

STATE OF NEW MEXICO

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ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

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OIL CONSERVATION DIVISION

Oil Conservation Division
1220 S. St. Francis Drive
Santa Fe, NM 87505

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

APPLICATION OF MEWBOURNE OIL COMPANY
FOR AN UNORTHODOX OIL WELL LOCATION,
LEA COUNTY, NEW MEXICO

)
)
) CASE NO. 13,172

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 4th, 2003

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, December 4th, 2003, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

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I N D E X

December 4th, 2003
 Examiner Hearing
 CASE NO. 13,172

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<u>RALPH L. NELSON</u> (Geologist)	
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* * *

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:05 a.m.:

3 EXAMINER STOGNER: This hearing will come to
4 order. Call Case Number 13,172, which is the Application
5 of Mewbourne Oil Company for an unorthodox oil well
6 location in Lea County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have one witness to be
10 sworn.

11 EXAMINER STOGNER: Any other appearances? And
12 there's nobody else in the room.

13 Will the witness please stand to be sworn?

14 (Thereupon, the witness was sworn.)

15 RALPH L. NELSON,

16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name for the record?

21 A. My name is Ralph Nelson.

22 Q. Where do you reside?

23 A. In Midland, Texas.

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

25 A. Mewbourne Oil Company as a petroleum geologist.

1 Q. Have you previously testified before the Division
2 as a geologist?

3 A. Yes, I have.

4 Q. And were your credentials accepted as a matter of
5 record?

6 A. Yes.

7 Q. And are you familiar with the matters involved in
8 this Application?

9 A. I am.

10 MR. BRUCE: Mr. Examiner, I'd tender Mr. Nelson
11 as an expert petroleum geologist.

12 EXAMINER STOGNER: Mr. Nelson is so qualified.

13 Q. (By Mr. Bruce) Mr. Nelson, would you, to start
14 off with, just briefly identify Exhibit 1?

15 A. Exhibit 1 is a land plat with the east half of
16 Section 17 of 18 South, 32 East, highlighted.

17 Q. And what does Mewbourne request in this case?

18 A. We propose to drill a Morrow test in the -- it
19 would be 1910 from the east line and 1370 -- excuse me,
20 1910 from the south line and 1370 from the east line.

21 Q. In Section 17?

22 A. In Section 17, yes.

23 Q. Now, this well is orthodox in the Morrow, is it
24 not?

25 A. It is.

1 Q. But it would be unorthodox in the Wolfcamp and
2 Strawn formation?

3 A. That is correct.

4 Q. And those formations would be spaced under
5 statewide 40-acre spacing?

6 A. That is correct.

7 Q. Okay. Now, the primary zone is the Morrow?

8 A. That is correct.

9 Q. Would you identify -- Before we get into that,
10 the unorthodox location as to the Wolfcamp and Strawn is
11 based on both geologic and topographic reasons, is it not?

12 A. That is correct, yes.

13 Q. Okay. Let's get into the geology first, and the
14 Morrow geology specifically. What is Exhibit 2?

15 A. Exhibit 2 is a combination lower Morrow structure
16 map with a middle Morrow blue sand, as we've described it,
17 superimposed on the structure map.

18 Q. Now, there does not appear to be much Morrow well
19 control in this area?

20 A. No, there's not. There are several penetrations,
21 but within this nine-section area there's only two Morrow
22 producers, that being our 17 Number 1 well and the well
23 down in Section 21.

24 Q. Now the well in Section 21, what's the vintage of
25 that well, approximately?

1 A. That well, I believe, was drilled in 2001, and it
2 is a middle Morrow producer but not -- in a different sand
3 interval than the one shown on this map.

4 Q. Is it much of a well?

5 A. Probably reserves in it would be close to 3/4 of
6 a BCF, ultimately.

7 Q. And then the well immediately to the north of
8 your proposed location, that is a Mewbourne well, is it
9 not?

10 A. That was a recently drilled Mewbourne Oil Company
11 SF 17 Federal Com Number 1.

12 Q. And that has been completed in the Morrow?

13 A. It has been completed in the Morrow.

14 Q. Now, in looking at the Morrow geology, why do you
15 want the Morrow location more or less where it is?

16 A. Well, due to the fact that there aren't many
17 successful -- only two successful Morrow completions within
18 the mapped area, we're trying to stay close to the existing
19 control from the geology that we have from the well points
20 that we have. We have a fairly narrow anticlinal ridge,
21 and we're trying to stay high on that ridge.

