

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

APPLICATION OF MEWBOURNE)
OIL COMPANY FOR COMPULSORY) CASE NO. 10330
POOLING AND AN UNORTHODOX GAS)
WELL LOCATION, EDDY COUNTY,)
NEW MEXICO.)
-----)

REPORTER'S TRANSCRIPT OF PROCEEDINGS
EXAMINER HEARING
BEFORE: MICHAEL E. STOGNER, Hearing Examiner
June 13, 1991
Santa Fe, New Mexico

This matter came for hearing before the Oil
Conservation Division on June 13, 1991, at the Oil
Conservation Division Conference Room, State Land office
Building, 310 Old Santa Fe Trail, Santa Fe, New Mexico,
before Linda Bumkens, CCR, Certified Court Reporter No.
3008, for the State of New Mexico.

FOR: OIL CONSERVATION DIVISION
(ORIGINAL)

BY: LINDA BUMKENS CCR
Certified Court Reporter
CCR No. 3008

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APPEARANCES

FOR MEWBOURNE
OIL COMPANY:

HINKLE LAW FIRM
BY: MR. JIM BRUCE, ESQ.
500 Marquette, NW
Suite 800
Albuquerque, New Mexico

FOR THE DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
Oil Conservation Division
State Land Office Building
Santa Fe, New Mexico

87504

1 MR. STOGNER: Call next case number 10330.

2 MR. STOVALL: Application of Mewbourne Oil
3 Company for compulsory pooling and an unorthodox gas
4 well location, Eddy County, New Mexico.

5 MR. STOGNER: Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce from the
7 Hinkle Law Firm for the applicant. I have two
8 witnesses to be sworn, one of whom is Mr. Shatzer
9 who was previously sworn, and then a new witness, a
10 lineman.

11 MR. STOGNER: Let the record show that
12 Mr. Shatzer has been previously sworn. Will the
13 other witness please stand at this time and be
14 sworn.

15 EXAMINATION

16 BY MR. BRUCE:

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

19 A. My name is Paul Haden.

20 Q. And where do you reside?

21 A. I reside in Midland, Texas. I am employed
22 in the capacity of a petroleum landman by Mewbourne
23 Oil Company.

24 Q. And have you previously testified before
25 the division and had your credentials as expert

1 petroleum landman accepted as a matter of record?

2 A. Yes, I have, and yes, they were accepted.

3 Q. And are you familiar with the land matters
4 involved in this case?

5 A. Yes, I am.

6 Q. Briefly, Mr. Haden, state what Mewbourne
7 seeks in this case.

8 A. Mewbourne seeks an order pooling all
9 mineral interests from the surface to the base of
10 the Morrow formation under the north half of
11 section 20, township 19 south, range 27 east for all
12 pools, formations based on 80, 160, and 320 acres.

13 Q. Now you're not sure if there's any 80-acre
14 pools in this area?

15 A. To my knowledge there is not currently.

16 Q. Okay. Would you please move onto Exhibit 1
17 and describe what this is?

18 A. Exhibit number 1 is a land plat showing our
19 proposed spacing unit. This is indicated or shaded
20 in yellow, being the north half of section 20,
21 township 19 south range 27 east. It also shows our
22 proposed unorthodox location for which we are
23 seeking approval. This is indicated by red dots
24 located 990 feet from the north and east lines of
25 said section 20.

1 Q. There are only three leases involved in
2 this, are there not?

3 A. That's correct.

4 Q. Going down there is a Mewbourne lease; is
5 that correct?

6 A. There is a Mewbourne lease in the southeast
7 quarter of the northeast quarter. There's also a
8 lease of which Chevron owns in the north half of the
9 northeast quarter, and also the southwest of the
10 northeast quarter and J.M. Huber Corporation owns
11 the northwest quarter.

12 Q. Has Huber committed its interest to the
13 well?

14 A. Yes, Huber has committed their interest to
15 the well. They have farmed out to us for the
16 drilling of this well.

