

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

4   IN THE MATTER OF THE HEARING CALLED  
5   BY THE OIL CONSERVATION DIVISION FOR  
6   THE PURPOSE OF CONSIDERING:

7   APPLICATION OF MEWBOURNE OIL                               CASE NO. 15674  
8   COMPANY FOR A NONSTANDARD SPACING  
9   AND PRORATION UNIT AND COMPULSORY  
10   POOLING, EDDY COUNTY, NEW MEXICO.

11                               REPORTER'S TRANSCRIPT OF PROCEEDINGS

12                               EXAMINER HEARING

13                               April 27, 2017

14                               Santa Fe, New Mexico

15   BEFORE:   WILLIAM V. JONES, CHIEF EXAMINER  
16               DAVID K. BROOKS, LEGAL EXAMINER

17                       This matter came on for hearing before the  
18   New Mexico Oil Conservation Division, William V. Jones,  
19   Chief Examiner, and David K. Brooks, Legal Examiner, on  
20   Thursday, April 27, 2017, at the New Mexico Energy,  
21   Minerals and Natural Resources Department, Wendell Chino  
22   Building, 1220 South St. Francis Drive, Porter Hall,  
23   Room 102, Santa Fe, New Mexico.

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

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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6

7 FOR CONCHO RESOURCES AND COG OPERATING, LLC:

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1 (10:40 a.m.)

2 EXAMINER JONES: Let's call Case Number  
3 15674, application of Mewbourne Oil Company for a  
4 nonstandard spacing and proration unit and compulsory  
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of  
8 Santa Fe representing the Applicant. I have two  
9 witnesses, the two witnesses in the prior case, so if  
10 the record could reflect that they were sworn and  
11 qualified.

12 MR. CARR: May it please, the Examiner,  
13 William F. Carr, senior counsel for Concho Resources.  
14 I'm appearing for COG Operating, LLC. I do not intend  
15 to call witnesses and stipulate the witnesses are  
16 qualified.

17 EXAMINER JONES: Let the record show the  
18 witnesses have been sworn for these cases and are still  
19 under oath.

20 CLAYTON PEARSON,  
21 after having been previously sworn under oath, was  
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Would please state your name for the record?

1           A.     Clayton Pearson.

2           Q.     And you are familiar with the land matters  
3 involved in this case?

4           A.     I am.

5           Q.     Would you identify Exhibit 1 for the Examiners?

6           A.     Exhibit 1 is a plat showing the project area of  
7 our Motley 6/7 W2DE Fed Com #1H well located in the west  
8 half of Section 6 and the northwest quarter of Section  
9 7, Township 24 South, Range 28 East, Eddy County, New  
10 Mexico. And the proration unit is -- the project area  
11 is highlighted in yellow, and the wellbore is in red  
12 there. We have a surface location in Unit D of Section  
13 6 and a bottom-hole location in Unit E of Section 7.

14          Q.     And this is in the Purple Sage; Wolfcamp Gas  
15 Pool?

16          A.     That is correct.

17          Q.     And the well location will be orthodox?

18          A.     That is correct.

19                   MR. BRUCE: Mr. Examiner, you'll see that  
20 there are several lots involved in the well unit, so the  
21 acreage is 478.39 acres.

22          Q.     (BY MR. BRUCE) Could you identify Exhibit 2 for  
23 the Examiner?

24          A.     Exhibit 2 is the tract ownership associated  
25 with this well. Again, it covers the west half of

1 Section 6 in the northwest quarter of Section 7.  
2 Mewbourne Oil Company, MRC, et al. collectively own  
3 84.34 percent, and there are a number of owners --  
4 uncommitted mineral interest owners and working interest  
5 owners that have an asterisk by their interest that we  
6 seek to pool in this well.

7 Q. Do you expect any of these people to sign a  
8 lease or otherwise sign their interest to you?

9 A. Yes. We're in the process of finalizing some  
10 negotiations with several parties. Judith West,  
11 Featherstone Development Corp., Duncan Properties and  
12 Xplor, we plan to either acquire their interest or have  
13 them participate. And lastly, we believe we'll acquire  
14 a lease from the Guitar family on their unleased mineral  
15 interests.

16 Q. And if you do obtain a lease or an assignment,  
17 will you notify the Division of the identity of those  
18 parties so that they are not subject to a pooling order?

19 A. Yes.

20 Q. What is Exhibit 3?

21 A. Exhibit 3 is a summary of the communications we  
22 have had with these parties. Some of them we have not  
23 heard anything back from. We have sent them lease  
24 offers and working interest unit proposals, a well  
25 proposal, and we haven't heard any sort of response.

