

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 COMPANY CASE NO. 16279
8 FOR A NONSTANDARD HORIZONTAL SPACING
9 UNIT AND COMPULSORY POOLING, EDDY
10 COUNTY, NEW MEXICO.

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 August 23, 2018

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, August 23, 2018, 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
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12 FOR COG OPERATING:

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18 INDEX

19		PAGE
20	Case Number 16279 Called	3
21	Case Presented by Affidavit	4
22	Proceedings Conclude	11
23	Certificate of Court Reporter	12
24	EXHIBITS OFFERED AND ADMITTED	
25	Mewbourne Oil Company Exhibit Numbers 1 through 4	6

1 (8:37 a.m.)

2 EXAMINER JONES: The first case on the
3 docket appears to be Case Number 16279, application of
4 Mewbourne Oil Company for a nonstandard horizontal
5 spacing unit and compulsory pooling, Eddy County, New
6 Mexico.

7 Call for appearances in that case.

8 MR. LARSON: Good morning, Mr. Examiner.
9 Gary Larson, of the Santa Fe office of Hinkle Shanor,
10 for the Applicant, Mewbourne. I'm pinch-hitting for Jim
11 Bruce today, and I'll be presenting my case by
12 affidavit.

13 MS. BRADFUTE: Mr. Examiner, Jennifer
14 Bradfute on behalf of Cimarex Energy.

15 EXAMINER JONES: Okay. I also I think have
16 an appearance by Ocean Munds-Dry on behalf of COG in the
17 record on this case.

18 MS. RYAN: Thank you. It was just for
19 notice purposes, so we don't have any protest today.

20 (The court reporter requested Ms. Ryan
21 announce for the record.)

22 MS. RYAN: Elizabeth Ryan with Concho --
23 COG Operating, Santa Fe. Thank you.

24 EXAMINER JONES: Any other appearances in
25 this case?

1 Okay, Mr. Larson.

2 MR. LARSON: Mewbourne's amended
3 application in this case seeks approval of a 200-acre
4 nonstandard horizontal spacing unit in the 2nd Bone
5 Spring Sand and the pooling of all uncommitted interests
6 in that interval. And the horizontal spacing unit will
7 be dedicated to the Sapphire 11/12 B2NN State Com #1H
8 well, which I'll refer to as the Sapphire well.

9 EXAMINER JONES: Okay.

10 MR. LARSON: Exhibit 1 is the affidavit of
11 the landman, Paul Haden, and the attachments to
12 Mr. Haden's affidavit are a Midland Map highlighting the
13 horizontal spacing unit and a C-102 for the Sapphire
14 well, a listing of the tract ownership in the proposed
15 unit, Mewbourne's communication with the interest owners
16 in the proposed unit regarding the Sapphire well, and an
17 AFE identifying the total well cost of \$7,292,100.

18 As you'll see in Mr. Haden's affidavit,
19 Mewbourne is requesting a nonstandard 200-acre
20 horizontal spacing unit because the southwest
21 quarter-southwest quarter of Section 11 is dedicated to
22 another well operated by another company. Mewbourne
23 anticipates that wells to test other Bone Spring zones
24 will have 240-acre units that will include the southwest
25 quarter of the southwest quarter of Section 11.

1 This affidavit also states that Mewbourne
2 has the right to pool the overriding royalty interests
3 in the unit, that there is no depth severance in the
4 Bone Spring Formation. It further states that Mewbourne
5 is requesting overhead and administrative rates of
6 \$8,000 a month while drilling and \$800 a month while the
7 well is producing. And he avers that these rates are
8 comparable to the rates charged by other operators for
9 similar wells in this area of Eddy County and are the
10 same rates as those included in Mewbourne's JOA.

11 Exhibit 2 is Mr. Bruce's affidavit
12 addressing notice of today's hearing that was provided
13 to the interest owners in the proposed horizontal
14 spacing unit. Attached to the affidavit are copies of
15 Mr. Bruce's notice letter and the green cards, all of
16 which were returned.

17 Exhibit 3 is Mr. Bruce's affidavit
18 addressing notice of the hearing to offset operators and
19 working interests, and similarly attached to this
20 affidavit are copies of Mr. Bruce's notice letter and
21 the green cards, all of which were returned.

22 And the final exhibit, Number 4, is the
23 affidavit of Mewbourne geologist, Jordan Carrell. And
24 attached to Mr. Carrell's affidavit is a structure map
25 at the base of the 2nd Bone Spring Sand, a gross sand

1 isopach map of the 2nd Bone Spring Sand, a
2 northwest-to-southeast cross section, information
3 regarding other wells drilled in the vicinity and
4 Mewbourne's planning report for the Sapphire well.

5 And as stated in Mr. Carrell's affidavit,
6 the producing interval in the Sapphire well will be
7 orthodox. It further states that the 2nd Bone Spring is
8 continuous across the proposed unit, that there is no
9 faulting or other geologic impediment that might
10 adversely affect the drilling of the Sapphire well and
11 that each quarter section in the proposed unit will
12 contribute more or less equally to production.

13 And with that, I move the admission of
14 Mewbourne Exhibits 1 through 4.

15 EXAMINER JONES: Any objection?

16 MS. BRADFUTE: No objection.

17 MS. RYAN: No objection.

18 (Mewbourne Oil Company Exhibit Numbers 1
19 through 4 are offered into evidence.)

