

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

ORIGINAL

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

CASE NO. 15384

OCTOBER 15, 2015
1220 S. St. Francis Drive
Santa Fe, NM 87505

HEARING EXAMINER: MICHAEL MCMILLAN

LEGAL COUNSEL: GABRIEL WADE

APPEARING FOR THE APPLICANT:

JIM BRUCE, Esq.
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1 (Note: Proceedings in session.)

2 HEARING EXAMINER MCMILLAN: At this time
3 let's call case 15384, Application of Mewbourne Oil
4 Company for Compulsory Pooling and Unorthodox Gas
5 Well Location, Eddy County New Mexico. Call for
6 appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the applicants. I have two
9 witnesses.

10 (Note: Witnesses sworn.)

11 HEARING EXAMINER MCMILLAN: Any other
12 appearances? Thank you.

13 CLAYTON PEARSON
14 after having been first duly sworn under oath,
15 was questioned and testified as follows:

16 EXAMINATION

17 BY MR. BRUCE

18 Q. Would you please state your name and city
19 of residence for the record?

20 A. Clayton Pearson. I live in Midland,
21 Texas.

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

23 A. Mewbourne Oil Company as a landman.

24 Q. Have you previously testified before the
25 division?

1 A. Yes.

2 Q. Were your credentials as an expert
3 petroleum landman accepted as a matter of record?

4 A. Yes.

5 Q. Does your area of responsibility at
6 Mewbourne include this area of southeast New Mexico?

7 A. Yes.

8 Q. Are you familiar with the land matters
9 involved in this case?

10 A. I am.

11 MR. BRUCE: I tender Mr. Pearson expert
12 petroleum landman.

13 HEARING EXAMINER MCMILLAN: So qualified.

14 Q. Could you identify Exhibit 1 for the
15 examiner and describe what lands are involved in the
16 application?

17 A. Exhibit 1 is the land plat showing Section
18 27, Township 23 South, Range 128 East, Eddy County,
19 New Mexico. In yellow is the proposed project area
20 and in red is the well path.

21 Q. What zone is being targeted by this well?

22 A. The Wolfcamp Shale.

23 Q. What is Exhibit 2?

24 A. Exhibit 2 is our Form C-101 stating the
25 surface location and bottom hole location and the

1 well API number, which is 3001542695.

2 Q. And this well is located in the South
3 Culebra Bluff Wolfcamp gas pool; is that correct?

4 A. That's correct.

5 Q. That's a defined pool under division
6 order?

7 A. Yes. That is Pool Code 75750.

8 Q. And it is based on 320 acres?

9 A. That's correct.

10 Q. What is Exhibit 3?

11 A. Exhibit 3 is the tract ownership showing
12 how the land is owned in this well.

13 Q. Who do you seek to force pool in this
14 case?

15 A. We seek to force pool MRC Permian Company.

16 Q. What is Exhibit 4?

17 A. Exhibit 4 outlines our communications we
18 have had with MRC and it also has -- just lists the
19 dates and the communication we have had.

20 Q. So you've had -- there have been
21 substantial communications going on over a period of
22 what, four or five months?

23 A. That's correct.

24 Q. What is Exhibit 5?

25 A. Exhibit 5 is copies of the relevant

1 communication we have had covering this matter.

2 Q. In your opinion, has Mewbourne made a good
3 faith effort to obtain the voluntarily joinder of
4 MRC Permian in this well?

5 A. We have.

6 Q. What is Exhibit 6?

7 A. Exhibit 6 is a copy of our AFE for the
8 subject well that was sent to MRC Permian Company.

9 Q. What is the completed well cost?

10 A. \$6,088,800.

11 Q. And is this cost reasonable and in line
12 with the cost of other horizontal wells drilled
13 through the Wolfcamp in this area?

14 A. Yes.

15 Q. Was notice given to MRC Permian of this
16 hearing?

17 A. It was.

18 Q. Is that reflected in my Affidavit of
19 Notice marked as Exhibit 7?

20 A. It is.

21 Q. Now, in my notice letter, Mr. Pearson,
22 there are a number of other parties listed. Just
23 for information for the examiner, what is their
24 status?

25 A. The other listed parties, there was some

1 title issues, we had discovered. But another
2 working interest owner is working on curing the
3 title defects so they will be under a lease. The
4 lease will be effective covering their interests, so
5 we did not need to pool those owners.

6 Q. So the other working interest owner
7 determined that there was already an older lease
8 covering these interests?

9 A. That's correct.

10 Q. And what is Exhibit 8?

11 A. Exhibit 8 is a list of the offset
12 operators who were noticed.

13 Q. Was notice given to them?

14 A. Yes.

15 Q. Is that reflected in Exhibit 9?

16 A. Yes.

17 Q. Were Exhibits 1 through 9 either prepared
18 by you or under your supervision or compiled from
19 company business records?

20 A. They were.

21 Q. In your opinion is granting of the
22 application in the interest of conservation and the
23 prevention of waste?

24 A. Yes.

25 Q. One final thing. Who do you request be

1 appointed operator?

