

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 NO. 14809

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 13-12

BEFORE: RICHARD EZEANYIM, Hearing Officer
DAVID K. BROOKS, Legal Examiner

APRIL 26, 2012

10:43 AM

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,
on THURSDAY, APRIL 26, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
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500 Fourth Street, NW, Suite 105
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A P P E A R A N C E S

For Mewbourne Oil Company:

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NATE CLESS

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CERTIFICATE OF COMPLETION OF HEARING

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7. Affidavit of Notice

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15. Production Data Table

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16. Map

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1 MR. EXAMINER: The next case on the docket I
2 call is case number 14809, and this is the application
3 of the Mewbourne Oil Company for approval of a
4 non-standard oil spacing and proration unit and
5 compulsory pooling in Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the applicant. I have two
9 witnesses, Mr. Mitchell and Mr. Cless, and if the record
10 could reflect that they were sworn and qualified.

11 MR. EXAMINER: Thank you very much. Any
12 other appearances?

13 Before you go, Mr. Bruce, in the interest of time
14 here, I need to get some facts out. I have a question,
15 when you are pooling one 40-acre and the whole section,
16 because I have an issue that we don't know how we want
17 to deal with this. Here, I think it is from the
18 southwest to the northeast to the northwest quarter and
19 then along the 160. Are you still asking for those too
20 in your composite order?

21 If you want to do that, that's fine. Then it
22 will depend on what we find. If you look at the docket
23 you are asking for two things; one is to pool that
24 northeast, northwest corner and then you are going to
25 pool the east half or west half. So I want to clarify

1 that.

2 MR. BRUCE: Mr. Examiner, I will clarify
3 that with Mr. Mitchell, but I believe that some of the
4 parties being pooled do own in the drill site tract.

5 MR. MITCHELL: Yes.

6 MR. BRUCE: And so just in case in the
7 future Mewbourne completes uphole in the vertical
8 portion of the wellbore, we are asking in this case only
9 that we pool the 40 acres where the vertical wellbore is
10 and then --

11 MR. EXAMINER: You want to do that? That's
12 not your objective right now?

13 MR. BRUCE: That's not --

14 MR. EXAMINER: Continue to pool the project
15 area.

16 MR. BRUCE: Yes, just so in the future just
17 in case something uphole, there is some perspectives on
18 uphole, we don't have to come back and pool it again
19 somewhere down the road.

20 MR. EXAMINER: Well, does that work?

21 EXAMINER BROOKS: Well, it works. And, I
22 mean, in a sense it would probably be better if we're
23 going to do that to put a provision as to cost
24 allocation. And I would think if they have no
25 particular uphole objective at this time that the fair

1 and reasonable way to do it would be that the parties
2 would share in the entire cost of drilling on the basis
3 of their ownership in the section where the lateral is
4 to be, in the depth where the lateral is to be drilled.
5 And they provide that the only costs that would ever be
6 shared on the basis of ownership in the drill site tract
7 would be the cost of completion in any uphole shown.

8 MR. BRUCE: And I would agree with that.

9 MR. EXAMINER: Okay, that is the case, I
10 understand what you're saying. I want you to draft that
11 language, draft this language, and I will allow you to
12 let me look at it.

13 MR. BRUCE: Okay. I will draft something
14 up.

15 MR. EXAMINER: Do you see what I'm asking?

16 MR. BRUCE: Yes, sir.

17 MR. EXAMINER: Okay, do that. Go ahead. So
18 that way you don't have to ask questions anymore. Now
19 we have settled that.

20 MR. BRUCE: Thank you, Mr. Examiner.

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1 COREY MITCHELL

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Mitchell, identify Exhibit 1, describe the
7 well unit and the name of the well.

8 A. Exhibit 1 is a Midland Map Company land plat
9 showing township 23 south, range 28 east. Our
10 particular proration unit for the Layla 35 Fee Com
11 Number 2H is highlighted, being the east half, west half
12 of section 35.

