

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE: 14750

APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
October 27, 2011
Santa Fe, New Mexico

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BEFORE: RICHARD EZEANYIM, Technical Examiner

This matter came on for hearing before the New
Mexico Oil Conservation Division, RICHARD EZEANYIM, Technical
Examiner, on October 27, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis, Drive, Room 102, Santa Fe, New Mexico.

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A P P E A R A N C E S

FOR THE APPLICANT:

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ADAM RANKIN

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I N D E X

EXHIBITS

EXHIBITS 1 THROUGH 4 ADMITTED

13

EXHIBITS 5 THROUGH 9 ADMITTED

25

STEVEN J. SMITH

Direct Exam by Mr. Rankin

04

ROGER TOWNSEND

Direct Exam by Mr. Rankin

15

1 EXAMINER EZEANYIM: Remember we dismissed Case
2 Number 14749, that is dismissed. Now I would like to call
3 Case Number 14750. This is the application of the Mewbourne
4 Oil Company for a non-standard oil spacing and proration unit
5 and compulsory pooling in Eddy County, New Mexico. Call for
6 appearances.

7 MR. RANKIN: Good morning, Mr. Examiner. Adam
8 Rankin on behalf of Mewbourne Oil Company. This morning we
9 have two witnesses.

10 EXAMINER EZEANYIM: Thank you very much. Any other
11 appearances?

12 (No response.)

13 EXAMINER EZEANYIM: I want, for the record, Jim
14 Bruce is not here today, couldn't be here today to enter an
15 appearance for OGX, and he asked me to put it into the record
16 that he is appearing on behalf of OGX. However, he is not
17 opposing the application, and he just wanted to be on the
18 record that he appeared for OGX Resources. The witnesses,
19 two of them, stand up, state your name, and be sworn.

20 MR. SMITH: Steven Smith.

21 MR. TOWNSEND: Roger Townsend.

22 (Witnesses sworn.)

23 EXAMINER EZEANYIM: Okay. Thank you.

24 MR. RANKIN: Mr. Examiner, we call our first
25 witness, Mr. Steven Smith.

1 STEVEN J. SMITH

2 (Sworn, testified as follows)

3 DIRECT EXAMINATION

4 BY MR. RANKIN:

5 Q. Mr. Smith, for the record, will you please state
6 your name, and occupation, and by whom you are employed?

7 A. Steven J. Smith. I am a senior landman with
8 Mewbourne Oil Company, and I live in Midland, Texas.

9 Q. Have you previously testified before the Division?

10 A. I have.

11 Q. And were your credentials as a petroleum landman
12 accepted?

13 A. They were.

14 Q. And made a matter of record?

15 A. Yes.

16 Q. Are you familiar with the application filed in this
17 case?

18 A. I am.

19 Q. Are you familiar with the status of the lands in the
20 subject area?

21 A. I am.

22 MR. RANKIN: Mr. Examiner, I'd like to tender
23 Mr. Smith as an expert petroleum landman.

24 EXAMINER EZEANYIM: So qualified.

25 Q. Mr. Smith, can you please turn to exhibit -- what's

1 been identified as Mewbourne Exhibit Number 1. Please
2 identify for the Examiner -- I'm sorry, I skipped ahead one.
3 Can you please identify for the Examiner what Mewbourne seeks
4 in these applications?

5 A. We are seeking an order approving Mewbourne's
6 proposed horizontal development plan for the west half east
7 half of Section 11, Township 26 South, Range 28 East, Eddy
8 County.

9 Q. Would you please explain to the Examiner what the
10 purpose of this well is, for the target?

11 A. We are -- the test well be drilled as a horizontal
12 Avalon Shale test being a member of the Bone Springs
13 Formation.

14 Q. Now, turn to Exhibit Number 1. Mr. Smith, can you
15 please identify for the examiner what's depicted in this
16 exhibit?

17 A. Exhibit 1 is a picture of, a copy of a map, Section
18 11 centered. I have color coded the east half of Section 11
19 primarily to show that there are two tracts of ownership, the
20 north half northeast being a federal lease, and the south
21 half northeast and southeast being a group of fee minerals,
22 undivided fee minerals.