22 Q. So could structure be a factor in this well?

23 A. It could be.

24 Q. Okay. But there -- And based on the other well
25 control out here, you would be high to the other wells that

1 penetrated the Morrow, say, to the east and southeast?

2 A. That's correct. That well in Section 21 did have
3 middle Morrow blue sand in it, but the sand there is wet.

4 Q. And so you would like to remain updip of that
5 well?

6 A. Updip and high, yes.

7 Q. Okay.

8 A. And close to the existing control.

9 Q. Now, as you said, the location is also a
10 potential in the -- also has potential in the Wolfcamp and
11 Strawn. What is Exhibit 3?

12 A. Exhibit 3 is a structure map on the top of the
13 Strawn limestone. On this exhibit again, the anticlinal
14 ridge is present. However, it has smoothed somewhat as
15 things are filling in the lows on the west side.

16 Our location is in line with the 17 Number 1, the
17 well we drilled earlier this year, and an old ARCO well in
18 Section 20, which was completed as a Strawn producer, is
19 now plugged out in the Strawn and had made 100,000 barrels
20 of oil, 103,000 barrels of oil in the Strawn.

21 Q. Okay. Now in the 17 Number 1 well, the first
22 well Mewbourne drilled, there is Strawn potential in that
23 well, is there not?

24 A. Yes, there is.

25 Q. Why don't we move on to your cross-section,

1 Exhibit 4, and perhaps discuss that well a little bit?

2 A. Exhibit 4 is a cross-section constructed from
3 above the Wolfcamp down to the Morrow. And on this, the
4 17-1 location is the second well from the left.

5 In an effort to show more than just the Strawn on
6 this -- The log scale is fairly small, but there are
7 porosity zones within the Strawn interval from 11,400 down
8 to almost 11,600, and we had mud log shows, and from -- log
9 calculations indicate to be productive, possibly
10 productive.

11 Q. Well, at some point in the future would you as a
12 geologist recommend that the well be recompleted in the
13 Strawn?

14 A. Certainly, yes.

15 Q. Okay. And although we didn't discuss this
16 yesterday in our meeting, Mr. Nelson, is there Wolfcamp
17 potential in the Number 1 well?

18 A. There were some zones that we had some mud log
19 shows in. There is that interval around 10,800 feet in the
20 17 Number 1 that we had some mud log shows in. It's fairly
21 cherty. We're unsure as to its productivity.

22 Q. Okay. Now, the well to the south, did that also
23 produce small amounts from the Wolfcamp?

24 A. That well did -- again, did produce small amounts
25 from the Wolfcamp, about 2500 barrels from the Wolfcamp.

1 Q. Okay. It was not commercial?

2 A. No.

3 Q. And briefly, what does Exhibit 5 show?

4 A. Exhibit 5 is just a production map of the nine-
5 section area. On this there are numerous wells drilled,
6 numerous shallow wells.

7 Within Section 17 at the very west edge there are
8 two Wolfcamp wells that are productive off -- in Section 8
9 there are two Wolfcamp wells that -- one Wolfcamp well
10 that's productive. We -- Based on this is why we feel like
11 the Wolfcamp is a possible target in this area.

12 Q. Okay. Now -- But once again, the Morrow was the
13 main zone of interest and really dictated the well
14 location, did it not?

15 A. Yes, it is. Mewbourne Oil Company drills
16 primarily Morrow wells.

17 Q. Okay, and then let's move on to the topographic
18 reasons for moving this well around. Could you identify
19 Exhibit 6 and go into a little detail on that map to
20 describe the problems you had in locating this well?

21 A. Well, Exhibit 6 is a topographic map basically
22 showing Section 17. The cultural, roads, pipelines are
23 shown, as well as power lines.

24 Also shown, the green boxes would be areas in
25 which a 40-acre statewide-rule well location could be

1 situated.

