

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 COMPANY
7 FOR A NONSTANDARD OIL AND PRORATION
8 UNIT AND COMPULSORY POOLING,
9 EDDY COUNTY, NEW MEXICO.

CASE NO. 15106

ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12 April 3, 2014

13 Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER

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17 This matter came on for hearing before the
18 New Mexico Oil Conservation Division, Richard Ezeanyim,
19 Chief Examiner, on Thursday, April 3, 2014, at the New
20 Mexico Energy, Minerals and Natural Resources
21 Department, 1220 South St. Francis Drive, Porter Hall,
22 Room 102, Santa Fe, New Mexico.

23 REPORTED BY: Mary C. Hankins, CCR, RPR
24 New Mexico CCR #20
25 Paul Baca Professional Court Reporters
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1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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7

8 INDEX

PAGE

9 Case Number 15106 Called

3

10 Mewbourne Oil Company's Case-in-Chief:

11 Witnesses:

12 Clayton Pearson:

13 Direct Examination by Mr. Bruce

3

14 Cross-Examination by Examiner Ezeanyim

9

15 Nate Cless:

16 Direct Examination by Mr. Bruce

11

17 Cross-Examination by Examiner Ezeanyim

16

18 Proceedings Conclude

17

19 Certificate of Court Reporter

18

20

21 EXHIBITS OFFERED AND ADMITTED

22 Mewbourne Oil Company Exhibit Numbers 1 through 7

9

23 Mewbourne Oil Company Exhibit Numbers 8 through 11

16

24

25

26

1 (10:12 a.m.)

2 EXAMINER EZEANYIM: At this point, I call
3 Case Number 15106, application of Mewbourne Oil Company
4 for a nonstandard oil and proration unit and compulsory
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant.

9 I have two witnesses.

10 EXAMINER EZEANYIM: Any other appearances?

11 Okay. The two witnesses please stand up;
12 state your names to be sworn, please.

13 MR. CLESS: Nate Cless.

14 MR. PEARSON: Clayton Pearson.

15 (Mr. Cless and Mr. Pearson sworn.)

16 EXAMINER EZEANYIM: Counsel, you may
17 proceed.

18 CLAYTON PEARSON,
19 after having been first duly sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Pearson, where do you reside?

24 A. Midland, Texas.

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

1 A. Mewbourne Oil Company as a landman.

2 Q. Have you previously testified before?

3 A. I have not.

4 Q. Would you give us your education and employment
5 background?

6 A. Absolutely. I graduated from Texas Tech
7 University in May of 2011 with a degree in petroleum
8 land management, and I started working for Mewbourne Oil
9 Company in November of 2011.

10 Q. And does your area of responsibility at
11 Mewbourne include this part of southeast New Mexico?

12 A. It does.

13 Q. And have you been working continually at
14 Mewbourne for the past two-and-a-half years?

15 A. That's correct.

16 Q. And are you familiar with the land matters
17 involved in this application?

18 A. Yes, I am.

19 MR. BRUCE: Mr. Examiner, I tender
20 Mr. Pearson as an expert petroleum landman.

21 EXAMINER EZEANYIM: So qualified.

22 Q. (BY MR. BRUCE) Mr. Pearson, could you identify
23 Exhibit 1 for the Examiner and describe the well unit,
24 the zone being pooled and the well name?

25 A. Yes, sir. Exhibit 1 is a Midland Map Company

1 plat of Section 9, Township 20 South, Range 29 East,
2 Eddy County, New Mexico. It shows the well unit, which
3 is the north half-north half of Section 9 and proposed
4 well path. We will be pooling the Bone Spring Formation
5 in this nonstandard well unit.

6 Q. And the surface location will be adjoining
7 Section 8?

8 A. That's correct.

9 Q. And the producing interval of the wellbore will
10 be orthodox?

11 A. Yes.

12 Q. Can you identify Exhibit 2 for the Examiner?

13 A. Exhibit 2 is the tract ownership of the well
14 unit, being the north half-north half of Section 9.

15 Q. And what parties does Mewbourne seek to pool at
16 this time?

17 A. Those parties are denoted with an asterisk by
18 their name and total interest is 4.93352 percent.

19 Q. So the Estate of Ralph Williamson, Jeffrey and
20 Sandra Johnston, Michael Short, and Brooks Oil & Gas
21 Interests?