23 MR. RANKIN: And you will notice, Mr. Examiner, that
24 there are two pages to this exhibit, the second page is copy
25 of the C-102 for your information showing the footages.

1 Q. Is that correct?

2 A. That's correct, showing the well surface location
3 penetration point and terminus are all orthodox.

4 Q. So there is nothing unorthodox or non-standard about
5 any of the locations of this well?

6 A. That's correct.

7 Q. Mr. Smith, what does Mewbourne's application
8 development plan require from the Division?

9 A. The creation of a non-standard 160-acre spacing and
10 proration unit and project area covering the west half east
11 half of Section 11.

12 EXAMINER EZEANYIM: Mr. Rankin, I'm trying to get to
13 the center point from this C-102. Let's get to the well -- I
14 can see it, but where is your entry point on the Bone
15 Springs?

16 THE WITNESS: It will be about 590 feet south of
17 the -- of the surface location along that drill path. I'm
18 sorry it's not marked on there, but it's -- it will be within
19 the project area at an orthodox location.

20 EXAMINER EZEANYIM: Okay. I see the kind of surface
21 area there, but that's fine, we are not presenting the
22 surface. Can you tell me the location of the entry point?

23 THE WITNESS: I don't have it calculated, sir. It
24 is -- but it is due south.

25 EXAMINER EZEANYIM: Okay. And for what you know, it

1 is standard?

2 THE WITNESS: It is standard.

3 EXAMINER EZEANYIM: Okay.

4 THE WITNESS: All of it is, both surface,
5 penetration point, and terminus are standard location.

6 EXAMINER EZEANYIM: Very good. I will need another
7 C-102. So will you -- I need to get it from you, you send to
8 me through e-mail and mark your entry point --

9 THE WITNESS: We will do that.

10 EXAMINER EZEANYIM: -- the surface location on that.
11 I'm not requiring to -- because it's doesn't apply now.
12 Okay. So tell me where the entry point, because I can see
13 the surface location is going to be very, very non-standard.

14 MR. RANKIN: The surface location?

15 EXAMINER EZEANYIM: The surface location. I don't
16 know whether -- I don't know whether the surface location is
17 really very standard, yeah?

18 THE WITNESS: Yes, it is. There is nothing
19 non-standard.

20 EXAMINER EZEANYIM: We are concerned with the
21 surface location of the entry point.

22 THE WITNESS: Right. I will get you a corrected
23 C-102 today.

24 EXAMINER EZEANYIM: Okay.

25 Q. Mr. Smith, now you are also looking to pool all the

1 mineral interest owners. Will you explain to the Examiner
2 which mineral interests you are interested in pooling.

3 A. Just the mineral interest in the Bone Springs
4 Formation underlying the proposed project area.

5 Q. You will also be looking to designate Mewbourne Oil
6 Company as the operator?

7 A. That is correct. That is correct. And also like
8 you to consider the cost of drilling and completing the well,
9 and to allocate the cost among the working interest owners,
10 and to authorize us to recover the drilling costs pursuant to
11 the COPAS accounting procedures, and we would also seek to
12 have a 200 percent charge for the risk involved in drilling
13 and completing the well in the event the working interest do
14 not participate.

15 Q. Mr. Smith, can you please turn to what's been marked
16 as Mewbourne Exhibit Number 2?

17 A. Yes, sir.

18 Q. Is this a sample letter of the notice letters that
19 Mewbourne Oil Company sent to interest owners?

20 A. It is. It is representative of the letter that went
21 out to all potential participants.

22 Q. What was included in that letter packet?

23 A. What was included was an AFE with well cost
24 estimates, along with a JOA proposing the working interest
25 owner.

1 Q. Looking at the AFE, Mr. Smith, on the last page of
2 that exhibit, are these costs that are identified in line
3 with -- with what Mewbourne has incurred to drill similar
4 horizontal wells in the Avalon Shale and Bone Spring?

5 A. Yes, sir, they are.

6 Q. How many wells have Mewbourne drilled in the Avalon
7 Shale?

8 A. We have drilled five total Avalon Shale wells, and
9 perhaps 25 to 30 Bone Spring horizontal wells, so a total of
10 30 plus wells in the Bone Spring horizontal.