2 Q. Okay, so the green boxes are the standard
3 locations for oil wells in the southeast quarter?

4 A. That's correct.

5 Q. Okay.

6 A. And the blue, then, is the standard location for
7 a Morrow well.

8 Q. Okay. So in locating the well, at least in the
9 northwest quarter of the southeast quarter, you may have
10 wanted to -- wasn't the original well location somewhat to
11 the west?

12 A. Yes, it was.

13 Q. But it had to be moved to get away from the
14 pipelines and the aqueduct?

15 A. Yes.

16 Q. Okay. Now in looking at this, it appears that
17 there could be some -- a standard location moving further
18 to the east. Did you want to move the well further to the
19 east?

20 A. Moving east, we felt like, was moving too far
21 downdip and therefore may have a problem with water --

22 Q. Okay.

23 A. -- with the Morrow.

24 Q. So that was not an option. Then I think you
25 said, with respect to a location in the south half of the

1 southeast quarter, you desired not to move too far away
2 from the Number 1 well in the northeast quarter?

3 A. That's correct, trying to stay close to the
4 existing control.

5 Q. Okay. Even if you move to the -- say to the
6 southwest of the southeast, there's still a pipeline and
7 some other obstacles there, are there not?

8 A. Yes, there are.

9 Q. And then in the southeast of the southeast there
10 is the gravel pit, which would present --

11 A. That's correct.

12 Q. -- topographic problems?

13 So overall, your location was kind of a
14 compromise on a number of factors?

15 A. Right.

16 Q. Okay. What is Exhibit 7?

17 A. Exhibit 7 is a surveyor's plat showing in closer
18 detail some of the cultural problems with this location.
19 The location is 205 feet southeast of a buried pipeline and
20 200 feet from a -- east of the buried pipeline.

21 Q. And is it common practice to try to move
22 approximately 100 to 200 feet away from pipelines or --

23 A. That's correct, yes.

24 Q. -- any type of overhead items?

25 Now, with respect to -- Well, based on all this,

1 is it your opinion that your proposed location is the
2 preferable location in the Strawn -- excuse me, in the
3 Morrow formation?

4 A. In the Morrow, again, to stay close to our
5 existing control, yes.

6 Q. Okay. But that does make it unorthodox in the
7 oil well zones?

8 A. Yes, it does.

9 Q. Now, with respect to interest ownership, the
10 entire east half is federal land, is it not, Mr. Nelson?

11 A. Yes.

12 MR. BRUCE: And Mr. Examiner, perhaps if you'd
13 keep Exhibit 1 in front of you, the land plat, we'd like --
14 yes, sir.

15 Q. (By Mr. Bruce) Now, Exhibit 1 shows the leases
16 in the east half of 17, Mr. Nelson. There are only two
17 leases, are there not?

18 A. That's correct.

19 Q. Okay. One covers the Lease NM-9019, which is a
20 federal lease, covers the west half, northeast, and the
21 east half, southeast?

22 A. Yes.

23 Q. And then Lease NM-9016 covers the east half,
24 northeast and the west half, southeast?

25 A. Yes.

1 MR. BRUCE: Okay. Now, with respect to working
2 interest -- So with respect to royalty ownership -- and Mr.
3 Examiner, if I could point out one thing, is that both of
4 these leases -- I went and checked the BLM's records --
5 originally derive from the same federal lease, which was
6 Lease LC-063441, dated January 1, 1945, which is the reason
7 they do have the same royalty interest ownership.

8 Q. (By Mr. Bruce) And then, Mr. Nelson, all of the
9 working interests below the base of the Bone Spring are
10 tied up under an operating agreement, correct?

11 A. Yes.

12 Q. So working interest ownership would be uniform in
13 the depths you're you looking at?

14 A. That's correct.

15 Q. Okay. So the difference in ownership comes in in
16 the overriding royalty owners; is that correct?

17 A. Yes.

18 Q. Okay. Now, did Mewbourne's attorney -- not me,
19 their title attorney -- check the records to determine
20 royalty interest ownership?

21 A. Yes, he did.

22 MR. BRUCE: Okay. And Mr. Examiner, I have
23 another exhibit. Unfortunately I forgot to copy it
24 yesterday, and I will get it to you after the hearing.

