

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: )  
APPLICATION OF MEWBOURNE OIL COMPANY )  
FOR COMPULSORY POOLING, EDDY COUNTY, )  
NEW MEXICO )

*Reopened*  
CASE NO. 13,158

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

RECEIVED

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

FEB - 5 2004

January 22nd, 2004  
Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, January 22nd, 2004, 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

January 22nd, 2004  
Examiner Hearing  
CASE NO. 13,158

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APPLICANT'S WITNESS:

D. PAUL HADEN (Landman)

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\* \* \*

E X H I B I T S

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\* \* \*

A P P E A R A N C E S

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 9:45 a.m.:

3           EXAMINER STOGNER: Let's go back on the record.  
4 At this time I'll call Case Number 13,158, which is the  
5 Application of Mewbourne Oil Company for compulsory  
6 pooling, Eddy 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.

10          EXAMINER STOGNER: Any other appearances?

11          Witness please stand to be sworn.

12          (Thereupon, the witness was sworn.)

13          MR. BRUCE: Mr. Examiner, before we begin, this  
14 case involves a Morrow test in the south half of Section  
15 30, 21 South, 27 East. The case was originally heard in  
16 October, and Order Number R-12,057 was issued. That order  
17 approved a well which was being directionally drilled from  
18 a surface location in Section 29. Mewbourne did commence  
19 that well, but it was junked and abandoned. And there is a  
20 substantial -- although the bottomhole location remains the  
21 same, there is a substantially different surface location.  
22 So in order to be safe that all parties are pooled under  
23 the well, we filed this Application to reopen the case and  
24 seek approval for the new surface location.

25          EXAMINER STOGNER: Okay, before we get started,

1 do you want to review what you've given me?

2 MR. BRUCE: I wondered where that one went.

3 D. PAUL HADEN,

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

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you please state your name and city of  
9 residence for the record?

10 A. My name is Paul Haden. I reside in Midland,  
11 Texas.

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

13 A. Mewbourne Oil Company as a petroleum landman.

14 Q. Have you previously testified before the Division  
15 as a landman?

16 A. Yes, I have.

17 Q. And were your credentials accepted as a matter of  
18 record?

19 A. Yes, they were.

20 Q. And are you familiar with the land matters  
21 involved in this case?

22 A. Yes, sir, I am.

23 MR. BRUCE: Mr. Examiner, I tender Mr. Haden as  
24 an expert petroleum landman.

25 EXAMINER STOGNER: Mr. Haden is so qualified.

1 Q. (By Mr. Bruce) Mr. Haden, could you identify  
2 Exhibit 1 for the Examiner and briefly state what Mewbourne  
3 seeks in this case?

4 A. Yes, Exhibit 1 is a land plat of the area. It  
5 depicts our proposed spacing unit, which is the south half  
6 of Section 30, which is outlined in yellow.

7 It also depicts two surface locations, one being  
8 in Section 29, of which Mr. Bruce had discussed earlier  
9 where our initial well was junked and abandoned about --  
10 approximately 1551 feet.

11 It also depicts a surface location in Section 19,  
12 in the southeast southeast quarter, being Unit Letter P.

13 It also depicts our bottomhole location in  
14 Section 30, in Unit P.

15 Q. Okay. And what is the current proposed surface  
16 location for the well?

17 A. The current proposed surface location is 823 feet  
18 from the south line and 945 feet from the east line of  
19 Section 19 of 21 South, 27 East, Eddy County.

20 Q. And the proposed bottomhole location is  
21 approximately what? 700 feet from the south and east lines  
22 of Section 30?

23 A. That's correct.

24 Q. Okay. And the drilling prognosis is submitted as  
25 Exhibit 2?

1 A. That's correct.

2 Q. Okay. I also notice on Exhibit 2 that it does  
3 project the top of the Morrow and the base of the Morrow,  
4 and it would be orthodox in the Morrow, would it not?

5 A. That's correct.

6 MR. BRUCE: Now at this point, Mr. Examiner, as  
7 to other deep gas zones, there could be potential  
8 unorthodox locations in those zones. We are not seeking  
9 approval for those today. If, say, an uphole zone, a  
10 Strawn zone or something, was tested and it was unorthodox,  
11 we would seek administrative approval at that time, once we  
12 have the well down and know what the location -- actual  
13 footages are.