17 Q. And is this information reflected on
18 Exhibit 2?

19 A. That is correct. Exhibit number 2
20 describes the ownership in tract numbers, tract 1
21 being J.M. Huber Corporation's interest in the
22 northwest quarter which Mewbourne has obtained a
23 farmout from them; tract 2 being Chevron's interest
24 in the north half northeast quarter and also the
25 southwest of the northeast in this section 20, and

1 then, of course, Mewbourne Oil Company's new federal
2 oil and gas lease covers the southeast northeast
3 quarter.

4 Q. And Chevron has not yet agreed to commit
5 its interest?

6 A. That is correct. We are still in
7 negotiation with them.

8 Q. Okay. I'm referring to Exhibit 3. Will
9 you just briefly describe your contacts with Chevron
10 and what the current status with Chevron is?

11 A. Exhibit number 3 is a copy of
12 correspondence from Mewbourne to Chevron and Chevron
13 to Mewbourne regarding our proposed trades. In these
14 letters it sets out that Mewbourne would be
15 interested in obtaining a farmout of 100 percent of
16 Chevron's interest for the drilling of this Morrow
17 test well. This is the first letter by certified
18 mail dated March 28, '91.

19 Also an AFE was submitted with this letter
20 asking them to join us, and if they did not want to
21 farm out to us, and then there is a May 9th letter
22 from Chevron stating briefly the terms in which they
23 would recommend to their management to farm out to
24 us.

25 Another letter dated May 31st directed to

1 Mr. James E. Baca whom I've been dealing with
2 Chevron -- this states the terms in which Mewbourne
3 Oil Company would accept farmout from Chevron.
4 After this letter, further negotiations with
5 Chevron, we agreed that we would accept certain
6 terms as proposed by Chevron in the June 4, 1991
7 letter.

8 Q. Have you also had phone conversations with
9 Mr. Baca?

10 A. Yes, numerous phone conversations
11 throughout this timeframe, March 28th through the
12 present.

13 Q. And in your past experience in dealing with
14 Chevron, are they a little slow, perhaps, sometimes?

15 A. They are a little bit slow in giving a firm
16 commitment. These terms, of course, are terms in
17 which they would recommend to their management.
18 That is not a guarantee that their management would
19 indeed accept these terms.

20 Q. Okay. Nothing?

21 A. No, sir. Nothing has been executed, in
22 other words.

23 Q. And if Chevron did agree, would you then
24 notify the OCD that they have come to terms with
25 Mewbourne?

1 A. Yes, we would notify the NMOCD on our terms
2 of the order.

3 Q. Okay. Does Mewbourne request that it be
4 named operator of the well?

5 A. Yes, sir. Mewbourne Oil Company requests
6 that it be named as operator of the Mewbourne Lake
7 Shore Federal No. 1 well.

8 Q. And referring to Exhibit 4, could you
9 discuss well costs?

10 A. Exhibit number 4 is Mewbourne Oil Company's
11 authorization for expenditure of the AFE in other
12 words, describes the well cost to casing point being
13 \$489,445; a completed well cost of \$819,230. This
14 is for a well to be drilled to approximately 10,300
15 feet.

16 Q. Is this cost comparable with Mewbourne's
17 other costs in this area and other operators' costs
18 that you're familiar with?

19 A. That is correct.

20 Q. And what is your recommendation as to
21 supervision rates for drilling and producing wells?

22 A. Mewbourne proposes that \$5,000 per month be
23 designated for drilling well cost and \$500 per month
24 for a producing well.

25 Q. Did J.M. Huber Corporation agree with these

1 rates also?

2 A. These are the rates agreed to with J.M.
3 Huber in terms of our farmout agreement with them.

4 Q. And are these approximately the terms and
5 rates?

6 A. Yes, they are.

7 Q. And what penalty do you recommend against
8 nonconsent of interest owners?

9 A. We propose well cost plus 200 percent.
10 This is a figure used in operating agreements in
11 this area of New Mexico. Our geologist will discuss
12 reasonableness of this proposed penalty.

13 Q. Okay. And referring Exhibit 5, excuse me, 5
14 and 6 together, would you describe what those
15 exhibits are, please?

16 A. Okay. Exhibit number 5 is a listing of the
17 offset ownership with their addresses, the
18 particular acreage which they are either operator or
19 lessee or owner of operating rights.

