

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 OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 15926

Consolidated with

APPLICATION OF PRIME ROCK RESOURCES, LLC FOR A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, LEA COUNTY, NEW MEXICO. CASE NO. 15971

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 8, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, March 8, 2018, 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.

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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1	INDEX	
2		PAGE
3	Case Numbers 15926 and 15971 Called	4
4	Opening Statement by Mr. Bruce	4
5	Opening Statement by Mr. Feldewert	5
6		
7	Mewbourne Oil Company's Case-in-Chief:	
8	Witnesses:	
9	Tyler Jolly:	
10	Direct Examination by Mr. Bruce	6
	Cross-Examination by Mr. Feldewert	11
11	Cross-Examination by Examiner McMillan	15
12	Jordan Carrell:	
13	Direct Examination by Mr. Bruce	15
14	Cross-Examination by Examiner McMillan	19
15	Proceedings Conclude	20
16	Certificate of Court Reporter	21
17		
18	EXHIBITS OFFERED AND ADMITTED	
19	Mewbourne Oil Company Exhibit Numbers 1 through 7	11
20	Mewbourne Oil Company Exhibit Numbers 8 through 11	18
21		
22		
23		
24		
25		

1 (10:34 a.m.)

2 EXAMINER McMILLAN: Okay. At this time I
3 would like to call Case Number 15926, application of
4 Mewbourne Oil Company for a nonstandard oil spacing and
5 proration unit and compulsory pooling, Lea County, New
6 Mexico.

7 This case is in line with Case Number
8 15971, application of Prime Rock Resources, LLC for a
9 nonstandard spacing and proration unit and compulsory
10 pooling, Lea County, New Mexico.

11 Call for appearances.

12 MR. BRUCE: Mr. Examiner, Jim Bruce of
13 Santa Fe representing Mewbourne Oil Company in these
14 matters.

15 EXAMINER McMILLAN: Any other appearances?

16 MR. FELDEWERT: Mr. Examiner, Michael
17 Feldewert, from the Santa Fe office of Holland & Hart,
18 appearing on behalf of Prime Rock Resources, LLC. I do
19 not have any witnesses here today.

20 EXAMINER McMILLAN: Opening statements?

21 MR. BRUCE: Just briefly, Mr. Examiner.

22 OPENING STATEMENT

23 MR. BRUCE: There was a dispute between
24 Mewbourne and Prime Rock. They have reached mutual
25 agreement on a JOA, naming Mewbourne operator. It has

1 not -- there's been unavailability of certain people to
2 sign the JOA on behalf of Prime Rock. And we need to
3 force pool other people, so we're moving forward. But
4 they have reached an agreement.

5 OPENING STATEMENT

6 MR. FELDEWERT: Examiner, I think Mr. Bruce
7 is right. They are, I would say, close to an agreement.
8 He is correct. There have been some incidences that
9 have prevented witnesses that I would have here today
10 from being here today and also getting things finalized
11 with Mewbourne.

12 EXAMINER McMILLAN: So you'd say there is a
13 preliminary voluntary agreement?

14 MR. BRUCE: Mewbourne has informed me that
15 they have agreed to -- that both sides have agreed to
16 all terms of a JOA, but one person who needs to finally
17 approve it at Prime Rock had an accident, and he's not
18 doing too well right now.

19 MR. FELDEWERT: Yeah. I also think there
20 have been some discussions about a trade proposal as
21 well.

22 MR. JOLLY: I'm not aware of that. I can't
23 comment any further.

24 (Mr. Jolly previously sworn.)

25

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Would you please state your name for the
7 record?

8 A. Tyler Jolly, Midland, Texas.

9 MR. BRUCE: Mr. Examiner, if the record
10 would reflect that Mr. Jolly was previously sworn and
11 qualified.

12 EXAMINER McMILLAN: Any objection?

13 MR. FELDEWERT: No objection.

14 EXAMINER McMILLAN: So qualified.

15 Please proceed.

16 Q. (BY MR. BRUCE) Mr. Jolly, could you identify
17 Exhibit Tab Number 1?

18 A. Yes. Exhibit Tab Number 1 is a Midland Map
19 Company plat showing the wellbore and nonstandard
20 proration unit, the Caper 20/29 B2CN Fed Com #1H, with
21 an API number filed June 7th of 2017. That's currently
22 still pending. That'll be drilled into the Red Tank;
23 Bone Spring Pool, code number 51683, with a surface
24 location of 360 feet from the south line and 2,000 feet
25 from the west line in Section 17, and a bottom-hole

1 location of 330 feet from the south line and 1,980 feet
2 from the west line in Section 29, Township 21 South,
3 Range 32 East, Lea County.

