

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. 14877

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. 21-12

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

JULY 12, 2012

Santa Fe, New Mexico

9:09 AM

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, JULY 12, 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
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

1 A P P E A R A N C E S

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 12 By: Adam Rankin

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1 MR. EXAMINER: Now we call case number
2 14877, and this is the application of Mewbourne Oil
3 Company for approval of a non-standard oil spacing and
4 proration unit and compulsory pooling, Eddy County,
5 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.

10 MR. RANKIN: Mr. Examiner, Adam Rankin,
11 Holland & Hart of Santa Fe for EOG Resources. I have no
12 witnesses.

13 MR. EXAMINER: Any other appearances? May
14 the witnesses stand up and be sworn. State your name
15 first.

16 MR. MITCHELL: Corey Mitchell.

17 MR. LODGE: Jason Lodge.

18 [Whereupon the witnesses were duly sworn.]

19 COREY MITCHELL

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

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Please state your full name and state of
25 residence for the record.

1 A. Corey Mitchell, and I reside in Midland, Texas.

2 Q. Who do you work for and in what capacity?

3 A. I work for Mewbourne Oil Company as a landman.

4 Q. Have you previously testified before the
5 division?

6 A. Yes, sir.

7 Q. And were your credentials as an expert petroleum
8 landman accepted as a matter of record?

9 A. Yes, sir.

10 Q. And are you familiar with the land matters
11 involved in this case?

12 A. Yes, sir.

13 MR. BRUCE: Mr. Examiner, I'd tender
14 Mr. Mitchell as an expert petroleum landman.

15 MR. EXAMINER: Mr. Mitchell is so qualified.

16 Q. (By Mr. Bruce) Mr. Mitchell, could you identify
17 Exhibit 1 for the Examiner and describe the well that
18 Mewbourne seeks to drill.

19 A. Exhibit 1 is a Midland Map Company land plat,
20 which shows township 20 south, range 25 east. It also
21 shows our proposed spacing unit and well outlined in
22 yellow and red in section 5.

23 Q. Where is the surface location of the well?

24 A. The surface location is 100 foot from the north
25 line and 1670 from the west line of the adjoining

1 section 8. And our bottom hole location is 330 from the
2 north line and 1670 from the west line of section 5.

3 Q. And what is the target zone in this well?

4 A. It is the Yeso formation.

5 Q. What is the working interest ownership in the
6 well? And I refer you to Exhibit 2.

7 A. Exhibit 2 lists our tract ownership for the well.
8 It lists all the parties in the well. And the parties
9 we are seeking to pool are noted with an asterisk.
10 Collectively they are a little bit over 2 percent.

11 Q. What is Exhibit 3?

12 A. Exhibit 3 is our summary of communications with
13 the parties we are seeking to pool. And also attached
14 to that are copies of our correspondence with said
15 parties.

16 MR. BRUCE: And, Mr. Examiner, I would mark
17 the correspondence Exhibit 4.

18 Q. (By Mr. Bruce) Take a step back. Are there a
19 number of unlocateable parties in this?

20 A. There are a few, yes, sir.

21 Q. And let's start off with the first one.

22 Mr. Rankin is here for EOG Resources. In looking at
23 Exhibit 2 on the first page there's Unicon Producing
24 Company. Do they own an interest of record?

25 A. Yes, sir, they do.

1 Q. What could be the relationship between Unicon and
2 EOG?

3 A. We believe the interest of Unicon should have
4 passed to EOG Resources, but we've communicated with
5 them several times prior to this well and they have
6 stated that they do not claim this interest.

7 Q. Now, Unicon, the interest eventually ended up in
8 Meridian and Burlington, correct?

9 A. Yes, sir.

10 Q. As a general matter?

11 A. Yes, sir.

12 Q. And Burlington sold a lot of its Permian Basin
13 assets subsequently to EOG?

14 A. Yes, sir.

15 Q. Is there any instrument of record by which
16 Burlington assigned this acreage to EOG?

17 A. No, sir, there is not.

18 Q. If EOG could prove the title, would you like them
19 as a working interest partner in the well?

20 A. Yes, sir.

21 Q. You mentioned before that Mewbourne has been in
22 touch with EOG before. Was there a well drilled by
23 Mewbourne several years ago in this section?

24 A. Yes, sir. We had drilled a Morrow well. And we
25 were in talks with EOG to see if this interest in fact

1 had gone to EOG. And they were unable to identify the
2 interest as being owned by EOG due to title issues and
3 advised us to pool them at that time.

4 Q. And with respect to this new well, proposed well,
5 did you earlier in the year contact EOG?

6 A. Yes, sir, I did. When we were putting this
7 acreage together for drilling of the shallow wells I
8 contacted EOG and they informed me that they do not
9 claim this interest.