20 Q. And does this have to do with the
21 unorthodox location aspect of this application?

22 A. That is correct. Exhibit number 6 are
23 the -- not 6, excuse me -- notification letters sent
24 out to the offset owners listed on this tract
25 ownership in Exhibit Number 5. Also included in the

1 letters is a copy of return receipts.

2 Q. Okay. And have you received any waiver
3 letters?

4 A. Yes. We have received several waiver
5 letters from Meridian Oil, Inc., Fair Oil Ltd.,
6 Southland Royalty Company, Robert N. Enfield,
7 Chevron U.S.A., Inc., Collins & Ware, Inc., J.M.
8 Huber Corporation.

9 Q. And these are submitted as Exhibit 7?

10 A. That is correct.

11 Q. And is Exhibit 8 a copy of the affidavit of
12 service from my office regarding the compulsory
13 pooling portion of this application?

14 A. That's true.

15 Q. Were Exhibits 1 through 8 prepared by you,
16 or compiled from company records?

17 A. Yes, they're prepared by me.

18 Q. In your opinion will the granting of this
19 application be in the interest of conservation and
20 the prevention of waste and protection of
21 correlative rights?

22 A. Yes, sir.

23 MR. BRUCE: Mr. Examiner, I move the admission
24 of Exhibits 1 through 8.

25 MR. STOGNER: Exhibits 1 through 8 will be

1 admitted into evidence at this time. What was the
2 overhead charges for drilling the well, again?

3 A. Five thousand and five hundred for
4 producing well rate.

5 MR. STOGNER: I heard it right then. And the
6 March 28th letter, that was the first correspondence
7 that you had with Chevron? Is that number 3?

8 A. That's what I am entering as exhibits.
9 Prior to that, prior to Mewbourne obtaining its
10 federal lease, which is as I said, is a new federal
11 lease; that lease being dated April 1st, I believe,
12 covering the southeast quarter northeast quarter
13 among other lands within the section. We had
14 contacted Chevron and Huber last year around the
15 same period of time, March, so this isn't a new
16 deal.

17 MR. STOGNER: Okay. So there was
18 correspondence prior to this?

19 A. Right. But for purposes of interest for
20 exhibit purposes, we only received our lease in
21 April 1st of this year. We thought this would
22 suffice.

23 MR. STOGNER: Okay. Any other questions? You
24 may be excused. Mr. Bruce?

25 MR. BRUCE: I call Mr. Shatzer back to the

1 stand.

2 EXAMINATION

3 BY MR. BRUCE:

4 Q. Referring to Exhibit 9, Mr. Shatzer,
5 briefly describe the structure in this area.

6 A. Exhibit 9 is a structure map of the
7 Lakeshore prospect area. It is contoured on a
8 100-foot contour interval and shows our location in
9 the northeast northeast corner of the proposed
10 location in the northeast northeast corner of
11 section 20, and that we will be down dip to the
12 nearest Morrow producer and the northernmost portion
13 of section 17.

14 Q. Okay. Would you please refer to the
15 production map marked Exhibit 10 and discuss the
16 potential zones in this section?

17 A. The primary production zone that we're
18 drilling this well for is the Morrow. There are, I
19 guess, six Morrow producers shown on this well, the
20 best of which are located in the northernmost
21 portion of section 17.

22 That well is made over 3 bcf in the Morrow
23 and the well in section 8. Probably about the "J"
24 location of section 8 has made over two and a half
25 bcf from the Morrow.

1 There's one in section 28 that's made a
2 little under one bcf, and lesser amounts in section
3 7. There's also Atoka in the area that is scattered
4 mostly in subeconomic production cumulative amounts,
5 and then there's also the Cisco field to the north
6 that we probably will not be able, you know, to get
7 any production out of, but the production from it,
8 it was quite and is quite good at this day in
9 section 7, 8, and 18. Those are the main productive
10 zones. There's one Wolfcamp producer down in
11 section 30, but those are the main production zones
12 in the area.

13 Q. Okay. Let's move onto Exhibit 11.

14 A. Exhibit 11 is an isopach map on the Gross
15 Sands of the Lower Morrow "Brown." The Lower Morrow
16 "Brown" is the reservoir sands productive in
17 section 17 and also in section 28, and it's our
18 primary zone of interest that we were proposing this
19 well to be drilled for that.

