

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:

ORIGINAL

APPLICATION OF MEWBOURNE OIL
COMPANY FOR A NONSTANDARD GAS
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

CASE NO. 15966

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

February 22, 2018

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, William V. Jones, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, February 22, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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FOR EOG RESOURCES, INC. AND EOG Y RESOURCES, INC.:

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1 (11:37 a.m.)

2 EXAMINER DAWSON: At this point we'll move
3 on to 15966, which is application of Mewbourne Oil
4 Company for a nonstandard gas spacing and proration unit
5 and compulsory pooling, Eddy County, New Mexico.

6 Please call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant.

9 MR. FELDEWERT: Mr. Examiner, Michael
10 Feldewert, with the Santa Fe office of Holland & Hart,
11 appearing on behalf of EOG Resources, Inc. and EOG Y
12 Resources, Inc.

13 MR. BRUCE: And if the record could reflect
14 the two witnesses are the same, Mr. Dilliner and
15 Mr. Crosby, who were previously sworn and qualified.

16 EXAMINER DAWSON: Okay. So you can
17 continue with your questions, Mr. Bruce.

18 TRACE DILLINER,
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 identify Exhibit, 1 Mr. Dilliner?

24 A. Yes, sir. Exhibit 1 is a Midland Map Company
25 plat showing the proposed unit for this Oxbow 23/24

1 wells consisting of the south half of Section 23 and the
2 south half of Section 24.

3 Q. And, again, you are force pooling the Wolfcamp
4 Formation?

5 A. That's correct.

6 Q. And are there any depth severances in the
7 Wolfcamp in this well unit?

8 A. No, sir.

9 Q. Who do you seek to force pool? And I refer you
10 to Exhibit 2.

11 A. The parties with an asterisk next to their
12 name. I would like to point out that on Exhibit 3, we
13 will go over some communications that we've had with
14 some of these parties where we have reached recent
15 agreements with them.

16 Q. Why don't you move on to Exhibit 3 and discuss
17 its contents.

18 A. Sure. Exhibit 3 is a copy of our well
19 proposals to all of these parties, as well as a summary
20 of communications, starting with OXY USA, Incorporated
21 at the top left. As of yesterday morning, we agreed to
22 an operating agreement form in principle. I will second
23 the revised form to them for execution when I return to
24 the office tomorrow.

25 ConocoPhillips, I guess multiple

1 communications we've had with them. We also only lack,
2 I believe, one -- one more thing that Mewbourne needs to
3 approve in order to find a mutually agreeable form with
4 them. And after speaking with my manager yesterday, I
5 believe that we'll also have a form agreed upon with
6 them by the end of the week.

7 Skipping EOG real quick to go to the next
8 page, to Gebiano Oil & Gas Company, they were succeeded
9 in interest by Colgate Production, and I was informed by
10 my manager yesterday that we've agreed to a trade with
11 them.

12 **Q. And if you come to an agreement with those**
13 **parties, will you so notify the Division?**

14 A. Yes, sir, we will.

15 **Q. And just with OXY signing alone, the committed**
16 **interest will be well over 80 percent?**

17 A. That's correct.

18 **Q. What about EOG?**

19 A. On pages 1 and 2 of Exhibit 3, it lists
20 communications that we've had with EOG on multiple
21 occasions throughout the last two months. I've reached
22 out to their land manager, Charles Moran, as well as
23 other employees such as Clay Haggard. I have received
24 no communication back from them for months throughout
25 phone calls and emails. As of earlier this week, my

1 land manager, Corey Mitchell, met with Charles Moran.
2 They had lunch, in which Mewbourne proposed a possible
3 trade to EOG that they are now evaluating.

4 Q. Will you continue to work with EOG regarding
5 this well?

6 A. Yes, sir, we will.

7 Q. And, again, if you reach agreement, will you so
8 notify the Division?

9 A. Yes, we will.

10 Q. In your opinion, has Mewbourne made a
11 good-faith effort to obtain a voluntary joinder of these
12 interest owners into the well?

