

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

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

7 APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY POOLING
8 AND AN UNORTHODOX WELL LOCATION
9 EDDY COUNTY, NEW MEXICO. CASE NO. 15542

ORIGINAL

10 REPORTER'S TRANSCRIPT OF PROCEEDINGS

11 EXAMINER HEARING

12 September 29, 2016

13 Santa Fe, New Mexico

14 BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
15 WILLIAM V. JONES, TECHNICAL EXAMINER
16 DAVID K. BROOKS, LEGAL EXAMINER

17 This matter came on for hearing before the
18 New Mexico Oil Conservation Division, Michael McMillan,
19 Chief Examiner, William V. Jones, Technical Examiner,
20 and David K. Brooks, Legal Examiner, on Thursday,
21 September 29, 2016, at the New Mexico Energy, Minerals
22 and Natural Resources Department, Wendell Chino
23 Building, 1220 South St. Francis Drive, Porter Hall,
24 Room 102, Santa Fe, New Mexico.

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

FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (9:36 a.m.)

2 EXAMINER McMILLAN: Call Case Number 15542,
3 application of Mewbourne Oil Company for compulsory
4 pooling and an unorthodox well location, Eddy County,
5 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.

10 EXAMINER McMILLAN: Not the same witnesses?

11 MR. BRUCE: The first one is not.

12 EXAMINER McMILLAN: Okay. And the second
13 one is?

14 MR. BRUCE: Yes.

15 EXAMINER McMILLAN: Okay. Get sworn in.

16 COREY MITCHELL,
17 after having been first duly sworn under oath, was
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Will you please state your name for the record?

22 A. Corey Mitchell.

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

24 A. I work for Mewbourne Oil Company as a landman.

25 Q. Have you previously testified before the

1 Division?

2 A. I have.

3 Q. Were your credentials as a petroleum landman
4 accepted as a matter of record?

5 A. They were.

6 Q. Are you familiar with the land matters involved
7 in this application?

8 A. Yes, sir, I am.

9 MR. BRUCE: Mr. Examiner, I tender
10 Mr. Mitchell as an expert petroleum landman.

11 EXAMINER McMILLAN: So qualified.

12 Q. (BY MR. BRUCE) Could you identify Exhibit 1 and
13 discuss its contents for the Examiner?

14 A. Exhibit 1 is a Midland Map Company land plat
15 showing Township 23 South, 27 East, Eddy County, New
16 Mexico. Highlighted on here is our proposed well and
17 spacing unit, which is the Iceman 26 W2AP Fed Com #1H
18 with the proposed east half of the Section 26 unit.

19 Q. What formation is being tested?

20 A. This is the Wolfcamp Formation.

21 Q. Is it in a gas pool?

22 A. It is.

23 Q. What are the beginning and ending footages of
24 the proposed producing interval?

25 A. Our surface location is 205 feet from the north

1 line and 330 feet from the east line, and our
2 bottom-hole location is 330 feet from the south line and
3 330 feet from the east line.

4 Q. What is Exhibit 2?

5 A. Exhibit 2 is our tract ownership for this
6 particular prospect. It lists out all our partners in
7 the well. And we are seeking to pool one party, The
8 Allar Company, and they are marked with an asterisk.

9 Q. And what is Exhibit 3?

10 A. Exhibit 3 is a summary of our communications
11 with copies of the respective correspondence The Allar
12 Company.

13 Q. Your contacts with Allar go back almost two
14 years, correct?

15 A. Correct.

16 Q. You've received -- have you received any
17 response from Allar as to why they will or will not join
18 in the well?

19 A. I talked with Mr. Jack Graham with The Allar
20 Company, and his position was that his interest was HVP.
21 And so he didn't feel that he needed to participate or
22 work a deal out on his interest.

23 Q. Does Mewbourne have upcoming lease-expiration
24 issues?

25 A. Yes, sir, we do.

1 Q. Which part of the well unit?

2 A. It would be the northeast quarter.

3 Q. So as a result, Mewbourne does need to proceed
4 with pooling and drilling this well?

5 A. That is correct.

6 Q. In your opinion, has Mewbourne made a
7 good-faith effort to obtain the voluntary joinder The
8 Allar Company in this well?

9 A. Yes, sir.

10 Q. What is Exhibit 4?

11 A. Exhibit 4 is our AFE setting out the estimated
12 cost for this well. We have a completed cost of --
13 estimated completed cost of \$5,268,300.

14 Q. And is this cost fair and reasonable and in
15 line with the cost of other wells of this type drilled
16 in this area of southeast New Mexico?

17 A. They are.

18 Q. What overhead rates do you propose?

19 A. We are requesting 7,500 for drilling and 750
20 for producing.

21 Q. And are those rates comparable to the rates
22 charged by Mewbourne and other operators in this area?

23 A. Yes, sir. They're the rates set out in our
24 COPAS.

25 Q. And do you request that these rates be adjusted

1 periodically as provided in the COPAS accounting
2 procedure?

3 A. Yes.

4 Q. Do you request the cost plus 200 percent risk
5 charge be assessed if The Allar Company goes nonconsent
6 in this well?