1 Several other parties, you'll see we've been in talks  
2 with since the end of last year. We've gone back and  
3 forth trying to work a deal out. And so it just  
4 summarizes all the various communications we've had.

5 Q. And there are some unlocatable parties or at  
6 least parties who returned their mail. Have there not  
7 been?

8 A. That's correct.

9 Q. What did you do to locate the interest owners?

10 A. We checked the records of Eddy County, and we  
11 also utilized online research tools to try and find  
12 current and valid address for those parties.

13 Q. And for the overwhelming part of them, you've  
14 been successful?

15 A. That's correct.

16 Q. What is Exhibit 4?

17 A. Exhibit 4 are copies of the letters and various  
18 communications, emails we've with these parties. It's a  
19 representative letter. So for Featherstone, we sent  
20 this to all of the working interest parties. The letter  
21 to Art and Carolyn Huber represents the letter we sent  
22 to all the parties that have unleased mineral interests  
23 in this well. And then the Guitar Holding Company  
24 letter is pretty specific to the Guitar family on a  
25 lease form that we're trying to get agreed.

1 Q. In your opinion, has Mewbourne made a  
2 good-faith effort to obtain the voluntary joinder of the  
3 interest owners in the well?

4 A. Yes, we have.

5 Q. One question I didn't ask. What type of land  
6 is in the well unit?

7 A. It is a mix of federal and fee acreage.

8 Q. Okay. And insofar as just the Wolfcamp  
9 Formation goes, are there any depth severances in the  
10 Wolfcamp?

11 A. There are none.

12 Q. What is Exhibit 5?

13 A. Exhibit 5 is a copy of the AFE that we sent out  
14 for this well which shows the total completed well cost  
15 to be \$7,830,200.

16 Q. And is that cost in line with the cost of other  
17 mile-and-a-half Wolfcamp horizontal wells in this area  
18 of Eddy County?

19 A. Yes.

20 Q. And do you think it's a fair and reasonable  
21 cost?

22 A. I do.

23 Q. What overhead rates do you seek?

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



1 Q. In the past, a lot of companies have been  
2 asking for 700 -- 7,000 and 700 and 7,500 and 750. Are  
3 operating costs increasing?

4 A. They are.

5 Q. Especially for the deeper Wolfcamp wells?

6 A. And the longer laterals, yes.

7 Q. And is Exhibit 6 my Affidavit of Notice?

8 A. It is.

9 MR. BRUCE: Mr. Examiner, the last three --  
10 the last two pages of Exhibit 6 show that we got one  
11 letter back and three people who we have not received  
12 green cards from. But Exhibit 7 is an Affidavit of  
13 Publication, and all of these parties were notified by  
14 publication.

15 Q. (BY MR. BRUCE) What is Exhibit 8, Mr. Pearson?

16 A. Exhibit 8 lists the offset operators found  
17 around this well.

18 Q. And were they all -- other than Mewbourne, were  
19 they all given notice of this application?

20 A. Yes.

21 Q. And is that reflected in Exhibit 9?

22 A. Yes.

23 Q. Do you request that Mewbourne be appointed  
24 operator of the well?

25 A. Yes.

1           Q.    And do you request a maximum cost plus 200  
2 percent risk charge in the event an interest owner goes  
3 nonconsent in the well?

4           A.    Yes.

5           Q.    In your opinion, is the granting of the  
6 application in the interest of conservation and the  
7 prevention of waste?

8           A.    It is.

9           Q.    And were Exhibits 1 through 9 either prepared  
10 by you or under your supervision or compiled from  
11 company business records?

12          A.    They were.

13                   MR. BRUCE:  Mr. Examiner, I move the  
14 admission of Mewbourne's Exhibits 1 through 9.

15                   EXAMINER JONES:  Exhibits 1 through 9 are  
16 admitted.

17                           (Mewbourne Oil Company Exhibit Numbers 1  
18 through 9 are offered and admitted into  
19 evidence.)

20                   EXAMINER JONES:  Mr. Carr?

21                   MR. CARR:  No objection.  No questions.

22                   EXAMINER BROOKS:  No questions.

23                           CROSS-EXAMINATION

24   BY EXAMINER JONES:

25           Q.    So basically operating costs have gone up, but

1     you mean the COPAS isn't -- correct me if I'm wrong.

2     But that includes the -- the people in the offices that  
3     are allocated, their costs are allocated back to the  
4     well?