11 Q. And have you estimated the overhead and costs while
12 drilling this well and also the cost of producing?

13 A. Yes, we have estimated it at 7,500 drilling and 750
14 producing.

15 Q. Do you recommend that these figures be incorporated
16 into any order that results from here?

17 A. We do.

18 EXAMINER EZEANYIM: Can you give me -- can you give
19 the overhead?

20 THE WITNESS: Yes, I can. 7,500 for drilling, and
21 750 for producing wells.

22 Q. You recommend these be incorporated in the order?

23 A. I do.

24 Q. Does Mewbourne request that these overhead
25 administrative costs be adjusted in accordance with COPAS

1 accounting procedures?

2 A. I do.

3 Q. Does Mewbourne request a 200 percent risk penalty if
4 any of the working interest does not voluntarily pool?

5 A. Yes, we do.

6 Q. Mr. Smith, please turn to Exhibit Number 3. What
7 does Exhibit Number 3 depict?

8 A. It is a breakdown of the ownership of the two tracts
9 that are depicted on the plat previously provided. It shows
10 that Tract 1, being the surface location of -- of the
11 proposed well is a federal lease, and that the remainder of
12 the project area being the southwest northeast and west half
13 southeast is a fee tract with multiple fee owners and
14 multiple lease owners.

15 Q. These are all the lease -- the interest owners that
16 you've noticed. Is that correct?

17 A. That's correct.

18 Q. And were you able to locate all interest owners?

19 A. We were able to mail out and receive green cards
20 back from all participants.

21 Q. Now, have you undertaken good-faith efforts to
22 negotiate with these interest owners?

23 A. We have had extensive discussions with all parties
24 with the exception of Catherine Ann Foley, the last person on
25 the list, and we do expect to reach voluntary agreement with

1 all parties. Ms. Catherine Ann Foley, being the last party,
2 has not responded to our written proposals, and our efforts
3 to contact her by phone have not been successful.

4 Q. So have any interest owners objected to or opposed?

5 A. None. No one has objected, and no one has -- the
6 indications are, from all parties, we are going to arrive at
7 an agreement with everyone except for Ms. Foley, and I
8 would -- as soon as we do, we'll send the Division notice of
9 that -- of that agreement and dismiss all the parties that
10 have.

11 Q. Okay. Mr. Smith, just looking back at Exhibit
12 Number 1, there are a number of offsetting interests --

13 A. Correct.

14 Q. -- adjacent to the proposed non-standard spacing
15 unit. Now, did you identify and provide notice to all
16 interest owners in the 40-acre offsets?

17 A. I have provided counsel with the identities, and
18 counsel provided us --

19 Q. Is that what is identified as Exhibit Number 4, is
20 that your attorney's affidavit --

21 A. Yes, it is. Thank you.

22 Q. -- that we had noticed all the offsetting interests
23 of the application?

24 A. Yes, sir. That is the affidavit and notice.

25 MR. RANKIN: Mr. Examiner, if you turn to Exhibit

1 Number 4, on subsequent pages you will see that the letters
2 that we provided to both offsetting and interest owners of
3 the application, along with the green cards.

4 EXAMINER EZEANYIM: Okay.

5 Q. Also included in that Exhibit Number 4, Mr. Smith,
6 is there an affidavit of publication from the Artesia Daily
7 Press?

8 A. There is.

9 Q. And that indicates that notice of this hearing was
10 published?

11 A. That's correct.

12 EXAMINER EZEANYIM: Do you have any unlocatable
13 interest owner?

14 THE WITNESS: None other than Ms. Foley who has just
15 been nonresponsive.

16 EXAMINER EZEANYIM: You decided to put it in the
17 newspaper?

18 THE WITNESS: Correct.

19 Q. Mr. Smith, in your opinion, will the granting of
20 Mewbourne's application be in the best interest of
21 conservation, prevention of waste and the protection of
22 correlative rights?

23 A. I do.

24 Q. Do you have any leases that will soon be expiring
25 requiring an expedited order in this matter?

1 A. Yes, we do. I would again point Mr. Examiner to
2 Tract 1 being the north half northeast of Section 11. That
3 is a federal lease that we are taking out a farm-out from
4 Chesapeake, and it has an expiration date of December 1 of
5 this year, and we really kind of sped this application up
6 to -- in an effort to get a well drilled and save that lease,
7 so we would ask for an expedited order, if possible.