7 A. Yes, sir.

8 MR. BRUCE: Mr. Examiner, Exhibit 5 is my
9 Notice of Affidavit that The Allar Company did receive
10 notice of this hearing.

11 Q. (BY MR. BRUCE) What is Exhibit 6?

12 A. Exhibit 6 is the offset ownership of the
13 affected offset owners.

14 Q. And that is for purposes of the unorthodox
15 location, correct?

16 A. Yes, sir.

17 Q. And will the next witness discuss the reason
18 for the unorthodox location?

19 A. Yes, sir.

20 Q. All of the parties listed on here are
21 non-Mewbourne entities; is that correct?

22 A. That's correct.

23 MR. BRUCE: Mr. Examiner, Exhibit 7 is my
24 Affidavit of Notice to the offsets, and all offsets did
25 receive notice of the unorthodox portion of this

1 application.

2 So do I get a cheer for finally completing
3 these?

4 (Laughter.)

5 Q. (BY MR. BRUCE) Mr. Mitchell, in your opinion,
6 is the granting of this application in the interest of
7 conservation and the prevention of waste?

8 A. Yes, sir.

9 Q. And were Exhibits 1 through 7 prepared by you,
10 under your supervision or compiled from company business
11 records?

12 A. They were.

13 MR. BRUCE: I move the admission of
14 Exhibits 1 through 7.

15 EXAMINER McMILLAN: Exhibits 1 through 7
16 may now be accepted as part of the record.

17 (Mewbourne Oil Company Exhibit Numbers 1
18 through 7 are offered and admitted into
19 evidence.)

20 MR. BRUCE: And I pass the witness.

21 CROSS-EXAMINATION

22 BY EXAMINER McMILLAN:

23 Q. What's the status?

24 A. Of?

25 Q. Of the well.

1 A. It's not drilled yet.

2 Q. Proposed?

3 A. Proposed, yes, sir.

4 Q. Any depth severances?

5 A. No, sir.

6 EXAMINER McMILLAN: Go ahead.

7 EXAMINER BROOKS: No questions.

8 EXAMINER McMILLAN: Thank you very much.

9 THE WITNESS: Thank you.

10 JASON LODGE,

11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Please state your name for the record.

16 A. Jason Lodge.

17 Q. And who do you work for and in what capacity?

18 A. Mewbourne Oil as a petroleum geologist.

19 Q. And were you previously sworn and qualified
20 today as an expert petroleum geologist?

21 A. Yes.

22 Q. And are you familiar with the geology involved
23 in this application?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I tender

1 Mr. Lodge as an expert petroleum geologist.

2 EXAMINER McMILLAN: So qualified.

3 Q. (BY MR. BRUCE) Mr. Lodge, could you identify
4 Exhibit 8 for the record?

5 A. Yeah. This exhibit is my base map, similar to
6 previous cases. The colors here are the same, and the
7 pink is Wolfcamp Sand. The navy blue colors are
8 Wolfcamp Shale producers, both vertical and one
9 horizontal Wolfcamp Shale producer in the area.

10 The structure map -- or the structure is on
11 top of the Wolfcamp, which is a consistent marker in
12 this area, with the blue numbers above the wellbores.
13 That's the subsequent value so on top of the Wolfcamp.
14 And then I have an A to A prime cross-section line that
15 starts to the west and then goes to the east and north.

16 Q. Would you move on to your cross section marked
17 Exhibit 9 and discuss the zone of interest in this area?

18 A. This cross section covers the entire Wolfcamp
19 Shale interval in this area. I start at the very top of
20 the Wolfcamp, and that's where it's hung. We've hung
21 that on the top of the Wolfcamp.

22 Again, you can see in the 25H well, I've
23 put a red arrow that shows where we're targeting our
24 lateral, and this is going to be in the Lower Wolfcamp
25 Shale. That is a consistent -- relatively consistent

1 thickness in this area with minimum changes in the
2 geology, so we would expect the geology to be similar
3 across all units.

4 Q. In your opinion, will each quarter-quarter --
5 each quarter section contribute more or less equally to
6 the production?

7 A. Yes.

8 Q. Can you discuss why Mewbourne wants an
9 unorthodox location for this well?

10 A. Again, we'd like to extend our lateral length
11 as much as possible.

12 Q. Will that make the well more economic?

13 A. Yes.

14 Q. And is this a tight reservoir?

15 A. Yes, it is.

16 Q. And in your opinion, will the unorthodox
17 location adversely affect offsetting acreage?

18 A. No.

19 Q. What is Exhibit 10?

20 A. Exhibit 10 is my production table for all
21 Wolfcamp producers on my Exhibit 8 map. Most of these
22 are vertical producers, all of which are poor. The most
23 cumed is 2,000 barrels of oil.

24 There is one horizontal well that is in the
25 same section, in the west half, called the Chaka State,

1 which targeted a similar interval, and in about a year
2 of production, it has cumed 42,000 barrels of oil and
3 422 million cubic feet of gas.

4 Q. Based on this data, do you believe it's more
5 reasonable to develop the Wolfcamp on a horizontal basis
6 rather than a vertical basis?

