

1 OCD 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. 15673
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 May 25, 2017

14 Santa Fe, New Mexico

15 BEFORE: SCOTT DAWSON, CHIEF EXAMINER
16 PHILLIP GOETZE, TECHNICAL EXAMINER
17 DAVID K. BROOKS, LEGAL EXAMINER

18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Scott Dawson,
20 Chief Examiner, Phillip Goetze, Technical Examiner, and
21 David K. Brooks, Legal Examiner, on Thursday, May 25,
22 2017, at the New Mexico Energy, Minerals and Natural
23 Resources Department, Wendell Chino Building, 1220 South
24 St. Francis Drive, Porter Hall, Room 102, Santa Fe, New
25 Mexico.

26 REPORTED BY: Mary C. Hankins, CCR, RPR
27 New Mexico CCR #20
28 Paul Baca Professional Court Reporters
29 500 4th Street, Northwest, Suite 105
30 Albuquerque, New Mexico 87102
31 (505) 843-9241

1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

3 JAMES G. BRUCE, ESQ.
Post Office Box 1056
4 Santa Fe, New Mexico 87504
(505) 982-2043
5 jamesbruc@aol.com

6

7 FOR EOG RESOURCES, INC.:

8 JORDAN L. KESSLER, ESQ.
HOLLAND & HART, LLP
9 110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
10 (505) 988-4421
jlkessler@hollandhart.com

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1 (10:44 a.m.)

2 EXAMINER DAWSON: Moving down the list, our
3 next case will be case number 19 on page 4 of 7. That's
4 Case Number 15673. That's application of Mewbourne Oil
5 Company for a nonstandard spacing and proration unit and
6 compulsory pooling, Eddy County, New Mexico.

7 I'd please call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have two
10 witnesses.

11 EXAMINER DAWSON: Okay.

12 MS. KESSLER: Mr. Examiners, Jordan
13 Kessler, from the Santa Fe office of Holland & Hart,
14 representing EOG Resources, Inc.

15 EXAMINER DAWSON: And no witnesses.

16 MS. KESSLER: No witnesses.

17 EXAMINER DAWSON: Okay. And have all --
18 your witnesses have already been sworn in; is that
19 correct?

20 MR. BRUCE: Yeah. They've been sworn in
21 and qualified.

22 EXAMINER DAWSON: Okay. So you may
23 continue, Mr. Bruce.

24 COREY MITCHELL,
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. Corey Mitchell.

6 Q. And, Mr. Mitchell, are you familiar with the
7 land matters involved in this case?

8 A. I am.

9 Q. Can you identify Exhibit 1 and discuss what
10 Mewbourne seeks in this application?

11 A. Exhibit 1 is a Midland Map Company land plat of
12 Township 25 South, Range 27 East. Over in Section 1 and
13 Section 12 are our proration units, and the spacing unit
14 is highlighted in yellow, with our Devon 12/1 W2PI Fee
15 Com #1H well highlighted in red.

16 Q. And is this a Wolfcamp Shale well?

17 A. That's correct.

18 Q. And, again, this is In the Purple Sage;
19 Wolfcamp gas pool, correct?

20 A. That's correct.

21 Q. What is Exhibit 2, please?

22 A. Exhibit 2 is our tract ownership for this well.

23 Q. And are the parties who are being pooled in
24 this case denoted with an asterisk by their name?

25 A. They are. It's a total of 7.75 percent.

1 Q. And what is Exhibit 3?

2 A. Exhibit 3 is a summary of our communications,
3 along with copies of the respective documentation.

4 Q. The proposal letter first went out at the end
5 of October?

6 A. Yes, sir.

7 Q. And could you just briefly summarize your
8 communications with the EOG entities and The Allar
9 Company?

10 A. Okay. I originally started working on this
11 prospect with the Yates companies, and then, I guess,
12 somewhere along the way is when the merger with EOG
13 happened. And so I've been in communication with them
14 since that time. We are currently negotiating the JOA.
15 I think we're about there. EOG is looking to
16 participate in the well. We just lack an agreement on
17 the JOA as of right now.

18 The Allar Company has elected to
19 participate. Although they have not signed a JOA, they
20 claim that they cannot -- or they will not sign the JOA
21 unless EOG does. Otherwise, they said they would just
22 participate under a pooling order.

23 Q. But at this time, none of the four entities has
24 signed a JOA?

25 A. That is correct.

1 Q. And as to a couple of background questions that
2 some of the Examiners asked, the Wolfcamp zone in this
3 well, there is no depth severances in the Wolfcamp; is
4 that correct?