8 Q. Okay. Mr. Smith, were Mewbourne's Exhibits 1
9 through 4 prepared by you or compiled under your direction
10 and supervision?

11 A. They were.

12 MR. RANKIN: Mr. Examiner, I move to admit Exhibits
13 1 through 4.

14 EXAMINER EZEANYIM: Exhibits 1 through 4 will be
15 admitted.

16 (Exhibits 1 through 4 admitted.)

17 MR. RANKIN: Mr. Examiner, I would like to call my
18 next witness.

19 EXAMINER EZEANYIM: I have some questions. You are
20 going to give me the C-102?

21 THE WITNESS: I will, yes, and I will try to get it
22 e-mailed to you today.

23 EXAMINER EZEANYIM: Okay. Your next witness is
24 going to be an engineer?

25 MR. RANKIN: Geologist.

1 EXAMINER EZEANYIM: Okay. Maybe -- okay. That's
2 the wrong person when I asked the other person. Did you, in
3 those 160 areas, are there any wells producing from the Bone
4 Springs?

5 THE WITNESS: There are no producing Bone Spring
6 wells within the proposed project area.

7 EXAMINER EZEANYIM: There's a way it can be within
8 the target area, but producing from the target zone, that's
9 no problem, but I'm concerned about the Bone Spring, which is
10 your target, right?

11 THE WITNESS: Yes, it is.

12 EXAMINER EZEANYIM: There is no well producing from
13 the Bone Spring in that project area?

14 THE WITNESS: That's correct.

15 EXAMINER EZEANYIM: Why do you withdraw the -- your
16 other application? You don't want to drill in the east half?

17 THE WITNESS: We withdrew the east half. Again, it
18 goes back to the trade or the farm-out we secured from
19 Chesapeake. It came to us with very short notice. We
20 weren't sure that we could get an APD approved from the BLM
21 in a timely fashion. They had an APD pending for that east
22 half east half. It was not our desired well. We quickly
23 permitted a well in the west half east half mainly to make
24 sure that we could get a well physically on the federal lease
25 so that operations conducted on the federal lease would save

1 it from expiring without the necessity of a unitization
2 agreement.

3 EXAMINER EZEANYIM: So you are going to drill the
4 other well sometime?

5 THE WITNESS: At some point in time. We have an
6 approved -- we did receive an approved APD from the BLM for
7 the Number 2 H, and that being our preferred location, that's
8 the well we are going to drill now, and at some point if we
9 decide to drill the offset, we will re-propose it and start
10 over.

11 EXAMINER EZEANYIM: Very good. Nothing further.

12 MR. RANKIN: Thank you, Mr. Examiner. Now I call my
13 next witness.

14 ROGER TOWNSEND

15 (Sworn, testified as follows:)

16 DIRECT EXAMINATION

17 BY MR. RANKIN:

18 Q. Mr. Townsend, for the record, can you please state
19 your name and your occupation and by whom you are employed?

20 A. Yes. My name is Roger Townsend. I'm a petroleum
21 geologist and I work for Mewbourne in our Midland office in
22 Texas.

23 Q. Thank you, Mr. Townsend. Have you previously
24 testified before the Division?

25 A. I have not.

1 Q. Mr. Townsend, looking at Exhibit Number 5, does this
2 represent your summary of your education and work experience?

3 A. Yes, it does.

4 Q. Can you please briefly run through your education
5 and work experience for Mr. Examiner?

6 A. Yes, sir. I got my bachelor of science degree in
7 geology from the University of Southern Mississippi in 1983,
8 and then a master's degree in geology in 1986 from Northeast
9 Louisiana University.

10 I started my career as a petroleum geologist in the
11 Permian Basin, worked with several different companies there,
12 TXO, Sage, Matador Petroleum. Worked there from 1985 to 1995
13 and then moved and worked with Spooner Petroleum in
14 Mississippi on the Mississippi Salt Basin from 1995 to 2001
15 as a petroleum geologist and part of the time as a
16 consultant, and then moved back to Midland and worked the
17 Permian Basin again starting in 2001 to the present.

18 I am also affiliated with various geological
19 associations. I have my Texas Geological Professional
20 license. I have been a member of AAPG since 1983, and I am
21 currently a member of the West Texas Geological Society.

