

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 CASE NO. 15847
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 12, 2017

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Phillip Goetze, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 12, 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
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

GARY W. LARSON, ESQ.
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Mewbourne Oil Company Exhibit Numbers 1 through 9	10
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1 (9:02 a.m.)

2 EXAMINER GOETZE: Next in line is Case
3 Number 15847, application of Mewbourne Oil Company for a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. LARSON: Good morning, Mr. Examiner.
8 Gary Larson, of the Santa Fe office of Hinkle Shanor,
9 for the Applicant, Mewbourne Oil Company. I have two
10 witnesses who are seated.

11 EXAMINER GOETZE: Very good.

12 Please stand, identify yourself to the
13 court reporter, and she shall swear you in.

14 MR. CROSBY: Charles Crosby.

15 MR. WINKELJOHN: Ray Winkeljohn.

16 (Mr. Winkeljohn and Mr. Crosby sworn.)

17 RAYMOND WINKELJOHN,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. LARSON:

22 Q. Good morning, Mr. Winkeljohn.

23 A. Good morning.

24 Q. Would you state your full name for the court
25 reporter?

1 A. Yes. It's Raymond Winkeljohn.

2 Q. And where do you reside?

3 A. Midland, Texas.

4 Q. And by whom are you employed and in what
5 capacity?

6 A. I'm a landman for Mewbourne Oil Company.

7 Q. And what is the focus of your responsibilities
8 as a landman with Mewbourne?

9 A. Southeast New Mexico.

10 Q. And are you familiar with the land matters that
11 pertain to Mewbourne's application in this case?

12 A. Yes.

13 Q. Have you previously testified at a Division
14 hearing?

15 A. No.

16 Q. Given that, would you briefly summarize your
17 educational background and professional experience in
18 the oil and gas industry?

19 A. I have a bachelor's degree in energy management
20 from the University of Oklahoma. I graduated in 2015
21 and started working for Mewbourne.