20 The Gross Sand is the second number of the
21 two numbers that I have shown, and there is 22 feet
22 of thickness in section 17, and the wells coming to
23 the south have much thinner Gross Sand.

24 There's only three feet of Gross Sand in
25 section 20, and then in 21 you have two wells with 0

1 feet, and then you get 12 feet of production down in
2 section 28. So this shows the linear nature of the
3 Morrow development in this area.

4 Q. Okay. And would you then move on to the
5 cross-section up on the wall and discuss the Morrow?

6 A. Relative to this type of isopach in the
7 Morrow cross-section is the next exhibit, and it
8 goes from the north well in section 8, which is the
9 northernmost well on the cross-section north to
10 south.

11 Section 8 is a producer in the Middle
12 Morrow, then as we go further to the south, the well
13 in 17 is productive in the Lower Morrow "Brown,"
14 then the well in section 20 has thin and tight
15 middle Morrow Sand and only three feet of Gross Sand
16 in the Lower Morrow "Brown," and then as we go down
17 to 28 we pick up the Lower Morrow "Brown" again with
18 a reasonable thickness of Middle Morrow also, and
19 this also serves to show the linear nature of the
20 Morrow Sands in this area and the geologic risk
21 involved.

22 Q. Okay. And in your opinion, is it necessary
23 to move away from the Southland Royalty well in the
24 southeast quarter of section 20 to have a reasonable
25 chance of success?

1 A. Yes, it is. They are in thin and tight
2 sands, and we want to improve our position by
3 drilling this next well.

4 Q. Okay. And in your opinion, what penalty
5 would you recommend against Chevron if it goes
6 nonconsent in this well?

7 A. In the light of the geologic risk we're
8 recommending a penalty of well cost plus 200
9 percent.

10 Q. Okay. And were Exhibits 9 through 12
11 prepared by you or under your direction?

12 A. Yes, they were.

13 Q. And in your opinion, is the granting of
14 this application in the interest of conservation and
15 prevention of waste and protection of correlative
16 rights?

17 A. Yes, it is.

18 MR. BRUCE: Mr. Examiner, I move the admission
19 of Exhibits 9 through 12.

20 MR. STOGNER: Exhibits 9 through 12 will be
21 admitted into evidence at this time. I have no
22 question of Mr. Shatzer. Are there any questions of
23 this witness? If not, you may be excused.

24 Mr. Bruce, did you have anything further?

25 MR. BRUCE: No, sir.

1 MR. STOGNER: Anybody else have anything
2 further in case number 10330? If not, this case
3 will be taken under advisement.

4 (The foregoing case was concluded at the
5 approximate hour of 3:10 p.m.)
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16 I do hereby certify that the foregoing is
17 a complete record of the proceedings in
18 the Examiner hearing of Case No. 10330
19 heard by me on 13 June 1991.

20 Michael E. Stogner, Examiner
21 Oil Conservation Division
22
23
24
25

1 STATE OF NEW MEXICO)
) ss.
2 COUNTY OF BERNALILLO)


3 REPORTER'S CERTIFICATE

4 BE IT KNOWN that the foregoing transcript of
5 the proceedings were taken by me, that I was then
6 and there a Certified Shorthand Reporter and Notary
7 Public in and for the County of Bernalillo, State
8 of New Mexico, and by virtue thereof, authorized to
9 administer an oath; that the witness before
10 testifying was duly sworn to testify to the
11 whole truth and nothing but the truth; that the
12 questions propounded by counsel and the answers of
13 the witness thereto were taken down by me, and that
14 the foregoing pages of typewritten matter contain a
15 true and accurate transcript as requested by counsel
16 of the proceedings and testimony had and adduced
17 upon the taking of said deposition, all to the best
18 of my skill and ability.

19 I FURTHER CERTIFY that I am not related to
20 nor employed by any of the parties hereto, and have
21 no interest in the outcome hereof.

22 DATED at Bernalillo, New Mexico, this day
23 July 29, 1991.

24 My commission expires
25 April 24, 1994


LINDA BUMKENS
CCR No. 3008
Notary Public