

1 NEW MEXICO OIL CONSERVATION DIVISION

2 STATE LAND OFFICE BUILDING

3 STATE OF NEW MEXICO

4 CASE NO. 10427

5
6 IN THE MATTER OF:

7
8 The Application of Mewbourne Oil
9 Company for compulsory pooling,
10 an unorthodox gas well location,
11 and non-standard gas proration units,
12 Eddy County, New Mexico.

13
14
15 BEFORE:

16
17 MICHAEL E. STOGNER

18 Hearing Examiner

19 State Land Office Building

20 December 19, 1991

21
22
23 REPORTED BY:

24 DEBBIE VESTAL

25 Certified Shorthand Reporter

for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.
General Counsel
State Land Office Building
Santa Fe, New Mexico 87504

FOR THE APPLICANT:

HINKLE, CLOX, EATON, COFFIELD & HENSLEY
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Albuquerque, New Mexico 87102-2121
BY: JAMES BRUCE, ESQ.

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1 EXAMINER STOGNER: The hearing will
2 come to order. Call the next case, No. 10427.

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

7 EXAMINER STOGNER: Call for
8 appearances.

9 MR. BRUCE: Mr. Examiner, my name is
10 Jim Bruce, from the Hinkle law firm in
11 Albuquerque, representing the applicant. I have
12 two witnesses to be sworn.

13 EXAMINER STOGNER: Any other
14 appearances?

15 Will the witnesses, please, stand to be
16 sworn.

17 (The witnesses were duly sworn.)

18 MR. BRUCE: Mr. Examiner, one
19 preliminary matter, my application erroneously
20 asked to pool all formations from the surface to
21 the base of the Morrow, and instead it should be
22 from the base of the Abo to the base of the
23 Morrow.

24 EXAMINER STOGNER: Everything else
25 being the same?

1 MR. BRUCE: Yes.

2 EXAMINER STOGNER: Thank you.

3 PAUL HADEN

4 Having been duly sworn upon his oath, was
5 examined and testified as follows:

6 EXAMINATION

7 BY MR. BRUCE:

8 Q. Would you, please, state your name and
9 city of residence.

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

12 Q. And what is your occupation?

13 A. Petroleum landman.

14 Q. Who do you work for?

15 A. Mewbourne Oil Company.

16 Q. Have you previously testified before
17 the Division as a petroleum landman?

18 A. Yes, I have.

19 Q. Are you familiar with the land matters
20 involved in this application?

21 A. Yes, I am.

22 MR. BRUCE: Mr. Examiner, I tender the
23 witness as an expert.

24 EXAMINER STOGNER: He is.

25 Q. (BY MR. BRUCE) Mr. Haden, state

1 briefly what Mewbourne seeks in this case.

2 A. Mewbourne seeks an order pooling all
3 mineral interests from the base of the Abo
4 formation to the base of the Morrow formation
5 underlying the west half of Section 6, Township
6 18 South, Range 28 East for all pools or
7 formations spaced on 160 or 320 acres.

8 The units will be nonstandard in size,
9 however, being 334.98 acres for the west half,
10 and 167.36 acres for the southwest quarter of
11 Section 6.

12 Mewbourne also requests approval of an
13 unorthodox gas well location for the west half
14 and southwest quarter spacing units.

15 Q. What is the location of Mewbourne's
16 proposed well? And I refer you to Exhibit 1.

17 A. Exhibit 1 is a land plat showing our
18 proposed west half spacing unit for Section 6.
19 Our unit is shaded in yellow with the red dot
20 indicating our proposed well location. This
21 location is 730 feet from the west line and 990
22 feet from the south line of Section 6.

23 The well will be drilled to depths
24 sufficient to test the Morrow formation, being
25 approximately 10,350 feet.

1 Q. Referring to Exhibit 2 now, who are the
2 parties that Mewbourne seeks to force pool?

3 A. Exhibit No. 2 is a listing of the
4 ownership of the operating rights in the west
5 half of Section 6. The interest owners shaded in
6 yellow are the owners in which Mewbourne Oil
7 Company wishes to force pool.

8 Q. They are the uncommitted interests?

9 A. They are the uncommitted interests.

10 Q. And what does the green shading
11 indicate?

12 A. The green shading indicates those who
13 were named in the application for forced pooling
14 but who have subsequently joined or farmed out to
15 Mewbourne the drilling of this test well.

16 Q. Besides the parties listed on Exhibit
17 2, is there anyone else you seek to force pool?

18 A. Yes. We also seek to force pool the
19 Sunwest Bank of Albuquerque as a personal
20 representative of the estate of Ruth Hatch,
21 deceased.

