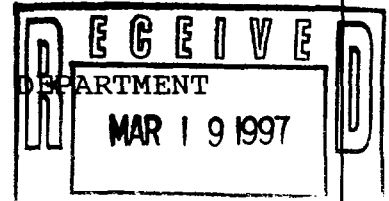


STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES
OIL CONSERVATION DIVISION



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

CASE NO. 11,744

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER; Hearing Examiner

March 6th, 1997

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, March 6th, 1997, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

March 6th, 1997
 Examiner Hearing
 CASE NO. 11,744

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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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Legal Counsel to the Division
2040 South Pacheco
Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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Santa Fe, New Mexico 87501
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:39 a.m.:

3 EXAMINER STOGNER: Call next case, which is
4 11,744.

5 MR. CARROLL: Application of Mewbourne Oil
6 Company for compulsory pooling, Eddy County, New Mexico.

7 EXAMINER STOGNER: Call for appearances.

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

11 EXAMINER STOGNER: Any other appearances?
12 Will the witnesses please stand and be sworn?
13 (Thereupon, the witnesses were sworn.)

14 D. PAUL HADEN,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Will you please state your name for the record?

20 A. My name is Paul Haden.

21 Q. And where do you reside?

22 A. Midland, Texas.

23 Q. Who is your employer?

24 A. Mewbourne Oil Company.

25 Q. And what is your job at Mewbourne?

1 A. I'm a petroleum landman.

2 Q. Have you previously testified before the
3 Division?

4 A. Yes, I have.

5 Q. And were your credentials as an expert accepted
6 as a matter of record?

7 A. Yes, they were.

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

10 A. Yes, I am.

11 Q. Mr. Haden, what is it that Mewbourne seeks in
12 this case?

13 A. Mewbourne Oil Company seeks an order pooling the
14 south half of Section 34 of Township 18 South, Range 28
15 East, in Eddy County, New Mexico, from a depth of 3500 feet
16 below the surface to the base of the Morrow formation.

17 Mewbourne requests the south half of Section 34
18 be pooled for all pools and formations spaced on 320 acres,
19 the southeast quarter to be pooled for all pools or
20 formations spaced on 160 acres, and the southwest of the
21 southeast quarter for pools spaced on 40 acres.

22 Q. Okay, would you go to your little folder of
23 exhibits and refer first to your Exhibit 1? Will you
24 identify that for the Examiner, please?

25 A. Yes, Exhibit 1 is a land plat of the area. It

1 has outlined our proposed spacing unit. This would be
2 outlined in red. The acreage comprising the spacing unit,
3 which would be the Mewbourne acreage, is highlighted in
4 yellow.

5 The circle on the map in the southwest of the
6 southeast quarter is our proposed location. This proposed
7 location is 660 feet from the south line and 1650 feet from
8 the east line of this Section 34.

9 Q. And this will be a Morrow test?

10 A. Yes, it will. It will be drilled to
11 approximately 11,200 feet beneath the surface.

12 Q. Okay. Then referring to your Exhibit 2, could
13 you identify that as to the ownership of the south half of
14 Section 2?

15 A. Yes, I can. Page 1 is the current ownership for
16 the south half of Section 34. On page 2 it lists the
17 ownership in the southeast quarter of 34 on a unit basis.

18 Page 3, under C, it has the unit ownership in the
19 southwest of the southeast quarter. And then under D, it
20 has the ownership which actually is the ownership in the
21 lease, which comprises the southwest quarter, the south
22 half, southeast quarter, and the northeast of the southeast
23 of Section 34.

24 And then on page 4, under E, it gives the
25 ownership in the northwest of the southeast quarter, which

1 is a separate lease.

2 Q. So there's two leases involved?

3 A. Yes, there's two separate leases.

4 Q. Looking at that first page of Exhibit 2, which
5 interest owners have not yet signed an operating agreement
6 with Mewbourne?

7 A. Those interest owners would include Western
8 Reserves Oil Company, which is about in the middle of this
9 ownership, also Enron Oil and Gas Company, and then at the
10 bottom, the interest owners described as Harvey E. Yates
11 Company, Yates Energy Corporation, Jalapeno Corporation and
12 Cibola Energy Corporation.

