

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:

APPLICATION OF MEWBOURNE OIL COMPANY           CASE NO. 15170  
FOR APPROVAL OF A NONSTANDARD OIL  
SPACING AND PRORATION UNIT, AN  
UNORTHODOX OIL WELL LOCATION, AND  
COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 10, 2014

Santa Fe, New Mexico

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BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

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.

REPORTED BY: Mary C. Hankins, CCR, RPR  
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.  
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 (505) 982-2043  
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INDEX

	PAGE
Case Number 15170 Called	3
Mewbourne Oil Company's Case-in-Chief:	
Witnesses:	
Paul Haden:	
Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner McMillan	9
Nate Cless:	
Direct Examination by Mr. Bruce	10
Proceedings Conclude	13
Certificate of Court Reporter	14

EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 8	9
Mewbourne Oil Company Exhibit Number 9	13

1 (9:50 a.m.)

2 EXAMINER McMILLAN: I'd like to call back  
3 to order Docket 21-14, Case Number 15170, application of  
4 Mewbourne Oil Company for approval of a nonstandard oil  
5 spacing and proration unit, an unorthodox well location  
6 and compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

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

12 EXAMINER McMILLAN: Any other appearances?

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Mr. Haden, could you identify Exhibit 1 and  
19 describe the well and the well unit we're here for  
20 today?

21 A. Exhibit Number 1 is the land plat of the area.  
22 It depicts the spacing unit, which in this case is the  
23 east half of Section 35 of Township 23 South, Range 28  
24 East. This proposed Basin unit is shaded in yellow. It  
25 also indicates the proposed lateral and the surface and

1 bottom-hole locations for the Layla 35 W2 --

2 Q. No, no.

3 MR. BRUCE: Excuse me, Mr. Examiner.

4 Q. (BY MR. BRUCE) You have the wrong file there,  
5 Mr. Haden?

6 A. I do.

7 Q. You jumped ahead of yourself?

8 A. Let's back up.

9 EXAMINER McMILLAN: Before you go any  
10 further, he has been fully qualified?

11 MR. BRUCE: Yes. He was sworn and  
12 qualified.

13 EXAMINER McMILLAN: As an expert witness?

14 MR. BRUCE: As an expert landman.

15 EXAMINER McMILLAN: Okay.

16 Q. (BY MR. BRUCE) And let's take a step back,  
17 Mr. Haden.

18 A. Let's start again.

19 Q. The land problems kind of blend together after  
20 a while, don't they?

21 A. Yes, they do.

22 Q. Exhibit 1, what is the well unit and what is  
23 the well name?

24 A. Exhibit Number 1 is the land plat of the area,  
25 and it indicates our proposed nonstandard oil proration

1 unit, which is in the east half of the west half of  
2 Section 35, Township 23 South, Range 28 East. It  
3 indicates the nonstandard unit, which is colored or  
4 shaded in yellow, with the proposed bottom-hole location  
5 and the surface location and the lateral.

6 The surface location is 185 feet from the  
7 south line, 1,670 feet from the west line. The  
8 bottom-hole location is 330 feet from the north line and  
9 1,980 feet from the west line.

10 Q. And you're pooling the Bone Spring Formation,  
11 again?

12 A. Yes, we are.

13 Q. And will the producing interval of the Layla 35  
14 B2NC Fee Well #2H be orthodox?

15 A. Yes, it will.

16 Q. And just briefly, what is Exhibit 2?

17 A. Exhibit 2 is the tract ownership for our  
18 proposed nonstandard oil unit. It indicates the  
19 participating parties as Tracts 1, 2, 3 and 4. Tract  
20 Number 4 is the tract that has some uncertain ownership.  
21 It sets forth the uncertain ownership of a 3.6 percent  
22 interest. It also indicates the possible owners who may  
23 have claim to this interest, and it lists them also in  
24 this exhibit. The parties being pooled comprise  
25 approximately 1.8 percent of this nonstandard unit.

1 Q. And, again, these are the same parties, and you  
2 still have the same title issues that you addressed more  
3 fully in Case 15168?

