

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:

COPY

APPLICATION OF MEWBOURNE OIL COMPANY CASE NO. 15511
FOR A NONSTANDARD SPACING AND PRORATION
UNIT, COMPULSORY POOLING, AND AN
UNORTHODOX GAS WELL LOCATION, EDDY
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 21, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Technical Examiner,
and Gabriel Wade, Legal Examiner, on Thursday, July 21,
2016, 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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1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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24	Mewbourne Oil Company Exhibit Numbers 1 through 8	7
25	Mewbourne Oil Company Exhibit Numbers 9 through 12	9

1 (10:13 a.m.)

2 EXAMINER McMILLAN: Let's call Case Number
3 15511, application of Mewbourne Oil Company for a
4 nonstandard spacing and proration unit, compulsory
5 pooling, and an unorthodox gas well location, Eddy
6 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. Both Mr. Pearson and Mr. Cless were
11 previously --

12 EXAMINER McMILLAN: Any other appearances?

13 MR. BRUCE: -- previously sworn.

14 CLAYTON PEARSON,

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. Pearson, can you identify Exhibit 1?

20 A. Exhibit 1 is a land plat showing the project
21 area for the Foreigner 33/4 W2LM Fee Number 1H well,
22 which -- it's comprised of the southwest quarter of
23 Section 33, Township 23 South, Range 28 East, as well as
24 the west half in Section 4, Township 24 South, Range 28
25 East, Eddy County, New Mexico. The proration unit is

1 highlighted in yellow and the wellbore depicted in red.
2 We are seeking to pool the Wolfcamp Formation in this
3 proration unit, and there are no severances.

4 Q. And, again, this is in the South Culebra Bluff
5 Gas -- South Gas Pool?

6 A. Correct.

7 Q. What is Exhibit 2?

8 A. Exhibit 2 is the tract ownership of the
9 proration unit, and it also lists out the parties that
10 we seek to pool. And it also includes -- you'll see
11 down at the bottom the same convoluted chain of title
12 associated with the Beeman interests.

13 Q. Okay. And Exhibit 7 is a copy of that opinion?

14 A. Correct.

15 Q. And just to move things along, is this a
16 summary of communications?

17 A. It is.

18 Q. Has anyone in this -- besides -- forget the
19 Beemans for a minute. Is -- are any of the other
20 parties interested in potentially leasing from
21 Mewbourne?

22 A. I believe so. I haven't heard back from these
23 two specifically in this case, but we're hoping to reach
24 a deal with them if they're interested in a lease.

25 Q. If you do, will you notify the Division?

1 A. We will.

2 Q. Is Exhibit 4 simply all of your proposal
3 letters to the interest owners?

4 A. That's correct.

5 Q. Is Exhibit 5 proof of delivery?

6 A. It is.

7 Q. Again, you searched multiple -- there are some
8 unlocatable interest owners?

9 A. That's correct.

10 Q. And, again, these parties have been dealt with
11 for years, so you have a pretty good handle on who is
12 and who is not locatable?

13 A. That's correct.

14 Q. And has Mewbourne made a good-faith effort of
15 locating interest owners in the well or to locate those
16 who disappeared from the record some time ago?

17 A. Yes.

18 Q. What is Exhibit 6?

19 A. Exhibit 6 is a copy of the AFE associated with
20 the well. The total well cost is just over
21 \$6.6 million.

22 Q. And is this cost fair and reasonable?

23 A. It is.

24 Q. What are the overhead rates that you are
25 requesting?

1 A. 7,500 for drilling months, 750 for nondrilling
2 months.

3 Q. And are those rates used by Mewbourne and other
4 operators in this area for wells of this depth?

5 A. Yes.

6 Q. Do you request the maximum cost plus 200
7 percent risk penalty?

8 A. Yes.

9 Q. And then finally, is Exhibit 8 a list of the
10 offset operators given notice of this application?

11 A. It is.

12 Q. Were Exhibits 1 through 8 prepared by you or
13 under your supervision?

14 A. Yes, they were.

15 MR. BRUCE: Again, Mr. Examiner, we are
16 getting green cards back all the time, but I don't have
17 them all back at this time. We are asking this matter
18 be continued to August 4th.

19 Q. (BY MR. BRUCE) In your opinion, is the granting
20 of this application in the interest of conservation and
21 the prevention of waste?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I would move the
24 admission of Exhibits 1 through 8.

25 THE COURT: Exhibits 1 through 8 may now be

1 accepted as part of the record.

2 (Mewbourne Oil Co. Exhibit Numbers 1
3 through 8 are offered and admitted into
4 evidence.)

5 MR. BRUCE: I have no further questions of
6 the witness.

7 CROSS-EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. Is the project area 480.2 acres?

10 A. That is -- 480.2, that's correct. Yes.

11 EXAMINER McMILLAN: Go ahead.

12 EXAMINER JONES: I have no questions.

13 EXAMINER WADE: No questions.

14 EXAMINER McMILLAN: Thank you.

15 THE WITNESS: Thank you.

16 NATE CLESS,

17 after having been previously sworn under oath, was
18 questioned and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you state your name for the record?

22 A. Nate Cless.

23 Q. Mr. Cless, again, without discussing the
24 exhibits, would you identify Exhibits 10, 11 and 12?

25 A. 9, 10, 11 and 12 are the structure map of

1 the -- of the area that we're pooling in this area.
2 Exhibit 10 is the cross section regarding the Wolfcamp
3 Formation. Exhibit 11 is the Wolfcamp production data
4 table in this area, and Exhibit 12 is the horizontal
5 drilling plan that we have for this well.