13 Q. Okay. So those are the five -- Just those five
14 have not agreed to join at this time?

15 A. Right.

16 Q. Okay.

17 A. Well, actually six.

18 Q. Or six, excuse me.

19 A. Right.

20 EXAMINER STOGNER: Okay, I've got Harvey E.
21 Yates, Yates, Jalapeno and Cibola. Who was the other two?

22 THE WITNESS: Western Reserves Oil Company and
23 then Enron Oil and Gas Company.

24 Q. (By Mr. Bruce) Okay, let's flip over the folder
25 to your next exhibit, Exhibit 3, and would you just briefly

1 outline your contacts with each of these parties and maybe
2 start off with when you originally sent your well proposal
3 to each party?

4 A. Right, let's start off with Enron Oil and Gas
5 Company. Our contact over there would be Mr. Patrick
6 Tower. We initially sent our well proposals by certified
7 letter, dated November 22nd, 1996. As you can see, our
8 various conversations, letters, et cetera, originate from
9 that date to the current date.

10 As to Enron's interest, eventually Enron elected
11 to receive a 300-percent nonconsent penalty, in lieu of
12 joining in the well. This is by our verbal agreement on
13 February 28th, 1997. I had proposed -- prepared some
14 letters to that effect, and I'd finally gotten our letter
15 signed by Enron, which describes our particular trade.

16 And you can look -- picking up the page from --
17 Enron has that correspondence of the letter dated March
18 4th, 1997, where they had elected to -- the nonconsent in
19 the well, the exchange from well information.

20 Q. And they would be nonconsenting under the terms
21 of this force pooling order?

22 A. Yes, that's correct.

23 Q. Okay. What about Heyco and the others?

24 A. Okay, the other interest owners, Harvey E. Yates
25 Company, Yates Energy Corporation, Jalapeno Corporation and

1 Cibola Energy Corporation, they have verbally agreed to
2 join in the well, but to date we have not received an
3 executed AFE to that effect. But we expect to get same in
4 the very near future, probably by the end of the week or
5 the first of next week or so. We hope to have them also
6 signed up for an operating agreement.

7 Q. And if they do sign up, then of course you would
8 notify the Division and they would not be bound?

9 A. Right, they would be dismissed.

10 Q. Okay. And finally, Western Reserves?

11 A. Western Reserves Oil Company, we initiated
12 conversations on September 20th, 1996, made several phone
13 calls that we received a counteroffer from Western, and
14 then by a letter dated also November 22nd, 1996, we had
15 sent a well proposal to Western Reserves Oil Company asking
16 them to join or farm out or make some kind of trade.

17 Since that date, we -- as you can see on the
18 correspondence summary, we had negotiated numerous times,
19 follow-up letters, phone calls.

20 Eventually, on March 4th of 1997, Western had
21 agreed to accept one of Mewbourne Oil Company's offers,
22 which would be a term assignment of their interests to
23 Mewbourne; for a cash consideration they would keep an
24 override. That agreement has not yet been executed. It is
25 subject to a mutually acceptable form of this term

1 assignment between the parties.

2 Q. And you are proceeding with this pooling case,
3 even though you might have agreements with all these
4 parties. Why is that? Are you commencing the well soon?

5 A. Yes, we feel that we should go ahead and proceed
6 with the force pooling. We expect to have a drilling rig
7 on location in the very, very near future, so we would like
8 to have the opportunity for these people to be force pooled
9 under the order in the event they do not finalize, execute
10 the agreements in which they say they would.

11 Q. In your opinion, has Mewbourne made a good faith
12 effort to obtain the voluntary joinder of all the interest
13 owners in this well?

14 A. Yes, I think so.

15 Q. Would you please identify Exhibit 4 and discuss
16 the cost of your proposed well?

17 A. Exhibit Number 4 is our proposed authorization
18 for expenditure. This AFE has been signed by the
19 consenting parties that have agreed to join with us in the
20 well. It gives a dryhole cost of \$403,250 and a completed
21 well cost of \$677,600.

22 Q. Does Mewbourne request that it be designated
23 operator of the well?

24 A. Yes, we do.

25 Q. And -- Oh, excuse me, Mr. Haden, is the well cost

1 you've just discussed in line with the cost of other wells
2 drilled to this depth in this area of Eddy County?

3 A. We think it is.

4 Q. And what are your recommendations for the amounts
5 which Mewbourne should be paid for overhead costs?

6 A. We are requesting that \$6000 per month be allowed
7 for a drilling well rate and \$600 per month be allowed for
8 a producing well, if that should occur.