14 EXAMINER STOGNER: Okay, so you're still seeking  
15 to compulsory pool from the Cisco to the base of the  
16 Morrow?

17 MR. BRUCE: We're seeking to pool, but if it's  
18 unorthodox we will seek approval for that later.

19 EXAMINER STOGNER: Pursuant to the administrative  
20 procedure?

21 MR. BRUCE: That's correct.

22 Q. (By Mr. Bruce) What is the reason for the  
23 directional drilling and the difficulties obtained in  
24 getting a surface location?

25 A. The well is less than two miles north of downtown

1 Carlsbad. There's numerous residences back in the surface  
2 location, difficult or impossible, together with some  
3 pipeline safety concerns.

4 Q. What is the ownership of the well unit? And I  
5 refer you to Exhibit 3.

6 A. Mewbourne Oil Company owns 97.0807 percent of the  
7 well unit. This percentage interest is listed on page 2 of  
8 the exhibit. We're seeking to pool some unleased mineral  
9 owners comprising a total of 2.9193 percent.

10 Q. And you seek to pool all of these interest owners  
11 listed in Exhibit 3; is that correct?

12 A. That's correct.

13 Q. Okay, could you move on to your Exhibit 4 and  
14 just briefly discuss what you did to obtain the voluntary  
15 joinder of these interest owners, or there are some one or  
16 two unlocatable people; is that correct?

17 A. That's correct.

18 Q. Would you discuss that also?

19 A. Let's start with Mr. Tony Giarratano. We had  
20 made several contacts with him, starting in November of  
21 '02, followed up in January of '03. We had, in fact, sent  
22 him an oil and gas lease for signature, along with our  
23 lease bonus check. He never signed the lease, but he  
24 cashed the check.

25 We also sent a well-proposal letter for the

1 initial well which we had previously described in Section  
2 29, July 15th. We had issued a pooling order, R-12,057. I  
3 sent him a copy of that pooling order pursuant to the terms  
4 of the order with our AFE. That was in December, '03.

5 Again, since our initial location was junked and  
6 abandoned, we proposed a new well January 14th, '04, with a  
7 well-proposal letter and AFE.

8 Let's go to the Cavender interest, Ben C.  
9 Cavender and his wife Christine Cavender. This couple was  
10 unlocatable. I had initially sent a well proposal August  
11 of '03 with AFE, called up August 29th. On both occasions  
12 these letters were returned unclaimed.

13 The next interest we'd like to discuss regards  
14 the interest of Martha Leigh Cardwell [sic], which J.P.  
15 Morgan Chase Bank apparently is a trustee of this woman.  
16 Apparently they only have authority to administer the trust  
17 as to Texas properties and not New Mexico. We initially  
18 sent a letter August 20th, proposing the well with AFE. We  
19 -- December, '02 -- '03, we had mailed again a copy of the  
20 pooling order with the AFE pursuant to the order.

21 The interest of Family Care, Inc., apparently is  
22 the guardian for Martha Leigh Cardwell. This is the same  
23 case, where the Family Eldercare, Inc., cannot execute  
24 anything regarding property in New Mexico. The lawyer for  
25 that interest, Wendy Schaeffer, advised me that to do a

1 quiet title suit would cost way too much as to the value of  
2 the interest, so they have not responded as to any lease  
3 that we had sent them, nor did they want to join.

4 The next interest I'd like to discuss involves  
5 the Burlington Northern and Santa Fe Railway Company.  
6 There's a railroad that runs through this property in a  
7 south-to-north direction. We proposed the well, again, in  
8 August, '03, mailed a copy of the pooling order December,  
9 '03.

10 Apparently Devon Energy Production Company has  
11 the first right of refusal in which to take an oil and gas  
12 lease covering this interest. Devon had advised me that  
13 they declined to exercise that right, they also did not  
14 want to join in the well.

15 Let's go to the interest of R.E. Fox and his wife  
16 Annie Fox. We sent a well proposal August, '03, with AFE.  
17 This letter was returned unclaimed.