4 Q. Is this area in the oil potash?

5 A. Yes.

6 Q. And has a drilling island been established in
7 the southern portion of Section 17?

8 A. Yes.

9 Q. And has Section -- have Sections 20 and 29 been
10 designated as a development area by the Bureau of Land
11 Management?

12 A. Yes.

13 Q. And normally when they have a development area,
14 does the BLM like to see -- usually just like to see one
15 operator drilling wells in a certain formation?

16 A. Yes.

17 Q. What is Exhibit Tab 2?

18 A. Exhibit 2 is a working interest ownership
19 spreadsheet showing the ownership of all the parties
20 involved. And this well is -- will be drilled in the
21 east half of the west half, but if we were to drill a
22 west half-west half well, the ownership would be the
23 same.

24 Q. Okay. Referring to Exhibit 2, does this list
25 the interest owners in the west half of Sections 20 and

1 **29?**

2 A. Yes.

3 **Q. Who do you seek to force pool?**

4 A. Prime Rock Resources, LLC and Sheridan Holding
5 Company II, LLC.

6 **Q. The other parties have joined in a JOA?**

7 A. Yes. We have the majority of working interest
8 owners signed to a JOA.

9 **Q. And as soon as Prime Rock is ready to sign the**
10 **JOA, will you notify the Division?**

11 A. Yes.

12 **Q. What is Exhibit 3?**

13 A. Exhibit 3 is our summary of communications to
14 the owners that we're pooling. It looks like we sent
15 proposal letters and followed up with -- actually, the
16 proposal had an AFE with the proposal letter as well,
17 and we have contacted all the parties via email and
18 phone calls.

19 **Q. Were there any unlocatable interests?**

20 A. No.

21 **Q. Are there any depth severances in the Bone**
22 **Spring Formation?**

23 A. No.

24 **Q. In your opinion, has a good-faith effort been**
25 **made to obtain the voluntary joinder of the interest**

1 **owners in the well?**

2 A. Yes.

3 **Q. Turning to Exhibit 4, could you discuss the**
4 **cost of the proposed well?**

5 A. Yes. I believe I already rattled off the
6 surface- and bottom-hole locations.

7 The dry-hole cost will be \$2,761,200, and
8 the completed well cost will be \$10,332,900.

9 **Q. And is this cost reasonable and in line with**
10 **the cost of similar wells drilled in this area of New**
11 **Mexico?**

12 A. Yes.

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

14 A. We request \$8,000 a month be allowed for
15 drilling the well and \$800 a month be allowed for the
16 producing well.

17 **Q. And are these amounts equivalent to those**
18 **normally charged by Mewbourne and other operators in**
19 **this area for wells of this depth and length?**

20 A. Yes.

21 **Q. Do you request that the rates be adjusted**
22 **periodically under the COPAS accounting procedure?**

23 A. Yes.

24 **Q. And do you request a maximum cost plus 200**
25 **percent risk charge?**

1 A. Yes.

2 **Q. And was notice mailed to the interest owners?**

3 A. Yes.

4 **Q. And is that reflected in Exhibit 5?**

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, there was one
7 interest owner who did not receive a green card, and
8 also there was an additional interest owner who I had to
9 notify just before this hearing. So I'm going to have
10 to request this matter be continued two weeks just to
11 satisfy notice. And the publication -- notice of --
12 Affidavit of Publication will also be submitted at that
13 time as to anyone who I did not receive a green card
14 from.

15 **Q. (BY MR. BRUCE) Does Exhibit 6 reflect the**
16 **offset ownership to the proposed well?**

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, Exhibit 7 is my
19 notice to all of the offset operators.

20 Exhibit 6 does reflect some interest
21 owners -- some working interest owners who were not
22 notified, but every offsetting tract has an operator. I
23 only notified the operators. But for some reason --
24 another reason I need a two-week continuance is I never
25 got a green card back from ConocoPhillips, even though

1 this notice was mailed two-and-a-half months ago.

2 **Q. (BY MR. BRUCE) Were Exhibits 1 through 7**
3 **prepared by you or under your supervision or compiled**
4 **from company business records?**

5 A. Yes.

6 **Q. And in your opinion is the granting of the**
7 **application in the interest of conservation and the**
8 **prevention of waste?**

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I move the
11 admission of Exhibits 1 through 7.

