

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 FOR
COMPULSORY POOLING AND AN
UNORTHODOX WELL LOCATION, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15516

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 29, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
DAVID K. BROOKS, 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 David K. Brooks, Legal Examiner, on Thursday,
September 29, 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

(9:03 a.m.)

2

EXAMINER McMILLAN: Case Number 15516,

3

application of Mewbourne Oil for compulsory pooling and

4

an unorthodox well location, Eddy County, New Mexico.

5

Call for appearances.

6

MR. BRUCE: Mr. Examiner, Jim Bruce of

7

Santa Fe representing the Applicant. I have the same

8

two witnesses I've had previously.

9

EXAMINER McMILLAN: Any other appearance?

10

Please proceed.

11

CLAYTON PEARSON,

12

after having been previously sworn under oath, was

13

questioned and testified as follows:

14

DIRECT EXAMINATION

15

BY MR. BRUCE:

16

Q. Could you state your name for the record?

17

A. My name is Clayton Pearson.

18

Q. Were you previously sworn and qualified today

19

as an expert petroleum landman?

20

A. Yes.

21

Q. Are you familiar with the geology -- the land

22

matters involved in this application?

23

A. Yes.

24

MR. BRUCE: Mr. Examiner, I'd tender

25

Mr. Pearson as an expert petroleum landman.

1 EXAMINER McMILLAN: So qualified.

2 Q. (BY MR. BRUCE) What is Exhibit 1, Mr. Pearson?

3 A. Exhibit 1 is a plat showing the location of the
4 Yardsbirds 34 W2OB #1H well located in the east half of
5 Section 34, Township 23 South, Range 28 East Eddy
6 County, New Mexico. It shows the east half of Section
7 34 and the proration unit for the well, and it was
8 drilled from the south to the north.

9 Q. And is the unorthodox -- is the location
10 unorthodox?

11 A. Yes.

12 Q. And will the next witness testify about that?

13 A. Yes.

14 Q. Now, before getting into the land exhibits,
15 other than some different ownership in this well unit,
16 is your land testimony virtually identical to the prior
17 case?

18 A. Yes.

19 Q. What is Exhibit 2?

20 A. Exhibit 2 is tract ownership which shows the
21 ownership in the east half of Section 34. It shows that
22 Mewbourne Oil Company, et al. under a joint operating
23 agreement, and it lists out the uncommitted interest
24 owners.

25 Below that -- each of the parties listed

1 below have an asterisk, and we are requesting them to be
2 pooled. It also includes, you'll see at the bottom, the
3 convoluted Beeman interest we discussed during the last
4 case.

5 Q. And is Exhibit 3, again, a copy of the title
6 opinion regarding the Beeman interest?

7 A. That is correct.

8 Q. What is Exhibit 4?

9 A. Exhibit 4 is a list of parties that have either
10 joined in the well or we have acquired an assignment of
11 their interest.

12 Q. What is Exhibit 5?

13 A. Exhibit 5 is a summary of communications we've
14 had with each of the parties regarding this well.

15 Q. And what is Exhibit 6?

16 A. Exhibit 6 is a copy of the actual communication
17 we have had with these parties.

18 Q. And, again, you've had numerous conversations
19 with a lot of these parties?

20 A. That's correct.

21 Q. And, again, there are some unlocatable interest
22 owners, as in the prior case. Did you check county
23 records, probate records, check with relatives and check
24 Internet records regarding the location of these
25 parties?

1 A. That's correct.

2 Q. In your opinion, has Mewbourne made a
3 good-faith effort either to locate the parties or to
4 obtain their voluntary joinder in the well unit?

5 A. Yes.

6 Q. What is Exhibit 7?

7 A. Exhibit 7 is a copy of our AFE for the well.

8 Q. And what are the final well costs?

9 A. The final well costs are \$5.164 million.

10 Q. Is the cost fair and reasonable?

11 A. Yes.

12 Q. Is the cost of this well comparable to other
13 wells of this type drilled in this area of New Mexico?

14 A. Correct.

15 Q. What overhead rates do you request?

16 A. We are requesting 7,500 for drilling months and
17 750 for nondrilling months.

18 Q. And are those rates comparable to the rates
19 charged by Mewbourne and other operators in this area
20 for wells of this depth?

21 A. Yes.

22 Q. Do you request that the maximum cost plus 200
23 percent risk charge be assessed against any
24 nonconsenting interest owner?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, Exhibit 8 is my
2 Affidavit of Notice to the various parties who were
3 notified. Again, if you compare this to Exhibit -- I
4 believe Exhibit 4, the list of interest owners who have
5 since joined in the well, a lot of those parties that
6 have joined in the well did not receive notice of this
7 hearing for some reason. But, you know, obviously the
8 addresses are right, and they just weren't delivered.

