

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

6 APPLICATION OF MEWBOURNE OIL  
7 COMPANY FOR A NONSTANDARD OIL  
8 SPACING AND PRORATION UNIT AND  
9 COMPULSORY POOLING, EDDY COUNTY,  
10 NEW MEXICO.

CASE NO. 15038

ORIGINAL

8

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS  
10 EXAMINER HEARING  
11 September 5, 2013  
12 Santa Fe, New Mexico

13

14 BEFORE: DAVID K. BROOKS, CHIEF EXAMINER  
15 PHILLIP GOETZE, TECHNICAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, David K. Brooks,  
Chief Examiner, and Phillip Goetze, Technical Examiner,  
on Thursday, September 5, 2013, at the New Mexico  
Energy, Minerals and Natural Resources Department, 1220  
South St. Francis Drive, Porter Hall, Room 102,  
Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (9:49 a.m.)

2 EXAMINER BROOKS: Call Case Number 15038  
3 application of Mewbourne Oil Company for a nonstandard  
4 oil spacing proration unit and compulsory pooling, Eddy  
5 County, New Mexico.

6 Appearances?

7 MR. BRUCE: Mr. Examiner, Jim Bruce of  
8 Santa Fe representing the Applicant. I have two  
9 witnesses.

10 EXAMINER BROOKS: Are they the same  
11 witnesses?

12 MR. BRUCE: Yes, sir.

13 EXAMINER BROOKS: Very good. Then they  
14 will not need to be sworn again.

15 You may proceed.

16 COREY MITCHELL,  
17 after having been previously sworn under oath, was  
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Mr. Mitchell, could you identify Exhibit 1 and  
22 identify the well that we're for today?

23 A. Exhibit 1 is a Midland Map Land Company -- a  
24 Midland Map Company land plat of Township 26 South,  
25 Range 27 East with the west half-west half of Section 23

1 highlighted, which will be our Owl Draw 23 DM Federal  
2 Com #2H well.

3 Q. And what zone is being tested in this well?

4 A. The Bone Spring.

5 EXAMINER BROOKS: I see you said "Owl Draw"  
6 here.

7 THE WITNESS: Yes.

8 EXAMINER BROOKS: Hearing you,  
9 phonetically, I thought you said alcohol.

10 (Laughter.)

11 EXAMINER BROOKS: Go ahead.

12 Q. (BY MR. BRUCE) Mr. Mitchell, the surface  
13 location for this well is off of the well unit, correct?

14 A. Yes, sir.

15 Q. And are there surface issues here that make it  
16 difficult to obtain locations?

17 A. Yes, sir.

18 Q. And will the productive interval of the  
19 wellbore be orthodox?

20 A. Yes, sir.

21 Q. I notice that there is another Mewbourne Owl  
22 Draw well there nearby. What zone was tested -- is  
23 being tested in that well?

24 A. That is the Wolfcamp Formation.

25 EXAMINER BROOKS: And this is testing which

1 one, which formation?

2 MR. BRUCE: Bone Spring.

3 Q. (BY MR. BRUCE) And is only the Bone Spring  
4 Formation being pooled in this well, Mr. Mitchell?

5 A. Yes, sir.

6 Q. What is Exhibit 2?

7 A. Exhibit 2 is our tract ownership, and it lists  
8 the parties seeking to be pooled. They're listed with  
9 an asterisk.

10 Q. Okay. So could you identify the three specific  
11 parties you're seeking to force pool?

12 A. They are COG, Corexcal and Petrorep, Inc.

13 Q. Now, with respect to COG, do you expect them to  
14 eventually sign a JOA?

15 A. Yes, sir. I received the executed AFE from  
16 them last week, and they are currently -- they have  
17 informed me they are circulating the JOA for signature.

18 Q. And when COG signs the JOA, will you notify the  
19 Division?

20 A. Yes, sir, and they will be dismissed.

21 Q. What about Corexcal and Petrorep; what is their  
22 status?

23 A. They are defunct companies. They are last seen  
24 in Eddy County records in 1972. We have done searches  
25 on them with the state secretary. They've kind of just

1 gone defunct, and we have no leads on them. And we're  
2 unable to find a present address or a representative for  
3 the two companies.

4 Q. Does Exhibit 3 contain your correspondence with  
5 COG?

6 A. Yes, sir, it does.

7 Q. And in your opinion, has Mewbourne made a  
8 good-faith effort either to obtain voluntary joinder or  
9 to determine the ownership location of the interest  
10 owners?

11 A. Yes, sir.

12 Q. What is Exhibit 4?

13 A. Exhibit 4 is our AFE, which sets out estimated  
14 costs for this well. We have an estimated dry-hole cost  
15 of \$1,818,100 and a completed estimated cost of  
16 \$4,541,400.

17 Q. And in your opinion, is this cost fair and  
18 reasonable and equivalent to the cost of other wells of  
19 this depth in this area of New Mexico?

20 A. Yes, sir.

21 MR. BRUCE: Mr. Examiner, Exhibit 5 is  
22 simply my Notice of Affidavit to the one locatable  
23 interest owner, and Exhibit 6 is the Affidavit of  
24 Publication as against the two unlocatable owners.

25 Q. (BY MR. BRUCE) What is Exhibit 7, Mr. Mitchell?

1 A. Exhibit 7 lists the offset ownership.

2 Q. To the nonstandard unit?

3 A. Yes, sir.

4 Q. And was notice of this application given to the  
5 offsets?

6 A. Yes, sir, it was.

7 Q. And is that marked as Exhibit 8?

8 A. Yes, sir.

9 Q. Do you request the maximum cost plus  
10 200-percent risk charge as against a nonconsenting  
11 interest owner?

12 A. Yes, sir.

13 Q. And what overhead rates do you request?

14 A. We are requesting 7,500 for drilling and 750  
15 for producing.

16 Q. And are those rates fair and reasonable?

17 A. Yes, sir.

18 Q. And are they the same as those set forth in  
19 your JOA?

20 A. Yes, sir, they are.

21 Q. In your opinion, is the granting of this  
22 application in the interest of conservation and the  
23 prevention of waste?

24 A. Yes, sir.

25 Q. And were Exhibits 1 through 8 either prepared

1 by you or under your supervision or compiled from  
2 company business records?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, I move the  
5 admission of Exhibits 1 through 8.

6 EXAMINER BROOKS: 1 through 8 are admitted.  
7 (Mewbourne Exhibit Numbers 1 through 8 were  
8 offered and admitted into evidence.)

9 MR. BRUCE: I have no further questions of  
10 the witness.

11 EXAMINER BROOKS: Okay. Thank you.

12 CROSS-EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Do you have an API number for this well?

15 A. Yes, sir. It is 3001541629.

16 Q. And this is for the Bone Spring only, you said.

17 Do you know what pool it is in?

18 A. It is in the Hay Hollow Bone Spring pool, and I  
19 believe the code is 30215.

20 Q. And how is that spaced?

21 A. Statewide rules for this one.

22 Q. This is on statewide. Okay.

23 These Corexcal and Petrorep, are they  
24 lessees, or are they --

25 A. They are mineral owners.

1 Q. Mineral owners?

2 A. Yes.

3 Q. This is fee?

4 A. Yes, sir.

5 Q. It's all fee?

6 A. There is one tract -- the northwest-northwest  
7 is a federal lease.

8 Q. The northwest-northwest is federal?

9 A. The remainder is fee.

10 Q. Your surface location is in Section 14, I see.

11 A. Yes, sir.

12 Q. And you have the coordinates of the surface and  
13 bottom-hole locations on the AFE. Is that what you  
14 intend to go with?

15 A. Yes, sir.

16 Q. Now, you're not going to perforate in 14,  
17 though?

18 A. No, sir.

19 Q. The first perforation will be in 23. Is it  
20 going to be at least 330 from the north line there?

21 A. I believe so.

22 Q. But you need to ask the geologist?

23 A. To make sure.

24 Q. Okay. Very good. I think that's all I have.

25 Oh, administrative overhead. What's your

1 administrative overhead? .....

2 A. 7,500 for drilling and 750 for producing.

3 Q. And is that the same amount provided in the  
4 JOA?

5 A. Yes, sir, it is.

6 Q. I guess that's all I have.

7 EXAMINER GOETZE: I have no questions for  
8 this witness.

9 NATE CLESS,

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

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Mr. Cless, are you familiar with the geology in  
15 this case?