13 A. Yes, sir, we have.

14 Q. And, again, like last time, there are -- are
15 there lease expiration issues to a certain extent?

16 A. Yes, sir, there are.

17 Q. And is this well unit also -- has it been --
18 development been slowed down by surface issues?

19 A. Yes, sir, it has.

20 Q. Okay. Are you still working on getting APDs
21 from the BLM?

22 A. Yes, we are.

23 Q. Would you turn to Exhibit 4 and discuss the
24 costs of the two proposed wells?

25 A. Exhibit 4 is the AFEs for the two proposed

1 wells. For the first, the Oxbow 23/24 W2LI Fed Com #1H,
2 the dry-hole costs, estimated, are \$3,357,600, and the
3 estimated completed well costs are \$10,519,900.

4 Moving on to the Oxbow 23/24 W1LI Fed Com
5 #2H, the estimated dry-hole costs are \$3,206,100,
6 estimated completed well costs are \$10,441,800.

7 Q. And are these costs reasonable and in line with
8 the cost of wells drilled by Mewbourne and other
9 operators in this area?

10 A. Yes, they are.

11 Q. Do you request that Mewbourne be appointed
12 operator of the wells?

13 A. Yes, I do.

14 Q. And what is your recommendation for overhead
15 and administrative rates for these wells?

16 A. \$8,000 a month for drilling of the well and
17 \$800 a month for the producing well.

18 Q. And are these amounts fair and reasonable and
19 amounts charged by Mewbourne and other operators in the
20 area?

21 A. Yes, sir, they are.

22 Q. Do you request that the rates be adjusted
23 periodically as provided by the COPAS accounting
24 procedures?

25 A. Yes, sir.

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

4 A. Yes, we do.

5 MR. BRUCE: Mr. Examiner, notice was sent
6 as shown by Exhibit 5. At the next hearing, I will
7 present Affidavit of Notice with the green cards. As of
8 yesterday, I was missing one of the green cards of an
9 interest owner and a couple of green cards for the
10 offsets. So, again, I will supplement the record at the
11 next hearing.

12 Q. (BY MR. BRUCE) And does Exhibit 6 list all of
13 the offset working interest owners or operators to the
14 proposed well?

15 A. Yes, sir.

16 Q. And were Exhibits 1 through 7 either prepared
17 by you, under your supervision or compiled from company
18 business records?

19 A. Yes, they were.

20 Q. And in your opinion, is the granting of this
21 application in the interest of conservation and the
22 prevention of waste?

23 A. It is.

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

1 MR. FELDEWERT: No objection.

2 EXAMINER DAWSON: Exhibits 1 through 7 will
3 be admitted to the record at this time.

4 (Mewbourne Oil Company Exhibit Numbers 1
5 through 7 are offered and admitted into
6 evidence.)

7 EXAMINER DAWSON: Mr. Feldewert?

8 CROSS-EXAMINATION

9 BY MR. FELDEWERT:

10 Q. Mr. Dilliner, I'm looking at your Exhibit
11 Number 2, and you show EOG as having a 6.25 percent
12 interest in the south half of the south half of -- south
13 half of Section 23 and 24 spacing unit?

14 A. Yes, sir. That's correct.

15 Q. And that's just because, am I correct -- if I'm
16 looking at the Midland Map now on Exhibit Number 1, is
17 that because EOG has that -- is that a quarter section
18 down there in -- I guess it would be a quarter-quarter
19 in the southeast of the southeast of 24?

20 A. Yes, sir. That's correct.

21 Q. And that's their only interest in this
22 particular spacing unit?

23 A. In this particular unit.

24 Q. That translates to 6.25 percent?

25 A. Yes, it does.

1 **Q. What rates are you asking for again? I'm**
2 **sorry. I missed that.**

3 A. 8,000 a month for a producing well -- or the
4 drilling of a well and \$800 a month for a producing
5 well.

6 **Q. Now, I've heard a lot of cases where it's**
7 **around 7,000 and 700. What's the basis for 8,000 and**
8 **800?**

9 A. Being a landman, I don't particularly deal with
10 those costs, in determining them, but I do know that
11 that's very in line with what we charge for a multitude
12 of wells we drill, and I haven't really had a problem
13 with people thus far.