10 Q. Now, with respect to the other interest owners,
11 Exhibit 3 does summarize your contacts with them,
12 correct?

13 A. Yes.

14 Q. At least with the locateable interest owners?

15 A. Yes, sir.

16 Q. You mentioned that there are unlocateable parties
17 which are noted in Exhibit 2. What steps did Mewbourne
18 take to try to locate the interest owners in the well?

19 A. We did county searches, we looked on the
20 Internet, and we also talked to several of the other
21 parties in this property that had a history of or
22 knowledge of who the parties we were unable to locate,
23 who they were. And they have since been unable to keep
24 in touch with them.

25 Q. In your opinion, has Mewbourne made a good faith

1 effort to obtain the voluntary joinder of the interest
2 owners in the well?

3 A. Yes, sir.

4 Q. And has it also made a reasonable effort to
5 locate all of interest owners in the well?

6 A. Yes, sir.

7 Q. What is Exhibit 5?

8 A. Exhibit 5 is the AFE which lists our estimated
9 costs for this well.

10 Q. And what are the completed well costs?

11 A. We have an estimated \$1,122,500 for a dry hole
12 cost, and a completed well cost of \$2,454,900.

13 Q. And is this cost in line with the cost of other
14 wells, horizontal wells, drilled to this depth in this
15 area of the state?

16 A. Yes, sir.

17 Q. And what overhead rates do you propose?

18 A. We are proposing 6,000 a month for drilling and
19 600 a month for producing.

20 Q. Are these amounts equivalent to those normally
21 charged by Mewbourne and other operators in this area
22 for wells of this depth?

23 A. Yes, sir.

24 Q. Do you request that these rates be adjusted
25 periodically under the COPAS accounting procedure?

1 A. Yes, sir.

2 Q. Do you request that Mewbourne Oil Company be
3 named operator of the well?

4 A. Yes, sir.

5 Q. And do you request the maximum cost plus
6 200 percent risk charge if an interest owner goes
7 non-consent in the well?

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, Exhibit 6 is the
10 notice letter sent to the interest owners, those for
11 whom there were addresses. Exhibit 7 is the affidavit
12 of publication as against the unlocateable mineral
13 interest owners.

14 Q. (By Mr. Bruce) Mr. Mitchell, what is Exhibit 8?

15 A. Exhibit 8 lists the offset ownership.

16 Q. And the only other offset operator is Nearburg;
17 is that correct?

18 A. Yes, sir.

19 Q. And were they given notice of this application?

20 A. Yes, sir.

21 Q. And is that reflected in Exhibit 9?

22 A. Yes, sir.

23 Q. Were Exhibits 1 through 9 prepared by you or
24 under your supervision or compiled from company business
25 records?

1 A. Yes, sir.

2 Q. And, in your opinion, is the granting of this
3 application in the interest of conservation and the
4 prevention of waste?

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I'd move the
7 admission of Exhibits 1 through 9.

8 MR. EXAMINER: Exhibits 1 through 9 will be
9 admitted.

10 [Exhibits 1 through 9 admitted.]

11 MR. BRUCE: And I have no further questions
12 of the witness.

13 MR. EXAMINER: Mr. Rankin?

14 MR. RANKIN: Thank you, Mr. Examiner. Just
15 a few questions.

16 CROSS-EXAMINATION

17 BY MR. RANKIN:

18 Q. Mr. Mitchell. EOG was sent notice of this
19 pooling area; is that correct?

20 A. Yes, sir.

21 Q. But EOG was not sent a well proposal or an AFE;
22 is that correct?

23 A. They were not, that's correct.

24 Q. That's because of the title issue that you
25 received; is that correct?

1 A. Correct. Yes, sir.

2 Q. But you also stated that you believe that EOG
3 should have received title, that title should have
4 passed to EOG in this property; is that correct?

5 A. Yes, sir.

6 Q. And the basis of your opinion for your belief
7 that title should have passed to EOG is what? Is it the
8 title opinion; is that correct or --

9 A. It's just the more general matter of the history
10 of the Unicon interest passing through Meridian and into
11 Burlington. And we believe the Permian Basin assets of
12 Burlington should have gone to EOG.

13 Q. But there's no document notice of that
14 conveyance; is that correct?

15 A. No, sir. There's nothing out of Unicon.

16 Q. And that history there, is that indicated in a
17 title opinion that you have acquired or obtained?

18 A. Not on this property. We do have a title
19 opinion, and the interest in the title opinion it
20 remains in Unicon.

21 MR. RANKIN: Thank you, Mr. Examiner. I
22 have no further questions.

23 MR. EXAMINER: Thank you, Mr. Rankin.

24 EXAMINER BROOKS: No questions.

25 MR. EXAMINER: Do you have an API number for

1 this well?