7 A. Yes.

8 Q. What is Exhibit 11?

9 A. This is our preplanned drilling plan --
10 drilling survey that we generated before we drill any
11 well. And, again, if you'll turn to the last page, it
12 shows our plat here. And on the very bottom, our
13 surface location is 205 from the north and 330 from the
14 east, our first take point of 330 from the north, 330
15 from the east, and then our bottom-hole location of 330
16 from the south and 330 from the east.

17 Q. How many completion stages has Mewbourne
18 planned?

19 A. Roughly -- probably 20 to 25 stages.

20 Q. Were Exhibits 8 through 11 either prepared by
21 you or compiled from company business records?

22 A. Yes, they were.

23 Q. In your opinion, is the granting of this
24 application in the interest of conservation and the
25 prevention of waste?

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I move the
3 admission of Exhibits 8 through 11.

4 EXAMINER McMILLAN: Exhibits 8 through 11
5 may now be accepted as part of the record.

6 (Mewbourne Oil Company Exhibit Numbers 8
7 through 11 are offered and admitted into
8 evidence.)

9 MR. BRUCE: No further questions of this
10 witness.

11 CROSS-EXAMINATION

12 BY EXAMINER McMILLAN:

13 Q. Okay. I have a question, looks like, on
14 Exhibit 8. It looks like there is a well in Section 24.

15 A. Uh-huh.

16 Q. And it looks like there is another well in
17 Section 1, the very edge of your map?

18 A. Yes, sir.

19 Q. Is there any difference in reserves in those
20 wells?

21 A. Between the Wolfcamp Sand and the --

22 Q. I mean between -- looks like these are produced
23 in the same interval, right?

24 A. Yes. Those are both Wolfcamp Sand wells.

25 Q. Are there any differences in reserves because

1 of the different drilling orientations?

2 A. I don't know the answer to that. I'd have
3 to -- I'd have to check that.

4 Q. Okay. I mean, I'm just curious. Would you
5 expect that you -- would you expect to have better
6 reserves east-west or north-south?

7 A. Stand-up would be my guess, but I think both of
8 those wells are probably economic. But, again, I'd have
9 to go look at the production on them.

10 EXAMINER McMILLAN: Go ahead.

11 CROSS-EXAMINATION

12 BY EXAMINER JONES:

13 Q. The 330 setback that everybody seems to be
14 proposing for the Wolfcamp gas, is that kind of a
15 gentlemen's agreement and, you know, rarely protest each
16 other? Is that correct?

17 A. Yes, that's correct.

18 Between us and operators? Is that what
19 you're saying?

20 Q. Yeah.

21 A. Yes.

22 Q. Is it because of the frac half-length that
23 you -- did the engineers tell you anything about frac
24 half-lengths?

25 A. I don't know exactly what the frac half-length

1 is, but I think that we -- I think that we can both
2 adequately -- adequately make good wells with those 330
3 setbacks because of the tightness of the reservoir.

4 Q. Okay. So -- so if everybody drills them up to
5 that point, eventually maybe the rules would be proposed
6 to be changed.

7 Is this the area -- this is not the area of
8 the Cimarex case that has already been allowed to be
9 330, I take it?

10 MR. BRUCE: Huh-uh.

11 EXAMINER JONES: Probably not.

12 MR. BRUCE: I don't recall.

13 EXAMINER JONES: We could check that.

14 THE WITNESS: Okay.

15 Q. (BY EXAMINER JONES) But the vertical wells
16 through the Wolfcamp, did those shoot all -- a bunch of
17 different stringers or a bunch of different zones that
18 you had a hard time deciding where to drill your
19 vertical --

20 A. Right. And some of them were commingled
21 through the entire Wolfcamp Shale interval, and then
22 some of them just specifically targeted one interval. I
23 think we used the offset horizontal as more of a basis
24 as to where we would land our horizontal.

25 Q. Okay. So maybe you have some variation in

1 offset horizontals, so you can kind of optimize where
2 you're going to drill your well?

3 A. Yes, that's correct.

4 Q. Okay. So 10,000 feet deep. Can you give us a
5 range of expected recoveries and life of the well?

6 A. I think we expect it to produce for, you know,
7 20 to 30 years.

8 Q. Really?

9 A. We expect it to produce that long. That's what
10 we run our economics on. As far as total reserves that
11 we expect, I don't have an exact number for you. We're
12 kind of -- there's not -- like I said, there is only
13 that one well there to really kind of base that on, so
14 there is not a whole lot of control in this general
15 area.

16 Q. Yeah. Reserves are kind of opinions that
17 nobody knows for sure --

18 A. That's right.

19 Q. -- until the well's plugged.

20 A. That's right. Yes, sir.

21 Q. And then it's not a reserve anymore.

22 A. Uh-huh.

23 Q. Okay. I don't have any more questions.

24 EXAMINER BROOKS: No questions.

25 EXAMINER McMILLAN: Okay. Thank you very

1 much.

2 THE WITNESS: Thank you.

3 EXAMINER McMILLAN: Case Number 15542 will
4 be taken under advisement.

5 (Case Number 15542 concludes, 9:53 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20

21



22

MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
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