

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

ORIGINAL

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

CASE NO. 14170

APPLICATION OF MEWBOURNE OIL COMPANY
FOR COMPULSORY POOLING, LEA COUNTY,
NEW MEXICO

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Legal Examiner
TERRY G. WARNELL, Technical Examiner

September 4, 2008

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Legal Examiner, TERRY G. WARNELL, Technical Examiner, on Thursday, September 4, 2008, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: JOYCE D. CALVERT, P-03
Paul Baca Court Reporters
500 Fourth Street, NW, Suite 105
Albuquerque, New Mexico 87102

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FOR THE APPLICANT:

James G. Bruce, Esq.
ATTORNEY AT LAW
P.O. Box 1056
Santa Fe, New Mexico 87504

1 MR. WARNELL: At this time, then, we'll call
2 Case No. 14170, Application for Mewbourne Oil Company for
3 Compulsory Pooling, Lea County, New Mexico.

4 Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
6 representing the applicant. I have one witness.

7 MR. WARNELL: Will the witness please stand and state
8 your name and be sworn?

9 MR. SMITH: My name is Steve Smith, and I live in
10 Midland.

11 [Witness sworn.]

12 MR. WARNELL: Mr. Bruce?

13 STEVEN SMITH

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Would you please state your name and city of
19 residence.

20 A. Steven Smith, Midland, Texas.

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

22 A. I work for Mewbourne Oil Company. I'm a senior
23 landman.

24 Q. And have you previously testified before the
25 Division?

1 A. I have.

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

4 A. They were.

5 Q. And are you familiar with the land matters
6 involved in this case?

7 A. Intimately.

8 MR. BRUCE: Mr. Examiner, I tender Mr. Smith as an
9 expert petroleum landman.

10 MR. WARNELL: We'll accept Mr. Smith as an expert
11 petroleum landman.

12 Q. (By Mr. Bruce): Mr. Smith, could you identify
13 Exhibit 1 for the Examiner and describe what Mewbourne seeks in
14 this case?

15 A. Exhibit 1 is a photocopy of a Midland map. I've
16 highlighted Section 21 of Township 20 South, 36 East being the
17 tract of interest. There are two federal leases there:
18 Tract 1 in the northern part, labeled Tract 1, and one in the
19 southern, labeled Tract 2. We have an interest in both of
20 those federal leases.

21 We're seeking to pool for a Morrow test. The well
22 will be drilled at a legal location in the southwest/southwest
23 in the Osudo North Morrow pool, which requires 640-acre
24 spacing.

25 Q. Are there other zones you seek to pool?

1 A. Yes. We would want to pool for 320 acres in the
2 south half, 160 acres from the SW/4 and 40 acres for the
3 southwest/southwest.

4 Q. And what is the name of the proposed well?

5 A. It's the Paloma 21 Fed Com #001 well. And again,
6 it'll be drilled in the southwest/southwest. There's a dot
7 reflecting that on the plat.

8 Q. And what is the working interest ownership in the
9 640-acre well unit?

10 A. Again, the northernmost federal lease, Mewbourne
11 Oil Company has a term assignment covering 53 percent; McCombs
12 Energy has 26.7; Chesapeake has 10 percent; Scott Wilson, 5;
13 and, Richard Barr, 5 percent.

14 Q. At this time, who do you seek to force-pool?

15 A. We are seeking to force-pool those parties who
16 have not yet entered into a voluntary agreement, that being
17 Chesapeake Exploration, LLC, ConocoPhillips and Chevron U.S.A.

18 Q. Are you continuing to work with these parties at
19 this time?

20 A. I am, and I feel like we'll ultimately get a
21 voluntary agreement, but because we have expiring leases, I
22 can't let a major company's lack of prioritizing their work
23 affect my outcome. So we're here to get a pooling order in
24 case we do not arrive at a voluntary agreement.

25 Q. Now you say "expiring leases"; expiring farmouts

1 and term assignments?

2 A. It's actually both; term assignments and
3 farmouts. We have -- our earliest expiration is November 8 of
4 '08.

5 Q. What is Exhibit 3-A?

6 A. 3-A is a collection of all correspondence that
7 I've sent out to the various interest owners that were
8 identifiable of record in preparation to drill this well.

9 Q. And that well proposed -- the proposed well in
10 this letter was at the current location; is that correct?

11 A. We originally proposed it on December 18th at the
12 current location. We have been active in the area. We've
13 drilled two wells immediately offsetting the current location.
14 After completing the first well, which would be a southerly
15 offset in Section 28, we viewed it as advisable to perhaps move
16 this location to the next 40-acre north to avoid crowding the
17 corner. So I sent out a letter withdrawing our original
18 December proposal and then re-proposed it at a location
19 40 acres north.

20 Well, then we drilled our second well, which is a
21 direct westerly offset, and it changed our geological picture,
22 and it made us want to go back to the original 660 location.
23 So we again, by letters mailed August 1st, advised everyone of
24 our desire to move back and issued new AFEs with the correct
25 location asking them to return those to indicate their election

1 in, along with signature pages to the JOA.

2 Q. And is that various correspondence contained in
3 Exhibits 3-B, 3-C and 3-D?

4 A. It is.

5 Q. In your opinion, has Mewbourne made a good-faith
6 effort to obtain the voluntary joinder of the interest owners
7 in the well?