22 Q. Why do you seek to force pool Sunwest
23 Bank?

24 A. The reason for this is Ruth Hatch owned
25 certain operating rights in Tract A. This Tract

1 A is listed or described on this Exhibit No. 2.
2 She died. And the Sunwest Bank as personal
3 representative supposedly conveyed operating
4 rights to the devisees under a will.

5 Those people are the regents of the
6 University of New Mexico, Cheedle and Elizabeth
7 Caviness, Harriet Hatch Trapani, Carla
8 Leet-Assaf, Frederika A. Leet, Ryan P. Hatch,
9 Carl F. Hatch, Jeannie H. Collins, Victoria Hatch
10 Pereira, Glen F. -- wait. Excuse me. Glenn F.
11 Leet, Jr., and Frank Hatch.

12 These conveyances, unfortunately, were
13 made by mineral royalty deed, which our title
14 attorney considers them defective conveyances as
15 these are operating rights, not mineral and/or
16 royalty interests. Therefore, we need to force
17 pool the personal representative.

18 Q. And this is due to the title question?

19 A. This is due to the title question.

20 Q. Okay. Please describe your efforts to
21 obtain the voluntary joinder of the uncommitted
22 parties. And I refer you to Exhibit 3.

23 A. Exhibit 3 is a copy of all of our
24 correspondence in regard to the uncommitted
25 owners shaded in yellow on our previous Exhibit

1 No. 2.

2 We started since January 1991 trying to
3 commit these interests.

4 Q. Besides the correspondence at least
5 with the companies like Enron and Phillips, et
6 cetera, were there follow-up phone calls?

7 A. Yes. Numerous calls since January 91.

8 Q. Okay. In your opinion have you made a
9 good faith attempt to obtain the voluntary
10 joinder of these uncommitted parties?

11 A. I believe I have.

12 Q. Does Mewbourne request that it be named
13 operator of the well?

14 A. Yes, that's correct.

15 Q. What is its current ownership interest
16 in the west half of the unit?

17 A. Mewbourne controls approximately 23.65
18 percent of the unit in the west half.

19 Q. Okay. And moving on to Exhibit 4,
20 would you discuss the costs of the proposed well?

21 A. Our estimated well cost for our Chalk
22 Bluff "6" State No. 1 well is estimated at
23 \$745,306.

24 Q. And that's for a completed well?

25 A. That's for a completed well.

1 Q. And is this well cost comparable to the
2 cost of other wells Mewbourne has drilled in this
3 area?

4 A. That's correct.

5 Q. And what is your recommendation as to
6 the amounts Mewbourne should be paid for
7 supervision and administrative charges?

8 A. We are recommending \$6,000 per month
9 for drilling well costs monthly and \$600 for
10 producing well costs.

11 Q. Okay. Now, moving on to the -- or
12 excuse me. Are these amounts comparable to rates
13 normally charged by Mewbourne and other operators
14 for wells of this depth in this area of the
15 state?

16 A. Yes, that's correct.

17 Q. And what penalty do you recommend
18 against any non-consenting pool parties?

19 A. Well costs, plus 200 percent.

20 Q. And will the geologist for Mewbourne
21 further testify as to this stiff penalty?

22 A. Yes, he will.

23 Q. Is the 200 percent risk penalty used in
24 operating agreements in this area of New Mexico?

25 A. Right, well costs plus 200 percent.

1 Q. Now, moving on to the unorthodox
2 location part of the hearing, would you identify
3 Exhibits 5-A and 5-B and discuss them for the
4 Examiner.

5 A. Exhibit 5-A is a listing of the offset
6 ownership. This ownership is restricted for
7 rights from the base of the Abo formation to the
8 base of the Morrow formation. Exhibit No. 5-B is
9 a tract, a map of the tract ownership of the
10 ownership described in Exhibit 5-A.

11 Q. Okay. And the people listed in Exhibit
12 5-B, were they all notified of the unorthodox
13 location request?

14 A. That's correct.

15 Q. Are the notification letters marked
16 Exhibit 6?

17 A. That also is correct.

18 Q. Referring to the back of that packet,
19 there are a couple of letters dated December 13.
20 What is the reason for that late notice?

21 A. The reason for this notice given is
22 apparently the change in ownership since the last
23 time I had checked it. To make sure things were
24 done correctly, I notified these people.

25 Q. And that's Enron and Chevron and Kersey

1 & Company?

2 A. Chevron USA, Inc., Hondo Oil & Gas
3 Company, and Kersey & Company.

4 Q. Where do they own interests?

5 A. They own interests in north, northwest
6 of our proposed location. Their interests are
7 located in Section 36 in the south half.

