

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. 16386, |
| FOR COMPULSORY POOLING, EDDY COUNTY, | 16387, |
| NEW MEXICO. | 16388 |

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 18, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, on Thursday, October 18, 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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FOR INTERESTED PARTY MARATHON OIL PERMIAN, LLC:

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1 (12:00 p.m.)

2 EXAMINER JONES: Call Cases 16386, 16387
3 and 16388. All are styled application of Mewbourne Oil
4 Company for compulsory pooling in Eddy County, New
5 Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I have three --
9 two witnesses, and the same gentlemen as before.

10 MS. BRADFUTE: Mr. Examiner, Jennifer
11 Bradfute on behalf of Marathon Oil Permian, LLC. No
12 witnesses.

13 EXAMINER JONES: Any other appearances?

14 Let the record reflect the witnesses have
15 been sworn and qualified.

16 MR. BRUCE: We'll start with -- start with
17 386, Mr. Examiner, and it'll go pretty smoothly.

18 TYLER JOLLY,
19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Please state your name just for the record.

24 A. Tyler Jolly.

25 Q. What is Exhibit 1, Mr. Jolly, in Case 386?

1 A. Exhibit 1 is a Midland Map Company plat showing
2 the proration unit and surface- and bottom-hole
3 locations for the Creedence 21/16 B3GB State Com #1H.

4 **Q. And that's a Bone Spring well; is it not?**

5 A. That's correct.

6 **Q. Do you happen to know the pool name?**

7 A. The pool name is the Malaga; Bone Spring, Pool
8 Code 42780.

9 **Q. Are there any depth severances in the Bone**
10 **Spring Formation?**

11 A. No.

12 **Q. What is Exhibit 2?**

13 A. Exhibit 2 is the tract ownership of the
14 proration unit of the well. And the parties below,
15 CM Resources, LLC; Marathon Oil Permian; Tom M.
16 Ragsdale; Stillwater Investments; and Attwell Interests,
17 Inc., we seek to pool. But like I said, they're not
18 unlocatable, and I believe they will all probably sign
19 the JOA. And we have negotiated -- we've negotiated
20 deals with most of the companies.

21 **Q. Okay. And, again, in these three cases, you've**
22 **made a verbal agreement with Marathon; is that correct?**

23 A. That's correct.

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

25 A. Exhibit 3 is my summary of communications with

1 the parties, and that includes the well proposal -- the
2 initial well proposal to each party.

3 Q. And in your opinion, have you made a good-faith
4 effort to obtain the voluntary joinder of the interest
5 owners in the well?

6 A. Yes.

7 Q. What is Exhibit 4?

8 A. Exhibit 4 is the AFE for the referenced well.

9 Q. And what is the total well cost?

10 A. It looks a little north of \$8-1/2 million.

11 Q. This is a 3rd Bone Spring --

12 A. That's correct.

13 Q. Is that cost fair and reasonable and in line
14 with the cost of similar wells in this area?

15 A. Yes, I believe so.

16 Q. What overhead rates do you request?

17 A. 8,000 a month for drilling and 800 a month for
18 producing.

19 Q. And that will be the same for both wells --
20 well, all three cases; is that correct?

21 A. Correct.

22 Q. And are those rates fair and reasonable and
23 similar to rates charged by other operators in this
24 area?

25 A. Yes.

1 Q. Do you request that these rates be adjusted as
2 provided by the COPAS accounting procedure?

3 A. Yes.

4 Q. And are these rates also in the JOA or JOAs
5 that you have proposed for these wells?

6 A. Yes.

7 Q. In all three cases, are there any overriding
8 royalties to be pooled?

9 A. I don't believe so.

10 MR. BRUCE: Mr. Examiner, Exhibit 5 is my
11 Affidavit of Notice for all three cases. Everybody
12 received notice except TSF -- or they didn't claim the
13 certified mail. They must have seen my name before,
14 so --

15 EXAMINER JONES: Oh, yeah (laughter.)

16 THE WITNESS: TSF has assigned to Marathon.

17 MR. BRUCE: They have assigned to Marathon.
18 Okay.

19 THE WITNESS: They originally had an
20 interest, and since we proposed these wells, it's been
21 assigned -- it's been filed transferring the interest.