13 Q. What is Exhibit 2?

14 A. Exhibit 2 is the cover of a title opinion that we
15 had rendered which sets out all the multiple tracts
16 involved in this land. It's very cut up. And the other
17 part of Exhibit 2 is a plat which shows where those
18 tracts are in relation to the section.

19 Q. Is it fair to say that title is pretty
20 complicated in this well?

21 A. The title is very complicated.

22 Q. What is Exhibit 3?

23 MR. EXAMINER: If it's complicated what do
24 we do about it?

25 MR. BRUCE: I'll have Mr. Mitchell describe

1 the basic problem in just a couple of minutes,
2 Mr. Examiner.

3 A. Exhibit 3 is the tract ownership for the
4 respective tracts listed out on Exhibit 2, which are
5 parties of the well.

6 Q. (By Mr. Bruce) Okay. Now, right at the very
7 bottom you have unleased owners, 3.6 percent. Is that
8 where the title issue comes in?

9 A. Yes, sir.

10 Q. And that is in tract 9 as reflected on Exhibit 2?

11 A. Yes, sir.

12 Q. And let's move on to Exhibit 4. Could you
13 discuss what this reflects, and for the Examiner just
14 kind of highlight the title difficulties regarding this
15 particular interest.

16 A. Exhibit 4 is a list of all the parties that are
17 unleased that may claim an interest as to 12.6 over 350
18 of a -- 350 is of a mineral interest in the east half
19 southwest quarter, this being 1.8 percent interest in
20 our proposed well or 2.88 net acres. Now, the problem
21 occurs back in the '70s where there was -- over a span
22 of 15 years there was litigation, stipulation of
23 interest, overconveyances that completely confused
24 title. There's no way -- we have a title opinion
25 rendered by a certified title examiner and he cannot

1 come up with the ownership for each individual. But yet
2 he can only come up with the people that may claim an
3 interest. They've tried to resolve this issue before
4 but have just further complicated it by erroneous land
5 descriptions and wrong interests listed.

6 Q. And people conveying more than they owned?

7 A. Correct.

8 Q. And as a result these are people who may claim an
9 interest in this particular 2.88 net acres?

10 A. Yes, sir.

11 Q. And the title examiner could not determine what,
12 if any, interest each of them owns or could own?

13 A. Correct, due to all the overconveyances and
14 erroneous described instruments.

15 Q. And are these the parties that Mewbourne seeks to
16 force pool in this well unit?

17 A. Yes, sir.

18 Q. What is Exhibit 5?

19 A. Exhibit 5 is a summary of communication with
20 these parties as well as copies of correspondence.

21 Q. And these parties were provided with an AFE
22 whether or not they might own an interest?

23 A. Correct. Yes, sir.

24 Q. And I noticed the title opinion was dated about a
25 year ago. So Mewbourne has been working on this for

1 quite some time?

2 A. Yes, sir.

3 Q. In your opinion has Mewbourne made a good faith
4 effort to obtain the voluntary joinder of the interest
5 owners in the well?

6 A. Yes, sir.

7 Q. And if people couldn't be located, what types --
8 and we'll get into that in a minute. What types of
9 searches were made to locate all of these people?

10 A. We've done computer searches, county searches,
11 and again we've talked with other parties in this
12 property.

13 Q. Okay. In your opinion have you made a good faith
14 effort to identify the locations and the names of all
15 possible claimants to this small interest?

16 A. Yes, sir.

17 Q. Would you identify Exhibit 6 and discuss the cost
18 of the proposed well?

19 A. Exhibit 6 is our AFE which lists our estimated
20 well costs for this well. We have a dry hole estimated
21 cost of 2,439,900 and a completed cost of 4,631,400.

22 Q. And are these costs in line with the cost of
23 horizontal Bone Spring wells drilled in this area of
24 New Mexico?

25 A. Yes, sir.

1 Q. And do you request that Mewbourne be named
2 operator of the well?

3 A. Yes, sir.

4 Q. Do you have a recommendation for the amounts
5 which Mewbourne should be paid for supervision and
6 administrative costs?

7 A. We would recommend 7,000 a month for drilling and
8 700 a month for producing.

9 Q. And are these costs in line with the costs of
10 other operators in this area of New Mexico for wells of
11 this depth?