8 Q. And the unorthodox location is moving
9 away from them; is that correct?

10 A. That is correct.

11 Q. And did any of the offset parties sign
12 waivers as to the unorthodox location?

13 A. Yes. We have numerous waivers signed
14 by the offset operators as to our proposed
15 location.

16 Q. And those are part of Exhibit 6?

17 A. That is right.

18 Q. Who is the immediate offset operator of
19 Section 7 and Section 12?

20 A. Section 7, Arco Oil & Gas Company, they
21 own the deep rights and operate the two gas wells
22 depicted on this exhibit.

23 Q. Did they waive objection to the
24 location?

25 A. Yes, they did by waiver signed December

1 10, 1991.

2 Q. And who owns Section 12 as to the deep
3 rights?

4 A. Mewbourne Oil Company owns these
5 rights.

6 Q. Okay. Finally, Mr. Haden, what is
7 Exhibit 7?

8 A. Exhibit 7 is an affidavit regarding
9 notice, which was executed by myself.

10 Q. And does that concern notice of the
11 forced pooling portion of this application?

12 A. That is right.

13 Q. Were Exhibits 1 through 7 prepared by
14 you under your direction or compiled from company
15 records?

16 A. That's correct.

17 Q. In your opinion is the granting of this
18 application in the interests of conservation and
19 the prevention of waste?

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I move the
22 admission of Exhibits 1 through 7 at this time.

23 EXAMINER STOGNER: Exhibits 1 through 7
24 will be admitted into evidence.

25 EXAMINATION

1 BY MR. STOVALL:

2 Q. Mr. Haden, the people on your list on
3 Exhibit 2, are there no royalty interests that
4 you're having to force pool?

5 A. No. These are operating rights.

6 Q. Okay. Under leases?

7 A. Yes, under previous held by production
8 leases.

9 Q. Okay. So all the royalty interests
10 that are in the proposed spacing units are -- the
11 people that control those royalty interests have
12 agreed to -- I mean, they're not going to be
13 pooled as far as costs, but as far as their
14 royalty?

15 A. This has nothing to do with royalties.
16 These are state leases. The state of New Mexico
17 owns the royalty.

18 Q. Okay. That was the question. If they
19 were fee royalties, it would be a different
20 situation?

21 A. That's correct.

22 Q. Sticking with the forced pooling thing,
23 is there anybody you haven't been able to find or
24 you haven't gotten any letters back from or that
25 you've got any concerns about not having actually

1 had direct contact with them?

2 A. There's one person, yes, Arthur L.
3 Owen. We have researched the records in Eddy
4 County thoroughly and have not been able to come
5 up with any sort of address for this individual.
6 They own a very small, small interest.

7 Q. Arthur Owen you said?

8 A. Yes, sir.

9 Q. Which tract is he in? Oh, there he
10 is. I see it.

11 A. We would, of course, like to find him.

12 Q. I notice you even have somebody in
13 Brazil?

14 A. Yes. She has not responded at all.

15 Q. Now, moving on to the unorthodox part,
16 the companies -- we've got the December 13
17 letter?

18 A. Right.

19 Q. Do you know when they acquired their
20 interest of record?

21 A. I don't know right offhand when they
22 did. One of the questions having to do with
23 Hondo Oil & Gas Company, I thought all along that
24 was Atlantic Richfield Company. There's always a
25 question as to that ownership. I had notified

1 Atlantic Richfield. Of course, they said okay.

2 Q. So you don't know who owned record
3 title as of the date you gave notice or record at
4 the recorded interest?

5 A. I wasn't real clear. The ownership in
6 the county records is very split up. It's
7 unclear even in taking in conjunction with the
8 records filed with the Bureau of Land Management.

9 EXAMINER STOGNER: But both parties,
10 Arco and Hondo, have been notified?

11 THE WITNESS: Yes, that's correct.
12 Arco also being an offset owner in Section 17, I
13 believe, who operates two gas wells.

14 Q. (BY MR. STOVALL) You say all three
15 interests are in Section 36; is that what you
16 said?

17 A. I believe the Hondo Oil & Gas Company
18 interest is in Section 6. Right. Hondo owns in
19 the east half of the northeast quarter, the
20 southwest-northeast quarter, northeast-southeast
21 quarter of Section 6, Township 18 South, Range 28
22 East in conjunction with some other parties.

23 This is listed as Tract No. 10 on
24 Exhibit 5-A.

25 Q. How did you become aware of the

1 interests of these parties who got late notice?