2 MR. MITCHELL: Yes, sir.

38-015-40290

3 MR. EXAMINER: What is it?

4 MR. MITCHELL: It is 30001540290.

5 MR. EXAMINER: Do you know the name of the
6 pool in the Yeso that this well is producing from?

7 MR. MITCHELL: It is the North Seven Rivers
8 Glorieta Yeso. It's pool number 97565.

9 MR. EXAMINER: Can you repeat that?

10 MR. MITCHELL: It's pool number 9 --

11 MR. EXAMINER: No. The name of the pool.

12 MR. MITCHELL: Oh, it's the North Seven
13 Rivers Glorieta Yeso Pool.

14 MR. EXAMINER: And they call this what?

15 MR. MITCHELL: 97565.

16 MR. EXAMINER: Thank you.

17 You have the well construction diagram here, is
18 that going to come from the geologist?

19 MR. BRUCE: The geologist, yes, sir.

20 MR. EXAMINER: Okay. You may be excused.

21 Mr. Bruce, go ahead.

22

23

24

25

1 JASON LODGE

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. Can you please state your name for the record?

7 A. Jason Lodge.

8 Q. And where do you reside?

9 A. Tyler, Texas.

10 Q. Who do you work for and in what capacity?

11 A. Mewbourne Oil Company as a geologist.

12 Q. Have you previously testified before the
13 division?

14 A. Yes, I have.

15 Q. And were your credentials as an expert geologist
16 accepted as a matter of record?

17 A. Yes, they were.

18 Q. And are you familiar with the geology involved in
19 the application?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I'd tender my
22 witness as an expert petroleum geologist.

23 MR. EXAMINER: He is too qualified.

24 Q. (By Mr. Bruce) Mr. Lodge, could you identify
25 Exhibit 10 for the Examiner?

1 A. Yes. Exhibit 10 is my base map just showing the
2 area. I've highlighted the proposed wellbore path for
3 the West Draw 5 NC Well Number 1H in red. The square
4 surface location is circled at the bottom hole location.
5 What's important on this map is the pink bubbles are
6 Yeso producers in the area. All of these wells are
7 Mewbourne wells except for one well. The structure is
8 the top of the Yeso structure. It dips slightly to the
9 east.

10 And then I have my next exhibit cross section
11 outlined, A to A prime.

12 Q. Would you move on to your cross section, please,
13 Exhibit 11.

14 A. A to A prime is showing the target interval, the
15 Yeso. It includes the Glorieta, and the top of the
16 Glorieta is in pink. And then in green is the top of
17 the Yeso. Located the target zone with a red arrow,
18 which is a little bit deeper than we generally drill in
19 the area. It's about 250 feet deeper than previous
20 wells we've drilled. But it's a dolomite. We don't use
21 the nomenclature but it would be equivalent to an upper
22 Blinbry well.

23 Q. And is the Yeso zone you plan to test continuous
24 across the well unit?

25 A. Yes, it is.

1 Q. In your opinion, would each quarter, quarter
2 section in the well unit contribute to production?

3 A. Yes.

4 Q. More or less equally?

5 A. Yes.

6 Q. And do you believe that this well will adequately
7 drain this portion of the Yeso reservoir?

8 A. Yes, I do.

9 Q. Let's move on to Exhibit 12. Could you describe
10 what this shows?

11 A. Sure. Exhibit 12 is just a production table I've
12 put together of Yeso producers in the area. It includes
13 their well name, well ID, their location, surface
14 location and the bottom hole. Again, like I said, we've
15 operated all but one of those wells, whether or not it's
16 vertical or horizontal. And then the cumulative
17 production and then how long it's been producing.

18 I've highlighted two specific wells to the east
19 in section 4. And I just highlighted that to show the
20 first well, the Fast Draw 4 EH Fed Com Number 1H. It's
21 a horizontal well that's been producing for about a
22 year, and we've cumed about 42 barrels of oil. Whereas
23 a direct offset vertical well in the same formation has
24 been on for almost just over two and a half years and
25 cumed 9,000 barrels.

1 Q. In your opinion, is the drilling of horizontal
2 wells in this area preferable to drilling vertical
3 wells?

4 A. Yes, sir.

5 Q. And let's move on to Exhibit 13. Could you
6 discuss briefly how Mewbourne will drill and complete
7 this well.

8 A. Yes. This is the proposed survey for the well,
9 the preplan for the well. So, again, we are surfaced to
10 the south in section 8, but we will not land until we
11 are within the 330 setback. So on the first page you
12 can see a little diagram that shows our landing point
13 will be within the 330 setback. And then the bottom
14 hole as well will be within that 330.

15 TBD-wise we'll be landing about 2700 feet, and
16 we'll be drilling to about a 7545 measured depth. We
17 use a Packers and Port system here. We'll probably run
18 20 stages. We fracked around the 90,000 gallons per
19 stage.