14 **Q. Do you have an example of wells in the area**
15 **where that's the overhead rate?**

16 A. No, sir, I do not.

17 **Q. You don't have anything else to support that**
18 **request?**

19 A. Being not really in my exact area of expertise,
20 I don't at this time.

21 **Q. All right.**

22 MR. FELDEWERT: That's all the questions I
23 have in this case.

24 EXAMINER BROOKS: No questions.

25 EXAMINER DAWSON: Questions?

1 EXAMINER JONES: No questions.

2 EXAMINER DAWSON: I have no questions.

3 Thank you very much.

4 MR. BRUCE: Mr. Examiner, I would point --
5 I would notice -- and I would have to go back to my
6 records and search, but that's generally the rates that
7 Mewbourne has been requesting for its Eddy County
8 Wolfcamp wells over the last, I would say, six months.

9 EXAMINER DAWSON: Okay. So noted.

10 MR. BRUCE: And I bring up Mr. Crosby just
11 for the purpose of verifying that we produced the
12 geologic exhibits and open him up to any questions.

13 MR. FELDEWERT: No need from my
14 perspective.

15 MR. BRUCE: But if I can just ask
16 Mr. Crosby a question there.

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

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Crosby, did you prepare Exhibits 8 through
23 15 for this particular case?

24 A. Yes.

25 Q. And are they basically identical to what you

1 **presented in the original case?**

2 A. Yes, just well locations being the difference.

3 **Q. Just the drilling --**

4 A. Proration unit and the well locations.

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

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I move the
10 admission of Exhibits 8 through 15.

11 MR. FELDEWERT: No objection.

12 EXAMINER DAWSON: No objection?

13 Exhibits 8 through 15 will be admitted to
14 the record at this time.

15 (Mewbourne Oil Company Exhibit Numbers 8
16 through 15 are offered and admitted into
17 evidence.)

18 EXAMINER DAWSON: Mr. Feldewert, any
19 questions?

20 MR. FELDEWERT: No, sir.

21 EXAMINER DAWSON: Mr. Brooks?

22 EXAMINER BROOKS: No questions.

23 EXAMINER JONES: (Indicating.)

24 EXAMINER DAWSON: No more questions.

25 Thank you very much, Mr. Bruce.

1 MR. BRUCE: Again, I ask this matter be
2 continued for two weeks.

3 EXAMINER DAWSON: Okay. This case, 15966,
4 will be continued for two weeks for notice, acceptance
5 of green cards and filing.

6 (Case Number 15966 concludes, 11:47 a.m.)
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FILED IN CASE NO. 15966 AND THE MATTER IS
BEING CONTINUED FOR TWO WEEKS FOR NOTICE
OF GREEN CARDS AND FILING.
DEPOSED BY ME ON _____

_____, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

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I, MARY C. HANKINS, Certified Court

Reporter, New Mexico Certified Court Reporter No. 20,

and Registered Professional Reporter, do hereby certify

that I reported the foregoing proceedings in

stenographic shorthand and that the foregoing pages are

a true and correct transcript of those proceedings that

were reduced to printed form by me to the best of my

ability.

I FURTHER CERTIFY that the Reporter's

Record of the proceedings truly and accurately reflects

the exhibits, if any, offered by the respective parties.

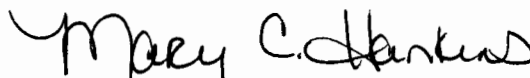
I FURTHER CERTIFY that I am neither

employed by nor related to any of the parties or

attorneys in this case and that I have no interest in

the final disposition of this case.

DATED THIS 9th day of March 2018.



MARY C. HANKINS, CCR, RPR

Certified Court Reporter

New Mexico CCR No. 20

Date of CCR Expiration: 12/31/2018

Paul Baca Professional Court Reporters