6 The first take point for this well will be
7 2,310 from the south, 450 from the west. And our bottom
8 hole will be 330 from the south, 450 from the west in
9 Section 4.

10 Q. Are Exhibits 9, 10 and 11 identical to those
11 submitted in Case 15510?

12 A. Yes, they are.

13 Q. And the difference is Exhibit 12?

14 A. Right.

15 Q. And has there been prior testimony about the
16 Wolfcamp in previous cases prior to this case?

17 A. Yes, it does [sic].

18 Q. And were Exhibits 9, 10, 11 and 12 prepared by
19 you, under your supervision and compiled from company
20 business records?

21 A. Yes, they were.

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

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I'd move the
2 admission of Exhibits 9 through 12.

3 EXAMINER McMILLAN: Exhibit 9 through 12
4 may now be accepted as part of the record.

5 (Mewbourne Oil Co. Exhibit Numbers 9
6 through 12 are offered and admitted into
7 evidence.)

8 MR. BRUCE: I have no further questions of
9 the witness.

10 CROSS-EXAMINATION

11 BY EXAMINER McMILLAN:

12 Q. I have a question on Exhibit 9. What is the
13 horizontal well? Is that a Bone Spring?

14 A. Well, it's -- all the blue wells in here -- the
15 blue wellbore paths are the Wolfcamp Shale horizontals.
16 The pink horizontal well paths are Wolfcamp sand, so the
17 upper part of the Wolfcamp or the Wolfcamp sand
18 horizontals. What we're going to be drilling is the
19 Wolfcamp Shale.

20 Q. Okay. But this map shows a horizontal. Is
21 that just a plan?

22 A. So, I mean, there are -- there are some other
23 horizontal wellbores that are on here, and yes, those
24 are -- those are either Bone Spring or Delaware, the
25 horizontals in this area.

1 Q. Okay.

2 MR. BRUCE: What was your question again?

3 EXAMINER McMILLAN: Well, there is a well.

4 THE WITNESS: Oh. I'm sorry. The south
5 half of Section 33?

6 EXAMINER McMILLAN: It would be the north
7 half of 33.

8 EXAMINER JONES: No. It's south.

9 EXAMINER McMILLAN: No. South half of 33.
10 Excuse me.

11 THE WITNESS: Yes. That's a 1st Bone
12 Spring horizontal.

13 Q. (BY EXAMINER McMILLAN) Okay. Has that well
14 produced on par with the north-south wells?

15 A. The 1st Bone Spring Sand well?

16 Q. Yeah. This well here.

17 A. It has not. I mean, the 1st Bone Spring Sand,
18 we would not consider economic in this area, and it was
19 drilled probably eight or nine years ago.

20 Q. Oh, okay. It's a different animal.

21 Okay. Oil gravity is identical?

22 A. Correct.

23 Q. GOR is 21,000?

24 A. 8,000.

25 EXAMINER McMILLAN: Go ahead.

CROSS-EXAMINATION

1

2 BY EXAMINER JONES:

3 Q. This well that's planned in the north half of
4 33, did you talk about that one also?

5 A. That well is -- is drilled by -- by another
6 operator. MRC drilled that well. So they control the
7 north of 33 and the south half of 33 in Section 4.

8 Q. Is that a Wolfcamp?

9 A. Yes, it is.

10 Q. Upper Wolfcamp?

11 A. The blue is Wolfcamp Shale, same interval we're
12 going in.

13 Q. Do you have any interest in that well?

14 A. We do not.

15 Q. That's too bad.

16 A. Yeah.

17 Q. You don't have any information? Has it been
18 there awhile?

19 A. No. They recently drilled that well. I don't
20 believe -- they might have just recently released some
21 production, but there is no monthly production on it.

22 Q. They chose to go east-west instead of --

23 A. I think, again, that was probably for the land
24 reasons. They have drilled -- I guess they've drilled
25 the majority of their wells east-west. We've drilled

1 the majority of our wells north-south, and we've seen
2 very similar results between the two.

3 Q. Okay. Any land -- any restrictions on surface
4 locations or --

5 A. I don't believe so, not in this particular
6 area.

7 Q. The plan for -- are you going to commingle
8 these two wells or just build a separate battery?

9 A. I think we'll build a separate battery for
10 each.

11 Q. I don't have any more questions.

12 EXAMINER WADE: No questions.

13 EXAMINER McMILLAN: Thank you.

14 So Case Number 15511 is continued to August
15 4th.

16 (Case Number 15511 concludes, 10:22 a.m.)
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20 I do hereby certify that the foregoing is
21 a complete record of the proceedings in
22 the Examiner hearing of Case No. _____
23 heard by me on _____

24 _____, Examiner
25 Oil Conservation Division

STATE OF NEW MEXICO

1 COUNTY OF BERNALILLO

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3 CERTIFICATE OF COURT REPORTER

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

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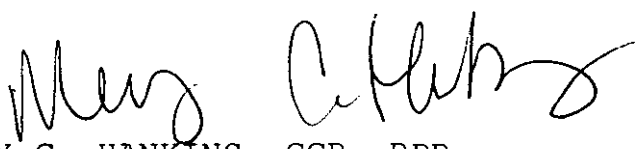
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MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
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