9 Q. And are these amounts equivalent to those charged
10 by Mewbourne and other operators in this area for wells of
11 this depth?

12 A. Yes, they are.

13 Q. Were the nonconsenting interest owners notified
14 of this hearing?

15 A. Yes, they were.

16 Q. And is Exhibit 5 my affidavit of notice with the
17 return receipts and the notice letter?

18 A. Right.

19 Q. Mr. Haden, Were Exhibits 1 through 5 prepared by
20 you, under your direction, or compiled from company
21 business records?

22 A. Yes, they were.

23 Q. And in your opinion is the granting of this
24 Application in the interest of conservation, the prevention
25 of waste and the protection of correlative rights?

1 A. Yes, it is.

2 MR. BRUCE: Mr. Examiner, at this time I would
3 move the admission of Mewbourne Exhibits 1 through 5.

4 EXAMINER STOGNER: Exhibits 1 through 5 will be
5 admitted into evidence at this time.

6 MR. BRUCE: I have no further questions of the
7 witness at this time.

8	EXAMINATION
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9 BY EXAMINER STOGNER:

10 Q. You referred to Exhibit Number 3 under the
11 Western tab --

12 | A. Okay.

13 Q. -- the letter dated November 11th, 1996. Have
14 you got to that?

15 MR. CARROLL: It's the third one from the back.

16 THE WITNESS: Okay, right.

17 Q. (By Examiner Stogner) Down there toward the
18 bottom -- And this is a letter from Mr. Elliott to you,
19 dated November 11th?

20	A. Correct.
----	-------------

21 Q. Down toward the bottom it talks about "Western
22 Reserves Oil Company holds the operating rights in this
23 tract for the benefit of Bravo Limited..."

24	A. Right.
----	-----------

25 Q. "...LRW Corporation and The Beveridge Company."

1 A. Right.

2 Q. Could you elaborate a little bit on that, or what
3 do you know of it, or is that going to --

4 A. Apparently the companies are subsidiaries of
5 Western Reserves Oil Company, Inc. However, Western
6 Reserves Oil Company, Inc., they are the only ones who
7 appear of record. Western Reserves Oil Company, Inc.,
8 would speak on their behalf; apparently.

9 The term assignment which I'm currently
10 negotiating with Western Reserves Oil Company, Inc., would
11 solely be signed by Western Reserves Oil Company, Inc.

12 MR. CARROLL: So your title search didn't show
13 any of these other names?

14 THE WITNESS: Nothing, nothing.

15 MR. CARROLL: And you weren't provided with
16 copies of any instruments of assignment from Western to
17 these -- any of these?

18 THE WITNESS: No, there isn't. Apparently the
19 principal -- His name is Richard Beveridge. He recently
20 passed away; I believe it was sometime the middle of last
21 year. By virtue of that, his estate more than likely would
22 be probated. There could be some other interest owners
23 derived from that.

24 He, of course, was the principal of Western
25 Reserves Oil Company, which could be also the reason for

1 these other entities.

2 Q. (By Examiner Stogner) It goes on to say in that
3 letter that he is recommending -- "him" being Mr. Elliott
4 -- is recommending to two of those entities, Bravo and LRW,
5 to join in the assignment, and I'm to take it that he
6 doesn't specifically speak for the Beveridge Company or...

7 A. He apparently speaks for all those entities.

8 Q. But yet they're not -- The Beveridge Company is
9 not mentioned, especially in that last paragraph, that
10 Western is willing to make the same trade with Mewbourne at
11 this time, subject to acceptance by Bravo and LRW?

12 A. Right, that must have been a typo on his part. I
13 think he meant to have included those other entities.

14 In either event, the 3.125-percent interest of
15 Western Reserves Oil Company, Inc., will be assigned to
16 Mewbourne Oil Company for a term of two years, subject to
17 production, if that should occur.

18 I know it's somewhat confusing as to the Western
19 Reserves Oil Company interest, but there is nothing of
20 record to date within this section of land which would tell
21 me that Western Reserves Oil Company didn't own that entire
22 interest themselves.

23 MR. CARROLL: And Western didn't make any
24 communication to you that you should contact these other
25 entities directly?

1 THE WITNESS: No, no, it didn't. They said they
2 spoke for them.

3 EXAMINER STOGNER: No other questions.

4 THE WITNESS: Okay.

5 EXAMINER STOGNER: Mr. Bruce?

6 MR. BRUCE: Call Mr. Moore to the stand.

7 RALPH P. MOORE, JR.,

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

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

14 A. My name is Ralph P. Moore, Jr. I live in
15 Midland, Texas.

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

17 A. I work for Mewbourne Oil Company. I'm the
18 district exploration manager.

19 Q. And by trade are you a petroleum geologist?

20 A. I am a petroleum geologist by education.

21 Q. Have you previously testified before the Division
22 as a geologist?

23 A. Yes, I have.

24 Q. And were your credentials as an expert accepted
25 as a matter of record?

1 A. Yes, they were.

2 Q. And are you familiar with the geological matters
3 applicable to this case?

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I would tender Mr.
6 Moore as an expert petroleum geologist.

7 EXAMINER STOGNER: Mr. Moore is so qualified.

8 Q. (By Mr. Bruce) Mr. Moore, what is the primary
9 zone of interest in this well?

10 A. The primary zone of interest is the lower Morrow
11 orange sand.

12 Q. The orange sand, is that an internal Mewbourne
13 designation?

14 A. That's an internal Mewbourne code or
15 classification. It's usually the first major sand in the
16 lower Morrow.

17 Q. Okay. Would you refer to your Exhibit 6 and
18 discuss the Morrow geology in this area?

19 A. Exhibit 6 shows wells which have penetrated the
20 Morrow. The wells that are colored in orange are orange
21 producers for that particular zone, in the Morrow section.

22 The contour interval is 50 feet. Our location is
23 34 O. I have a cross-section connecting that well with the
24 well to the north in 34 G and 3 F.

25 We have general regional southeast dip through

1 this area. There appears to be a structural closure east
2 of our proposed location in the south half of 35.

3 Q. Okay. Let's move on to your cross-section,
4 Exhibit 7.

5 A. As I said, the cross-section runs north-south
6 through 34 G, through our proposed location, down in
7 Section 3.

8 This is a stratigraphic cross-section on the
9 lower Morrow. I have colored the orange sand that I made
10 reference to so you can see its relative stratigraphic
11 position. We expect to encounter an orange sand in here
12 that is quite a bit thicker and more productive than the
13 surrounding wells.

14 The green sand, the middle Morrow green sand that
15 I've colored, is a possible secondary objective. Other
16 objectives up the hole would be Wolfcamp and Bone Spring,
17 but they have so far proven not to be significant.

18 The well on the left-hand side of the cross-
19 section in 3 F is a Maralo well. It was completed in
20 October of 1995, had a potential for about 3 million a day,
21 from this zone of interest that we're pursuing. It has
22 since been plugged back as of 9-96. They made a Bone
23 Spring attempt. And this well is getting ready to be
24 plugged and abandoned.

25 The well to the north in 34 G was drilled in

1 October of 1979. There was a drill stem test run in the
2 green sand that recovered some mud. The orange sand was
3 not productive.

4 Our objective is to encounter productive orange
5 sand between these two wells.

6 Q. Referring to Exhibit 8, Mr. Moore, could you
7 point out any established Morrow production in this general
8 area?

9 A. Well, once again, the only wells that are on this
10 map are wells that penetrate the Morrow. The orange sands
11 I made reference to in my two previous exhibits are also
12 colored on this map.

13 You can see the cross-section I made reference
14 to. The well in 3 F produced some orange sand gas before
15 being abandoned -- plugged back and is now preparing to be
16 abandoned.

17 And other Morrow producers are so indicated. I
18 think if you look at -- Let's just look at one in Section
19 35, over there in H. The code for this is, this is
20 production through July of 1996. It's produced
21 approximately 2 BCF, approximately 19,000 barrels of oil,
22 and its current daily rate as of the end of July was 112
23 MCF a day.

24 I think this represents the variability of the
25 Morrow production, and what we're trying to do is catch a

1 Morrow-producing trend which trends northwest-southeast out
2 of Section 2 basically, and this productive trend we hope
3 to encounter between the two wells in the cross-section
4 that we discussed.

5 Q. It seems from this map that you can go from one
6 location to the next unit and go from decent production to
7 virtually nothing; is that right?

8 A. Yes, Morrow is high-risk in this area.

9 Q. Okay. And you mentioned there are some strictly
10 secondary objectives in this well?

11 A. Right, marginally commercial, being generous for
12 those secondary objectives. And they would be the Atoka,
13 Wolfcamp and Bone Spring.