25 There are dozens of overriding royalty owners in

1 these tracts, however there are a number of common
2 overriding royalty owners since they derive from the same
3 lease.

4 So when we notified overriding royalty owners, we
5 only notified the ones who varied.

6 In other words, there are -- I forget, a couple
7 of dozen overriding royalty owners who own the same
8 interest throughout this half section of land, and so we
9 did not notify them.

10 EXAMINER STOGNER: Okay.

11 MR. BRUCE: But where there was a difference in
12 ownership, those are the ones we notified with respect to
13 this Application.

14 EXAMINER STOGNER: Now when you say "difference
15 in ownership" --

16 MR. BRUCE: In other words, different people,
17 people who owned -- there are -- there were, like I said,
18 about 20 -- I forget the exact number, and I will get that
19 to you -- a number of people who own the same interest in
20 the west half of the southeast and in the east half of the
21 southeast.

22 But then there are some people who owned only in
23 the east half of the southeast.

24 EXAMINER STOGNER: Okay.

25 MR. BRUCE: And they were notified of the

1 Application.

2 EXAMINER STOGNER: So if there were differences
3 as part of percentages, they were notified?

4 MR. BRUCE: That is correct. Different
5 percentages, or they just did not own an interest in the
6 well site.

7 EXAMINER STOGNER: Okay.

8 MR. BRUCE: And Mr. Examiner, those are listed in
9 my affidavit of notice, Exhibit 10, and notice was given to
10 these people.

11 Q. (By Mr. Bruce) Now, Mr. Nelson, with respect to
12 these overrides, in Lease NM-9019, in the 17 Number 1 well,
13 in the northeast quarter, that well is also at an
14 unorthodox oil well location, is it not?

15 A. Yes, it is.

16 MR. BRUCE: And Mr. Examiner, that unorthodox
17 location was approved by NSL-4947.

18 Q. (By Mr. Bruce) So the people at this point who
19 own an interest in Lease NM-9019 do have prospective Strawn
20 production on that lease; is that correct?

21 A. Yes, they do.

22 Q. So that would include the people who are
23 offsetting the Number 2 well?

24 A. Yes.

25 Q. And then you hope to hit Strawn and lease NM-

1 9016; is that correct? Which is the current well location?

2 A. Yes.

3 Q. If that's the case, then each of those leases,
4 assuming no increase in spacing or anything else, would
5 each have -- there would be a well on each lease?

6 A. That is correct.

7 Q. So there would be some symmetry in ownership of
8 production because they would each have a Strawn or a
9 Wolfcamp well on their lease?

10 A. They would each have a wellbore on their lease.

11 Q. Okay. Now, just to run through the final
12 exhibits, Exhibit 8 is simply a list of the -- shows the
13 common working interest ownership in the well unit, does it
14 not?

15 A. Yes, it does.

16 Q. Okay, and those people are all tied up under a
17 JOA, so there's no difference in ownership?

18 A. Correct.

19 Q. Okay. And one of the overriding royalty owners
20 in the east half of the southeast quarter originally filed
21 an objection; is that correct?

22 A. Yes, he did.

23 Q. Mr. John McDermott?

24 A. Yes.

25 Q. And he has withdrawn his objection?

1 A. Yes.

2 Q. And that's reflected by Exhibit 9?

3 A. That's correct.

4 MR. BRUCE: Okay. And finally, Mr. Examiner, my
5 affidavit of notice is submitted as Exhibit 10.

6 Q. (By Mr. Bruce) Mr. Nelson, were Exhibits 1
7 through 10 prepared by you or compiled from company
8 business records?

9 A. That's correct.

10 Q. And in your opinion is the granting of
11 Mewbourne's Application in the interests of conservation
12 and the prevention of waste?

13 A. Yes.

14 MR. BRUCE: Mr. Examiner, I'd move the admission
15 of Exhibits 1 through 10.

16 EXAMINER STOGNER: Okay, I'm looking for Exhibit
17 9. Oh, there it is, I found it. It was stuck behind
18 another one.