12 A. Yes, sir.

13 Q. Was written notice given to the people to whom
14 you had valid addresses?

15 A. Yes, sir.

16 Q. Let's go through the notice a little bit,
17 Mr. Mitchell. Right at the back of the notice is a
18 letter to Helen Beeman, which was a subsequent notice
19 after the first letter was returned. What is her status
20 in the well?

21 A. She has deeded her interest to her brother, which
22 we have worked a deal with. So she will --

23 Q. She doesn't need to be pooled?

24 A. That is correct.

25 Q. Going back another page, Mr. Examiner, there's a

1 letter returned from John Edward Hall. Was this the
2 best address you could locate for Mr. Hall?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, since it was
5 returned, Exhibit 8 is the notice published in the
6 Carlsbad Newspaper against Mr. Hall. And then,
7 Mr. Examiner, if you go through these others, there are
8 unclaimed notices, there are four or five unclaimed
9 notices.

10 Q. (By Mr. Bruce) Again, as to the unclaimed
11 notices who are Panagotia Panagopoulos, Bertha Lorene
12 Osborn, Virginia Lee Davis, and Mary Joe Dickerson, are
13 these the best addresses you could locate for these
14 people?

15 A. Yes, sir, they are.

16 Q. And have you mailed proposals to these people?

17 A. Yes, sir.

18 Q. And were they returned to you?

19 A. Yes, sir.

20 Q. Were they returned or not claimed?

21 A. Not claimed.

22 MR. BRUCE: Mr. Examiner, I did publish
23 notice as against certain of these people where the post
24 office said it was undeliverable. And that publication
25 will not be completed until May 10th, so I would ask

1 that this case be completed until May 10th so that I
2 could produce the --

3 EXAMINER BROOKS: Be continued.

4 MR. BRUCE: Be continued to May 10th so that
5 I can submit another publication notice.

6 MR. EXAMINER: Okay.

7 Q. (By Mr. Bruce) And what is Exhibit 9,
8 Mr. Mitchell?

9 A. Exhibit 9 is a list of the offset ownership of
10 section 35.

11 Q. And was notice of the application sent to all of
12 the offset operators or working interest owners?

13 A. Yes, sir, it was.

14 Q. And is that reflected in Exhibit 10?

15 A. Yes, sir.

16 Q. Were Exhibits 1 through 10 prepared by you or
17 under your supervision or compiled from company business
18 records?

19 A. Yes, sir.

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. Yes, sir.

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

1 MR. EXAMINER: Exhibits 1 through 10 will be
2 admitted.

3 [Exhibits 1 through 10 admitted.]

4 MR. BRUCE: And I have no further questions
5 of the witness.

6 MR. EXAMINER: Thank you.

7 EXAMINER BROOKS: No questions.

8 MR. EXAMINER: Well, this case will be
9 continued, right, to May 10?

10 MR. BRUCE: That is correct.

11 MR. EXAMINER: And on May 10, what are you
12 going to be doing on May 10?

13 MR. BRUCE: I will submit an affidavit of
14 publication in the Carlsbad Newspaper as against certain
15 owners who apparently were not locatable.

16 MR. EXAMINER: Very good. And we'll have to
17 do that then. Case number 14809 will be continued to
18 May 10th.

19 MR. BRUCE: Although, Mr. Examiner, we do
20 have a geologist.

21 MR. EXAMINER: Do we want to complete the
22 hearing today or complete it on the -- because I'm not
23 going to take it under advisement.

24 EXAMINER BROOKS: Well, if he has the
25 geologist here today there's no point in making the

1 geologist come back.

2 MR. EXAMINER: Okay, go ahead.

3 MR. BRUCE: If anybody would have to come
4 back it would have to be Mr. Mitchell and not the
5 geologist, I believe.

6 MR. EXAMINER: Okay, very good. Let's hear
7 from the geologist then. Is that the same geologist?

8 MR. BRUCE: Yes, sir.

9 NATE CLESS

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

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Mr. Cless, could you identify Exhibit 11 and
15 discuss the primary zone of interest for this well?