20 Q. Were Exhibits 10 through 13 prepared by you or
21 compiled from company business records?

22 A. Yes.

23 Q. And, in your opinion, is the granting of this
24 application in the interest of conservation and the
25 prevention of waste?

1 A. Yes, it is.

2 MR. BRUCE: Mr. Examiner, I'd move the
3 admission of Exhibits 10 through 13.

4 MR. EXAMINER: Exhibits 10 through 13 will
5 be admitted.

6 [Exhibits 10 through 13 admitted.]

7 MR. BRUCE: I have no further questions of
8 this witness.

9 MR. EXAMINER: Mr. Rankin.

10 MR. RANKIN: I have no objections to the
11 admission of the exhibits and no further questions.

12 MR. EXAMINER: Any questions?

13 EXAMINER BROOKS: No questions.

14 MR. EXAMINER: I have a couple. You know,
15 if you look at your map here, you are going to be
16 drilling north/south, right?

17 MR. LODGE: Correct.

18 MR. EXAMINER: Okay. I see most of the
19 wells went to the east/west. Before we develop them we
20 need to know what the orientation is.

21 MR. LODGE: Uh-huh.

22 MR. EXAMINER: Okay. Let's go back to
23 Exhibit Number 3 where you say -- this is Exhibit
24 Number 1 where you have the list of the wells. And you
25 say you operate them both vertical and horizontal except

1 one well. So the horizontal wells, let's go one by one,
2 what orientation are they? Like the first one is 4H.
3 What is your intention, do you know?

4 MR. MITCHELL: The first horizontal well is
5 4AD. It's east/west.

6 MR. EXAMINER: And then the second one is
7 going to 4JL?

8 MR. LODGE: The 4EH is east/west.

9 MR. EXAMINER: Okay, east/west. The other
10 two are JL and ME?

11 MR. LODGE: Those are both east/west.

12 MR. EXAMINER: And most of them are
13 east/west. How do you find, looking at that, that you
14 are going to do north/south in this section?

15 MR. LODGE: If you look down in section 9 we
16 have two north/south wells as well.

17 MR. EXAMINER: Yea, I saw that. But do you
18 know the production history of those north/south?

19 MR. LODGE: I do, yes.

20 MR. EXAMINER: Is that from the same pool?

21 MR. LODGE: Yes.

22 MR. EXAMINER: Is it included in here?

23 MR. LODGE: Yes.

24 MR. EXAMINER: Those north/south, can you
25 identify them in this exhibit?

1 MR. LODGE: Yes. The first one is the Long
2 Draw 9AP Fed Com Number 1H. It's about halfway down.

3 MR. EXAMINER: 9AP is north/south?

4 MR. LODGE: And we just recently drilled
5 that one so it's only been on for about a month or so.

6 MR. EXAMINER: What is that pool name?

7 MR. LODGE: The North Seven Rivers Glorieta
8 Yeso Pool.

9 MR. EXAMINER: That's where it's producing
10 from?

11 MR. LODGE: Yes, sir.

12 MR. EXAMINER: What is it producing,
13 north/south?

14 MR. LODGE: The Long Draw 9BO Fed Com Number
15 1H is also north/south, and it is one of the best wells
16 we've drilled in this pool.

17 MR. EXAMINER: Go ahead. Is there any more?

18 MR. LODGE: Anymore north/souths, at the
19 very bottom there's two more. I'm sorry. In the middle
20 there's two more; the West Draw 58PH Fed Com Number 1H
21 is also north/south.

22 MR. EXAMINER: Which one is that?

23 MR. LODGE: The West Draw 58PH Fed Com
24 Number 1H. It's right in the middle.

25 MR. EXAMINER: Oh, right in the middle.

1 Okay. I was looking at the bottom. Can you tell me
2 what well the ID is now?

3 MR. LODGE: It's 58 PH.

4 MR. EXAMINER: Okay, 58PH. That's
5 north/south?

6 MR. LODGE: Yes, sir.

7 MR. EXAMINER: What else?

8 MR. LODGE: And then two above that one, the
9 West Draw 5IA Number 1H is also north/south, which are
10 both in the same section of the proposed wellbore.

11 MR. EXAMINER: I think that will help me
12 determine what is going to happen.

13 MR. LODGE: Okay.

14 MR. EXAMINER: And this is going to be an
15 oil well completion?

16 MR. LODGE: Yes, sir.

17 MR. EXAMINER: And how many packer stages do
18 you have?

19 MR. LODGE: Most likely we'll run 20 stages.

20 MR. EXAMINER: I have nothing further. You
21 may be excused.

22 Anything further?

23 MR. BRUCE: No further questions.

24 MR. EXAMINER: At this point case number
25 14877 will be taken under advisement.

[Case 14877 taken under advisement.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14877
heard by me on 7/21/12

Examiner
Oil Conservation Division

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,
Provisional License P-405
License expires: 8/21/2012

Ex count: