

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

6 APPLICATION OF MEWBOURNE OIL COMPANY FOR A NONSTANDARD OIL
7 SPACING AND PRORATION UNIT AND CASE NO. 15081
8 COMPULSORY POOLING, LEA COUNTY,
9 NEW MEXICO. ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12 January 23, 2014

13 Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
15 GABRIEL WADE, LEGAL EXAMINER

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Richard Ezeanyim,
20 Chief Examiner, and Gabriel Wade, Legal Examiner, on
21 Thursday, January 23, 2014, at the New Mexico Energy,
22 Minerals and Natural Resources Department, 1220 South
23 St. Francis Drive, Porter Hall, Room 102, Santa Fe,
24 New Mexico.

25 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 (10:00 a.m.)

2 EXAMINER EZEANYIM: Now, we're going to
3 keep to our schedule. And the next case on the docket
4 is on page 3, and this is Case Number 15081, application
5 of Mewbourne Oil Company for a nonstandard oil spacing
6 and proration unit and compulsory pooling. This is in
7 Lea County, New Mexico.

8 Call for appearances, please.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa Fe representing the Applicant. I have two
11 witnesses. Mr. Haden and Mr. Hill have been previously
12 qualified.

13 EXAMINER EZEANYIM: Any other appearances,
14 please?

15 Okay. Mr. Haden, you've been sworn, so
16 you're still under oath.

17 THE WITNESS: Yes, sir.

18 EXAMINER EZEANYIM: Counsel, you may
19 proceed.

20 PAUL HADEN,

21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Haden, once again, identify Exhibit 1 and

1 give a legal description for the well unit.

2 A. Yes. This is a land plat of the area. This is
3 in Township 18 South, Range 32 East, in Section 21. The
4 plat indicates our proposed spacing and project area,
5 which is indicated in shaded yellow. Also, the proposed
6 surface and bottom-hole locations are indicated on this
7 plat. The surface location is 297 feet from the south
8 line, 706 feet from the east line. The bottom hole is
9 990 feet from the south line, and 330 feet from the west
10 line. This is in Section 21 of 18 South, 19 East, Lea
11 County, New Mexico.

12 Q. And what formation is being force pooled?

13 A. This is for the Bone Spring Formation.

14 Q. And will the productive interval of the
15 wellbore be orthodox?

16 A. Yes, sir, it will.

17 Q. Could you identify Exhibit 2 and identify who
18 you are pooling in this case?

19 A. Exhibit 2 is a tract ownership of the spacing
20 unit and project area for this well. It indicates with
21 an asterisk the parties within the pools. These parties
22 are as follows: Roper Family Properties; Harvey E.
23 Yates Company; Jo Ann Walker, Trustee; Roper -- again,
24 Roper Family Properties; EAKO, spelled E-A-K-O, LLC; and
25 VALCO, LLC; and Explorers Petroleum Corporation; as well

1 as Spiral, Inc.

2 Q. And these are working interest owners?

3 A. These are working interest owners.

4 Q. Now, before we get into your contacts with the
5 parties, do you anticipate several of these interest
6 owners eventually joining in the well?

7 A. Yes. We anticipate the Roper Family
8 Properties, Harvey Yates Company, as well as Explorers
9 Petroleum Corporation and Spiral, Inc. signing our
10 operating agreement. Whereby, they will be joining in
11 the proposed well.

12 Q. At the time they sign, will Mewbourne notify
13 the Division that these parties are no longer subject to
14 the forced pooling?

15 A. Yes, we will.

16 Q. Could you identify Exhibits 3 and 4 for the
17 Examiner and briefly maybe just outline contacts with
18 the parties, when they started, et cetera?

19 A. Right. Exhibit 3 is a summary of the
20 communications involved in this case. It sets forth the
21 dates in which the well was proposed, which was actually
22 to the Roper bunch. It was September 16th, 2013.
23 Thereby, an AFE was sent via certified mail to them.
24 And if they did not want to participate, we offered the
25 purchase of a two-year term assignment of operating

1 rights from them.

2 This exhibit (indicating) sets forth the
3 other parties who are being pooled and their contact
4 information, dates.

5 Q. And is Exhibit 4 copies of your letters, copies
6 of e-mails, et cetera, with respect to each of these
7 parties?

8 A. Yes, that's correct.

9 Q. And it wasn't just the proposal letter that was
10 sent out? You have had follow-up telephone conferences
11 and e-mails with the parties?

12 A. Yes, I have.

13 Q. And as to the people who indicated they would
14 join in the party [sic], has an operating agreement been
15 provided to them?

16 A. Yes, they have. I e-mailed them a copy of the
17 proposed operating agreement last Thursday, and I had
18 the same operating agreement executed by our attorney,
19 which I sent them an executed agreement for their
20 execution via overnight mail this last Tuesday.

21 Q. In your opinion, has Mewbourne made a
22 good-faith effort to obtain the voluntary joinder of the
23 interest owners in the proposed well?

24 A. Yes, we have.

25 Q. And all of the parties in this case are -- they

1 were located? There are no unlocatable parties, are
2 there?

3 A. That's correct. They were all located.

4 Q. Could you identify Exhibit 5 for the Examiner?

5 A. Exhibit Number 5 is a copy of our AFE for this
6 proposed well. It indicates the well name, which is the
7 Young 21 PM Federal Com 1H well. It also indicates the
8 surface and bottom-hole locations. It also references
9 the cost amounts for this proposed well, being
10 \$2,365,400 cost to casing point, and then the estimated
11 total completed cost of \$4,624,500. This AFE is dated
12 September 13th, 2013.

13 Q. Is this cost reasonable and comparable to the
14 cost of other wells to this depth in this area of
15 New Mexico?

16 A. That's correct.

17 Q. And what overhead rates do you request?

18 A. We're requesting 7,500 for drilling well rate
19 and 750 for producing well rate.

20 Q. And are those rates fair and comparable to
21 those charged by Mewbourne and other operators in this
22 area?

23 A. That's correct, in this area.

24 Q. And are those the rates set forth in your JOA?

25 A. That's correct.

1 Q. Do you request the maximum cost plus
2 200-percent risk penalty be assessed against any
3 nonconsenting interest owner?

4 A. Yes, we do.

5 Q. Was notice given to all of the nonconsenting
6 parties or parties being pooled?

7 A. Yes, they were.

8 Q. Is that reflected in Exhibit 9?

9 A. That's correct.

10 MR. BRUCE: Mr. Examiner, all parties being
11 pooled did receive actual notice.

12 Q. (BY MR. BRUCE) And was notice of the
13 application provided to all of the offset working
14 interest owners other than Mewbourne?

15 A. That's correct.

16 Q. And is that reflected in Exhibit 10?

17 A. That is correct, also.

18 MR. BRUCE: Mr. Examiner, the offsets did
19 receive actual notice of the application.

20 Q. (BY MR. BRUCE) Mr. Haden, were Exhibits 1
21 through 5 prepared by you or under your supervision?

22 A. Yes, they were.

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.

2 MR. BRUCE: Mr. Examiner, I'd move the
3 admission of Exhibits 1 through 5 and 9 and 10.

4 EXAMINER EZEANYIM: Exhibits 1 through 5
5 and 9 and 10 will be admitted.

6 (Mewbourne Oil Company Exhibit Numbers 1
7 through 5 and 9 and 10 were offered and
8 admitted into evidence.)

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

11 EXAMINER EZEANYIM: Thank you, Counsel.

12 CROSS-EXAMINATION

13 BY EXAMINER EZEANYIM:

14 Q. What is the name of this pool?

15 A. The name of it is the Young Bone Spring, and I
16 do not have a pool code number for that. Y'all have
17 that information. I don't have -- the API has not been
18 issued for this well yet either.

19 Q. You haven't got any API yet?

20 A. No.

21 Q. If you get it within the next week, we like to
22 compile those API numbers.

23 A. Yeah.

24 Q. So we'll be able to get it if you can.

25 A. Uh-huh.

1 Q. Here I'm assuming 297 feet surface location is
2 the same as penetration point?

3 A. Yes. As our geologist will testify, it will be
4 orthodox.

5 Q. Okay. The API number is NN [sic]?
6 And the land? Federal? State?

7 A. Federal. All federal.

8 Q. The overhead rates are in your JOA, or is this
9 the overhead rates? 7,500 for drilling and 750 for
10 producing?

11 A. Well, for this particular well, it's 7,500 and
12 750.

13 Q. And that is reflected in your JOA?

14 A. That is correct.

15 Q. You may step down. No further questions.

16 A. Thank you, Mr. Examiner.

17 EXAMINER EZEANYIM: Call your next witness.

18 MR. BRUCE: Call Mr. Hill, again.

19 TYLER HILL,

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

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Mr. Hill, let me just ask you to identify
25 Exhibits 6 and --

1 A. 7?

2 EXAMINER EZEANYIM: Exhibit 6?

3 A. Exhibit 6 is a nine-well plat around our
4 proposed Young 21 PM. The structure's on the 2nd Bone
5 Spring Lower Sand, and then the isopach is a net
6 porosity greater than 10 percent.

7 I also have a producing zone color code in
8 this area. We have 1st Sand, 3rd Bone Spring carbonate,
9 Avalon Sand, 2nd Bone Spring carbonate, 2nd Bone Spring
10 Sand and 3rd Bone Spring Sand. This will be a 2nd Bone
11 Spring Sand horizontal well. The structure is dipping
12 to the southeast.

13 Q. (BY MR. BRUCE) And Exhibit 7?

14 A. Yes. This is a two-well cross section, Y to Y
15 prime, showing our intended target. It's the red
16 interval approximately 9,300 feet to the top of the 2nd
17 Sand, and it's continuous through this interval. So
18 each quarter-quarter should contribute equally.

19 Q. In looking at the land plat in the lower right
20 of this plat, there are two wells in the north half of
21 Section 21. Have those wells been drilled?

22 A. No, sir.

23 Q. Who is the operator of those wells?

24 A. They have not been drilled. Those were planned
25 wells for our future reference as far as moving forward

1 and possibly developing the section.

2 EXAMINER EZEANYIM: So they're your wells?

3 They're going to be your wells, right?

4 THE WITNESS: Hopefully, sir.

5 Q. (BY MR. BRUCE) So Mewbourne intends to develop

6 Section 21 with lay-down well units?

7 A. Yes, sir.

8 Q. For this well, in the previous cases, you
9 presented well production data. You don't have that in
10 this case, do you?

11 A. Right. In this area, we believe that both
12 north-south and east-west wells are going to be
13 economical. So we intend to develop this as lay-downs.

14 Q. Yeah, because I noticed, looking at your
15 Exhibit 6, to the north, Section 15 was developed with
16 lay-downs, and Section 16 was developed with stand-ups,
17 right?

18 A. Yes, sir.

19 Q. So there is no preferred orientation, right?

20 A. No, sir.

21 Q. And finally, what is Exhibit 8?

22 A. This shows our Stryker well plan. This is
23 pre-planning of our well path we intend to take.

24 Q. And, again, by looking at the footages on this,
25 will the entire portion of the productive interval of

1 the wellbore be orthodox?

2 A. Yes, sir.

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

6 A. Yes, sir.

7 Q. And were Exhibits 6, 7 and 8 prepared by you or
8 compiled from company business records?

9 A. Yes, sir.

10 MR. BRUCE: Mr. Examiner, I'd move the
11 admission of Mewbourne's 6, 7 and 8.

12 EXAMINER EZEANYIM: Exhibits 6, 7 and 8
13 will be admitted.

14 (Mewbourne Oil Company Exhibit Numbers 6,
15 7, 8 were offered and admitted into
16 evidence.)

17 MR. BRUCE: I have no more questions for
18 the witness.

19 CROSS-EXAMINATION

20 BY EXAMINER EZEANYIM:

21 Q. I have a few questions.

22 You were talking about in this case -- in
23 the other case, you were going east-west. Here you said
24 there is no difference. I'm looking at the geology.
25 There is no difference between going east-west or

1 north-south. Can you explain to me why that is the
2 case, you know, looking at your geology here.

3 A. Looking at the geology? Well, the geology is
4 continuous through this interval, and I believe that the
5 frack orientation is approximately northeast-southwest.
6 So we should be able to drain this 160 by drilling
7 north-south and east-west wells and make economic wells.

8 Q. And I know in the process you're not going to
9 leave any acreage hanging, because as you know, we don't
10 want to have any acreage hanging.

11 A. Yes, sir.

12 Q. When we commence these wells, you know, in this
13 tight format, I don't want one 40 acre left somewhere.
14 I can drill as long as we're on the 40 acre. As long as
15 the geology says you can do that, that's no problem.

16 A. Uh-huh.

17 Q. So in this case, you are doing east-west,
18 right?

19 A. Yes, sir.

20 Q. I can understand that.

21 Now, you studied the 1st Sand, 2nd Sand and
22 3rd Sand, and you are going to -- I love the 2nd Sand.
23 What is happening with the 3rd and 4th Sand on that Bone
24 Spring?

25 A. As you can see on the plat, there are

1 several -- quite a few 1st Sand wells in this area.

2 Q. Yeah.

3 A. There's been one 1st Sand well drilled in
4 Section 29. Today it's not a very good well. So
5 eventually, maybe we will drill 1st Sand, but as of
6 right now, we're not going to.

7 Q. That's how I feel.

8 How many were drilled in the 4th and 3rd
9 and 1st Sand; do you know?

10 A. Not off the top of my head.

11 Q. But you did -- we are not doing as much in the
12 2nd Bone Spring Sand, right?

13 A. Correct.

14 Q. This is just for my information. It's not for
15 your application. I need to know what those sands are
16 doing --

17 A. Yes.

18 Q. -- and how we can develop them very
19 efficiently.

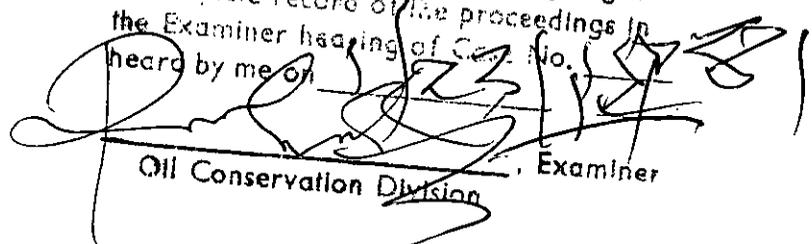
20 We don't have any API number here. Please,
21 if you get the API, we want to have them, so we can have
22 a record. That's the only way -- that's how we locate
23 the wells, so that's why we have those.

24 No further questions. You may step down.

25 A. Thank you, sir.

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(Case Number 15081 concludes, 10:18
a.m.)

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15081
heard by me on 10/23/18

Oil Conservation Division, Examiner

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

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

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19



20

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014

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