22 Q. You have about ten years of experience in Southeast
23 New Mexico, is that correct?

24 A. Yes.

25 Q. Mr. Townsend, are you familiar with the application

1 filed in this case?

2 A. Yes.

3 Q. Have you conducted a study of the lands that are the
4 subject of this application?

5 A. Yes.

6 MR. RANKIN: Mr. Examiner, I would like to tender
7 Mr. Townsend as an expert geologist.

8 EXAMINER EZEANYIM: He is so qualified.

9 MR. RANKIN: Thank you.

10 Q. Mr. Townsend, if you please turn to Exhibit Number
11 6. Can you please orient the Examiner, tell him what the map
12 depicts?

13 A. Yes, sir. Exhibit Number 6 is a production index
14 map, and it covers Southeast New Mexico and parts of West
15 Texas. You will note that there is a dark black line going
16 across the middle of it. That's the Texas-New Mexico state
17 line, and you will notice right above that line there is a
18 shaded box, and that box represents the area that we are
19 discussing for this project area. You will also notice that
20 there is a purple dashed line depicting the Delaware Basin,
21 indicating that this area is in the Delaware Basin, and also
22 kind of a north south reddish-orange line that is a county
23 line between Eddy and Lea Counties, New Mexico. So we are in
24 the very southern part of Eddy County, and the blue horseshoe
25 shaped line is what I have identified as the approximate

1 limits of the Avalon Shale potential area.

2 And then also the blotching of colorings on there
3 are various productive intervals. The yellow depicts Permian
4 production. The blue depicts Pennsylvanian production and
5 then the red and green represents deeper zones being
6 Silurian, Devonian.

7 Q. Mr. Townsend, turning now to Exhibit Number 7, can
8 you explain for the Examiner what this map depicts?

9 A. Yes, sir. On Exhibit 7 this is a structural contour
10 map. It's on a 1 to 2000 scale, so that one inch equals 2000
11 feet. The area we are interested in is outlined in blue
12 around Section 11. Also you will notice there is a legend on
13 the bottom left so that the wells that have diamonds around
14 them, the red diamonds are wells that penetrate the Bone
15 Spring Formation. And then there is a color coding of
16 production so that you will see the dark blue wells are
17 Permian producers, mostly Delaware, and then the green wells
18 are actually specified as Delaware producers. The light blue
19 wells are wells that produce from the Bone Spring Formation,
20 and the purple wells are wells from the Pennsylvanian
21 formation.

22 And so from that you will see that I've only got
23 four wells within this mapped area that penetrate the Bone
24 Spring Formation and has logs available where I could pick
25 the top of the Bone Spring Formation, and those wells have

1 the numbers above them. Those are Sub C elevation values.

2 And then using those wells I was able to draw a
3 contour map on a contour interval of 100 feet, and it
4 indicates that the structure in this area is very simple,
5 dipping to the east, being, you know, about 3200 feet Sub C
6 on the west side and about 3400 feet on the east side. I did
7 not identify anything as far as faults or closed structures
8 or pinch-outs in this area.

9 Q. So just to reiterate that the structure across the
10 section is you expect to be fairly predictable and consistent
11 throughout?

12 A. Yes, sir.

13 Q. Mr. Townsend, can you explain what is depicted in H
14 to H Prime on this map?

15 A. Yes, sir. H to H Prime is a cross-section that I
16 constructed to get a -- a log representation of the
17 formations, the zones within the Bone Spring that we are
18 targeting. And that would really move us into the next
19 exhibit if we are ready to go there.

20 Q. Yeah, I think so. Just to point out, the reason why
21 you didn't select those two wells in the Section Number 2 and
22 Section Number 1 is because, as you mentioned before, you
23 didn't have data from those wells to depict the Avalon. Is
24 that correct?

25 A. That is correct. And also the well in Section 3, it

1 only penetrates the top of the Bone Spring Formation so I
2 could get a structural data point, but it did not drill into
3 the Avalon interval, so I'm not able to get any Avalon data
4 from it.