4 A. Yes.

5 Q. And is Exhibit 3 simply another copy of the  
6 title opinion discussed in that case?

7 A. That's correct.

8 Q. Is Exhibit 4 your summary of efforts to obtain  
9 the joinder of the locatable people?

10 A. Yes.

11 Q. And is Exhibit 5 simply your backup  
12 correspondence, et cetera with these people?

13 A. That's correct.

14 Q. In your opinion, has Mewbourne made a  
15 good-faith effort to obtain the voluntary joinder of the  
16 locatable owners?

17 A. Yes, we have.

18 Q. And has Mewbourne made a good-faith effort to  
19 obtain or locate addresses for all of the interest  
20 owners in this well unit?

21 A. Yes, we have.

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

23 A. Exhibit Number 6 is a copy of our AFE for this  
24 well, the Layla 35 B2NC Fee #2H well. It indicates the  
25 estimated well costs for this well. The estimated costs

1 to completion is 2 million -- excuse me -- cost to  
2 casing point is \$2,094,300. The completed well cost is  
3 3,974,100.

4 Q. And are these costs fair and reasonable and in  
5 line with the cost of other wells drilled to the Bone  
6 Spring Formation in this immediate area?

7 A. That's correct.

8 Q. And does Mewbourne request that it be appointed  
9 operator of the well?

10 A. Yes, we do.

11 Q. And what is your recommendation for the  
12 supervision and administrative expenses?

13 A. 7,000 drilling well rate and \$700 per month  
14 producing well rate.

15 Q. And are these the rates that are in your JOA  
16 for this section?

17 A. That's correct.

18 Q. And do you believe these amounts are fair and  
19 reasonable not only for Mewbourne but for other working  
20 interest owners in this area?

21 A. We do believe so.

22 Q. And do you request that the rates be adjusted  
23 periodically as required by the COPAS accounting  
24 procedure?

25 A. Yes, we do.

1 Q. And do you request the maximum cost plus 200  
2 percent risk charge?

3 A. Yes, we do.

4 Q. Once again, were the locatable interest owners  
5 notified of this hearing?

6 A. Yes, they were.

7 Q. And is that reflected on Exhibit 7?

8 A. That is correct.

9 MR. BRUCE: And, again, Mr. Examiner, there  
10 are three that just haven't come back. And I'd request  
11 this matter be continued for two weeks, so I can get the  
12 supplemental notice that I had published in the  
13 newspaper.

14 Q. (BY MR. BRUCE) And, Mr. Haden, were all of the  
15 pertinent offsets notified of this application for the  
16 nonstandard unit?

17 A. Yes, they were.

18 Q. And those offsets are identified in Exhibit 8  
19 of my Affidavit of Notice?

20 A. That's correct.

21 MR. BRUCE: Mr. Examiner, once again, the  
22 Chevron green card did not come back, and I will submit  
23 that at the next hearing. I hope it's back by then.

24 Q. (BY MR. BRUCE) Mr. Haden, were Exhibits 1  
25 through 8 prepared by you or under your supervision or

1 compiled from company business records?

2 A. Yes, they were.

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

6 A. Yes, that's correct.

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

9 EXAMINER McMILLAN: So accepted.

10 (Mewbourne Oil Company Exhibit Numbers 1  
11 through 8 were offered and admitted into  
12 evidence.)

13 MR. BRUCE: And I have no further questions  
14 of the witness.

15 CROSS-EXAMINATION

16 BY EXAMINER McMILLAN:

17 Q. Okay. What's the name of the pool name, again?  
18 Is it the South Culebra?

19 A. Yeah, South Culebra. And the API number for  
20 this well is 3001542353.

21 Q. Do you have a pool code?

22 A. I believe it's 15011.

23 Q. And, once again, is this 100 percent fee?

24 A. 100 percent fee, yes, sir.

25 Q. No state, BLM?

1 A. No state or Fed.

2 Q. Thank you. I have no further questions at this  
3 time.

4 A. Thank you, Mr. Examiner.

5 MR. BRUCE: Call Mr. Cless up here just  
6 very briefly, Mr. Examiner.

7 NATE CLESS,  
8 after having been previously sworn under oath, was  
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Cless, you testified as an expert geologist  
13 in Case Number 15168 regarding the Bone Spring well in  
14 the west half-west half of Section 35; did you not?