22 MR. LARSON: Mr. Examiner, I tender
23 Mr. Winkeljohn as an expert in petroleum land matters.

24 EXAMINER GOETZE: He is so qualified.

25 MR. LARSON: Thank you.

1 Q. (BY MR. LARSON) Would you identify the document
2 marked as Exhibit Number 1?

3 A. Yes. It's a Midland Map showing the project
4 area in yellow.

5 Q. And is that your handiwork highlighting the
6 project area in yellow?

7 A. It is.

8 Q. Would you identify the document marked as
9 Exhibit 2?

10 A. It's a Form C-102.

11 Q. And is it a true and correct copy of the C-102
12 for Mewbourne's Wolfman 5/4 WOLI Fed Com #1H well?

13 A. It is.

14 Q. And to avoid that mouthful again, I'll just
15 refer to it as the Wolfman.

16 And what is the nature of the surface
17 ownership in the proposed project area?

18 A. The surface ownership is 12-and-a-half percent
19 federal with the rest being fee.

20 Q. And does the Wolfman have an API number yet?

21 A. Not yet.

22 Q. Do you know the pool name for the target
23 formation?

24 A. Yeah. It's the Wolfcamp -- Wolfcamp; Gas Pool,
25 Purple Sage.

1 Q. Purple Sage.

2 EXAMINER GOETZE: Purple Sage is -- thank
3 you.

4 Q. (BY MR. LARSON) And do you know the pool code?

5 A. Yes. It's 98220.

6 Q. And are there any depth exceptions in the
7 Wolfcamp Formation within the proposed project area?

8 A. No.

9 Q. Would you next identify the document marked as
10 Exhibit 3?

11 A. Yes. It's a tract ownership.

12 Q. And did you prepare this exhibit?

13 A. Yes.

14 Q. And what is the nature of the tract ownership?

15 A. RKI owns 25 percent with Mewbourne owning the
16 remaining 75 percent of the interest.

17 Q. So RKI is the sole interest owner that
18 Mewbourne is seeking to pool?

19 A. Yes.

20 Q. Would you identify the document marked as
21 Exhibit 4?

22 A. Yes. It's a well-proposal letter, along with a
23 digital green card.

24 Q. And this is the proposal letter that you sent
25 to RKI?

1 A. Yes.

2 Q. What date did you send the proposal letter?

3 A. June 1st.

4 Q. And did you prepare and sign the letter?

5 A. Yes.

6 Q. And subsequent to sending the well proposal,
7 have you communicated with RKI about joining the well?

8 A. Yes.

9 Q. Have you had ongoing discussions with them?

10 A. We have, since June.

11 Q. And in your opinion, has Mewbourne made a
12 good-faith effort to obtain RKI's joinder in the well?

13 A. Yes.

14 Q. Would you next identify the document marked as
15 Exhibit 5?

16 A. It is a hearing notice letter to RKI, along
17 with the green card.

18 Q. And was this notice letter prepared and sent at
19 your direction?

20 A. Yes.

21 Q. And is it a true and correct copy of the notice
22 letter sent by Mewbourne's counsel?

23 A. Yes.

24 Q. And what is the document marked as Exhibit 6?

25 A. It's the offset ownership for the project area.

1 Q. And did you prepare this document?

2 A. Yes.

3 Q. Would you next identify Exhibit 7?

4 A. Yes. It's a sample notice letter to offsets
5 with green cards.

6 Q. And were the hearing notice letters to the
7 offsets sent under your direction and supervision?

8 A. Yes.

9 Q. And were green cards received for all of the
10 notice letters to the offset interests?

11 A. Yes. No. All but the letters for Alonso and
12 Sandra Gomez.

13 Q. Was one letter sent to both of them at the same
14 address?

15 A. Correct.

16 Q. And did you make a good-faith effort to locate
17 a good address for Alonso and Sandra Gomez?

18 A. Yes.

19 Q. And did Mewbourne publish notice of today's
20 hearing?

21 A. Yes.

22 Q. Would you identify the document marked as
23 Exhibit 8?

24 A. It's the Affidavit of Publication in the
25 "Carlsbad Argus" -- "Current-Argus."

1 Q. Is it a true and correct copy of that
2 affidavit?

3 A. Yes.

4 Q. And what date was the notice published?

5 A. September 16th.

6 Q. And what is the document marked as Exhibit 9?

7 A. It's our current AFE.

8 Q. And is this a true and correct copy of the AFE
9 sent to RKI with your proposal letter?

10 A. Yes.

11 Q. And what are the total estimated well costs
12 indicated on the AFE?

13 A. \$10,491,000.

14 Q. Are those costs consistent and similar to well
15 costs incurred by Mewbourne for similar Wolfcamp
16 horizontals?

17 A. Yes.

18 Q. And do you have a recommendation for the
19 amounts Mewbourne should be paid for supervision and
20 administrative expenses?

21 A. Yes. 8,000 for drilling and 800 a month while
22 the well is producing.

23 Q. And do you further recommend that the rates be
24 adjusted periodically pursuant to the COPAS accounting
25 procedure?

1 A. Yes.

2 Q. And is Mewbourne requesting a 200 percent
3 charge for the risk of drilling and completing the
4 Wolfman?

5 A. Yes.

6 Q. In your opinion, will the granting of
7 Mewbourne's application avoid the drilling of
8 unnecessary wells, protect correlative rights and serve
9 the interest of conservation and the prevention of
10 waste?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits 1 through 9.

14 EXAMINER GOETZE: Exhibits 1 through 9 are
15 so entered.

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

19 MR. LARSON: And I'll pass the witness.

20 EXAMINER GOETZE: Mr. Brooks?

21 EXAMINER BROOKS: No questions -- no. I do
22 have one, matter of fact.

23 CROSS-EXAMINATION

24 BY EXAMINER BROOKS:

25 Q. You said the surface was 12-and-a-half percent

1 **federal?**

2 A. Yes, sir.

3 **Q. That's unusual, in my experience, for the Feds**
4 **to own an undivided interest in the surface. How did**
5 **that arise?**

6 A. It is a divided interest. The Feds own in the
7 north half-southeast of Section 5. When I said 12 and a
8 half, I guess I was referring to the whole project area.