16 A. Yes, sir, I am.

17 Q. Would you turn to Exhibit 9 and identify it and  
18 discuss its contents for the Examiners?

19 A. So Exhibit 9 is a structure map on the top of  
20 the Lower 2nd Bone Spring Sand. The structure through  
21 here basically is kind of northwest -- northwest of the  
22 southeast.

23 On this map, I've also identified -- all  
24 the wells with a blue circle around them are produced  
25 out of the Bone Spring Formation.

1           Most of the Bone Spring producers in the  
2 area are horizontal wells. And so the horizontal wells  
3 with laterals that are green are 2nd Bone Spring Sand  
4 producers, and the horizontal wells with laterals that  
5 are colored gray are Avalon Shale producers.

6           I've also highlighted the proration unit  
7 that we're -- that we're targeting, the west half-west  
8 half of Section 23.

9           As far as other 2nd Bone Spring Sand  
10 producers in this area, there are wells up in Section 16  
11 which are east-west -- east-west 2nd Bone Spring Sand  
12 horizontals. There are also east-west 2nd Bone Spring  
13 Sand wells in Section 19, but then there are also  
14 north-south 2nd Bone Spring Sand horizontals in Section  
15 30.

16           And so in this area, we believe that -- and  
17 I'll get into the production of those wells in a little  
18 bit. But we believe that north-south and east-west is  
19 productive as far as lateral placement.

20           Q. In Section 23, over in the east half, there are  
21 two horizontal wells. Who operates those wells?

22           A. Those are operated by Chevron.

23           Q. Have those wells been drilled?

24           A. I believe the wells in the west half-east half  
25 of Section 23 have been drilled.

1 Q. And are those Bone Spring tests?

2 A. One is permanent of the Bone Spring. The other  
3 one is a Wolfcamp test.

4 Q. So it looks like, at least in this section, the  
5 stand-up units have already been established?

6 A. Yes, sir.

7 Q. Let's move on to Exhibit 10. What is that?

8 A. Exhibit 10 is an isopach -- is a net isopach  
9 map of the Lower 2nd Bone Spring Sand interval. Above  
10 each of the vertical wells is a number that represents  
11 the net thickness of the 2nd Bone Spring Sand. Once  
12 again, we've used a ten-percent cutoff. That's kind of  
13 our standard cutoff for our company.

14 You can see there's not a lot of vertical  
15 control in this immediate area, but we believe that just  
16 during extrapolation, that roughly it will be about 50  
17 to 60 feet thick, the interval, 50, 60 of net porosity  
18 throughout this area.

19 I've also identified my next exhibit, which  
20 is a cross section, A to A prime, a three-well cross  
21 section that goes through the three closest vertical  
22 wells in this area.

23 Q. Why don't you turn to Exhibit 11 and discuss  
24 that?

25 A. Exhibit 11 is a three-well cross section. And

1 I previously said that there's really not a whole lot of  
2 vertical control in this area. But, again, I've  
3 identified the top of the 2nd Bone Spring Sand.

4 And then in this area, we kind of use a  
5 little different nomenclature. We identify an area as  
6 the top of the orange sand and then the brown sand. And  
7 what we're calling 2nd Bone Spring Brown Sand is what  
8 we're targeting as a horizontal target. If you just  
9 look at the gross interval across this area, it's about  
10 200 feet thick in the Lower 2nd Bone Spring Sand, and  
11 it's pretty -- the thickness is -- the gross thickness  
12 is pretty consistent throughout this area.

13 We have a density porosity log in Section  
14 17, as well as Section 13, and the average porosity is  
15 about 10 to 12 percent through this area.

16 Q. The orange and the brown and simply internal  
17 Mewbourne designations?

18 A. Yes, sir.

19 EXAMINER BROOKS: If you drill down there,  
20 it wouldn't necessarily be that color?

21 THE WITNESS: No (laughter).

22 Q. (BY MR. BRUCE) In your opinion, will each  
23 quarter-quarter section in the well unit contribute more  
24 or less equally to production?

25 A. Yes, sir, we believe so.

1 Q. What is Exhibit 12?

2 A. So Exhibit 12 is a production table of all the  
3 Bone Spring producers in this immediate area. And,  
4 again, I've identified the name and the operator and the  
5 API of all these wells, whether they're vertical or  
6 horizontal. And you'll see that most of the -- most of  
7 the wells in this area are -- most of the Bone Spring  
8 producers in this area are horizontal wells. I've also  
9 identified the particular interval that they're -- that  
10 they've tested.