22 A. As well as Davoil, Inc.

23 Q. Ah. Davoil, Inc.

24 A. Yes, sir.

25 Q. Could you identify Exhibit 3 for the Examiner

1 and summarize the context with these parties?

2 A. Sure. Exhibit 3 is a summary of communications
3 held with each party that we are seeking to pool. The
4 cover letter shows the dates and the different, various
5 means of communication. And followed by that are the
6 copies of the subject communication.

7 Q. Were all of these people locatable?

8 A. Yes, they were.

9 Q. And in your opinion, has Mewbourne made a
10 good-faith effort to obtain the voluntary joinder of
11 these parties?

12 A. Yes.

13 Q. Mr. Pearson, with respect to Brooks Oil & Gas
14 Interests, do you anticipate them joining in the well?

15 A. Yes, that is correct, as well as several other
16 parties we have been in touch with. We have not
17 received finalized paperwork, but as we do receive that,
18 we will release them.

19 Q. So looking at the listing under Brooks, they
20 did execute the AFE but need to sign a JOA?

21 A. Correct.

22 Q. And if any of these parties voluntarily joins
23 in the well, will Mewbourne notify the Division of their
24 joinder?

25 A. Yes.

1 Q. Does Mewbourne request that it be appointed
2 operator of the well?

3 A. Yes.

4 Q. And does Mewbourne request the cost plus 200
5 percent risk charge in the event a person goes
6 nonconsent in the well?

7 A. Yes.

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

9 A. Exhibit 4 is an AFE that was sent to all
10 parties regarding this well.

11 Q. And what is the completed-well costs?

12 A. The completed-well cost is \$4,627,800.

13 Q. Is this cost fair and reasonable and in line
14 with the cost of other wells of this type drilled in
15 this area of Eddy County?

16 A. Yes.

17 Q. What overhead rates does Mewbourne request?

18 A. We are requesting \$7,000 a month to be allowed
19 for drilling a well and \$700 a month for a producing
20 well.

21 Q. And are these costs reasonable and under the --
22 are they equivalent to the costs charged by Mewbourne
23 and other operators for wells of this type in this area?

24 A. Yes.

25 MR. BRUCE: And, Mr. Examiner, Exhibit 5 is

1 simply my Affidavit of Notice. I would note one thing
2 and that is that I omitted to identify a couple of
3 parties who I later notified. I'd ask that this hearing
4 be continued for two weeks so we can complete the notice
5 process.

6 Q. (BY MR. BRUCE) And what is Exhibit 6,
7 Mr. Pearson?

8 A. Exhibit 6 reflects the offset ownership of the
9 surrounding section.

10 Q. So other than Mewbourne, the only offset owner
11 is Endurance?

12 A. Correct.

13 Q. Was notice given to Endurance of this
14 application?

15 A. Yes.

16 MR. BRUCE: And, Mr. Examiner, Exhibit 7 is
17 my Affidavit of Notice to Endurance.

18 EXAMINER EZEANYIM: Okay.

19 Q. (BY MR. BRUCE) Mr. Pearson, in your opinion, is
20 the granting of this application in the interest of
21 conservation and the prevention of waste?

22 A. Yes.

23 Q. And were Exhibits 1 through 7 either prepared
24 by you or compiled from company business records?

25 A. Yes.

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

3 EXAMINER EZEANYIM: Exhibits 1 through 7
4 will be admitted.

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

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

10 EXAMINER EZEANYIM: Okay. Thank you.

11 CROSS-EXAMINATION

12 BY EXAMINER EZEANYIM:

13 Q. What is the name of the pool in the Bone Spring
14 wells; do you know?

15 A. I do. It is the Parkway Bone Spring.

16 Q. Do you know the pool code?

17 A. I do. 49622.

18 Q. 49 --

19 A. 49622.

20 Q. We talked about notice. You have a couple more
21 you are going to notice?

22 MR. BRUCE: I have sent notice, but I
23 notified them for the April 17th hearing.

24 Q. (BY EXAMINER EZEANYIM) It's a federal well,
25 right?

1 A. Yes.

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

3 A. I do. It is 30015 --

4 Q. 015. Okay.

5 A. Yes.

6 -- 4290.

7 Q. 300154290?

8 A. Correct.

9 Q. How many of those -- how many of those people
10 in your -- what exhibit -- Exhibit Number 2, you said,
11 with italics [sic], are the people that do have joinder
12 but some of them are going to join?

13 A. That is correct.

14 Q. Including David Brooks Oil & Gas?

15 A. That's correct.

16 EXAMINER EZEANYIM: Is that right?

17 MR. BRUCE: It is.

18 Q. (BY EXAMINER EZEANYIM) But he indicated he was
19 going to join, right?

20 A. Yes.

21 Q. Okay. Thank you. No further questions. You
22 may step down.

23 EXAMINER EZEANYIM: Call your next witness.

24 NATE CLESS,

25 after having been previously sworn under oath, was

1 questioned and testified as follows:

2 DIRECT EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Cless, by whom are you employed and in what
5 capacity?

6 A. I'm a geologist with Mewbourne Oil Company.

7 Q. Have you previously testified before the
8 Division?

9 A. Yes, sir.

10 Q. Were your credentials as an expert petroleum
11 geologist accepted as a matter of record?

12 A. Yes, sir.

13 Q. And are you familiar with the geology involved
14 in this application?

15 A. I am.

16 MR. BRUCE: Mr. Examiner, I tender
17 Mr. Cless as an expert petroleum geologist.

18 EXAMINER EZEANYIM: So qualified.

19 Q. (BY MR. BRUCE) Mr. Cless, would you identify
20 Exhibit 8?

21 A. Exhibit 8 is an isopach map and structure map
22 of the Upper 2nd Bone Spring Sand. It's a gross isopach
23 map. On this map, I've also identified all the Bone
24 Spring producers in this area, as well as the location
25 of where we're going to be drilling. It's in the north

1 half-north half of Section 9. All the wells with the
2 yellow circles produce out of the 2nd Bone Spring, and
3 that's the target we're going for.

4 You can see horizontal wells that have been
5 drilled in Sections 3,4, 5 and 8. In this immediate
6 area, we pretty much drilled all of these wells.
7 Mewbourne Oil Company pretty much drilled all of these
8 wells, the first two in Section 5, north-south wells,
9 and then the rest of the wells drilled in this area have
10 all been east-west wells. And we've had much better
11 results with the east-west orientation, so we're doing
12 the lay-down in the north half-north half of Section 9.

13 Q. The yellow denotes the 2nd Bone Spring,
14 correct?

15 A. Yes sir.

16 Q. The second location for the Perazzi 9, the
17 surface location is colored purple so as to designate it
18 as a 3rd Bone Spring well. That's just to
19 differentiate --

20 A. That's a vertical well. The surface location
21 is just the very beginning of that, so we're 150 feet
22 into Section 8. But by the time we land our first
23 perforation, it will be 330 to the west line.

24 Q. I just want to make sure this will be a 2nd
25 Bone Spring test well.

1 A. This will be.

2 Q. What is Exhibit 9?

3 A. Exhibit 9 is the structure map of the two wells
4 in Section 9 that we're planning to be adjacent to our
5 horizontal wellbore. It's a 2nd Bone Spring Sand. The
6 first well is located in 9E, and the second well is
7 located in 9A.

8 And then on this cross section. The two
9 red lines identify the horizontal target, and this is
10 the same interval that we've targeted in the wells in
11 the north, Section 4. And it's kind of right in the
12 middle of the entire 2nd Bone Spring Sand gross
13 interval. The interval that we're targeting has the
14 best porosity, the 2nd Bone Spring, at about 12 to 13
15 percent and proven it's productive up to the north. So
16 we believe it's productive up here in Section 9.

17 Q. In your opinion, do you believe the 2nd Bone
18 Spring target interval is continuous across the proposed
19 well unit?

20 A. Yes, sir, we do.

21 Q. And will each quarter-quarter section in the
22 well unit contribute more or less equally to production?

23 A. Yes, sir.

24 Q. What is Exhibit 10?

25 A. Exhibit 10 is the production table of all the

1 Bone Spring well producers in this project area and
2 nonsection project area. You can see that most of the
3 Bone Spring well producers in this area are horizontal
4 wells. I've listed the name, the operator, API and the
5 location, as well as the Bone Spring wells' production
6 of all this -- all these wells.

7 And you can see that Mewbourne has drilled
8 the majority of the wells in this area. Again, I want
9 to refer you to the north-south horizontals that have
10 been drilled, the Colt 5 Federal #2H and Colt 5 Federal
11 #3H, both drilled by Mewbourne back in 2009 and 2010,
12 respectively. And in that time period, those wells
13 produced 33,000 barrels and 53,000 barrels. If you look
14 at all the other wells that were east-west drilled
15 subsequently, at a later date, all of those wells have
16 passed the cums of the two Colt wells drilled
17 north-south. East-west is the preferred orientation to
18 drill here.

19 Q. So you certainly don't want to be drilling
20 vertical wells?

21 A. No. We've pretty much gone to horizontal these
22 days.

23 Q. Finally, what is Exhibit 11?

24 A. Exhibit 11 is just the horizontal drilling plan
25 that was furnished to us by the Directional Drilling

1 Company, and it has the wellbore diagram of where we're
2 going to be kicking off, where our landing point is and
3 where our bottom hole will be. And this well will be --
4 the TD of this well is 12,794 feet TVD of 7,917.

5 Q. So the planned landing point would be, what,
6 over 500 feet east of the surface location?

7 A. Yeah. We do project that we will come in right
8 around 330 feet from the west line of Section 9. And
9 we'll make sure -- we'll be running, I believe, a packer
10 completion in this area, put our first pour at a legal
11 location.

12 Q. And how many completions stages does Mewbourne
13 use?

14 A. 24 in the lower Bone Spring wells, 2nd Bone
15 Spring Sand completions.

16 Q. Were Exhibits 8 through 11 prepared by you or
17 compiled from company business records?

18 A. Yes, sir.

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

22 A. Yes, sir.

23 MR. BRUCE: Mr. Examiner, I'd move the
24 admission of Exhibits 8 through 11.

25 EXAMINER EZEANYIM: Exhibits 8 through 11

1 will be admitted.

2 (Mewbourne Oil Company Exhibit Numbers 8
3 through 11 were offered and admitted into
4 evidence.)

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

7 CROSS-EXAMINATION

8 BY EXAMINER EZEANYIM:

9 Q. These are real production wells?

10 A. Yes. There is real production.

11 Q. So north-south can be as productive as
12 east-west?

13 A. That's correct.

14 Q. So that's why we're here, to make sure that
15 happens. But somebody will tell me the north-south are
16 not profitable, but I can see here. So that's good.

17 No further questions. Thank you.

18 EXAMINER EZEANYIM: Anything further,
19 Mr. Bruce?

20 MR. BRUCE: That's all I have. May we
21 please continue it?

22 EXAMINER EZEANYIM: At this time, 15098
23 [sic] will be continued for two weeks.

24 For notice requirements, right?

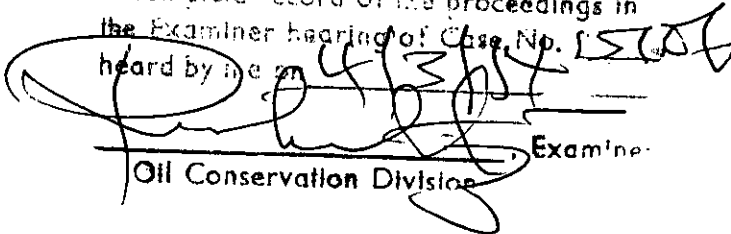
25 MR. BRUCE: Yes. 15106.

1 EXAMINER EZEANYIM: 15106 will be continued
2 to -- what is that -- April 17th.

3 MR. BRUCE: 17th.

4 (Case Number 15106 concludes, 10:30 a.m.)
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15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 15106
18 heard by me on


Examiner
Oil Conservation Division

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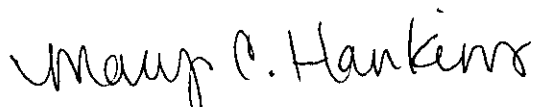
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

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

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
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