9 **Q. Total unit?**

10 A. Yes, sir.

11 **Q. I would have interpreted that -- mineral**
12 **interest, but the surface, we instinctively think of**
13 **somebody owning it entirely.**

14 **Thank you.**

15 EXAMINER GOETZE: I have no questions for
16 this witness.

17 Thank you.

18 THE WITNESS: Thank you.

19 CHARLES CROSBY,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. LARSON:

24 **Q. Good morning, Mr. Crosby.**

25 A. Good morning.

1 Q. Would you please state your full name for the
2 record?

3 A. Charlie Crosby.

4 Q. Where do you reside?

5 A. Midland, Texas.

6 Q. By whom are you employed and in what capacity?

7 A. Geologist for Mewbourne Oil Company.

8 Q. And what is the focus of your responsibilities
9 as a geologist at Mewbourne?

10 A. Primarily, the Delaware Basin, southeast
11 New Mexico.

12 Q. And are you familiar with the geologic aspects
13 of the proposed Wolfman well and the matters addressed
14 in Mewbourne's application?

15 A. Yes.

16 Q. Have you previously testified at a Division
17 hearing?

18 A. Yes, I have.

19 Q. And did the Examiner accept your qualifications
20 as an expert petroleum geologist?

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I tender
23 Mr. Crosby as an expert petroleum geologist.

24 EXAMINER GOETZE: He is so qualified.

25 MR. LARSON: Thank you.

1 **Q. (BY MR. LARSON) Mr. Crosby, can you identify**
2 **the document marked as Exhibit 10?**

3 A. It's a structure contour map on the top of the
4 Wolfcamp in the project area showing a continuously
5 consistent structural dip to the east. The proration
6 unit for the proposed well is highlighted by the dashed
7 black box, with the well itself drawn by the dashed red
8 arrow. Wolfcamp Shale wells are highlighted by the blue
9 lines, with Wolfcamp Sand wells highlighted by the
10 purple or violet lines, and a cross-sectional reference
11 shown by a line, A to A prime.

12 **Q. Did you prepare this document?**

13 A. Yes.

14 **Q. Will the completed interval of the Wolfman well**
15 **comply with the Division setback requirements?**

16 A. Yes.

17 **Q. And looking at the offset wells you've**
18 **identified on Exhibit 10, are those also Wolfcamp**
19 **horizontals?**

20 A. Yes.

21 **Q. And are those economic wells?**

22 A. Yes.

23 **Q. Would you next identify the document marked as**
24 **Exhibit 11?**

25 A. This is a cross section referred to in the

1 previous exhibit representative of the full Wolfcamp
2 section in the project area. Our delineated Wolfcamp
3 zones are labeled to the left. This just -- the
4 particular zone of interest here would be the Wolfcamp
5 sands highlighted by the red pick lines, with the
6 proposed landing point of the Wolfman shown by the red
7 lines on the well to the left. This just highlights
8 that the Wolfcamp Sand in this area is consistent
9 throughout.

10 **Q. In your opinion, is the cross section**
11 **representative of the geology in the proposed project**
12 **area?**

13 A. Yes.

14 **Q. Are there any geological impediments in the**
15 **target interval?**

16 A. No.

17 **Q. Would you next identify the document marked as**
18 **Exhibit 12?**

19 A. So this table just shows locations and some
20 production statistics for Wolfcamp wells in the area.
21 This primarily just shows that for wells that were
22 completed in the same interval with comparable
23 completions, there is no major differences in production
24 with regards to east-west or north-south orientation of
25 the laterals.

1 **Q. And would you identify the final exhibit, which**
2 **is Number 13?**

3 A. This just shows some of the survey statistics
4 on the first couple of pages for the proposed well, and
5 then the final page here shows across -- or a schematic
6 cross-sectional and areal view of the proposed well.