14 As a matter of fact, the well in 3 F tried to
15 make an attempt in the Bone Spring completion, after
16 plugging back from the Morrow, that I showed on the cross-
17 section, and it was unsuccessful.

18 Q. In your opinion, what penalty should be assessed
19 against any interest owner who elects to go nonconsent in
20 this well?

21 A. I think the maximum, or cost plus 200 percent.

22 Q. Were Exhibits 6 through 8 prepared by you or
23 under your direction?

24 A. They were.

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

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

3 A. It is.

4 MR. BRUCE: Mr. Examiner, I would tender
5 Mewbourne Exhibits 6 through 8.

6 EXAMINER STOGNER: Exhibits 6 through 8 will be
7 admitted into evidence.

8 EXAMINATION

9 BY EXAMINER STOGNER:

10 Q. Mr. Moore the wells spotted on your Exhibit
11 Number 8 -- or Exhibit Number 6 -- are these just the wells
12 that penetrated the Morrow, or does this represent all
13 wells?

14 A. No, these are wells that penetrated the Morrow
15 and provide some information on the Morrow datums.

16 Q. Okay.

17 A. Now, there are other wells in here.

18 Q. What zones are completing -- or is producing from
19 this area?

20 A. Well, up to -- up in the northwest of Section 34,
21 there are two Grayburg wells. In Section -- That's the
22 only producing wells in Section 34. There are a number of
23 shallow dry tests.

24 In Section 3, there's one shallow dry hole north
25 of 3F. And they're the only three wells in that area, and

1 that was a shallow well at 2100 feet.

2 If we move over into 2, there's a shallow dry
3 hole with 2900 feet in 2 F. There's a plugged producing
4 well in 2 O; I believe it's a Grayburg well.

5 And in Section 35, that's also -- There's a
6 Grayburg producer in 35 E, F, and there's some dry holes to
7 the south of there. But there's scattered shallow
8 production in this area.

9 Q. Your Application is for everything from 3500 feet
10 to below -- or to the base of the Morrow. What does the
11 3500 feet -- What does that correspond with?

12 A. That would be, typically, below the Grayburg San
13 Andres producing zones that I've made mention to. It would
14 include the Bone Spring, the Atoka, Strawn, Wolfcamp
15 primarily, and there are other Morrow zones that are
16 possible.

17 EXAMINER STOGNER: And perhaps I should be asking
18 Mr. Haden this: Is the Grayburg -- everything above the
19 Grayburg, has that already been leased or is under
20 production or --

21 MR. HADEN: It's under different ownership.
22 Everything above 3500 feet has been designated. 3500 feet,
23 that's just in the title; that has been split up through
24 the chain of title.

25 EXAMINER STOGNER: Okay.

1 MR. BRUCE: The pool out there, Mr. Examiner, is
2 the Artesia-Queen Grayburg San Andres Pool, and all of
3 Section 34 is within the boundaries of that pool.

4 Q. (By Examiner Stogner) As far as Exhibit Number
5 8, referring to it, you show some producing Morrow wells
6 back in Section 26, 35 and 2 and 1, even one down there in
7 10.

8 What's some of the nearest Morrow production back
9 to the west?

10 A. There's -- West of 34, which I believe is 33, to
11 the best of my recollection, there's no Morrow production,
12 there's a dry hole.

13 In Section 28, which would be west of 27, to the
14 best of my knowledge there is one well that produced from
15 the Morrow in location 28 G. I don't have any information
16 on that well right now, but I can provide you with it.

17 In Section 4, which would be west of 3, I don't
18 believe there's a Morrow producing well.

19 So there's not much to summarize. If I move one
20 section west, there's not much significant Morrow
21 production, scattered dry holes.

22 EXAMINER STOGNER: I have nothing further of Mr.
23 Moore.

24 You may be excused.

25 MR. BRUCE: That's all I have in this case Mr.

1 Examiner.

2 EXAMINER STOGNER: Does anybody else have
3 anything further in Case Number 11,744? If not, then this
4 case will be taken under advisement.

5 (Thereupon, these proceedings were concluded at
6 11:08 a.m.)

7 * * *

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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. 11744,
heard by me on March 6, 1997.


_____, 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 March 9th, 1997.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 14, 1998