5             A.     That's correct.

6             Q.     And they've done up, too?

7             A.     Yes.

8                     MR. BRUCE:   So you're saying they're paying  
9     the landmen too much?

10                    EXAMINER JONES:   That's right (laughter).

11                    THE WITNESS:   I respectfully disagree.   I'm  
12     not complaining, but I disagree (laughter).

13             Q.     (BY EXAMINER JONES) I've got one thing that  
14     comes up on these federal -- federal -- some fee mineral  
15     tracts inside of it?

16             A.     Yeah.   The surface location is actually on fee  
17     acreage, but the wellbore does penetrate a federal tract  
18     and the southwest-southwest of Section 6.

19             Q.     Okay.   Of Section 6.   I've got -- our system  
20     shows, which could be wrong -- but it shows fee minerals  
21     being in Unit Letters D, E and L, but federal minerals  
22     in the M of Section 6.   And then it shows --

23             A.     That's correct.

24             Q.     It shows all fee minerals for Section 7 but  
25     federal surface.

1           A.    I am not 100 percent sure about the surface  
2 ownership in 7, but all of the minerals are fee. I  
3 believe -- I know there is a lot of fee ownership of the  
4 surface in 7, but I'm not exactly sure on the northwest  
5 quarter.

6           Q.    What happens is sometimes the BLM resurveys, it  
7 seems like -- actually, if there are no State Trust  
8 Lands involved, whatever gets in our ONGARD system, I  
9 guess can be changed by the survey.

10                   EXAMINER JONES: Right?

11                   EXAMINER BROOKS: Correct.

12                   EXAMINER JONES: So right now -- but  
13 somebody's got to change it, and the BLM has to do that.

14                   MR. BRUCE: Yeah. The BLM -- whether it's  
15 fee or state or federal, the acreage doesn't change  
16 until the BLM officially accepts the new survey and  
17 posts it in their tract books.

18                   EXAMINER JONES: Okay. And then they tell  
19 our people that manage the ONGARD system. Because right  
20 now I'm coming up with a little bit different acreage.

21                   MR. BRUCE: Yeah. You've got to accept the  
22 federal acreage. I learned that 20 years ago when I was  
23 doing a unit for Exxon. They went out and spent  
24 probably 100,000 bucks resurveying everything, and then  
25 the BLM did a preliminary approval and said, We don't

1 accept your numbers; you've got to redesignate them  
2 (laughter).

3 EXAMINER JONES: Okay. I'm not sure we  
4 have to put the acreage into ours, just the land  
5 description.

6 EXAMINER BROOKS: Probably. We are -- our  
7 form calls for putting in the acreage, but we can always  
8 say more or less.

9 EXAMINER JONES: We'll say more or less.

10 EXAMINER BROOKS: Okay. As Mr. Carr and I  
11 were discussing recently, every tract in the world is  
12 320 acres more or less because it's either 320 acres or  
13 it's more or it's less (laughter).

14 EXAMINER JONES: Sounds like you guys, that  
15 Wyatt Earp was shot with a .44.

16 I don't have any more questions.

17 THE WITNESS: Thank you.

18 NATE CLESS,  
19 after having been previously sworn under oath, was  
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name for the  
24 record?

25 A. Nate Cless.

1 Q. And are you familiar with the geology involved  
2 in this application?

3 A. Yes, sir.

4 Q. Could you identify Exhibit 10 for the Examiner?

5 A. Yeah. Exhibit 10 is just a structure map on  
6 the top of the Wolfcamp Formation, as well as the  
7 Wolfcamp horizontal activity map in this particular  
8 area. I have also outlined the proposed proration unit,  
9 the west of half of Section 6 and the northwest corner  
10 of Section 7, as well as the red arrow indicates the  
11 location for our proposed wellbore on here.

12 Q. And this will be a Wolfcamp Shale?

13 A. Yes, sir.

14 Q. And there are two mile-and-a-half laterals off  
15 to the east. Are those Mewbourne wells?

16 A. Yes, sir, they are. We operate a number of  
17 wells in this particular area. Those two wells we're  
18 referring to are in the south half of Section 33 and in  
19 Section 4.

20 Q. And yes, you do have a line of cross section on  
21 this plat?

22 A. I do. That'll be my next exhibit.

23 Q. Could you move on to the cross section, Exhibit  
24 11?

25 A. Exhibit 11 is just a four-well cross section

1 bisecting all the -- all the wells that surround our  
2 proposed wellbore here. Again, this covers the Wolfcamp  
3 Formation, so the top -- top blue line is going to be  
4 the top of the Wolfcamp. And then, again, we have -- in  
5 this particular area, we have what we call Wolfcamp  
6 sands, which are going to be about the upper 200 feet at  
7 the top of the Wolfcamp, the Wolfcamp A, the Wolfcamp B,  
8 the Wolfcamp C and then the Wolfcamp D. And for this  
9 particular well, we're going to be targeting the  
10 Wolfcamp D Shale, going right by the second and third  
11 well on this cross section. But you can just see in  
12 general that kind of Upper Wolfcamp D Shale that we're  
13 going to targeting is very consistent in this area.