5 Q. Turn then to Exhibit Number 8, which is the cross-
6 section map.

7 A. On Exhibit Number 8, this is a cross-section of
8 those three wells. These are all of the wells on the map
9 that have logs that are available that penetrate this Avalon
10 Shale interval. And the first thing to note is down at the
11 bottom there is an index map there to see again where this
12 cross-section of the three wells it is using.

13 On this cross-section, it's on a two-and-a-half inch
14 scale vertically, so that 100 feet on the log is
15 two-and-a-half inches on the cross-section. It's hung
16 stratigraphically on the top of the Bone Spring Formation,
17 which is, at the top of the cross-section, that blue line
18 running horizontal across there.

19 And then if you look from there all the way to the
20 bottom of the cross-section there is an orange line, which is
21 the First Bone Spring Sand. And the interval between the top
22 of the Bone Spring Formation and top of the First Bone Spring
23 Sand is what we have identified as the Avalon Interval, Gross
24 Interval.

25 And then within that Gross Interval, you will see

1 that I have two lines going across. The red line is what I
2 have identified as the top of the middle Avalon Shale marker.
3 And the brown line is what I have identified as the lower
4 Avalon Shale marker.

5 In other areas as you move away from this specific
6 area, there is more separation between the two, but for these
7 purposes, the brown line is just a correlation marker to kind
8 of keep us in track with what zones correlate across there.
9 You will also see that I have shaded in red what I view as or
10 what's actually calculated for isopach values that we'll talk
11 about when I get to the isopach map, but that is a 10 percent
12 porosity cutoff line using the density porosity. And you
13 will see that the reason I have done that is that all of that
14 in red is what I would identify as having Avalon Shale
15 potential production.

16 Q. Mr. Townsend, can you explain for the Examiner what
17 is depicted in the yellow boxes on each of these --

18 A. Yes, sir. And if you -- if you look at those yellow
19 boxes and also at the index map, you will see that, for
20 example, the first well on the cross-section, that location,
21 10-G, there is an Avalon Shale producer south of it in the
22 south half of the south half of Section 10, and the box
23 represents approximately where that horizontal well drilled
24 its horizontal for the Avalon that would correlate to this
25 closest well to it.

1 And then I have done the same thing at 2-G where the
2 well in the south half of the south half of Section 2, their
3 TVD is at about 6850 feet, and it's marked with that green
4 arrow. That's approximately where it would correlate to be
5 in this well in Section 2.

6 And then the last well in the cross-section 12-A is
7 in close proximity to the horizontal well in the south half
8 of the south half of Section 1 where that well went
9 horizontal with a TVD at about 7005 feet. All this does is
10 to help us recognize where other operators have targeted
11 their horizontal wells in this area.

12 Q. Mr. Townsend, by using this map, you are able to
13 create an isopach. Is that correct?

14 A. Yes. Yes, sir. What I have done is simply within
15 this interval from the middle Avalon Shale marker to the top
16 of the First Bone Spring Sand, I have summed up all of the
17 density porosity that is greater than 10 percent and used
18 those values to put on the map that would be the next
19 exhibit, Exhibit 9. Are we ready to go to that?

20 Q. Yup, sounds good.

21 A. Okay.

22 Q. Mr. Townsend, explain for us and the Examiner what
23 it is that you depicted on Exhibit 9.

24 A. Yes, sir. Exhibit 9, as far as all of the other
25 color codes and things, it's the same as the structure map,

1 which was Exhibit 7. And what I have done here is I have
2 drawn contours, mapping the thickness of that isopach value
3 for the three wells where I have a penetration through the
4 entire interval of the Avalon Shale. And in doing that, what
5 I'm seeing is that my thinnest well is about 383 feet, and my
6 thickest well is about 426 feet, and I see no reason to -- to
7 change those thicknesses across our project area to any great
8 degree. It seems to be very straightforward and consistent
9 across the area.

10 Q. So based on your analysis and data you collected,
11 what are your conclusions for the proposed area?

12 A. At the proposed area, from a structural standpoint
13 there, it seems to be very continuous, as well as from a zone
14 thickness standpoint, it seems to also be very continuous
15 across this area.

16 Q. So based on your analysis, is it your opinion that
17 each of the quarter-quarter sections in the proposed project
18 area will contribute production to the well, to the proposed
19 well?