15 A. That's correct.

16 Q. And were Exhibits 9, 10 and 11 submitted in  
17 that case also applicable to this case, in 15170?

18 A. Yes, they are.

19 Q. And would you request that the testimony you  
20 gave regarding those exhibits be incorporated into this  
21 case?

22 A. Yes.

23 EXAMINER McMILLAN: So accepted.

24 Q. (BY MR. BRUCE) And just in summary fashion,  
25 will each quarter-quarter section in this well unit

1 contribute more or less equally to production?

2 A. Yes, it will.

3 Q. And in your opinion, are stand-up well units  
4 preferable in this section?

5 A. Yes, they are.

6 Q. What I've submitted -- the only other matter  
7 I've submitted, Mr. Cless, is the Well Planning Report  
8 marked Exhibit 9. Could you just previously discuss  
9 that?

10 A. Yeah. It is just the horizontal well plan that  
11 we have for this particular well. And the first page  
12 shows the surface location of 185 from the south, 1,670  
13 from the west, the landing point of 660 from south,  
14 1,703 from west, and the bottom hole of 330 from the  
15 north, 1,980 from west. So our first take point will be  
16 at the landing point, so we will be at a legal location  
17 in this particular well.

18 Q. And, again, there are about 20 completion  
19 stages?

20 A. That's correct.

21 Q. And was Exhibit 9 compiled from company  
22 business records?

23 A. Yes, it was.

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

1 prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I'd move the  
4 admission of Exhibit 9.

5 EXAMINER McMILLAN: My question is, just  
6 for the record, should Exhibit 9 be called Exhibit  
7 9-15170, since there's already an existing --

8 MR. BRUCE: Well, no. In that other case,  
9 we just submitted the Well Planning Report for that  
10 other well, the first well.

11 EXAMINER McMILLAN: Right. But his  
12 geologic presentation had an existing Number 9.

13 MR. BRUCE: Ah. Okay.

14 EXAMINER McMILLAN: So I was trying, for  
15 organizational purposes, to keep things simple.

16 MR. BRUCE: Mr. Examiner, why don't we do  
17 that, mark it Exhibit -- what did you say? 1201?

18 EXAMINER McMILLAN: Let's call it Exhibit  
19 9-15170.

20 MR. BRUCE: Or 12 -- I think what you said  
21 was 12-15170. Is that what you said first?

22 EXAMINER McMILLAN: What I said was let's  
23 just differentiate -- we have two existing 9s. Let's  
24 differentiate this one.

25 MR. BRUCE: Okay. Go ahead.

1 EXAMINER McMILLAN: I'd like to call it  
2 9-15170 for the record. It's more clear.

3 MR. BRUCE: Yeah, we can do that. The  
4 reason I didn't do that, Mr. Examiner, is because  
5 Mr. Goetze always chastises me when I put "dash A" or  
6 dash something else.

7 EXAMINER McMILLAN: Okay. Keep things  
8 simple.

9 (Mewbourne Oil Company Exhibit Number  
10 9-15170 was offered and admitted into  
11 evidence.)

12 MR. BRUCE: But I have no further questions  
13 of this witness.

14 EXAMINER McMILLAN: I have no further  
15 questions.

16 Case Number 15170 will be continued until  
17 July 24th. And thank you.

18 MR. BRUCE: One thing, Mr. Examiner, if I  
19 could, I meant to mention this. In Case 15170, again,  
20 in the advertisement, I had asked for an unorthodox well  
21 location, but that is incorrect. There is no unorthodox  
22 well location.

23 EXAMINER McMILLAN: So accepted.

24 (Case Number 15170 concludes, 10:04 a.m.)

25 I do hereby certify that the foregoing is a  
complete record of the proceedings in  
examiner hearing of Case No. 15170  
heard by me on July 10, 2014.

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

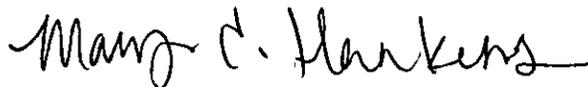
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CERTIFICATE OF COURT REPORTER

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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New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2014