9 Exhibit 9 is the Affidavit of Publication
10 in the newspaper.

11 Q. (BY MR. BRUCE) And what is Exhibit 10,
12 Mr. Pearson?

13 A. Exhibit 10 is a list of the offset ownership
14 associated with this proration unit.

15 MR. BRUCE: And, again, Mr. Examiner, if
16 you care to compare this list to the beginning and end
17 points of the first take point and the bottom take
18 point, the unorthodox locations, the only effect of
19 offset is Mewbourne Oil Company, and, therefore, no
20 offsets were notified.

21 Q. (BY MR. BRUCE) Were Exhibits 1 through 10
22 prepared by you or under your supervision or compiled
23 from company business records, Mr. Pearson?

24 A. Yes.

25 Q. And in your opinion, is the granting of this

1 application in the interest of conservation and the
2 prevention of waste?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I move the
5 admission of Mewbourne Exhibits 1 through 10.

6 EXAMINER McMILLAN: Exhibits 1 through 10
7 may now be accepted as part of the record.

8 (Mewbourne Oil Company Exhibit Numbers 1
9 through 10 are offered and admitted into
10 evidence.)

11 MR. BRUCE: I have no other questions.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. Are there any depth severances within the
15 Wolfcamp?

16 A. No, sir.

17 Q. And who is Trabajo Del Spear?

18 A. They're a working interest owner. They're
19 located in Midland, Texas.

20 Q. Because I have a friend in Roswell. I didn't
21 know if it's the same one.

22 And same pool?

23 A. Yes.

24 EXAMINER McMILLAN: Go ahead.

25

1 CROSS-EXAMINATION

2 BY EXAMINER JONES:

3 Q. The drilling COPAS, is that assessed -- is that
4 prorated if you only drill through part of the month, or
5 is that drilled -- assessed against the whole month? If
6 you drill like a couple of days into that month --

7 A. I believe it's prorated on a drilling basis.
8 The way to -- if it's not a full month.

9 Q. Okay. And Mewbourne being the only offset
10 party on the NSL, does that mean that they were the
11 operator of the offset --

12 A. That's correct.

13 Q. -- and they were the only working interest
14 owner, also?

15 A. Not that they were the only working interest
16 owner, but we were the operator of that unit.

17 Q. So you've got Mewbourne operator this and
18 Mewbourne operator that, but then you need to drill down
19 to the working-interest-owner level for your notice --

20 A. If they were uncommitted? Is that correct? Or
21 what -- I'm not sure what the next step would be on if
22 they're not -- if they're uncommitted.

23 EXAMINER JONES: I'll leave that to
24 Mr. Brooks.

25 EXAMINER BROOKS: Oh. Are you talking

1 about offset notification, or are you talking about
2 interest notification?

3 EXAMINER JONES: For NSL.

4 EXAMINER BROOKS: Oh, for NSLs? Yeah. You
5 would notify the operator unless the operator was --
6 unless you're the operator or if there is -- but, of
7 course, it says "Division-designated operator." So
8 there is only a Division-designated operator if there is
9 a well on that unit.

10 REDIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Pearson, in the offsetting acreage,
13 Mewbourne either has wells or is planning wells with
14 similar unorthodox locations?

15 A. That is correct. We do have development plans
16 of a very similar nature on the offset acreage in the
17 future.

18 CROSS-EXAMINATION

19 BY EXAMINER BROOKS:

20 Q. And did you not -- since Mewbourne is the
21 operator, did you notify the other working interest
22 owners in those offset units?

23 A. We did not.

24 Q. I think that's -- it's my understanding
25 that's -- that is the requirement where the Applicant is

1 the operator.

2 A. Okay.

3 Q. So I believe that you should notify those other
4 working interest owners, unless they own -- the
5 ownership is identical between that unit and the subject
6 unit. If the ownership is identical between the subject
7 unit and the offsetting unit, then you don't have to
8 notify the other -- other people because there's no
9 conflict of interest between the operator and them.

10 A. Okay. It would not be the same ownership,
11 similar but not identical.

12 Q. Okay. So you would need to notify the
13 working -- the other working interest owners.

14 A. Okay.

15 MR. BRUCE: We would prefer to do that
16 administratively.

17 EXAMINER BROOKS: That's fine. I mean, I
18 see no reason why not. We'd have to note that.
19 Sometimes we forget about it when we go to write an
20 order.