2 A. Mewbourne Oil.

3 Q. And do you request the maximum cost plus
4 200 percent risk factor?

5 A. Yes.

6 Q. What overhead rates does Mewbourne
7 request?

8 A. We are requesting \$7500 for drilling and
9 \$750 for producing.

10 Q. And are those rates fair and reasonable
11 and common used by other operators?

12 A. Yes.

13 MR. BRUCE: That's all I have. I move the
14 admission of Exhibits 1 through 9.

15 HEARING EXAMINER MCMILLAN: Exhibits 1
16 through 9 may now be accepted as part of the record.

17 (Note: Exhibits 1 through 9 admitted.)

18 HEARING EXAMINER MCMILLAN: What's the
19 penetration point?

20 MR. BRUCE: I think the geologists can
21 give that.

22 HEARING EXAMINER MCMILLAN: Any
23 unlocatable interests?

24 THE WITNESS: No, sir.

25 HEARING EXAMINER MCMILLAN: Depth

1 services?

2 THE WITNESS: There are, but not at this
3 depth. They are shallower.

4 HEARING EXAMINER MCMILLAN: So there's no
5 depth services.

6 THE WITNESS: In the Wolfcamp, that's
7 correct.

8 HEARING EXAMINER MCMILLAN: Okay. And the
9 status is proposed?

10 THE WITNESS: Yes, it's been proposed. It
11 has not been drilled yet.

12 LEGAL COUNSEL WADE: Just going back to
13 your notice, Exhibit 7, if we go to Exhibit A of 7,
14 I think you mentioned that there are no unlocatable
15 interests. However, some of these parties may be
16 under a prior lease.

17 THE WITNESS: Yes.

18 LEGAL COUNSEL WADE: Are you saying they
19 did not receive actual notice then of this pooling?
20 You're not asking to pool these parties?

21 MR. BRUCE: First of all, I did originally
22 publish notice against them. I did not present that
23 because we are not seeking to force pool anyone
24 other than MRC Permian, and I think Mr. Pearson's
25 testimony is that these people, even the ones with

1 unknown addresses, are subject to older leases that
2 are still valid.

3 LEGAL COUNSEL WADE: I see. But you did
4 publish notice already?

5 MR. BRUCE: Yes. If you would like, Mr.
6 Examiner, I only have the original.

7 LEGAL COUNSEL WADE: I think that would be
8 fine if you just mark it as an exhibit and enter it
9 into the record.

10 MR. BRUCE: I want to make sure I have the
11 right exhibit number. I will hand you -- this is
12 the original, the only copy I have, but it's an
13 Affidavit of Publication as against the people
14 listed as unlocatable on that notice list.

15 LEGAL COUNSEL WADE: Thank you.

16 HEARING EXAMINER MCMILLAN: Exhibit 14 is
17 accepted as part of the record. I have no further
18 questions. Thank you very much.

19 (Note: Exhibit 14 admitted.)

20 NATE CLESS
21 after having been first duly sworn under oath,
22 was questioned and testified as follows:

23 EXAMINATION

24 BY MR. BRUCE

25 Q. Will you please state your name and city

1 of residence?

2 A. Nature Cless, Midland Texas.

3 Q. Who do you work for?

4 A. Mewbourne Oil Company.

5 Q. What's your job?

6 A. Geologist.

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

9 A. Yes, sir.

10 Q. Were your credentials accepted as a matter
11 of record?

12 A. Yes, sir.

13 Q. Are you familiar with the geology involved
14 in this case?

15 A. I am.

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

18 HEARING EXAMINER MCMILLAN: So qualified.

19 Q. Could you identify Exhibit 10 for the
20 examiner?

21 A. Exhibit 10 is a structure map. The
22 structure is on the top of the Wolfcamp formation.
23 In this matter the structure tends to run
24 north/south with a dip to the east at approximately
25 100 feet per mile, so a little over a one-degree dip

1 to the east.

2 On this map I identified the Wolfcamp
3 producers that are in the area. There's one
4 vertical producer down in Section 34 and then there
5 are two horizontal producers that Mewbourne has
6 drilled over in Section 35. I also identified the
7 Speedwagon 27 W2DM. It's the red wellbore in the
8 west half west half Section 27. I also identified
9 the location of my next exhibit, which is
10 Cross-Section 8A prime.

11 Q. Let's move to that exhibit, please.

12 A. Cross-section 8A prime is a three-well
13 cross-section covering the wells surrounding the
14 proposed wellbore. It's of the Wolfcamp formation.
15 This is a structural cross-section that runs
16 basically from west to east so you can see you are
17 going down as you are moving to the east.

18 The top formation that I've drawn here,
19 the top of the Wolfcamp, is the blue line. Then you
20 get to the Wolfcamp sands, Wolfcamp A, B, C and the
21 Wolfcamp D at the bottom of the cross-section. The
22 proposed target interval I have identified with the
23 red arrows on each of the well logs. It's the
24 Wolfcamp D formation and it's an organic shale that
25 we have drilled in this area. It was found to be

1 productive in this area.