11 So once again, this is -- for the most  
12 part, the 2nd Bone Spring Sand and the Avalon Shale are  
13 the main producing intervals out of the Bone Spring in  
14 this area.

15 I've also highlighted a few horizontal  
16 wells. The wells that are highlighted in green are  
17 east-west horizontals that we have production on, and  
18 the wells that are highlighted in orange are north-south  
19 wells that -- are north-south Bone Spring producers.

20 So just looking at that first green well  
21 that I've highlighted, it's a Concho well, the Cluster  
22 State Com #3H. It was completed in September of 2012,  
23 and since then, it's made about 75,000 barrels of oil.  
24 Then the other two wells -- so it's a pretty good well.  
25 And then the well below that was completed in February

1 of this year, and it's made 23,000 barrels of oil since  
2 then. And then the last well was completed in August of  
3 2012, and it's made 36,000 barrels of oil.

4 Then you go look at the wells that are --  
5 the north-south wells are highlighted in orange. The  
6 first well I've highlighted was completed in September  
7 of 2012, and it's made 40,000 barrels of oil, which is  
8 similar to some of the east-west wells up there. And  
9 then the second well was completed in August of 2012,  
10 and it's made 57,000 barrels of oil.

11 So for the most part, the results of the  
12 north-south and the east-west wells are both fairly --  
13 fairly similar.

14 Q. Finally, what is Exhibit 13?

15 A. Exhibit 13 is the horizontal well plan that was  
16 created by the Directional Drilling Company for us.  
17 And, again, you can flip through there, and it gives all  
18 the details of a horizontal well plan. And then the  
19 last two pages are just the wellbore diagram of where we  
20 plan to put our well.

21 Again, our surface location is 370 from the  
22 south, 1,055 from the west in Section 14, but our first  
23 perforation won't be until 330 from the north, 974 from  
24 the west of Section 23, so we'll be at a legal location.  
25 And then finally, our bottom hole is 330 from the south,

1 500 from the west of Section 23.

2 Q. How many completion stages in the well?

3 A. We use a packers and ports system, and we've  
4 done anywhere from 20 ports to 30 ports. For this well,  
5 I believe we were using 20 ports that will space -- will  
6 space relatively equally throughout the -- throughout  
7 the lateral.

8 Q. Were Exhibits 9 through 12 prepared by you?

9 A. They were -- I aided in preparing these.  
10 Another geologist kind of works this area, so we worked  
11 together to create these exhibits.

12 Q. And was Exhibit 13 compiled from company  
13 business records?

14 A. Yes, sir, it was.

15 Q. In your opinion, is the granting of this  
16 application in the interest of conservation and the  
17 prevention of waste?

18 A. Yes, sir.

19 MR. BRUCE: Mr. Examiner, I'd move the  
20 admission of Exhibits 9 through 13.

21 EXAMINER BROOKS: 9 through 13 are  
22 admitted.

23 (Mewbourne Exhibit Numbers 9 through 13  
24 were offered and admitted into evidence.)

25 MR. BRUCE: I have no further questions of

1 the witness.

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 Q. Is the first perforation going to be more than  
5 330 feet from the north line of Section 23?

6 A. Yes, sir, it will be at least 330 feet from the  
7 north line.

8 EXAMINER BROOKS: I will defer to the  
9 geologist.

10 EXAMINER GOETZE: The geologist has no  
11 questions for this witness. Thank you.

12 MR. BRUCE: I have nothing further in this  
13 matter, Mr. Examiner.

14 EXAMINER BROOKS: Very good. Case Number  
15 15038 will be taken under advisement.

16 (Case Number 15038 concludes, 10:07 a.m.)

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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. 15038,  
heard by me on 9-5-2013.

David K. Brooks Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

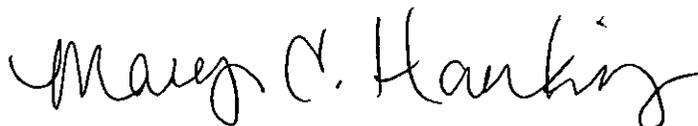
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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, 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 that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

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 in the final disposition of this case.



MARY C. HANKINS, CCR, RPR  
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