18 Same thing goes with Dennis A. Morris and his  
19 wife Verlyn Morris. August, '03, we sent her a letter with  
20 AFE. The letter was returned unclaimed. We tried to  
21 locate these interests via the Internet under the  
22 whitepages.com, have not been successful in locating those  
23 parties.

24 Q. And there were no current addresses in the county  
25 records?

1 A. That's correct.

2 Q. Okay. In your opinion, has Mewbourne made a  
3 good-faith effort to obtain the voluntary joinder of the  
4 interest owners in the well?

5 A. Yes, sir.

6 Q. Could you identify Exhibit 5 and briefly discuss  
7 the cost of the proposed well?

8 A. Exhibit 5 is our AFE, which is an estimated well  
9 cost, the estimated dryhole cost being \$1,121,600, the  
10 completed well cost of \$1,623,300.

11 Q. Is this slightly -- somewhat higher than the  
12 original well AFE?

13 A. Right, it's nearly \$200,000 more, because we're  
14 having to drill this well further at a surface location.

15 Q. Okay, so it's a longer lateral?

16 A. Longer lateral.

17 Q. Does Mewbourne request that it be designated  
18 operator of the well?

19 A. That's correct.

20 Q. And do you have a recommendation for the amounts  
21 which Mewbourne should be paid for supervision and  
22 administrative charges?

23 A. We're requesting a rate of \$600,000 -- or \$6000,  
24 excuse me, for -- that's a little bit steep there, Mr.  
25 Examiner.

1 Q. This isn't Exxon.

2 A. \$6000 drilling well rate and \$600 per month for a  
3 producing well.

4 Q. And are these amounts equivalent to those  
5 normally charged by operators in this area for wells of  
6 this depth?

7 A. That's correct.

8 Q. And were those rates approved in the prior order?

9 A. Yes, they were.

10 Q. Do you request that this rate be adjusted  
11 periodically as provided by the COPAS accounting procedure?

12 A. Absolutely.

13 Q. And do you request a maximum cost-plus-200-  
14 percent risk charge on any nonconsenting interest owners?

15 A. Yes, sir.

16 Q. And were all of the interest owners notified of  
17 this hearing by certified mail?

18 A. Yes, they were.

19 Q. And is Exhibit 6 the affidavit of notice?

20 A. That's correct.

21 Q. Were Exhibits 1 through 6 prepared by you or  
22 under your supervision or compiled from company business  
23 records?

24 A. They were.

25 Q. And in your opinion is the granting of

1 Mewbourne's Application in the interest of conservation and  
2 the prevention of waste?

3 A. Yes.

4 Q. Just one final thing, Mr. Haden, this Application  
5 was actually filed once and amended once, the reopened  
6 Application. Was there an interim surface location that  
7 Mewbourne sought to obtain in Section 29?

8 A. Yes, sir, that's correct. The location was in  
9 Unit D of Section 29.

10 Q. And there was some notice given to the parties of  
11 that proposed surface location --

12 A. That's correct.

13 Q. -- was there not? But you couldn't come to terms  
14 with OXY, I believe?

15 A. Could not come to terms with OXY.

16 Q. Okay. So then you had to move to Section 19?

17 A. Yes, sir.

18 MR. BRUCE: Okay. Mr. Examiner, I'd move the  
19 admission of Mewbourne's Exhibits 1 through 6.

20 EXAMINER STOGNER: Exhibits 1 through 6 will be  
21 admitted into evidence at this time.

22 EXAMINATION

23 BY EXAMINER STOGNER:

24 Q. Let's see, Mr. Haden, what happened to  
25 Mewbourne's original location? How come that one had to be

1 abandoned?

2 A. The original location, we ran into mechanical  
3 problems while drilling, plus lost circulation. We got to  
4 a depth of approximately 1551 feet, had to P-and-A it. We  
5 commenced that well November 9th and P-and-A'd it November  
6 15th. We apparently ran into what we're thinking is an  
7 underground gravel pit.

8 Q. Now, the surface location that you're moving up  
9 there in Unit P of Section 19 --

10 A. Yes, sir.

11 Q. -- do you have wells up there in that 40-acre  
12 tract? Are you twinning them on another pad, what's the --

13 A. Well --

14 Q. -- what's the constraints up there?

15 A. Okay, there currently is a well operated by  
16 Vernon Faulconer, Inc., in the Unit P, which is immediately  
17 east of our proposed surface location. It's basically 660  
18 from the south and east line of Section 19.