22 MR. BRUCE: Okay. So everyone received
23 actual notice, Mr. Examiner.

24 And Exhibit 6 is just an Affidavit of
25 Publication.

1 Q. (BY MR. BRUCE) Let's go on to the next case,
2 Mr. Jolly. I think we're going to be pretty short.

3 The exhibits are basically identical; are
4 they not? Just Exhibit 1 has slightly different --

5 A. Yes. It's got -- Exhibit 1 is, again, a
6 Midland Map Company plat, but the wells will have a
7 different proration unit. This well is the Creedence
8 21/16 B3HA State Com #1H, so it'll be in the east
9 half-east half.

10 Q. Okay. And does your prior testimony apply
11 regarding good-faith negotiations, the reasonableness of
12 the AFE and the overhead rates?

13 A. Yes.

14 MR. BRUCE: And, again, Exhibits 5 and 6,
15 Mr. Examiner, are the Affidavit of Notice, as well as
16 the Affidavit of Publication.

17 Q. (BY MR. BRUCE) And were Exhibits 1 through 6
18 prepared by you or under your supervision or compiled
19 from company business records?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I'd move the
22 admission of Exhibits 1 through 6.

23 MS. BRADFUTE: No objection.

24 EXAMINER JONES: In all three cases?

25 MR. BRUCE: Why not?

1 EXAMINER JONES: Any objection?

2 MS. BRADFUTE: No objection.

3 EXAMINER JONES: Okay. Exhibits 1 through
4 6 in all three cases are admitted.

5 (Mewbourne Oil Company Exhibit Numbers 1
6 through 6 in each of the cases, 16386,
7 16387 and 16388, are offered and admitted
8 into evidence.)

9 EXAMINER JONES: Any questions?

10 Q. (BY MR. BRUCE) And just so we cover it, in the
11 next case, Mr. Jolly, again, are the parties being
12 pooled and the summary of communications identical as
13 before?

14 A. Yes, it's identical. The only thing different,
15 in 16388, are the Wolfcamp wells.

16 Q. Yeah. Are Wolfcamp wells?

17 A. They have a different proration unit than the
18 two previous Bone Spring wells.

19 Q. Okay. And Purple Sage again?

20 A. Yes, the Purple Sage; Wolfcamp Gas Pool.

21 Q. So Exhibit 1 shows the wells and their C-102s?

22 A. Yes.

23 Q. And as to Exhibit 4, the AFEs, are those well
24 costs fair and reasonable?

25 A. Yes.

1 MR. BRUCE: Again, Mr. Examiner, Exhibits 5
2 and 6 are notice exhibits, but everyone with an interest
3 has received actual notice.

4 So, again, you know, if necessary, I'd move
5 the admission of Exhibits 1 through 6 in each case.

6 (Mewbourne Oil Company Exhibit Numbers 1
7 through 6 in each of the cases, 16386,
8 16387 and 16388, are offered into
9 evidence.)

10 Q. (BY MR. BRUCE) And in your opinion, Mr. Jolly,
11 will the granting of these applications be in the
12 interest of conservation and the prevention of waste?

13 A. Yes.

14 MR. BRUCE: Move the admission of all those
15 exhibits, Mr. Examiner.

16 EXAMINER JONES: Exhibits 1 through 6 in
17 all three cases are admitted.

18 (Mewbourne Oil Company Exhibit Numbers 1
19 through 6 are admitted into evidence.)