16 A. Exhibit 11 is a production map of the immediate
17 area of the proposed well. On here I have -- there are
18 no horizontal wells that have been drilled in this
19 immediate area, so we have a lot of vertical wells that
20 have been drilled. And I've identified what these
21 vertical wells produce out of. The Bone Spring is
22 colored in blue, so all the vertical wells that have a
23 blue pie on them produced out of the Bone Spring.

24 You can see that there's Bone Spring productions
25 in sections 27, 26, 25, 34, 36, and section 3. So there

1 is Bone Spring production all around our proposed
2 section 35. Now, again, the Bone Spring interval
3 consists of the Avalon shale all the way down to the
4 third Bone Spring sand. In this particular area all
5 these vertical tests produce -- they produce out of the
6 Avalon shale.

7 Q. So this is an Avalon test?

8 A. Yes, sir.

9 Q. And what is Exhibit 12?

10 A. Exhibit 12 is a structure map, and it's a
11 structure on the top of the Bone Spring formation.
12 These are 100-foot contours and it dips to the east.
13 And so, again, you have production pretty much all
14 around our section 35 that has Bone Spring production
15 both up dip and down dip from us. So we believe that
16 structurally this area will be productive as well.

17 Q. What is Exhibit 13?

18 A. Exhibit 13 is an isopach map of what we're
19 calling the middle Avalon shale. You can see on this
20 exhibit -- you can see on this exhibit that there's a
21 thick that runs north/south through section 35, which is
22 why we believe that a north/south orientation of this
23 horizontal well is necessary in order to maximize --

24 MR. EXAMINER: Repeat that, please.

25 MR. CLESS: Well, because there is a

1 north/south trend going through section 35 in the
2 thickest part, or there's a north/south thickness going
3 through section 35 we believe that having a north/south
4 horizontal well is the best orientation out here due to
5 the north/south trending nature of this interval.

6 MR. EXAMINER: And, again, you find that
7 there are not many vertical -- I mean horizontal wells.

8 MR. CLESS: There are no horizontal wells in
9 this particular area. But, again, we have vertical
10 production out of this interval, so we're assuming that
11 a horizontal well is going to do as good if not better
12 than these vertical wells in this area.

13 Q. (By Mr. Bruce) And in this particular section it
14 appears that the prime location, at least for the
15 initial well, would be the east half, west half?

16 A. It would. We believe that's where the thickest
17 part of this interval is.

18 Q. And is a line of cross section reflected there?

19 A. Yes. And so for my next exhibit I have a
20 four-well horizontal cross section, and you can see the
21 locations of those four wells on this map. It's 8A
22 prime. And so I'm going to mainly focus on the second
23 and third well of this cross section, the two wells that
24 will be going by with our lateral.

25 So when you look at these wells, first off, the

1 very top blue line is the top of the Bone Spring
2 formation. And then the red line below that is what
3 we're calling the top of the middle Avalon shale. The
4 blue line is the top of the Bone Spring and the red line
5 is the top of the middle Avalon shale. And that kind of
6 maroon or brown line is what we're calling the top of
7 the lower Avalon shale. And the interval that we're
8 interested in is the middle Avalon shale. And on the
9 third well I've got a green arrow showing our proposed
10 horizontal landing point.

11 Now, what we made this map on you can see I've
12 highlighted on the -- on all the porosity logs I've
13 highlighted porosity greater than 10 percent within this
14 interval, and that's what we're using to make this map
15 on. And so you can see as you go basically from the
16 second and third well and kind of the upper part of that
17 middle Avalon shale you have a pretty continuous nice,
18 thick shale package through there.

19 Q. The upper part of the Avalon shale is where you
20 propose landing them on?

21 A. Yeah, the upper part of that. We'll call them
22 the middle interval is where we're proposing landing the
23 well.

24 Q. And what does Exhibit 15 reflect?

25 A. Exhibit 15 is another production table of all the

1 Bone Spring producers in this area, in this immediate
2 area.

3 Q. These are all vertical wells?

4 A. These are all vertical wells. Again, I've given
5 the name, the operator, the locations of them, as well
6 as what particular Bone Spring. You can see a majority
7 of them are all going in the Avalon shale. I've also
8 given the production of oil, gas, and water for these
9 particular wells.

