2, the Lower Wolfcamp Shale well.

6             And then looking at the next exhibit, which  
7     is a cross section A to A prime, is a three-well cross  
8     section covering the wells in this particular area.  
9     And, again, this cross section covers -- covers the  
10    Wolfcamp Formation. And so if you look at the very  
11    first log, you can see a red arrow in the upper part of  
12    the Wolfcamp Formation. That's going to be your  
13    Wolfcamp Sand. That's where we're going to be landing  
14    our W0 well.

15            And then if you look on that same log, down  
16    toward the bottom, you can see another red arrow.  
17    That's going to be in the Wolfcamp D Shale, so that's  
18    what we're calling the W2 well. There is roughly going  
19    to be -- roughly 1,000 feet of vertical separation  
20    between the two wells.

21            **Q.     And whether you are looking at the Upper**  
22    **Wolfcamp Sand or the Wolfcamp D Shale, they're both**  
23    **continuous across the well unit?**

24            A.     That's correct.

25            **Q.     It's pretty uniform?**

1           A.    Yeah.  You can see just a lot of correlation  
2   markers that we made through here.  It's very consistent  
3   and very uniform across this interval in both the  
4   Wolfcamp Sand and the Wolfcamp Shale.

5           **Q.    And Exhibit 9?**

6           A.    Exhibit 9 is just going to be the production  
7   data table just for the Wolfcamp Sand horizontals.  So  
8   these are going to be your Upper Wolfcamp Sand wells.  
9   There are currently four wells which have been drilled,  
10   only two of them that we've got production on.  All of  
11   these wells have been drilled by Matador in this area,  
12   but they've also been drilled recently.  The first well  
13   was drilled back in March of 2015, and then the second  
14   well was drilled in August of 2016.  And then there are  
15   two other wells which they have down.  We just don't  
16   have production data on them yet.

17          **Q.    And is Exhibit 10 simply the horizontal**  
18   **planning report for the well?**

19          A.    That's correct, for the Upper Wolfcamp Sand  
20   well.

21          **Q.    And just briefly on the deeper well, the W2AP**  
22   **well, would you run through Exhibits 11 through 13?**

23          A.    Yes.  This is basically going to be the same  
24   map just without the isopach of the Upper Wolfcamp Sand  
25   on it.  The one difference is you can see their

1 production numbers next to each wellbore which I should  
2 have identified on the first map, also. But these  
3 numbers are only going to be for the Lower Wolfcamp  
4 Shale wells. I've got the same number. I've got  
5 production numbers for the Wolfcamp Sand horizontals on  
6 the other map as well. But, again, this has the  
7 structure at the top of the Wolfcamp Formation, and then  
8 it's the same cross section that we just looked at.

9 **Q. People are drilling both east-west and**  
10 **north-south in this area?**

11 A. That's correct. That's correct, and, again,  
12 with very similar results.

13 And then the next exhibit is just the  
14 production data table for the Lower Wolfcamp Shale wells  
15 which have been drilled in this particular area. So  
16 there are a few more wells which have been drilled in  
17 through here. We've drilled a number of them. I  
18 believe I've got nine wells listed on here, and we've  
19 drilled seven of those nine Wolfcamp Shale wells in this  
20 particular area. And, again, most of those have been  
21 drilled recently, in 2015 and 2016.

22 **Q. And, again, Exhibit 14 is simply the standard**  
23 **planning report for this well?**

24 A. That's correct.

25 **Q. Were Exhibits 7 through 14 either prepared by**

1     you or compiled from company business records?

2           A.     Yes, sir.

3           Q.     And in your opinion, is the granting of these  
4     two applications in the interest of conservation and the  
5     prevention of waste?

6           A.     Yes, sir.

7                     MR. BRUCE:   Mr. Examiner, I move the  
8     admission of Exhibits 7 through 14.

9                     EXAMINER McMILLAN:   Exhibits 7 through 14  
10    may now be accepted as part of the record.

11                    (Mewbourne Oil Company Exhibit Numbers 7  
12                    through 14 are offered and admitted into  
13                    evidence.)

14                               CROSS-EXAMINATION

15   BY EXAMINER McMILLAN:

16           Q.     Do you expect each quarter to contribute  
17     equally to production?

18           A.     Yes, sir.

19           Q.     And I failed to ask this.   There are no depth  
20     severances, are there?

21                     MR. PEARSON:   There are none.

22           Q.     (BY EXAMINER McMILLAN) And is there any  
23     difference in ultimate reserves north-south versus  
24     east-west?

25           A.     We don't believe so.   We believe the frac line

1 orientation in this is kind of north --  
2 northeast-southwest trending. And so you can look on  
3 this Wolfcamp Shale production data table. The very  
4 last column, I listed north-south versus east-west.

5 And if you look at the bottom well, for  
6 example, it's an east-west well drilled in June of 2016,  
7 and it made 57,000 barrels of oil and four-tenths of bcf  
8 since that time.

9 And then I guess if you look at the -- it  
10 would be the fifth well on there, the Yardbirds 34 W20B.  
11 It's a north-south well drilled and completed a little  
12 bit earlier, about three weeks earlier, and it made  
13 67,000 barrels and eight-tenths. So, I mean, they're  
14 comparable, especially on the liquid side.

15 These two wells -- also, the gas is a  
16 little different on these because the -- the last well  
17 landed a little bit higher. It landed about 300 feet  
18 higher, so it's not comparing apples to apples. But for  
19 the most part, they are similar. Both north-south and  
20 east-west are both making good wells.

21 EXAMINER McMILLAN: Do you have any  
22 questions, Leonard?

23 EXAMINER LOWE: No. I'm good for now.  
24 Thank you.

25 EXAMINER WADE: No questions.



1 EXAMINER McMILLAN: Okay. So Case Number

2 15 --

3 Thank you.

4 15637 shall be continued to March the 16th.

5 Case Number 15638 shall be continued to March the 16th.

6 And I believe this concludes the docket.

7 Thank you.

8 (Case Numbers 15637 and 15638 conclude,

9 10:55 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  
Paul Baca Professional Court Reporters