19 We currently are drilling a well in the northeast  
20 quarter of the southeast quarter under the terms of a  
21 Vernon Faulconer farmout agreement. This well is being  
22 tested -- being drilled to the Morrow. The other well  
23 produces from the Wolfcamp formation, being the Vernon  
24 Faulconer well.

25 Q. Now in Section 19, the southeast quarter,

1 southeast quarter, is that a fee acreage or federal or  
2 state?

3 A. I believe that's -- that is fee.

4 Q. That is fee.

5 A. The northeast, southeast quarter is a federal.

6 Q. I'm sorry, the what?

7 A. The northeast of the southeast quarter of 19 is  
8 federal, all of the south half of 19 is fee except for the  
9 northeast and southeast quarter.

10 Q. So at this time Mewbourne has made arrangements  
11 for surface occupancy?

12 A. Yes, sir, we have. We have an agreement with the  
13 surface owner that has been executed.

14 Q. Now, when I look at your Exhibit Number 1 -- this  
15 is the map -- there seems to be another wellbore up in --  
16 to the north and west of your downhole location. What was  
17 that wellbore?

18 A. That is a plugged and abandoned well which  
19 produced from the Morrow. Cities Service originally  
20 drilled that well, which is located northwest of the  
21 southeast quarter. Is that the well you're referring to?

22 A. Yes.

23 Q. And what's the condition on the surface there?  
24 How come that couldn't be re-entered?

25 A. We had some surface concerns over there because

1 of what it would take to get a pipeline in there. It would  
2 be -- our thoughts, it would just be too dangerous to put a  
3 pipeline through there. The existing pipeline was  
4 unusable.

5 There's numerous houses all over this area. This  
6 is in the La Huerta subdivision.

7 Q. And fact, that well that I was referring to, that  
8 Cities Service well --

9 A. Right.

10 Q. -- that was drilled in what? 1975?

11 A. I don't know for sure, but yes, I believe it was  
12 a 1970s vintage.

13 Q. So there's been substantial buildup in the  
14 last --

15 A. Yes, sir.

16 Q. -- 25 years in that area? On the surface, I  
17 should say.

18 A. Right, yeah.

19 EXAMINER STOGNER: Just for the record, Mr.  
20 Bruce, let's see, the identification, I was a little  
21 sketchy on that. Exhibit 1 is the map?

22 MR. BRUCE: Yes.

23 EXAMINER STOGNER: And would you explain what  
24 Exhibit 2 is, Exhibit 3 and 4?

25 MR. BRUCE: Exhibit 2 is then from a computer

1 log, the directional drilling prognosis.

2 Exhibit 3 is the interest ownership in the entire  
3 south half of Section 30.

4 Exhibit 4 is Mr. Haden's summary together with  
5 all pertinent correspondence regarding contacts with the  
6 mineral owners.

7 And Exhibit 5 is the AFE.

8 And then Exhibit 6 is the affidavit of notice.  
9 There are -- I over-notified. There are certain people in  
10 here who were notified who Mewbourne has come to terms with  
11 or acquired their interests. So the only people being  
12 pooled are those identified in Exhibit 2 -- excuse me,  
13 Exhibit 3 --

14 THE WITNESS: Three.

15 MR. BRUCE: -- rather than everyone in Exhibit 6.

16 EXAMINER STOGNER: Okay. I have no other  
17 questions of Mr. Haden at this time.

18 MR. BRUCE: I have nothing further.

19 EXAMINER STOGNER: If nobody else has anything  
20 further in Case 13,158 -- this was a reopened and  
21 readvertised case -- then this matter will be taken under  
22 advisement.

23 (Thereupon, these proceedings were concluded at  
24 10:04 a.m.)

25

\* \* \*

I hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 13158 (CCR)  
heard by me on 22 January 2004.

*Michael B. Stogner*  
Examiner  
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 January 23rd, 2004.



STEVEN T. BRENNER  
CCR No. 7

My commission expires: October 16th, 2006