5 A. That's correct.

6 Q. And all of the interest owners are locatable?

7 A. That's correct.

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

11 A. Yes, sir.

12 Q. And if they sign a JOA, will you notify the
13 Division so they are not subject to any pooling order?

14 A. Yes, sir.

15 Q. What is Exhibit 4?

16 A. Exhibit 4 is our AFE that sets out the
17 estimated costs for this well. We have estimated costs
18 of \$6,642,800.

19 Q. And is that cost fair and reasonable and in
20 line with the cost of other wells of a similar nature
21 drilled to this depth in this area of New Mexico?

22 A. Yes, sir.

23 Q. What overhead rates do you request?

24 A. We are requesting 8,000 a month for drilling
25 and 800 a month for producing.

1 Q. And are these rates fair and reasonable?

2 A. Yes, sir.

3 Q. And are those the rates you propose in your
4 JOA?

5 A. Yes, sir.

6 Q. Was notice given to all of the interest owners
7 who are in this pool -- are being pooled in this well?

8 A. Yes, sir.

9 Q. And is that reflected in my Exhibit 5, my
10 Affidavit of Notice?

11 A. Yes, sir.

12 Q. Does Exhibit 6 reflect all of the offset
13 operators or working interest owners to the proposed
14 well unit?

15 A. Yes, sir.

16 Q. And are these parties given notice of this
17 hearing?

18 A. They were.

19 Q. And is that reflected in the Affidavit of
20 Notice marked Exhibit 7?

21 A. Yes, sir.

22 MR. BRUCE: And, Mr. Examiners, all the
23 parties, whether the pooled parties or the offsets, did
24 receive notice, and I have returned green cards.

25 Q. (BY MR. BRUCE) In your opinion, is the granting

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

3 A. Yes, sir.

4 Q. And were Exhibits 1 through 7 either prepared
5 by you or compiled from company business records?

6 A. Yes, sir.

7 MR. BRUCE: Mr. Examiner, I'd move the
8 admission of Exhibits 1 through 7.

9 EXAMINER DAWSON: Any objection to the
10 movement of Exhibits 1 through 7?

11 MS. KESSLER: No objection.

12 EXAMINER DAWSON: Exhibits 1 through 7 will
13 be admitted to the record.

14 (Mewbourne Oil Company Exhibit Numbers 1
15 through 7 are offered and admitted into
16 evidence.)

17 MR. BRUCE: And I have no further questions
18 of the witness.

19 EXAMINER DAWSON: Ms. Kessler?

20 MS. KESSLER: Just a couple.

21 CROSS-EXAMINATION

22 BY MS. KESSLER:

23 Q. Mr. Mitchell, you mentioned that the status of
24 the operating agreement with the EOG entities is that
25 you are continuing to negotiate; is that correct?

1 A. That's correct.

2 Q. And do you intend to continue negotiating while
3 the case is under advisement?

4 A. Yes.

5 Q. That's it. Thank you.

6 EXAMINER DAWSON: Mr. Goetze, do you have
7 any questions?

8 EXAMINER GOETZE: No. But I am confused by
9 the many EOGs that there are out there.

10 I do not have any questions, no.

11 MR. BRUCE: They're trying to replicate
12 OXY.

13 EXAMINER BROOKS: They're springing up all
14 over the place.

15 EXAMINER DAWSON: Mr. Brooks, do you have
16 any questions?

17 EXAMINER BROOKS: I have no questions.

18 EXAMINER DAWSON: I have no questions of
19 this witness.

20 So, Mr. Mitchell, you can be seated.

21 And, Mr. Bruce, you can call your next
22 witness.

23 MR. BRUCE: Call Mr. Crosby to the stand.

24

25

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. For the record, would you state your name?

7 A. Charles Crosby.

8 Q. Are you familiar with the geology involved in
9 this application?

10 A. Yes.

11 Q. Could you identify Exhibit 8 for the Examiners?

12 A. So Exhibit 8 is a structure contour map on the
13 top of the Wolfbone in the area of interest. The
14 proration unit is highlighted by the dashed black line,
15 the proposed well by the dashed red arrow. Wolfcamp
16 Shale wells are highlighted by the navy blue horizontal
17 with their corresponding production, with oil in
18 thousands of barrels in green, gas and bcf in red, and
19 water in thousands of barrels in blue. Also, top
20 Wolfcamp structure contours are in maroon, just show a
21 continuous structural dip to the east, no major
22 structural issues, as well as a cross section -- cross
23 section index line, A to A prime.