12 MR. FELDEWERT: No objection.

13 EXAMINER McMILLAN: Exhibits 1 through 7
14 may now be accepted as part of the record.

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

18 EXAMINER McMILLAN: Cross-examination?

19 CROSS-EXAMINATION

20 BY MR. FELDEWERT:

21 **Q. Mr. Jolly, when I look at the well-proposal**
22 **letter Mewbourne sent initially to Prime Rock, the**
23 **company offered a JOA that covered four sections of**
24 **land; is that right?**

25 A. You're saying four sections?

1 **Q. Yes.**

2 MR. BRUCE: Two sections.

3 MR. FELDEWERT: I'm sorry. Two sections.

4 THE WITNESS: Yeah. I think it was two
5 sections.

6 MR. FELDEWERT: Sorry. Two sections.

7 THE WITNESS: Yeah. Prime Rock didn't want
8 to spread their interest over two full sections. And
9 we've gotten the majority of interest owners to sign up
10 under that first proposal, but we've also offered Prime
11 Rock a west half-only JOA.

12 **Q. (BY MR. FELDEWERT) More closely aligns with**
13 **your spacing unit?**

14 A. Yes.

15 **Q. Okay. Now, I look at your Exhibit Number 3.**
16 **And Jim Bruce was kind enough to mark the Prime Rock**
17 **path in my Exhibit Number 3 at least.**

18 A. Mine as well.

19 **Q. Okay. If I go to that blue Prime Rock tab in**
20 **Exhibit Number 3, you have the correspondence log of**
21 **Prime Rock?**

22 A. Yes.

23 **Q. And I noted that there was a March 1st email**
24 **counterproposal from Prime Rock. Do you see that at the**
25 **bottom?**

1 A. Yes.

2 Q. When I go to the -- the attached documents, it
3 looks like the latest email we have is from February
4 28th. Am I reading all these emails correctly? Are
5 they in order?

6 A. Sorry. I've got to find the page.

7 Q. So I'll tell you where I'm at, the last page of
8 Exhibit Number 3.

9 A. Okay.

10 Q. Makes it a little easier, Exhibit Number 3, the
11 last page. All that corresponds with Prime Rock. And
12 if I'm reading this correctly, it looks like the last
13 email you have on here is from February 28th, maybe
14 10:30 a.m. Is that the last one?

15 A. I have February 27th. Oh, there's February
16 28th at 8:23 a.m.

17 Q. Yeah.

18 And then the previous page goes up to 10:30
19 a.m., and that was the latest one I could find.

20 A. Oh, that's on the -- yeah. I've got that page
21 right here.

22 Q. But after these emails, there was a
23 counterproposal by Prime Rock, correct?

24 A. I believe that's correct.

25 Q. And are you also aware, Mr. Jolly -- I think

1 you stated earlier that you weren't. But are you aware
2 that they have also been in discussions about a trade
3 proposal between the two companies?

4 A. That sounds correct. I don't know any details
5 about the trade proposal.

6 Q. Okay. And that's still being examined then, it
7 sounds like, by Mewbourne? Is that what I understand?

8 A. The latest that I've heard is that we've
9 negotiated the JOA, and they're comfortable -- Prime
10 Rock is comfortable signing the west half-only JOA. I
11 don't know that the trade is more likely to happen or
12 not.

13 Q. That's still being evaluated?

14 A. Yes.

15 Q. Okay.

16 MR. FELDEWERT: That's all the questions I
17 have.

18 EXAMINER McMILLAN: Go ahead.

19 EXAMINER BROOKS: No questions.

20 EXAMINER McMILLAN: Thank you.

21 MR. BRUCE: Mr. Examiner, my geologist
22 needs to be sworn.

23 JORDAN CARRELL,

24 after having been first duly sworn under oath, was
25 questioned and testified as follows:

1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q. Will you please state your name and city of
4 residence for the record?

5 A. Jordan Carrell, Midland, Texas.

6 Q. Who do you work for and in what capacity?

7 A. Mewbourne Oil Company. I'm a petroleum
8 geologist.

9 Q. Have you previously testified before the
10 Division?

11 A. I have not.

12 Q. Will you please summarize your educational and
13 employment background for the Examiner?

14 A. Yes. I received a Bachelor's of Geology from
15 Eastern Washington University in 2011 and a Master's in
16 Geology from the University of Oklahoma in 2014. And I
17 started an internship with Mewbourne Oil Company in June
18 of 2014 and have been with the company since then.