2 A. Atlantic Richfield, for one, advised me
3 they didn't believe they owned in that Tract No.
4 10 anymore. They conveyed their interests to
5 Hondo. The rest was through subsequent checking
6 of the records.

7 Q. I guess the question I've got -- when
8 we switch witnesses, I want to go get a rule book
9 and make sure what the requirements are -- but if
10 in fact they had a record, you know, notice
11 interest as of the date that notice was required,
12 then they would have been entitled to notice.

13 MR. BRUCE: If the hearing needs to be
14 kept open, that's fine.

15 MR. STOVALL: When you go to your next
16 witness -- I can't remember what the rules are.
17 They're different, I know, in administrative and
18 hearing.

19 THE WITNESS: I understand that.

20 EXAMINER STOGNER: Any other questions
21 of this witness?

22 If not, Mr. Haden may be dismissed.

23 J. DAVID OVERTON

24 Having been duly sworn upon his oath, was
25 examined and testified as follows:

EXAMINATION

BY MR. BRUCE:

Q. Would you, please, state your name for the record.

A. My name is David Overton.

Q. Where do you reside?

A. I live in Midland, Texas.

Q. What is your occupation, and who are you employed by?

A. I work for Mewbourne Oil Company as a petroleum geologist.

Q. Have you previously testified before the Division as an expert petroleum geologist?

A. Yes, sir, I have.

Q. Are you familiar with the geology involved in this application?

A. Yes, sir, I am.

MR. BRUCE: Mr. Examiner, I tender Mr. Overton as an expert geologist.

EXAMINER STOGNER: Mr. Overton is so qualified.

Q. (BY MR. BRUCE) Mr. Overton, would you, please, move on to Mewbourne's Exhibit 8 and discuss what you're hoping to find in this proposed well.

1 A. Exhibit 8 is a production study of the
2 area for those wells that penetrated 7,000 feet
3 or deeper. This area is covered with a bunch of
4 shallow wells in the Abo, Queen, and Grayburg.

5 So in dealing with it, we were only
6 looking for gas wells below there because there's
7 no chance of getting any rocks from the base of
8 the Abo up.

9 You'll note that orange-shaded circle
10 surrounding some of the well symbols, especially
11 in Section 7, 12, and 1, is Lower Morrow, which
12 is what we're looking for in our proposed
13 location in Section 6.

14 We have drilled and operate the three
15 wells in Section 12 and the -- one well in
16 Section 12 and the two wells in Section 1.

17 Q. And the Lower Morrow is the primary pay
18 zone you're hoping to hit?

19 A. Yes, sir.

20 Q. Would you move on to Exhibit 9 and
21 discuss its contents for the Examiner.

22 A. Exhibit 9 is an Atoka Morrow
23 stratigraphic cross-section, G-to-G prime, G
24 being to the northwest in Section 35 and G prime
25 being in Section 7.

1 Across the area of our proposed
2 location, there basically we are looking for the
3 brown and orange sand. And they're shown on this
4 cross-section. However, there are a few others
5 that have played a minor significance in the
6 area, being a basal Morrow grade that we
7 encountered in Section 1 has proved to be
8 non-economic or borderline economic.

9 Green sands in the area, which are the
10 Middle Morrow, have not been tested at all. And
11 the immediate area, you'll have to go several
12 miles away to find where that's been tested.

13 Noting over here in our proposed
14 location, we are expecting to encounter a Lower
15 Morrow orange sand and a Lower Morrow brown sand,
16 which act as completely separate reservoirs in
17 this immediate area.

18 Q. Okay. Do you have anything further on
19 that exhibit?

20 A. No.

21 Q. Would you move on to Exhibits 10-A and
22 and 10-B and discuss further the prospect you're
23 hoping to drill.

24 A. Exhibit 10-A is a Lower Morrow
25 structure map in the hatched or dashed lines,

1 showing regional dip to the southeast. Also
2 included in that map is a net Lower Morrow orange
3 sand isopach map in which I have the numbers on
4 the individual wells are the net sand greater
5 than or equal to 8 percent over a gross sand
6 interval.

7 And this map is on the net sand, so
8 it's porosity greater than or equal to 8 percent,
9 which acts as a cutoff, baseline cutoff for us in
10 the Morrow, Lower Morrow.

11 We have sand channels trending from the
12 northwest to the southeast. We have one in the
13 orange sand crossing our proposed location at
14 about ten-foot thick at the proposed location.

15 Q. Is that approximately what you believe
16 is necessary to hit a commercial well in the
17 Morrow?

18 A. It's not necessarily required to be
19 commercial, but it is required to justify
20 drilling for a horizon.

21 Q. On Exhibit 10-A what is the little "X"
22 north of the proposed location?

23 A. The "X" is the legal location defined
24 by the rules of the NMOCD versus our proposed
25 location, which is unorthodox at 730 from the

1 west and 990 from the south.

