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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 A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

CASE NO. 15142

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 29, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Phillip Goetze,
Chief Examiner, and Gabriel Wade, Legal Examiner, on
Thursday, May 29, 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
New Mexico CCR #20
Paul Baca Professional Court Reporters
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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 7 8

Mewbourne Oil Company Exhibit Numbers 8 through 11 11

1 (8:52 a.m.)

2 EXAMINER GOETZE: Let us proceed to Case
3 15142, application of Mewbourne Oil Company for a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. Mr. Mitchell will
9 be the landman again. I do have one additional witness,
10 a geologist.

11 EXAMINER GOETZE: Would you stand, state
12 your name, and the court reporter will swear you in?

13 MR. TOWNSEND: I'm Roger Townsend.

14 (Mr. Townsend sworn.)

15 EXAMINER GOETZE: 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 describe the well we're here for today?

23 A. Exhibit 1 is a Midland Map Company land plat of
24 Township 20 South, Range 29 East. We have highlighted
25 our proration unit and proposed well in Section 17. It

1 is our Glock 17 LI Federal #1H well.

2 Q. And do you have the surface and bottom-hole
3 locations for this one?

4 A. Yes, sir. The surface location is 1,760 from
5 the south line and 150 from the west line, and the
6 bottom-hole location is 1,760 from the south line and
7 330 from the east line.

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

10 A. Yes, sir.

11 Q. And what is Exhibit 2?

12 A. Exhibit 2 is a list of the ownership in this
13 particular well unit. It was our initially proposed --
14 Exhibit A to the JOA. You can see there are quite a
15 number of people involved here. All the individuals
16 that have an asterisk next to their name are the parties
17 we are seeking to pool.

18 Q. And are they unleased mineral owners?

19 A. No, sir. They are working interest owners.

20 Q. Okay. So they are lessees?

21 A. Yes, sir.

22 Q. And could you identify Exhibit 3 and discuss
23 your efforts to obtain the voluntary joinder of the
24 interest owners?

25 A. Exhibit 3 is a summary of our communications,

1 along with the respective copies of that communication
2 with the individuals. We were unable to locate all of
3 them, but the ones we were able to locate, we sent
4 proposal and offer letters to. We tried to find these
5 people through the records -- county records, Internet
6 searches and trying to get leads with other individuals
7 on this property.

8 Q. When did these people acquire their title,
9 roughly; do you know?

10 A. I believe it was in 1986.

11 Q. So they've been AWOL for about 30 years?

12 A. Yes, sir.

13 Q. In your opinion, has Mewbourne made a
14 good-faith effort to obtain the voluntary joinder in the
15 well or to locate a valid address for them?

16 A. Yes, sir.

17 Q. What is Exhibit 4?

18 A. Exhibit 4 is a copy of our AFE which sets out
19 our estimated well costs in this particular well.

20 Q. And what are the dry hole and total well costs?

21 A. We have estimated dry-hole costs of 2,365,500
22 and estimated completed costs of 4,856,600.

23 Q. And are these well costs reasonable and in line
24 with the costs of other wells drilled to this depth in
25 this area of Eddy County?

1 A. Yes, sir.

2 Q. And do you have a recommendation as to the
3 overhead rates?

4 A. We would recommend \$7,500 a month for drilling
5 and \$750 a month for producing.

6 Q. And are these rates fair and reasonable?

7 A. Yes, sir.

8 Q. Do you request that they be adjusted
9 periodically under the COPAS accounting procedure?

10 A. Yes, sir.

11 Q. Do you request that Mewbourne Oil Company be
12 appointed operator?

13 A. Yes, sir.

14 Q. And do you request the maximum cost plus 200
15 percent risk charge as against nonconsent interest
16 owners?

17 A. Yes, sir.

18 Q. And was notice given to the people who you had
19 valid addresses for?

20 A. Yes, sir.

21 Q. And is that reflected in Exhibit 5?

22 A. Yes, sir.

23 MR. BRUCE: And, Mr. Examiner, Exhibit 6 is
24 the affidavit of -- it's the notice that was published
25 in the Carlsbad newspaper. I have not received the

1 Affidavit of Publication. I will submit that when I
2 receive it.

3 EXAMINER GOETZE: So are we going to take
4 this --

5 MR. BRUCE: I guess it's up to you whether
6 you want me to submit the affidavit at the time next
7 hearing. It doesn't matter.

8 EXAMINER GOETZE: Let's stay within
9 protocol. So let's go ahead and let's have you submit
10 it. We'll continue it to the 12th, and you can get an
11 affidavit in, and it'll be fair and square then.