7 **Q. And what is that final page of Exhibit 13**
8 **intended to depict?**

9 A. It just shows the footing calls and first and
10 last take points for the proposed well within the
11 proration unit.

12 **Q. And in your opinion, can each quarter-quarter**
13 **section in the proposed project area be expected to**
14 **contribute, more or less, equally to production?**

15 A. Yes.

16 **Q. And in your opinion, will the granting of**
17 **Mewbourne's application avoid the drilling of**
18 **unnecessary wells, protect correlative rights and serve**
19 **the interest of conservation and the prevention of**
20 **waste?**

21 A. Yes.

22 **Q. And did you prepare the documents that have**
23 **been marked as Exhibits 11 through 13?**

24 A. Yes, I did.

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

1 admission of Exhibits 10 through 13.

2 EXAMINER GOETZE: Exhibits 10 through 13
3 are so entered.

4 (Mewbourne Oil Company Exhibit Numbers 10
5 through 13 are offered and admitted into
6 evidence.)

7 MR. LARSON: And I pass the witness.

8 EXAMINER GOETZE: Mr. Brooks?

9 CROSS-EXAMINATION

10 BY EXAMINER BROOKS:

11 Q. Is this location just south of Roswell?

12 A. Yes, I believe so.

13 Q. Okay. I see U.S. 285 over here on the right.

14 Now, where is it in relation to Artesia?

15 A. Where do you see the highway?

16 Q. It's up on the right -- upper right corner. I
17 see the shield with the 285 on it, highway and the
18 railroad.

19 A. That's not on any of my maps.

20 MR. LARSON: Mr. Brooks, are you referring
21 to Exhibit 1?

22 EXAMINER BROOKS: Yeah, Exhibit 1.

23 MR. LARSON: Midland Map.

24 THE WITNESS: Okay.

25 Q. (BY EXAMINER BROOKS) Where is it in relation to

1 **Artesia?**

2 A. I think southeast of Artesia.

3 **Q. Okay. So Artesia is north and west of there?**

4 A. To the best of my knowledge, I believe so.

5 **Q. Oh. So it's south of Carlsbad then.**

6 EXAMINER GOETZE: Yeah.

7 MR. LARSON: Mr. Winkeljohn, I think, will
8 be better served to give you the exact location.

9 MR. WINKELJOHN: It's seven miles southeast
10 of Carlsbad.

11 EXAMINER BROOKS: Thank you.

12 EXAMINER GOETZE: With all the commotion
13 we've had about the Purple Sage, you should know where
14 it is.

15 EXAMINER BROOKS: Well, the Purple Sage is
16 pretty large.

17 EXAMINER GOETZE: Well, it's getting
18 larger.

19 CROSS-EXAMINATION

20 BY EXAMINER GOETZE:

21 **Q. Good morning, Mr. Crosby.**

22 A. Good morning.

23 **Q. First item: So our placement on the proposed**
24 **drilling, we're going to be within our setback of 330**
25 **from the northern boundary of the project area; is that**

1 correct?

2 A. Yes, sir.

3 Q. Okay. And we're going for two miles. First of
4 all, that's going to be a first in this area, correct?

5 A. Yes, sir, in the immediate area.

6 Q. Yeah.

7 And have you seen other two-mile wells in
8 the area or looked at those as far as their success?

9 A. Yes. Further to the south, there are extended
10 laterals that have been successful.

11 Q. In the same interval?

12 A. Yes, sir.

13 Q. Okay. Thank you.

14 So we're going with toe down, heel up. And
15 that's something that you're quite confident in as far
16 as the well design?

17 A. Yes.

18 Q. Other than that, Mr. Crosby, I have no further
19 questions for you. Thank you very much.

20 A. Thanks.

21 MR. LARSON: I have nothing further,
22 Mr. Examiner.

23 EXAMINER GOETZE: Then Case Number 15847 is
24 taken under advisement.

25 And let's take a break. Let's head towards

1 9:30 to return.

2 (Case Number 15847 concludes, 9:19 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
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
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