19 Q. Are you familiar with the geology involved in
20 this application?

21 A. Yes.

22 Q. And does your position -- in your position, is
23 this area part of what you will receive from Mewbourne?

24 A. It is.

25 MR. BRUCE: Mr. Examiner, I tender

1 Mr. Carrell as an expert petroleum geologist.

2 MR. FELDEWERT: No objection.

3 EXAMINER McMILLAN: So qualified.

4 Q. (BY MR. BRUCE) Mr. Carrell, can you identify
5 Exhibit 8 for the Examiner?

6 A. Yes. This is a structure contour map of the
7 base of the Lower 2nd Bone Spring Sand around our
8 proration unit. We also have an isopach map on here
9 showing a net porosity of 8 percent greater, with a
10 contour interval of 10 feet. The structure contour is
11 50 feet, dipping to the southeast. Our proration unit
12 is outlined with the black-hashed line, and our proposed
13 well is a green arrow from the drilling island going
14 south into 29.

15 Q. What is Exhibit 9?

16 A. This is a cross section of A to A prime on that
17 map and going from north to south through Sections 20
18 and 29 starting in Section 17. This map is a
19 stratigraphic cross section hung on the base of the
20 Lower 2nd Bone Spring Sand. I'm showing the 2nd Sand
21 and also all the way down to the top of the Wolfcamp.
22 This cross section shows where we would plan on landing
23 our Caper 20/29 well. Within the Lower 2nd Bone Spring
24 Sand, it also shows a consistent thickness, and from
25 north to south in that lower -- approximate consistent

1 thickness from north to south within that Lower 2nd Bone
2 Spring Sand.

3 Q. And the isopach portion of Section 8 also shows
4 that the 2nd Bone Spring is fairly consistent across?

5 A. Yes.

6 Q. Would you expect each quarter-quarter section
7 in the well unit, from a geologic perspective, to be
8 more or less equally productive from the Bone Spring?

9 A. Yes. Yes, sir.

10 Q. What is Exhibit 10?

11 A. This is a production table of the Bone Spring
12 wells in the immediate area. This shows two specific --
13 specifically, two north-south, mile-and-a-half 2nd Sand
14 wells from Devon. In comparing those to the two closest
15 east-west oriented wells, I'm showing that north-south
16 orientation as a much better rate of return.

17 Q. And because of the potash and the drilling
18 islands, you have to drill these wells north-south?

19 A. Correct.

20 Q. And what is Exhibit 11, briefly?

21 A. Exhibit 11, I believe, is the standard -- our
22 standard planning report. It is our wellbore survey
23 plan. The last page shows an areal and cross-section
24 view of our proposed well and with the surface location,
25 bottom-hole location and our first and last take points,

1 which are 330 off the hard lines.

2 Q. Okay. So they will be --

3 A. -- 330 off the section.

4 Q. So they will be orthodox, correct?

5 A. Correct.

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

9 A. Yes.

10 Q. And were Exhibits 8, 9 and 10 prepared by you
11 by you or under your supervision?

12 A. Yes.

13 Q. And is Exhibit 11 compiled from Mewbourne's
14 business records?

15 A. Yes.

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

18 MR. FELDEWERT: No objection.

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. FELDEWERT: I have no questions.

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. Is the Pool Code 51683? Is that --

4 MR. BRUCE: I think that's what the landman
5 said.

6 MR. JOLLY: 58613 [sic].

7 THE WITNESS: Is that the Bilbrey --

8 MR. JOLLY: I have the Red Tank.

9 THE WITNESS: Red Tank. Forgive me.

10 Q. (BY EXAMINER McMILLAN) Just for the record,
11 just so you'll know, this map's awful confusing to me.

12 A. Okay.

13 Q. Next time you do maps --

14 A. Yeah.

15 Q. -- don't put all the stuff going on on one map.

16 A. Okay.

17 Q. And do you think that'll be -- do you think the
18 3rd Bone Spring is prospective in there?

19 A. I believe it is. It is not our primary target
20 at this time, though.

21 EXAMINER BROOKS: No questions.

22 EXAMINER McMILLAN: Thank you.

23 MR. BRUCE: Mr. Examiner, I ask that the
24 matter -- both matters -- both cases be continued for
25 two weeks.

1 MR. FELDEWERT: Mr. Examiner, I'm sorry,
2 again, I don't want the continuance limited just for
3 notice. The parties are still trying to work out an
4 agreement.

5 MR. BRUCE: Right.

6 MR. FELDEWERT: Can we just keep it open in
7 the event something happens?

8 EXAMINER McMILLAN: Okay. Case Number
9 15926 and Case Number 15971 shall be continued until
10 March the 22nd.

11 (Case Numbers 15926 and 15971 conclude,
12 10:54 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 DATED THIS 26th day of March 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25