12 MR. BRUCE: Okay.

13 Q. (BY MR. BRUCE) And what is Exhibit 7,
14 Mr. Mitchell?

15 A. Exhibit 7 is a list of the offset operators.

16 Q. And since it was Mewbourne, no one else was
17 notified, correct?

18 A. Correct.

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

1 A. Yes, sir.

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

4 EXAMINER GOETZE: Exhibits 1 through 7 are
5 so accepted.

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

9 MR. BRUCE: I have no further questions for
10 this witness.

11 EXAMINER GOETZE: I have no questions for
12 this witness either. Thank you.

13 ROGER N. TOWNSEND,
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. Townsend, where do you reside?

19 A. In Midland, Texas.

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

21 A. For Mewbourne Oil Company as a geologist.

22 Q. Have you previously testified before the
23 Division?

24 A. Yes sir.

25 Q. And were your credentials as an expert

1 geologist accepted as a matter of record?

2 A. Yes, sir.

3 Q. Are you familiar with the geology involved in
4 this application?

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I tender
7 Mr. Townsend as an expert petroleum geologist.

8 EXAMINER GOETZE: So qualified.

9 Q. (BY MR. BRUCE) Mr. Townsend, could you identify
10 Exhibit 8 for the Examiner?

11 A. Yes, sir. Exhibit 8 is a geologic map that has
12 the proposed location. It also has structural contours
13 on it and black dipping to the east gently. And it
14 has -- in the colored contours is a net isopach of this
15 2nd Bone Spring Sand, and those sands are trending from
16 the northeast to the -- I mean northwest to the
17 southeast.

18 There's also identified on there a cross
19 section, A to A prime, just south of the location in 17,
20 and also the yellow circles are 2nd Bone Spring Sand
21 producers in the area.

22 Q. And that is the target of this well; is it not?

23 A. Yes, sir, it is.

24 Q. What is Exhibit 9?

25 A. Exhibit 9 is that cross section, A to A prime.

1 The cross section is hung stratigraphically on the 2nd
2 Bone Spring Upper Sand, which is the top of the
3 horizontal target. That's the top red line. And the
4 horizontal target would be that interval between the two
5 red lines on the cross section. And the purpose of this
6 cross section is to give a demonstration that that
7 interval is very constant across that area.

8 Q. So the target, 2nd Bone Spring, is continuous,
9 in your opinion, across the proposed well unit?

10 A. Yes, sir.

11 Q. And looking at your Exhibits 8 and 9, from a
12 geologic standpoint, would each quarter-quarter section
13 in the well unit contribute more or less equally to the
14 production?

15 A. Yes, sir, they will.

16 Q. Would you identify Exhibit 10 for the Examiner
17 and discuss why you're drilling -- Mewbourne is drilling
18 the wells in this area as lay-downs rather than
19 stand-ups?

20 A. Yes, sir. Exhibit 10 is a list of the second
21 sand producers in the area. And all of those wells have
22 been drilled in the east-west direction, and all of
23 those wells appear to be having good results. And we
24 expect to make economic reserves from this proposed well
25 in the east-west direction.

1 Q. And finally, what is Exhibit 11?

2 A. Yes, sir. Exhibit 11 is a survey from the
3 Directional Drilling Company, and it is there to
4 indicate the true vertical depth we intend to be at and
5 also to indicate where the landing point and terminus of
6 the lateral will be. And it will be legal for this
7 zone.

8 Q. The landing point looks to be 400 feet-plus
9 from the surface location or --

10 A. Yes, sir.

11 Q. And were Exhibits 8, 9, 10 and 11 prepared by
12 you or compiled from company business records?

13 A. Yes, sir.

14 Q. And in your opinion, is the granting of this
15 application in the interest of conservation and
16 preservation of waste?

17 A. Yes, sir.

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

20 EXAMINER GOETZE: Exhibits 8 through 11 are
21 accepted.

22 (Mewbourne Oil Company Exhibit Number 8
23 through 11 were offered and admitted into
24 evidence.)

25 MR. BRUCE: And I have no further questions

1 of the witness.

2 CROSS-EXAMINATION

3 BY EXAMINER GOETZE:

4 Q. With regards to your evidence presented in
5 Exhibit Number 10, we have primarily east-west wells.
6 Do we have any north-south in the area regarding
7 production?

8 A. Not in this nine-section area. And in general,
9 in the area, outside of this nine-section area, we found
10 that east-west is the best direction to go.

11 Q. So pretty much everyone has decided this is the
12 best way to go?

13 A. Yes, sir.

14 Q. Very good. At this point, I don't see any
15 other questions regarding this case.

16 EXAMINER GOETZE: And since we still have
17 an affidavit out there, Case Number 15142 will be
18 continued to June 12th for submittal of the affidavit.

19 (Case Number 15142 concludes, 9:04 a.m.)

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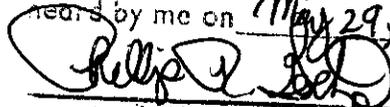
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15142
heard by me on May 29, 2014
 , Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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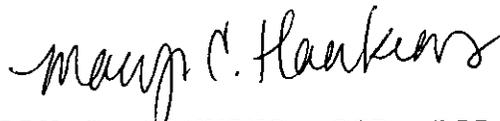
4 CERTIFICATE OF COURT REPORTER

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



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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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