20 CROSS-EXAMINATION

21 BY EXAMINER JONES:

22 Q. Okay. Everybody -- you'll send a -- the
23 statement about the overrides -- Mr. Brooks is not here,
24 and you said you believe that they -- you don't need to
25 pool them, but you didn't -- you didn't say that

1 **definitively. Can you elaborate on that?**

2 A. I don't think we need to pool any override
3 owners.

4 **Q. Okay. So they have clauses that are automatic**
5 **and give them --**

6 A. Right. There are a lot of state leases in here
7 also.

8 **Q. Okay. That's the only questions I have.**

9 MS. BRADFUTE: No questions.

10 EXAMINER JONES: Okay. Thanks very much.

11 MS. BRADFUTE: Thank you.

12 CHARLES CROSBY,

13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 **Q. Mr. Crosby, let's start with the B3GB exhibits.**
18 **And somewhere along the way, my counting abilities**
19 **deserted me. The exhibits here start with 9. It should**
20 **be 7, but -- could you identify Exhibit 9 for the**
21 **examiner?**

22 A. Yes. This is a structure contour map on the
23 top of the Wolfcamp in the area of interest, again
24 showing the continuous structural dip to the east.
25 Producing horizontals are highlighted by their colors

1 referenced in the legend. So, again, the violet lines
2 are Wolfcamp sands. The navy lines are Wolfcamp shales.
3 And then also on here, there is green showing 2nd Bone
4 Spring Sand, and then there are a couple of older
5 horizontal Delaware wells to the far south end of the
6 map and then also the proration unit and the proposed
7 well highlighted by the dashed lines.

8 **Q. Move to Exhibit 10, your cross section.**

9 A. So this is a cross section running south to
10 north representative of the complete 3rd Bone Spring
11 Sand interval in the area. Again, our delineated 3rd
12 Bone Spring Sand wells and then the top section of the
13 Wolfcamp are shown to the left. And our proposed
14 landing zone for the B3HA is highlighted by the red
15 arrow on the left -- on the log to the left. And this
16 simply shows that the 3rd Bone Spring Sand is fairly
17 uniform throughout the whole area.

18 **Q. And is there any particular orientation that**
19 **makes more sense?**

20 A. No.

21 **Q. Again, partly land oriented?**

22 A. What's that?

23 **Q. Land oriented --**

24 A. Yes.

25 EXAMINER JONES: I always suspected that.

1 THE WITNESS: Yeah.

2 Q. (BY MR. BRUCE) And in your opinion, will each
3 quarter-quarter section in the well unit contribute more
4 or less equally to production?

5 A. Yes.

6 Q. And what is Exhibit 11?

7 A. This is a survey plan for the proposed well
8 just showing your general survey statistics and then an
9 areal and cross-sectional schematic of the proposed well
10 on the back -- very back page.

11 Q. And were Exhibits 9 through 11 prepared by you
12 or compiled from company business records?

13 A. Yes.

14 Q. Let's move on to Case 16387. Are these
15 exhibits pretty much the same, other than a difference
16 in the well location, as in the prior case?

17 A. Yes. Same structure map, everything, just
18 different location of the proration unit.

19 Q. And were Exhibits 7 through 9 prepared by you
20 or under your supervision or compiled from company
21 business records?

22 A. Yes.

23 Q. Finally, let's go to Case 388, which involves
24 Wolfcamp wells, does it not, Mr. Crosby?

25 A. Yes.

1 Q. Could you run through Exhibits 7 through 9 -- 7
2 through 10, actually, in this case, with the examiner?

3 A. Yes. This is the exact same Wolfcamp structure
4 map simply just showing the proration unit with the five
5 wells proposed here. I just changed the color up on the
6 dashed arrows showing the navy blue for shale and the
7 violet for the one sand well. And it's the exact same
8 cross section as well, just representative of the
9 Wolfcamp in the area of interest, with the proposed
10 landing zones highlighted by the red arrows. And,
11 again, this just shows the continuity of the zones of
12 interest throughout the area.

13 Q. And will each quarter section in the well unit
14 contribute more or less equally to production from each
15 of these wells?