2 Moving on to Exhibit 10-B is the lower
3 reservoir we're after, the brown sand. Once
4 again, it's pretty much channels trending from
5 the northwest to the southeast in our proposed
6 location. And that sand is a little shy of ten
7 foot, about nine foot on my map, eight or nine.

8 Again, the "X" marks a legal location
9 and the circles are proposed locations.

10 Q. Okay. Looking at Exhibits 10-A and
11 10-B, is an unorthodox location more necessary
12 for the orange sand than the brown sand?

13 A. Yes, sir, that's true. To give us a
14 backup secondary two targets to look for, we
15 pretty well have to have an unorthodox location
16 for that orange sand, although we're not really
17 improving ourself at all in the brown sand by our
18 move from orthodox.

19 Q. Regarding the unorthodox, or I should
20 say the compulsory pooling part of this case,
21 what penalty do you recommend against
22 non-consenting interest owners?

23 A. I recommend cost plus 200 percent.

24 Q. Is that based on geologic risk?

25 A. Yes, sir, a lot on geologic risk.

1 We've drilled three wells in the area and to some
2 extent have not had the same zone in each well to
3 date, so there is a lot of risk in it
4 geologically.

5 There is also some mechanical risk in
6 the area on the wells. Two of those three wells
7 have had severe circulation problems in the upper
8 Penn.

9 Q. What is the approximate depth of these
10 wells?

11 A. Approximately 10,300 feet.

12 Q. Were Exhibits 8 through 10 prepared by
13 you or under your direction?

14 A. Yes, sir, they were.

15 Q. In your opinion is the granting of this
16 application in the interests of conservation and
17 the prevention of waste?

18 A. Yes, sir, it is.

19 MR. BRUCE: Mr. Examiner, I move the
20 admission of Exhibits 8 through 10.

21 EXAMINER STOGNER: Exhibits 8 through
22 10 will be admitted into evidence.

23 EXAMINATION

24 BY EXAMINER STOGNER:

25 Q. Is there any Wolfcamp production in

1 this area?

2 A. Yes, sir. To the northwest of us in
3 Sections 27 and 26 of 17. 27 is noted on the
4 production study.

5 Wolfcamp wells would have penetrated
6 the 7,000-foot limit that we set in building the
7 map so that we could get it where you could see
8 what was there that we were really dealing with.

9 Q. Is that gas production from the
10 Wolfcamp?

11 A. Yes, sir, it is.

12 Q. Because that was essentially what your
13 objective is is the base of the Abo to the Morrow
14 and anything from the Wolfcamp down to the
15 Morrow; is that correct?

16 A. That's correct.

17 Q. And the possibility of some Atoka
18 hopefully?

19 A. Atoka is very slim. There's one Atoka
20 well in the area, which is in Section 3 of 18-27,
21 and it's totally uneconomic. So that's really an
22 untested pay zone in our Federal "T" well, which
23 I assume you're looking at there on the
24 cross-section.

25 EXAMINER STOGNER: Are there any

1 questions of this witness? None.

2 You may be excused.

3 Anything further?

4 MR. STOVALL: Yes, Mr. Examiner. I
5 checked the rules, and I think we're okay as far
6 as that notice because, if I understand Mr.
7 Haden's testimony correctly, they are to the
8 north. And the people who received notice on the
9 13th are to the north and east. And for the
10 hearing, it requires the notice to be given to
11 people in the direction in which the
12 encroachment, which is to the south and west.

13 EXAMINER STOGNER: So you're telling me
14 I can take this case under advisement?

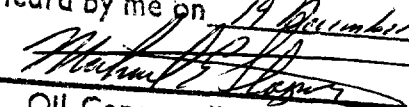
15 MR. STOVALL: So you can take it under
16 advisement.

17 EXAMINER STOGNER: Anything further?

18 MR. BRUCE: No, sir.

19 EXAMINER STOGNER: Case No. 10427 will
20 be taken under advisement then.

21 (The proceedings were concluded.)
22
23

24 I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. 10427,
heard by me on 19 December 1991.
, Examiner
Oil Conservation Division

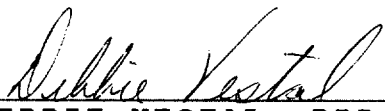
CERTIFICATE OF REPORTER

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

I, Debbie Vestal, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; 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 27,
1991.



DEBBIE VESTAL, RPR
NEW MEXICO CSR NO. 3