2 You can see the Wolfcamp interval as a
3 whole, the gross interval is consistent across this
4 area. The thickness is continuous, and then in our
5 target interval it's kind of the same thing.
6 There's good density porosity ranging from -- it
7 gets it up to 12 to 14 percent and just a consistent
8 thickness through this area.

9 Q. Let's talk about -- we'll get to that in a
10 minute. Talk about the production in the area.
11 What does Exhibit 12 reflect?

12 A. Exhibit 12 is just a production table of
13 the Wolfcamp producers in this area. As I mentioned
14 there's one vertical well, which is the top well,
15 Fate 34 No. 1. It made 8,000 barrels of oil and
16 three-tenths, almost four tenths of a BCF out of the
17 Wolfcamp formation.

18 Then the other two wells on here are two
19 horizontal wells that Mewbourne has drilled in this
20 area, both in Section 35. The Layla 35 MD Fee No.
21 2H as well as the Layla 35 W20B Fee 3H. Both of
22 these targeted the same Wolfcamp D interval that we
23 are targeting in the Speedwagon 27. Both of these
24 are economic and productive wells for us.

25 Q. Let's move on to Exhibit 13. What is

1 that?

2 A. Exhibit 13 is just the drilling plan that
3 we have from the directional drilling company that
4 will be drilling this well. It shows our kickoff
5 point, landing point and the bottom hole location.
6 The landing point will be approximately 750 feet
7 from the north, 660 from the west, so we will be at
8 a legal location. That will be the location of our
9 first perforation, so we will be at the legal
10 location. Then our bottom hole will be at 330 from
11 the south, 660 from the west.

12 Q. So even though your surface location in
13 Unit D is 190 feet from the north line, you will be
14 at an orthodox location when you reach your first
15 producing point?

16 A. That's correct.

17 Q. So the well is only unorthodox to the
18 south, Mr. Examiner, at the tail end.

19 HEARING EXAMINER MCMILLAN: Okay.

20 Q. Regarding the unorthodox location, do you
21 foresee any harm to offset operators by having the
22 unorthodox location?

23 A. I don't believe so. This is a tight
24 formation, a tight shale. We actually operate the
25 section to the south of us, Section 34, and it's

1 pretty common to see operators take these wells to
2 330. Like I said, it's a tight formation so we
3 don't see any drainage issues.

4 Q. But you will also increase the producing?

5 A. That's correct.

6 Q. Make the well more economic?

7 A. That's correct.

8 Q. With regard to your Exhibits 10 and 11,
9 Mr. Cless, I see that the author is J Lodge. Could
10 you identify who that is?

11 A. Jason Lodge is another geologist that
12 works with me in this area. We work together
13 prospecting and drilling the wells in this area.

14 Q. Even though his name is on it, have you
15 reviewed the data and you agree with what's set
16 forth on the plats?

17 A. Yes, sir.

18 Q. Were Exhibits 12 and 13 prepared by you or
19 compiled from business company records?

20 A. Why yes, sir.

21 MR. BRUCE: Move the admission of Exhibits
22 10 through 13.

23 HEARING EXAMINER MCMILLAN: Exhibits 10
24 through 13 may now be accepted as part of the
25 record.

1 (Note: Exhibits 10 through 11 admitted.)

2 MR. BRUCE: I do not have any further
3 questions of the witness.

4 HEARING EXAMINER MCMILLAN: So do the
5 producing wells, do we have a pilot hole?

6 THE WITNESS: No. For the most part we
7 don't drill pilot holes. We use all the vertical
8 wellbores in this are to tie into as we are drilling
9 the laterals. We see it as more economic not to
10 have to spend the money to drill the pilot hole. So
11 we will not use a pilot hole in this well.

12 HEARING EXAMINER MCMILLAN: Okay. What's
13 the GOR? Is it the Laylas?

14 THE WITNESS: I want to say it's about 40.

15 UNIDENTIFIED SPEAKER: Ten.

16 THE WITNESS: Oh, the GOR. Sorry. Yeah,
17 it's about 10,000.

18 HEARING EXAMINER MCMILLAN: What's the API
19 gravity?

20 THE WITNESS: About 40, 45? Fifty-three?

21 HEARING EXAMINER MCMILLAN: Fifty-three?
22 Okay. That changes everything then. I don't have
23 any real questions. Do you have any?

24 LEGAL COUNSEL WADE: I do not.

25 HEARING EXAMINER MCMILLAN: Thank you very

1 much and Case No. 15384 will be taken under
2 advisement.

3 (Note: The proceedings were concluded.)
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I hereby certify that the foregoing is
a true and correct record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____
_____, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, 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 and was reduced to printed form under my direct supervision.

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.



JAN GIBSON, CCR-RPR-CRR
New Mexico CCR No. 194
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