16 A. Yes.

17 Q. And is Exhibit 9 the similar production chart
18 you've shown in prior cases?

19 A. Yes, same production chart.

20 Q. And finally, Exhibit 10. Does that contain the
21 survey calculations for all of the wells?

22 A. Yes.

23 Q. And were these exhibits, 7 through 10, prepared
24 by you or compiled from company business records?

25 A. Yes.

1 Q. And in your opinion, is the granting of these
2 three applications in the interest of conservation and
3 the prevention of waste?

4 A. Yes.

5 MR. BRUCE: And, Mr. Examiner, I'd like to
6 move the admission of Exhibits 9 through 11 in Case
7 16386 and Exhibits 7, 8 and 9 in Case 16387 and Exhibits
8 7 through 10 in Case 16388.

9 EXAMINER JONES: Any objection?

10 MS. BRADFUTE: No objection.

11 EXAMINER JONES: The mentioned exhibits are
12 admitted in all three cases.

13 (Mewbourne Oil Company Exhibit 9 through 11
14 in Case 16386 and Exhibits 7, 8 and 9 in
15 Case 16387 and Exhibits 7 through 10 in
16 Case 16388 are offered and admitted into
17 evidence.)

18 EXAMINER JONES: Any questions?

19 CROSS-EXAMINATION

20 BY MS. BRADFUTE:

21 Q. I have one curiosity question in this case as
22 well. On the cross section for the Bone Spring wells --
23 and you can look at either one -- you have zones listed
24 as 3rd Bone Spring Sand, green, blue, tan and gray.

25 A. Yes, ma'am.

1 **Q. What are those distinctions?**

2 A. Those are just our -- Mewbourne's nomenclature
3 for these lower distinct -- there are distinct markers
4 that you can break out in the Lower 3rd Bone Spring.
5 And throughout the basin, there are different targets.
6 So that's the main reason in identifying these different
7 lobes. But in this area, these lower two, the tan and
8 the gray, are the primary targets, it seems, that
9 operators are targeting.

10 **Q. Thank you. That concludes my questions.**

11 **CROSS-EXAMINATION**

12 BY EXAMINER JONES:

13 **Q. I always failed the color issues. I couldn't**
14 **do geology?**

15 **But on these Bone Spring applications,**
16 **you're only going one well. I noticed on the Wolfcamp,**
17 **you're -- you want to do actually four -- five wells,**
18 **and one of those is over on the east half-east half.**
19 **Why did you place your wells the way you did?**

20 A. So the spacing for the shales is generally a
21 little tighter. Our engineers believe that's the most
22 efficient and optimal spacing for the shales. And then
23 they've concluded that three -- or I guess six across a
24 section for the sands is just a little bit more
25 permeable zone. And if you'll recall in a previous

1 case, we had the two other sand wells to the east of
2 this one. That would make three in this proration unit.

3 Q. Okay. So 16388, the one lone well to the east
4 is a sand well; is that right? Did I get that mixed up?

5 A. For the B3?

6 Q. Yeah, the 3H.

7 A. Those are three Bone Spring Sand wells. Yes,
8 sir.

9 Q. Okay. I'm thinking of the Wolfcamp in 16388.
10 There is -- the way the wells showed up on the
11 application was four of them were going to be in the
12 west half-east half, and one was going to be east
13 half-east half. At least that's the way I saw them.
14 But whatever it's going to be, it's all one 480-acre
15 Wolfcamp spacing unit?

16 A. Yes.

17 Q. That's going to be it.

18 Okay. I don't have any more questions.
19 Thank you very much for hanging around.

20 A. Thanks. Thank you guys for going a little
21 later. I appreciate it.

22 EXAMINER JONES: So Cases 16386, 16387 and
23 16388 are taken under advisement.

24 (Case Numbers 16386, 16387 and 16388
25 conclude, 12:18 p.m.)

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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 29th day of October 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