19 Mr. Bruce --

20 MR. BRUCE: Yes, sir.

21 EXAMINER STOGNER: -- is this a fresh
22 application, or is this an application that was --

23 MR. BRUCE: No, this was --

24 EXAMINER STOGNER: -- administratively --

25 MR. BRUCE: -- a fresh application.

1 EXAMINER STOGNER: Okay, so --

2 MR. BRUCE: I did not file this one
3 administratively.

4 EXAMINER STOGNER: Okay, so this one is -- This
5 is the first time anybody's seen this here at the Division?

6 MR. BRUCE: That is correct.

7 Mr. Examiner, since this one is quite close to
8 the offsetting lease, we determined that it might be best
9 to go to hearing so you could have a chance to ask
10 questions.

11 EXAMINATION

12 BY EXAMINER STOGNER:

13 Q. Okay, when I look at Exhibit Number 8, now, this
14 says northeast/southeast override royalty interests,
15 attached to an NMOC application. But I'm hearing that the
16 east half of the southeast quarter has different ownership.
17 Is --

18 A. Yes.

19 Q. -- Is there sort of a -- Am I missing something
20 here?

21 MR. BRUCE: Mr. Examiner, I think the landman who
22 did prepare this exhibit simply put in the offsetting --
23 the immediately affected offsetting well unit. But in
24 fact, the east half, southeast, is uniform.

25 EXAMINER STOGNER: And likewise, that same

1 interest would also mirror the -- what? West half of the
2 northeast quarter?

3 MR. BRUCE: That is correct.

4 EXAMINER STOGNER: Okay.

5 Q. (By Examiner Stogner) Okay, Mr. Nelson, let's
6 take a look at your Exhibit Number 5. Now, the wells shown
7 in green, these are all Queen producers; is that correct?

8 A. Yes, they are.

9 Q. And are these all Mewbourne-operated wells?

10 A. No, they're not.

11 Q. And --

12 A. I don't believe any of them are Mewbourne-
13 operated wells.

14 Q. Okay, who operates those wells?

15 A. Pecos Production, I think, or -- I'm not sure of
16 that.

17 Q. But you're only seeking the young Wolfcamp and
18 the Strawn, these are all shallow Queen wells; is that
19 correct?

20 A. That's correct.

21 Q. Okay. Now, I show a dry hole on some of these
22 maps, being down in the southwest of the southeast quarter,
23 but that didn't go deep enough to penetrate the Morrow; is
24 that correct?

25 A. That's correct, I believe the TD on Exhibit 1 is

1 shown to be 4500 feet, 4596. If I'm seeing the -- where
2 you're asking me about.

3 Q. Yeah, actually it shows up on Exhibit 5, there's
4 a P-and-A down in the southwest of the southeast --

5 A. That's correct, and there's a --

6 Q. -- and then there's one over on your land plat,
7 Exhibit Number 1?

8 A. Right, that's the map I was referring to, the TD
9 shown right below the well symbol.

10 EXAMINER STOGNER: I have no other questions of
11 Mr. Nelson.

12 Mr. Bruce?

13 MR. BRUCE: I have nothing further in this
14 matter.

15 I will get you this listing of overrides. I'll
16 mark it Exhibit 11, but I forgot to make copies.

17 EXAMINER STOGNER: Okay, Exhibit 11, if you will
18 provide whatever hard copy you have --

19 MR. BRUCE: Yes.

20 EXAMINER STOGNER: -- to --

21 MR. BRUCE: Yes, sir.

22 EXAMINER STOGNER: -- the reporter, and then if
23 you would just fax me a copy of that, to my attention, or
24 e-mail it, whatever is easier for you, and I'll make sure
25 that that gets in my working copy, but if you'll see that

1 the court reporter gets the exhibit.

2 MR. BRUCE: I will.

3 EXAMINER STOGNER: If there's anything further --
4 if there's nothing further in Case 13,172, then this matter
5 will be taken under advisement.

6 (Thereupon, these proceedings were concluded at
7 10:30 a.m.)

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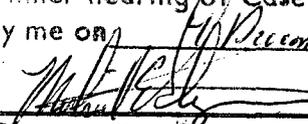
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the examiner hearing of Case No. 13172
heard by me on 10 December 2003.

_____, Examiner
Oil Conservation Division

CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL December 5th, 2003.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006