14 Q. In your opinion, will each quarter section more  
15 or less in the well unit contribute to production in the  
16 well?

17 A. Yes, sir, more or less.

18 Q. What is Exhibit 12?

19 A. Exhibit 12 is just a production data table for  
20 all the Wolfcamp horizontals in this particular area.  
21 We've identified the names, the operators, the API, the  
22 location of these particular wells and then their  
23 cumulative production.

24 We've highlighted two wells, which we  
25 mentioned earlier. Those are the two mile-and-a-half

1 laterals in this particular area that Mewbourne drilled.  
2 We drilled both of those back in August of 2016. So  
3 they've been on line for a little over six months, and I  
4 just wanted to show the production of those two  
5 particular wells. They're very good wells for us. One  
6 well's made over 100,000 barrels. The other one has  
7 made over 80,000 barrels. Both have made at almost  
8 nine-tenths of a bcf gas. And so pretty much -- pretty  
9 much all of the Wolfcamp wells in this area, whether  
10 they're north-south or east-west, whether a mile or  
11 mile-and-a-half lateral, they're all very good wells in  
12 his particular area.

13 Q. And finally, what is Exhibit 13?

14 A. Exhibit 13 is just the horizontal well plan  
15 that we have for this particular well. And our surface  
16 location will be 200 from the north, 415 from the west.  
17 Our landing point and first take point will be 330 from  
18 the north, 330 from the west, and our bottom hole will  
19 be 2,327 from the north line of Section 7 and 330 from  
20 the west.

21 Q. On a mile-and-a-half lateral, how many  
22 completion stages does Mewbourne use?

23 A. We're going to use -- we use a plug-and-perf  
24 system, and I believe we're going to do 56 stages. So  
25 this frac will take a little while. We're going to pump



1     about 17 million gallons and 17 million pounds of sand,  
2     which is about 22- to 2,300 pounds per foot in pounds  
3     and gallons per foot. So it's a pretty large frac that  
4     we're going to put on here, but that's pretty standard  
5     for this area.

6           Q.     Were Exhibits 10 through 13 prepared by you or  
7     compiled from company business records?

8           A.     Yes, they were.

9           Q.     And in your opinion, is the granting of this  
10    application in the interest of conservation and the  
11    prevention of waste?

12          A.     Yes, sir.

13                   MR. BRUCE: Mr. Examiner, I move  
14    Mewbourne's Exhibits 10 through 13.

15                   EXAMINER JONES: Exhibits 10 through 13 are  
16    admitted.

17                   (Mewbourne Oil Company Exhibit Numbers 10  
18                   through 13 are offered and admitted into  
19                   evidence.)

20                   CROSS-EXAMINATION

21    BY EXAMINER JONES:

22          Q.     This Exhibit 12, on the cumulative gas, the  
23    units there, are you talking bcf?

24          A.     That should be bcf. Yes.

25          Q.     And Exhibit Number 13, that's listed as

1 under -- the datum is listed as NAD 27 [sic]. Is there  
2 a -- is there going to be a big issue with reporting to  
3 OCD under NAD 83?

4 A. I don't believe so. I'm not 100 percent sure.  
5 We've never had issues in the past. And I'm not sure  
6 how the other ones have been reported, so I don't know  
7 if I can answer that directly.

8 Q. But the company name here is Compass, is that  
9 right, or is this the -- the Standard Planning Report,  
10 the actual contractor -- you guys would contact them, I  
11 guess.

12 A. Right. We internally build [sic] these. We  
13 have a program that builds [sic] these reports, and then  
14 we'll use -- I think it's two different companies,  
15 directional companies that we use. And so then they  
16 will generate their own -- they'll take our plan and  
17 generate basically the same plan using the --

18 Q. Oh, really? Okay.

19 EXAMINER JONES: Mr. Carr, I'm sorry. I  
20 didn't ask if you wanted to --

21 MR. CARR: I would have jumped in.

22 EXAMINER JONES: Okay.

23 EXAMINER BROOKS: No questions.

24 EXAMINER JONES: Thank you very much.

25 THE WITNESS: Thank you.

1                   EXAMINER JONES:  So with that, we're going  
2   take Case 15674 under advisement.

3                   And we'll have a brief ten-minute recess.

4                   (Case Number 15674 concludes, 11:58 a.m.)

5                   (Recess, 11:58 a.m. to 11:13 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