10 Q. Is that solely Bone Spring production or would
11 that include Delaware?

12 A. The production listed on here is solely Bone
13 Spring production. To the best of our knowledge it's
14 solely Bone Spring production.

15 Q. So there are some fairly decent vertical --

16 A. There are. There certainly are.

17 Q. And that would lead you to believe that this is a
18 good target for the horizontal well?

19 A. Yes, sir.

20 Q. In your opinion will each quarter, quarter
21 section contribute more or less equally to production
22 from the well?

23 A. Yes, they will.

24 Q. And will your proposed well adequately drain this
25 portion of the Bone Spring Avalon reservoir?

1 A. Yes, sir.

2 Q. What is Exhibit 16?

3 A. Exhibit 16 is a horizontal well plan given to us
4 by our directional drilling company. You can see on the
5 front page of it there's the diagram of our proposed
6 location. Our surface location is 185 feet from the
7 north line and 2150 from the west line. And our landing
8 point will be 757 from the north line, 2150 from the
9 west. So when we land we will be within the legal 330
10 setbacks. And then our bottom hole location is going to
11 be 330 from the south, 2150 from the west. So we will
12 be at the legal producing location there.

13 Q. Were exhibits -- I noticed that several of the
14 exhibits show that the author was Mr. Townsend?

15 A. Yes. I work with Roger Townsend, and both he and
16 I have worked on this together.

17 Q. So you have input into these maps?

18 A. I did, yes, sir.

19 Q. As such, were Exhibits 11 through 16 prepared by
20 you or in collaboration with Mr. Townsend or prepared or
21 compiled from company business records?

22 A. Yes, they were.

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

25 MR. EXAMINER: Exhibits 11 through 16 will

1 be admitted.

2 [Exhibits 11 through 16 admitted.]

3 MR. BRUCE: And I have no further questions
4 of the witness.

5 MR. EXAMINER: Thank you, Mr. Bruce.

6 EXAMINER BROOKS: No questions.

7 MR. EXAMINER: I have to make sure I'm
8 careful that when we start this north/south, those are
9 the correct orientations of the wells. Most of those
10 wells are vertical wells.

11 MR. CLESS: Yeah, all the wells in this
12 immediate area are vertical wells. There is Avalon
13 shale production to the south of us, probably five to
14 ten miles, and they've gone both north/south and
15 east/west in those wells.

16 MR. EXAMINER: But they are in the Avalon.

17 MR. CLESS: What's that?

18 MR. EXAMINER: Are they producing from the
19 Avalon?

20 MR. CLESS: They are also producing from the
21 Avalon shale.

22 MR. EXAMINER: That's all the questions I
23 have for you.

24 Anything further?

25 MR. BRUCE: Nothing further in this matter,

1 Mr. Examiner.

2 MR. EXAMINER: Okay. At this point case
3 number 14809 will be continued to May 10th. At that
4 point it will be taken under advisement after you
5 produce your investigations.

6 [Case 14809 continued.]

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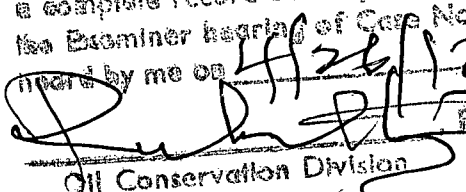
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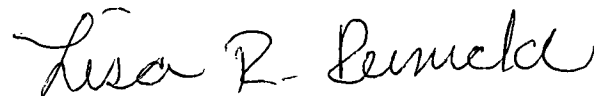
I do hereby certify that the foregoing is
a complete record of the proceedings at
the Examiner hearing of Case No. 14809
heard by me on 4/26/12

Examiner
Oil Conservation Division
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REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, 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 and was reduced to printed form under my direct supervision.

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 whatsoever in the final disposition of this case in any court.



Lisa R. Reinicke,
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Ex count: