

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

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

ORIGINAL

APPLICATION OF MEWBOURNE OIL COMPANY  
FOR COMPULSORY POOLING AND AN  
UNORTHODOX GAS WELL LOCATION,  
EDDY COUNTY, NEW MEXICO.

CASE NO. 15171

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 10, 2014

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Michael McMillan,  
Chief Examiner, on Thursday, July 10, 2014, at the  
New Mexico Energy, Minerals and Natural Resources  
Department, Wendell Chino Building, 1220 South St.  
Francis Drive, Porter Hall, Room 102, Santa Fe,  
New Mexico.

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.  
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EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 8	8
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1 (10:04 a.m.)

2 EXAMINER McMILLAN: I'd like to now call  
3 Case 15171, application of Mewbourne Oil Company for  
4 compulsory pooling and unorthodox gas well location,  
5 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. Haden and Mr. Cless, who I would ask that  
10 they be recognized that they were previously sworn and  
11 qualified as experts, landman and geologist,  
12 respectively.

13 EXAMINER McMILLAN: Any other appearances?

14 PAUL HADEN,  
15 after having been previously sworn under oath, was  
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Now, Mr. Haden, we're back on track here.

20 A. Back on track. Thank goodness.

21 Q. Could you identify Exhibit 1 for the Examiner  
22 and discuss the well unit and the well we're here for  
23 today?

24 A. Okay. Exhibit Number 1 is a land plat of the  
25 area. It indicates our proposed spacing unit for this

1 well, which is indicated in a shaded yellow color in the  
2 east half of Section 35 of Township 23 South, Range 28  
3 East. It also indicates the lateral for this proposed  
4 well and the surface and bottom-hole locations.

5 Q. And what is the formation being pooled in this  
6 well?

7 A. The formation being pooled in this well is the  
8 Wolfcamp Formation.

9 Q. And I believe that's the South Culebra  
10 Bluff-Wolfcamp gas pool?

11 A. Correct. And it has a pool code of 75750. The  
12 API number also for this well is 30-015-42407.

13 Q. And this well does have an unorthodox gas well  
14 location?

15 A. Yes, it does.

16 Q. And will Mr. Cless discuss that?

17 A. Yes, he will.

18 Q. Briefly, what is Exhibit 2?

19 A. Exhibit 2 sets forth the tract ownership for  
20 this proposed Layla 35 W2OB Fee #3H well. This well  
21 location is 195 feet from the south line, 2,435 feet  
22 from the east line, 330 feet from the north line and  
23 2,150 feet from the east line of Section 35, 23 South,  
24 28 East. It sets forth the tract ownership, as I  
25 advised you previously. It also sets forth the

1 uncertain ownerships -- ownership in Tract Number 4,  
2 which is comprised of 3.6 percent interest in the  
3 southeast quarter.

4           The parties being pooled are those parties  
5 indicated also on this exhibit, which have -- or may  
6 have possible claim to this interest. This proposed  
7 pooled interest would be 2.25 percent in the project  
8 area.

9           Q. And these owners own in Tracts 3 and 4?

10          A. Yes. I'm sorry. 3 and 4.

11          Q. And these are the same parties that we  
12 discussed at length in Case 15168?

13          A. That's correct.

14          Q. And the same title problems apply?

15          A. Same title problems apply.

16          Q. And Exhibit 3 is a portion of that title  
17 opinion discussed in the prior case?

18          A. That's correct.

19          Q. Is Exhibit 4 simply a summary of your contacts  
20 with the locatable parties, as you've previously  
21 discussed?

22          A. That's also correct.

23          Q. And is Exhibit 5 a backup of correspondence,  
24 e-mails, et cetera regarding your contacts with the  
25 locatable interest owners?

1 A. Yes, it is.

2 Q. And in your opinion, has Mewbourne made a  
3 good-faith effort to obtain the voluntary joinder of the  
4 locatable interest owners in the well?

5 A. In our opinion, yes, we so believe.

6 Q. And, again, there are a number of unlocatable  
7 interest owners?

8 A. There are a number of unlocatable owners.

9 Q. And you discussed that in 15168, correct?

10 A. Yes, I did.

11 Q. And did Mewbourne make a good-faith effort to  
12 try to track down a valid address for these interest  
13 owners?

14 A. We think we did.

15 Q. Could you identify Exhibit 6 for the Examiner?

16 A. Exhibit Number 6 is a copy of our AFE for this  
17 proposed well. It indicates the surface and bottom-hole  
18 locations for the Layla 35 W2OB Fee #3H well. It also  
19 indicates the cost to casing point, which is \$3,060,300.  
20 And the total estimated completed cost for this well is  
21 \$6,689,300.

22 Q. And are these costs in line with the costs of  
23 other Wolfcamp horizontal wells drilled in this area of  
24 southeast New Mexico?

25 A. Yes, it is.

1 Q. Do you request that Mewbourne be appointed  
2 operator of this well?

3 A. We do.

4 Q. And what is your recommendation as to the  
5 overhead rates that Mewbourne should be allowed?

6 A. 7,000 for the drilling well rate and \$700 per  
7 month for a producing well rate.

8 Q. And, again, those are the rates in your JOA?

9 A. Those are the rates that are in our JOA.

10 Q. And do you believe those rates fair and  
11 reasonable?

12 A. Fair and reasonable, yes.

13 Q. And was notice given to the locatable interest  
14 owners?

15 A. That's correct.

16 Q. And is that reflected in Exhibit 7?

17 A. That is correct.

18 MR. BRUCE: And, Mr. Examiner, again, the  
19 last page of Exhibit 7 shows three interest owners who  
20 we have not received green cards back, so I have  
21 published additional notice as against those parties,  
22 and I'd ask that the case be continued for two weeks.

23 Q. (BY MR. BRUCE) And finally, Mr. Haden, was  
24 notice of the unorthodox location given to the pertinent  
25 offset interest owners?

1 A. That's correct.

2 Q. And is that reflected in Exhibit 8?

3 A. That's correct.

4 MR. BRUCE: And, once again, Mr. Examiner,  
5 the Chevron green card did not come back, but the postal  
6 service Web site does show that they did receive notice.  
7 Hopefully I'll have that green card back by the next  
8 hearing.

9 Q. (BY MR. BRUCE) Were Exhibits 1 through 8 either  
10 prepared by you or under your supervision or compiled  
11 from company business records?

12 A. They were.

13 Q. And, Mr. Haden, is the granting of this  
14 application in the interest of conservation and the  
15 prevention of waste?

16 A. Yes, sir.

17 MR. BRUCE: Mr. Examiner, I'd move the  
18 admission of Exhibits 1 through 8.

19 EXAMINER McMILLAN: So accepted.

20 (Mewbourne Oil Company Exhibit Numbers 1  
21 through 8 were offered and admitted into  
22 evidence.)

23 MR. BRUCE: And I have no further questions  
24 of the witness.

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. Is the acreage 100 percent fee?

4 A. 100 percent fee, yes.

5 Q. No state? No federal?

6 A. No state, no federal.

7 Q. And you have -- you will advertise in the local  
8 newspaper?

9 MR. BRUCE: I have submitted an additional  
10 notice affidavit to the Carlsbad newspaper.

11 EXAMINER McMILLAN: I have no further  
12 questions at this time. Thank you very much.

13 THE WITNESS: Thank you, Mr. Examiner.

14 NATE CLESS,

15 after having been previously sworn under oath, was  
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Cless, are you familiar with the Wolfcamp  
20 geology in this section of land?

21 A. Yes, I am.

22 Q. Could you identify Exhibit 9 for the Examiner?

23 A. Exhibit 9 is a structure map of the -- a  
24 structure map on the top of the Wolfcamp Formation, a  
25 nine-section project area. I've highlighted all of the

1 vertical production here, but really we're just  
2 interested in the Wolfcamp production. And there are no  
3 vertical Wolfcamp producers in this area. The only  
4 Wolfcamp producer is the horizontal well that we've  
5 drilled, which is highlighted in blue, in the west  
6 half-west half of Section 35. The red arrow in the west  
7 half-east half of Section 35 indicates the location of  
8 our proposed lateral.

9 Q. And would you identify Exhibit 10 for the  
10 Examiner?

11 A. Exhibit 10 is a three-well cross section that  
12 covers the middle part of the Wolfcamp Formation  
13 throughout this area. What we're targeting is what we  
14 call the Wolfcamp D Formation.

15 Q. That's an internal designation?

16 A. It's an internal designation, and it's  
17 highlighted by those two green lines in the lower part  
18 of the cross section.

19 The Wolfcamp Formation itself is thousands  
20 of feet thick in this area, but the Wolfcamp D is where  
21 we've drilled our initial well in Section 35 and where  
22 we plan on drilling our next well.

23 You can see it's -- you can see there are  
24 certain correlation markers that are depicted throughout  
25 this cross section, and you can see that the -- the

1 thickness of this Wolfcamp Formation is very uniform  
2 across this project area.

3 Q. And it appears are or were a number of Morrow  
4 wells in this area?

5 A. Yes, that's correct.

6 Q. And so there is a lot of log data on the  
7 continuity of the Wolfcamp across this area?

8 A. Yes, that's correct.

9 Q. And this is a standard 320-acre gas well unit?

10 A. Yes, that's correct.

11 Q. And what are the normal setbacks for a gas  
12 well?

13 A. The normal setbacks are 660 from the unit  
14 lines. Going to our next exhibit --

15 Q. Go ahead. Exhibit 11.

16 A. Exhibit 11 is the horizontal well plan for this  
17 particular well. And you can see our surface location  
18 is 185 from south, and the landing point is 757 from  
19 south, so that will be a legal location. However, our  
20 bottom hole is 330 from north, 2,150 from east, so that  
21 is not a legal location. However, it is pretty standard  
22 for these Wolfcamp horizontals to go up to 330 from the  
23 line. The offset operator in Section 26 is Chevron, and  
24 they're also a working interest partner of ours in  
25 Section 35. They were also in the first well -- the

1 Wolfcamp well that we drilled in Section 35, so they  
2 have no objection to us going 330 from the north line.

3 Q. And, actually, Mr. Cless, the well is -- the  
4 well is closer to the west line unit and permitted by  
5 Division regulations?

6 A. That's correct. Yeah, that's correct. Due to  
7 surface location, you know, we were -- we were able to  
8 get -- we were only able to get this -- this 185 from  
9 south and 2,435 from the east line. And so we are -- we  
10 are technically closer to our -- to the west half of the  
11 section than we should be. However, we are the operator  
12 of the west half, so we've --

13 Q. Right. Do you -- based on the Wolfcamp  
14 geology, do you anticipate any adverse effect on the  
15 offset, Chevron, in Section 26 to the north?

16 A. We don't believe so. Again -- again, all of  
17 these -- all of the horizontals in this area have been  
18 north-south, and so -- and we haven't really seen any  
19 communication between even any of our Bone Spring wells  
20 that have been north-south, so we don't -- we don't  
21 believe that -- that by going to 330 from the line that  
22 the offset operators will see any adverse effects from  
23 this.

24 Q. And would Mewbourne object if Chevron wanted to  
25 drill to 330 from the south line of this section?

1 A. We would not.

2 Q. Were Exhibits 9 and 10 prepared by you?

3 A. Yes.

4 Q. And was Exhibit 11 compiled from company  
5 business records?

6 A. Yes.

7 Q. And in your opinion, is the granting of this  
8 application in the interest of conservation the  
9 prevention of waste?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I move the  
12 admission of Exhibits 9, 10 and 11.

13 EXAMINER McMILLAN: So accepted.

14 (Mewbourne Oil Company Exhibit Numbers 9  
15 through 11 were offered and admitted into  
16 evidence.)

17 CROSS-EXAMINATION

18 BY EXAMINER McMILLAN:

19 Q. Okay. The first question I've got is please  
20 tell me the surface location.

21 A. 185 from south, 2,435 from the east.

22 Q. First penetration point?

23 A. 757 from south, 2,400 from the east.

24 Q. Final penetration point?

25 A. 330 from the north, 2,150 from the east.

1 Q. To be clear, Chevron has been notified?

2 A. Yes. They're a working interest operator in  
3 our well. They have significant interest in our well,  
4 so they have been -- they have been notified.

5 MR. BRUCE: Yeah. Mr. Examiner, Exhibit 8  
6 shows they were notified, and I believe Mr. Haden  
7 testified previously that Chevron is the operator of, I  
8 believe, all of Section 26.

9 Correct, Mr. Haden?

10 MR. HADEN: That's correct. Yes, sir.

11 MR. BRUCE: And to be safe, we also  
12 notified Southwest Royalties, who is to the south,  
13 southwest, and they received notice of this application,  
14 too.

15 THE WITNESS: In Section 2.

16 MR. BRUCE: In Section 2.

17 EXAMINER McMILLAN: Okay.

18 Q. (BY EXAMINER McMILLAN) And I'm just curious.  
19 Has the Wolfcamp been as prolific as the Bone Spring?

20 A. Yes. It's gassier. It's a gassier reservoir,  
21 but it still makes quite a bit of liquid out of it. And  
22 we just drilled the first well four months ago, four or  
23 five months ago, and we've -- the initial production  
24 we've seen on it has been very good. So it's definitely  
25 met our economic standards. So it looks like it's going

1 to work up in this area.

2 Q. So is your justification for the north-south  
3 the performance of the existing well?

4 A. Pretty much. With all the other -- with all  
5 the other horizontals, I don't believe that the stress  
6 fields change from formation to formation, and if they  
7 do, they don't change 180 degrees or 90 degrees. So --

8 Q. I have no further questions.

9 EXAMINER McMILLAN: And Case Number 15171  
10 will be continued until July the 24th.

11 (Case Number 15171 concludes, 10:20 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. 15171  
heard by me on JULY 10 2014  
Michael McMILLAN, Examiner  
Oil Conservation Division

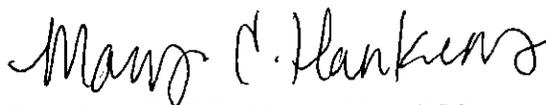
1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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 

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