20 A. Yes.

21 Q. Is it possible, in your opinion, to apportion
22 production on a straight-acreage basis?

23 A. That's correct.

24 EXAMINER EZEANYIM: Okay. Before you go, I think I
25 get what you are saying. So based on this analysis, that's

1 why you want to go north south?

2 THE WITNESS: Yes, sir.

3 EXAMINER EZEANYIM: Yeah, because that's -- that is
4 what you are trying to show me here, that, you know, is one
5 of the questions I'm going to ask you, but if I look at your,
6 you know, contour and everything, that's what you are trying
7 to show that the orientation is to go north south. That's
8 what you are recommending, right?

9 THE WITNESS: We are recommending go north south,
10 yes, sir.

11 EXAMINER EZEANYIM: Why are you hesitating?

12 THE WITNESS: I'm sorry?

13 EXAMINER EZEANYIM: You are hesitating to answer the
14 question.

15 THE WITNESS: Because I wasn't sure if you wanted me
16 to go into any more explanation.

17 EXAMINER EZEANYIM: I understand what you said. I
18 just wanted to confront it.

19 Q. Mr. Townsend, one last question. In your opinion,
20 will granting Mewbourne's application of this horizontal well
21 project area be in the best interest of conservation,
22 prevention of waste, protection of correlative rights?

23 A. Yes, sir.

24 MR. RANKIN: Mr. Examiner, I pass the witness to
25 you.

1 EXAMINER EZEANYIM: Thank you. Are you going to
2 admit these exhibits?

3 MR. RANKIN: Yes, please. Mr. Examiner, I move to
4 admit Exhibits 5 through 9.

5 EXAMINER EZEANYIM: Exhibits 5 through 9 will be
6 admitted.

7 (Exhibits 5 through 9 admitted.)

8 EXAMINER EZEANYIM: Okay. You may have answered
9 some of the questions I have here. This well is being
10 proposed, right?

11 MR. RANKIN: Yes.

12 EXAMINER EZEANYIM: Have you gotten an APD for that?

13 MR. RANKIN: Yes. I believe Mr. Smith testified
14 that we have gotten an approved APD for the 2 H Well.

15 EXAMINER EZEANYIM: You did. I forgot, is that a
16 federal well, or --

17 MR. SMITH: It's a fed com.

18 EXAMINER EZEANYIM: It's a fed com, okay. But you
19 got an APD?

20 MR. RANKIN: Yeah.

21 EXAMINER EZEANYIM: Any API number?

22 MR. SMITH: Not yet.

23 EXAMINER EZEANYIM: No problem. If I can get it, if
24 not, we will get it, and then I will get it from our
25 database. Okay. Good. Did we go through the AFE?

1 MR. RANKIN: Yeah, we did.

2 EXAMINER EZEANYIM: Okay. Now, you didn't locate
3 every interest owner?

4 MR. RANKIN: We got all green cards back.

5 EXAMINER EZEANYIM: You did. And so then we don't
6 need to do any -- we have done the escrows because you got
7 everybody?

8 MR. RANKIN: That's correct.

9 EXAMINER EZEANYIM: So you said you're lease is
10 expiring December 1. You wanted to have your order before
11 then, right?

12 MR. RANKIN: That's correct, an expedited order.

13 EXAMINER EZEANYIM: Okay. You be may be excused.

14 THE WITNESS: Thank you, sir.

15 MR. RANKIN: Mr. Examiner, we rest.

16 EXAMINER EZEANYIM: At this point Case Number 14750
17 will be taken under advisement.

18 * * * * *

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21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
the Examiner hearing of Case No. 14750
heard by me on 10/27/11

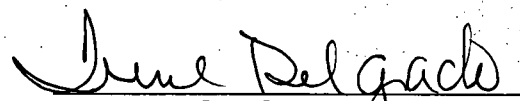
23
24  Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, IRENE DELGADO, New Mexico CCR 253, DO HEREBY
CERTIFY THAT ON October 27, 2011, proceedings in the
above-captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set forth
herein, and the foregoing pages are a true and correct
transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by nor
related to nor contracted with any of the parties or
attorneys in this case and that I have no interest whatsoever
in the final disposition of this case in any court.

WITNESS MY HAND this _____ day of November
2011.


Irene Delgado, CCR 253
Expires: 12-31-2011