21 EXAMINER McMILLAN: So if I'm
22 understanding, you're going to drop the request for the
23 NSL?

24 MR. BRUCE: If that's the Division's
25 requirement. I've always understood -- especially if

1 the wells are being drilled offsetting, there's really
2 no effect on the offsets.

3 EXAMINER BROOKS: Well, the rule doesn't
4 make that qualification. Let's see. It's 4-12
5 (reading).

6 Oh. No. NSLs. No. NSLS are not covered.
7 "Affected persons are all persons owning interests in
8 the joining spacing units, the Division-designated
9 operator in the absence of an operator or lessee who is
10 interest is evidenced by a document absence of an
11 operator or lessee. In the event the proposed
12 unorthodox well's operator is also the operator of an
13 existing unit, adjoining spacing unit and ownership is
14 not common between the joining spacing unit and the
15 spacing unit containing the proposed well, then affected
16 persons include working interest owners in the spacing
17 unit." That's Rule 4.12.2(A).

18 MR. BRUCE: What if there is already an
19 existing well in the offset well unit with an orthodox
20 location?

21 EXAMINER BROOKS: Well, if there is a well
22 and it's operated by somebody else, you only have to
23 notify the operator.

24 You're saying if you have an existing well?

25 MR. BRUCE: (Indicating.)

1 EXAMINER BROOKS: Well, I think you -- I
2 don't read there to be any exception there to that rule.
3 The only exception to the rule that you notify the other
4 working interest owners is if the ownership is
5 identical.

6 MR. BRUCE: Because there are existing
7 wells in the offsetting sections with unorthodox
8 locations.

9 EXAMINER BROOKS: Yeah. Well, I believe
10 you still are required to notify them under this rule.
11 I don't see an exception.

12 MR. BRUCE: Then to answer your question,
13 Mr. Examiner, we'll drop the unorthodox location and
14 simply apply for that administratively.

15 EXAMINER McMILLAN: Okay.

16 MR. BRUCE: I have no further questions.

17 EXAMINER McMILLAN: Thank you.

18 JASON LODGE,
19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Again, would you please state your name for the
24 record?

25 A. Jason Lodge.

1 Q. Mr. Lodge, have you previously been sworn and
2 qualified as an expert in prior cases today?

3 A. Yes.

4 Q. And are you familiar with the geology involved
5 in this application?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I tender
8 Mr. Lodge as an expert petroleum geologist.

9 EXAMINER McMILLAN: He is so qualified.

10 Q. (BY MR. BRUCE) Mr. Lodge, you have Exhibits 11
11 through 14 in front of you. Are Exhibits 11, 12 and 13
12 identical to the -- identical to the exhibits in the
13 prior case?

14 A. Yes, they are.

15 Q. And is your testimony the same regarding the
16 productivity of the well from each quarter section and
17 the need for the continuity of the reservoir across the
18 well unit and the need for the unorthodox location?

19 A. Yes.

20 Q. And what is Exhibit 14?

21 A. Exhibit 14 is the preplanned -- predrilling
22 plan. So if you flip to the last page, on this one, it
23 shows predrill surface 150 from the south, 2,310 from
24 the east in Section 34, with a bottom hole 330 from the
25 north, 2,160 from the east. The as-drilled bottom hole

1 is 338 from the north line and 2,100 from the east line.

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

5 A. Yes, it is.

6 Q. And were Exhibits 11 through 14 prepared by
7 you, under your supervision or compiled from company
8 business records?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I tender -- two
11 things. I would tender Exhibits 11 through 14 into the
12 record, and I would request that his testimony from the
13 prior case be incorporated into the record of this case.

14 EXAMINER McMILLAN: Okay. Exhibits 11
15 through 14 may now be accepted as part of the record,
16 and the expert witness in the previous case is
17 applicable to this case.

18 (Mewbourne Oil Company Exhibit Numbers 11
19 through 14 are offered and admitted into
20 evidence.)

21 MR. BRUCE: And I have no further questions
22 of the witness.

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. Okay. And you expect all quarter sections to

1 contribute equally?

2 A. Yes, sir.

3 Q. Do you know the status of this well?

4 A. It's drilled and completed.

5 Q. And producing?

6 A. And producing, correct.

7 EXAMINER BROOKS: Nothing.

8 EXAMINER McMILLAN: I think all the
9 geologic questions and engineering questions were asked
10 in the previous case.

11 Case 15516 shall be taken under advisement.

12 Let's come back at 9:30.

13 (Case Number 15516 concludes, 9:19 a.m.)

14 (Recess 9:19 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

23

Date of CCR Expiration: 12/31/2016

24

Paul Baca Professional Court Reporters

25