20 EXAMINER JONES: No objection?

21 Mr. Brooks, is it okay to admit these
22 exhibits?

23 EXAMINER BROOKS: I'm sure it is.

24 EXAMINER JONES: Okay.

25 EXAMINER BROOKS: If there is no

1 objections.

2 EXAMINER JONES: There is no objection.

3 When presenting by affidavit, there is a
4 list of things that is required to present by affidavit.
5 I didn't bring them with me today. I assume that the
6 attorneys will catch any discrepancies.

7 EXAMINER BROOKS: I would assume so. I
8 don't have my rule book here today because my rule book
9 is in the process of being updated. There have been so
10 many rules made here lately that my rule book is very
11 out of date, and that process will take a while.

12 EXAMINER JONES: And this application
13 appears to be a pre-rule application, so it's got the
14 standard language that they applied for here.

15 MR. LARSON: Yeah. Actually, the initial
16 application was pre-new horizontal well rules, and then
17 following discussions with Cimarex, the application was
18 amended to a different producing interval after -- after
19 the new rules.

20 EXAMINER JONES: Okay. Okay. Thank you.

21 So it's basically a post-rule application,
22 and so there is no question on what the building blocks
23 are for this well. It's a 40-acre spaced pool. It's
24 going to be 40 quarter-quarters or however you decide --

25 EXAMINER BROOKS: Yes. I don't think we're

1 going to have any problems --

2 EXAMINER JONES: With this one?

3 EXAMINER BROOKS: -- with 40-acre
4 constituent tracts -- with horizontal wells built on a
5 40-acre constituent tract, unless there is a nonstandard
6 40 somewhere in there that has -- that is smaller or
7 bigger than what the district office can approve.

8 MR. LARSON: Yeah. It's my understanding
9 Mr. Bruce filed it as nonstandard because of that
10 40-acre unit in the southwest-southwest of 11.

11 EXAMINER BROOKS: Yeah. And what is the
12 acreage of that unit?

13 MR. LARSON: It's 40 acres.

14 EXAMINER BROOKS: It is 40?

15 MR. LARSON: Yes.

16 EXAMINER BROOKS: Well, it's not
17 nonstandard. Oh, you mean it would have been
18 nonstandard under the old rule.

19 MS. BRADFUTE: Mr. Examiner -- Mr. Brooks,
20 if you look at attachment -- Exhibit 1, second page, it
21 looks like a C-102 is attached for the proposed well.
22 And if you look at where the surface location is, it
23 starts in the second 40-acre tract within Section 11.

24 EXAMINER BROOKS: And the
25 southwest-southwest is not included in the --

1 MS. BRADFUTE: Yeah.

2 EXAMINER BROOKS: Well, of course, that
3 would have been problematic under the old rule. It's
4 not -- but you're -- what you're saying is the amendment
5 converted this into an application under the new rule?

6 MR. LARSON: Yes. It's my understanding.

7 EXAMINER BROOKS: Well, would everybody be
8 willing to accept it? With all these lawyers around and
9 nobody protesting, which is what lawyers normally do
10 best, I think I would accept it.

11 EXAMINER JONES: Okay. Yeah. The well's
12 got an azimuth of 92 degrees, it looks like, but the
13 setbacks are basically fine for the new rule.

14 EXAMINER BROOKS: And we're accepting the
15 Fabiano [sic; phonetic] proposition that there is no
16 such thing as a stranded unit.

17 EXAMINER JONES: No such thing as stranded
18 even in the potash area.

19 MS. BRADFUTE: Cimarex has no objection to
20 the unit for the well, but I don't have the rule in
21 front of me. I didn't bring it today. If you have a
22 single 40-acre tract that's not included in the
23 horizontal spacing unit for the well, I'm not sure if
24 that classifies as standard under the new rule --

25 EXAMINER BROOKS: That is under the new

1 rule.

2 MS. BRADFUTE: -- unless it's developed by
3 another well.

4 EXAMINER BROOKS: Doesn't matter. The
5 Commission -- you know, we had that three-out-of-four
6 rule that was in the proposed horizontal well rule for a
7 long time.

8 MS. BRADFUTE: Yeah.

9 EXAMINER BROOKS: Even as it was filed --

10 MS. BRADFUTE: Even as it was filed.

11 EXAMINER BROOKS: -- by the Division, but
12 the Commission did not adopt that provision.

13 MS. BRADFUTE: Did not adopt that. Okay.
14 Thank you.

15 EXAMINER JONES: And the pooling parties
16 are -- you mentioned that the overrides are being
17 pooled, but they also list that on COG.

18 MR. LARSON: The interests left to be
19 pooled are Devon and Marathon.

20 EXAMINER JONES: Just Devon and Marathon.
21 And so no one else at this time?

22 MR. LARSON: That's my understanding.
23 Correct.

24 EXAMINER JONES: Mr. Haden came up last
25 time. We hadn't seen him in about a decade, and he

1 showed up at the last hearing I was at. It was nice to
2 see him.

3 At that time, his C-102s were totally
4 different than the ones in the application. So in this
5 case, it looks like -- not that it would have been his
6 fault, but it looks like this well is a permanent well,
7 so it's got a well site already fixed.

8 I don't have anything else. If anybody
9 else does --

10 MR. LARSON: I have nothing further and
11 request the case be taken under advisement.

12 EXAMINER JONES: Okay. Case 16279 is taken
13 under advisement.

14 MR. LARSON: Thank you.

15 EXAMINER JONES: Thank you for
16 pinch-hitting for Mr. Bruce.

17 (Case Number 16279 concludes, 8:48 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 23rd day of September 2018.

21

22

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