8 A. Yes, we have. We've had long negotiations with
9 everyone. And like I said, I think ultimately all the parties
10 will come together, but we're here for an insurance policy in
11 case it doesn't happen.

12 Q. But with respect to those parties, what you're
13 looking at with ConocoPhillips and Chevron is a terms
14 assignment or a farmout; is that correct?

15 A. Correct.

16 Q. What about Chesapeake?

17 A. They have verbally indicated a desire to
18 participate. They sent -- in response to my last proposal of
19 August 1st -- they sent a signed AFE back, but it was for the
20 wrong location. And they've proposed certain changes to the
21 operating agreement that we've agreed to, we just can't get the
22 signed paperwork out of them. So I suspect they'll get there
23 with time. They're usually slow.

24 Q. And if any party does join in the well, will you
25 notify the Division?

1 A. Absolutely. We will dismiss anyone who enters
2 into -- or advise you of our willingness to let them go as soon
3 as we have the notice.

4 Q. Would you identify Exhibit 4 and discuss the cost
5 of the proposed well?

6 A. Exhibit 4 is a representative of the most current
7 AFE that was mailed to all parties. This one in particular was
8 sent to Apache. It shows that the total well cost is
9 \$3,411,100 with a dryhole cost of \$2,573,300, and the
10 completion cost of \$837,800.

11 Q. And is this cost in line with the cost of other
12 wells drilled to this depth in this area of New Mexico?

13 A. Yes.

14 Q. And you do have recent experience with the well
15 costs?

16 A. Absolutely.

17 Q. Do you have a recommendation for the amount which
18 Mewbourne should be paid for supervision and administrative
19 expenses?

20 A. I do. The JOA that has been entered into and
21 signed by most parties provides for a \$7,000 drilling and a 700
22 producing rate.

23 Q. And are these amounts equivalent to or lower than
24 those normally charged by Mewbourne and other operators in the
25 area?

1 A. Yes.

2 Q. Do you request that these rates be adjusted
3 periodically as provided by the COPUS accounting procedure?

4 A. I do.

5 Q. And does Mewbourne request the maximum cost plus
6 200 percent risk charge if an interest owner does not consent
7 in the well?

8 A. I do.

9 Q. And were the parties being pooled notified of
10 this hearing?

11 A. They were.

12 Q. And once again, Mr. Smith, we originally filed
13 this for a NW/4, SW/4 location?

14 A. Correct.

15 Q. And is notice of the original location reflected
16 in Exhibit 5?

17 A. It is.

18 Q. And then when the location was changed, was the
19 application amended?

20 A. It was.

21 Q. And is notice of the amended application
22 reflected in Exhibit 6?

23 A. It is.

24 Q. Were Exhibits 1 through 6 prepared by you or
25 under your supervision or compiled from company business

1 records?

2 A. They were.

3 Q. And in your opinion, is the granting of this
4 application in the interests of conservation and the prevention
5 of waste?

6 A. I do.

7 MR. BRUCE: Mr. Examiner, I move the admission of
8 Mewbourne's Exhibits 1 through 5 -- or 1 through 6?

9 MR. WARNELL: Exhibits 1 through 6 are admitted.

10 [Applicant's Exhibits 1 through 6 admitted into
11 evidence.]

12 MR. BRUCE: Mr. Examiner, one final thing I would
13 note as in the prior hearing: Notice was sent to
14 ConocoPhillips in both cases. And although I received the
15 green card from the latter mailing, I still haven't received
16 the green card back from the earlier mailing. Once again, it
17 shows that it takes sometimes four or five weeks, six weeks, to
18 get stuff back from the post office. But ConocoPhillips did
19 receive actual notice of the hearing.

20 MR. WARNELL: Okay.

21 MR. BRUCE: I have nothing further of the witness.

22 MR. WARNELL: Okay. Any questions, Mr. Brooks?

23 EXAMINATION

24 BY MR. BROOKS:

25 Q. All interests are leased in this case?

1 A. It's all HBP leaseholders.

2 Q. There's no unleased mineral interests?

3 A. Correct.

4 Q. And you located everybody. You don't have any --

5 A. Absolutely. Everybody that's identifiable from
6 the records.

7 MR. BROOKS: Okay. That's all I have.

8 MR. WARNELL: I have no questions. So with that in
9 mined, we'll take Case No. 14170 under advisement.

10 And that concludes today's hearing Docket 31-08.

11 Thank you very much.

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18 I do hereby certify that the foregoing is
19 a complete record of the proceedings in
20 the Examiner hearing of Case No. _____,
21 heard by me on _____.

22 _____, Examiner
23 Oil Conservation Division
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REPORTER'S CERTIFICATE

I, JOYCE D. CALVERT, Provisional 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 proceeding.

DATED this 4th of September, 2008.




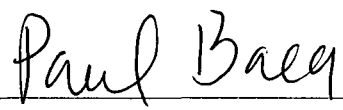
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New Mexico P-03
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2 COUNTY OF BERNALILLO)

3
4 I, JOYCE D. CALVERT, a New Mexico Provisional
5 Reporter, working under the direction and direct supervision of
6 Paul Baca, New Mexico CCR License Number 112, hereby certify
7 that I reported the attached proceedings; that pages numbered
8 1-12 inclusive, are a true and correct transcript of my
9 stenographic notes. On the date I reported these proceedings,
10 I was the holder of Provisional License Number P-03.

11 Dated at Albuquerque, New Mexico, 4th day of
12 September, 2008.

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