24 Q. And I note that there are kind of an equal
25 number of either drilled or planned wells that are

1 stand-ups or lay-downs is there any preferred
2 orientation out here in the Wolfcamp Shale?

3 A. There is nothing that would lead us to believe
4 there is a preferred orientation.

5 Q. Could you identify Exhibit 9?

6 A. Exhibit 9 is the cross section referenced by
7 the black line, A to A prime on the previous exhibit.
8 This is just a cross section showing the complete
9 Wolfcamp section in the area. The Wolfcamp subsections
10 that we've broken out are listed on left side of the
11 cross section, and then our proposed well is highlighted
12 by the red arrow in the Wolfcamp B. And this just shows
13 the Wolfcamp B that we're targeting is consistent
14 through the area.

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

18 A. Yes.

19 Q. And what is Exhibit 10?

20 A. Exhibit 10 is just a breakdown of the
21 highlighted Wolfcamp Shale wells in the area showing
22 production, location and well name.

23 Q. And all the wells in this immediate area are
24 shale wells, correct?

25 A. Yes.

1 Q. And what is Exhibit 11?

2 A. Exhibit 11 is our proposed well plan just
3 showing survey data on the first few pages, and then on
4 the last page, the areal and cross-section view of the
5 proposed well.

6 Q. And the well will be at standard locations --
7 or the perforated interval, correct?

8 A. Yes.

9 Q. Were Exhibits 8 through 11 either prepared by
10 you or under your supervision or compiled from company
11 business records?

12 A. Yes.

13 MR. BRUCE: Mr. Examiners, I'd move the
14 admission of Exhibits 8 through 11.

15 EXAMINER DAWSON: Any objection?

16 MS. KESSLER: No objection.

17 EXAMINER DAWSON: Exhibits 8 through 11
18 will be admitted to the record.

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

22 EXAMINER DAWSON: Ms. Kessler?

23 MS. KESSLER: No questions.

24 EXAMINER DAWSON: No questions.

25 Mr. Goetze?

1 CROSS-EXAMINATION

2 BY EXAMINER GOETZE:

3 Q. Welcome back.

4 A. Good to see you again.

5 Q. Exhibit 8, you've highlighted the Wolfcamp
6 wells. Are the remaining wells other horizons or --
7 what I'm concerned about is in 12 -- Section 12, we have
8 two horizontals going east-west. Do you know what
9 formations that is?

10 A. Right. So primarily these are 2nd Bone Spring
11 and Avalon wells. The two wells you mentioned in
12 Section 12 are Avalon Shale wells. So there is plenty
13 of vertical separation between our proposed horizon and
14 those two wells.

15 Q. So based upon your presentation in Exhibit 8,
16 in this nine-section area, you're going to be the first
17 one putting in a horizontal, basically?

18 A. In the Wolfcamp?

19 Q. Yes.

20 A. No, sir. There is one to the northeast.

21 Q. Northeast. Yeah. Okay.

22 A. Yes.

23 Q. But you will be the longest one around here as
24 far as lateral length, correct?

25 A. Yes.

1 Q. I have no further questions. Thank you.

2 EXAMINER DAWSON: Mr. Brooks?

3 EXAMINER BROOKS: No questions.

4 CROSS-EXAMINATION

5 BY EXAMINER DAWSON:

6 Q. I have one question. So in the nine-section
7 area you're referring to, which is the section of
8 interest, Section 12 and the immediate adjacent sections
9 offsetting it, it looks like that well up in Section 6,
10 as you said, is the only Wolfcamp well in the area?

11 A. Right.

12 Q. And that -- is that the -- I guess that's a
13 Devon 6 W2AD Fee #1H?

14 A. I believe so. Yes. Yes.

15 Q. And that well's made 60,000 barrels of oil?

16 A. Right.

17 Q. And that's -- that's a pretty recent
18 completion?

19 A. Yes, sir.

20 Q. Okay. So you don't really see any difference
21 between an east-west versus the north-south, as you
22 said, right? There is not really any preferred --

23 A. No. In the area, no.

24 Q. That's all the questions I have. Thank you.

25 EXAMINER DAWSON: So that will conclude

1 Case Number 15673.

2 MR. BRUCE: And ask that it be taken under
3 advisement.

4 EXAMINER DAWSON: It will be taken under
5 advisement. Thank you very much.

6 (Case Number 15673 concludes, 10:57 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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