

NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10974

IN THE MATTER OF:

The Application of Mewbourne Oil
Company for Compulsory Pooling,
Lea County, New Mexico.

BEFORE:

JIM MORROW
Hearing Examiner
State Land Office Building
June 9, 1994

REPORTED BY:

19 1994

CARLA DIANE RODRIGUEZ
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE APPLICANT:

CAMPBELL, CARR, BERGE & SHERIDAN, P.A.
Post Office Box 2208
Santa Fe, New Mexico 87504-2208
BY: **WILLIAM F. CARR, ESQ.**

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1 EXAMINER MORROW: Call Case 10974, the
2 application of Mewbourne Oil Company for
3 compulsory pooling in Lea County, New Mexico.
4 Call for appearances.

5 MR. CARR: May it please the Examiner,
6 my name is William F. Carr with the Santa Fe law
7 firm Campbell, Carr, Berge & Sheridan. We
8 represent Mewbourne Oil Company in this case, and
9 I have two witnesses.

10 EXAMINER MORROW: Any other
11 appearances? Will the witnesses please stand to
12 be sworn.

13 [And the witnesses were duly sworn.]

14 MR. CARR: At this time, we call Steve
15 Cobb.

16 **STEVE COBB**

17 Having been first duly sworn upon his oath, was
18 examined and testified as follows:

19 EXAMINATION

20 BY MR. CARR:

21 Q. Would you state your name and place of
22 residence?

23 A. My name is Steve Cobb, and I reside in
24 Midland, Texas.

25 Q. By whom are you employed?

1 A. Mewbourne Oil Company.

2 Q. What is your current position with
3 Mewbourne?

4 A. District landman.

5 Q. Mr. Cobb, have you previously testified
6 before this Division?

7 A. Yes, I have.

8 Q. At the time of that testimony, were
9 your credentials as an expert witness in
10 petroleum land matters accepted and made a matter
11 of record?

12 A. Yes, they were.

13 Q. Are you familiar with the application
14 in this case?

15 A. Yes, I am.

16 Q. Are you familiar with the status of the
17 lands that are involved with this application?

18 A. Yes, I am.

19 MR. CARR: Are the witness's
20 qualifications acceptable?

21 EXAMINER MORROW: Yes, they are.

22 Q. Mr. Cobb, would you briefly state what
23 Mewbourne seeks in this case?

24 A. We are seeking an order pooling all
25 mineral interests from the surface to the top of

1 the Wolfcamp formation, underlying the west half
2 of the southeast quarter of Section 32, Township
3 18 South, Range 34 East, Lea County, New Mexico.

4 We would ask that the west half of the
5 southeast quarter be dedicated as the proration
6 unit.

7 Q. What is the name of the well you're
8 proposing to drill?

9 A. The La Rica 32 State No. 1 well.

10 Q. And that well will be located in the
11 northwest of the southeast of this section?

12 A. That is correct.

13 Q. Have you prepared exhibits for
14 presentation here today?

15 A. Yes, I have.

16 Q. Let's go to what has been marked as
17 Mewbourne Exhibit No. 1. I would ask you to
18 identify that and review it for Mr. Morrow.

19 A. This is a land plat I have prepared,
20 which shows the proration unit highlighted in
21 yellow, the 80 acres, the proposed well location,
22 and the current ownership of the proposed 80-acre
23 unit.

24 Q. What is the primary objective in the
25 proposed well?

1 A. The Bone Spring formation.

2 Q. Is this a standard spacing unit for the
3 Bone Springs in this area?

4 A. Yes, it is.

5 Q. Would you briefly review the status of
6 the ownership in the west half of the southeast
7 quarter of 32, for the Examiner?

8 A. Yes, I can. The northwest of the
9 southeast is owned 100 percent by Mewbourne, and
10 the southwest of the southeast is owned 100
11 percent by Texaco.

12 Q. What percent of this interest has been
13 voluntarily committed to the well?

14 A. 50 percent.

15 Q. Let's go to Exhibit No. 3. Would you
16 identify this exhibit?

17 A. Exhibit No. 3 is our contact summary
18 sheet, together with all the letters and copies
19 of certified receipts returned to us in our
20 efforts to make a deal with Texaco.

21 Q. Would you work through this exhibit and
22 just review these negotiations for Mr. Morrow?

23 A. This is our contact summary. We began
24 our negotiations with Texaco in August of 1992,
25 so right at two years we've been negotiating with

1 them. This summary details our efforts to date,
2 our contacts with Texaco, and the back-up, the
3 correspondence I've sent to him.

4 Q. What is the current status of your
5 negotiations with Texaco?

6 A. The last conversation I had with Texaco
7 was June 1st, and they advised me by telephone
8 that they would not be able to reach an agreement
9 with us as to their interest. They are not able
10 to look at this at this time.

11 And I advised that I was going to go
12 ahead and proceed with our pooling application
13 scheduled for today. They concurred with that
14 and had no problems with us proceeding with this
15 application.

16 Q. Marked as our Exhibit No. 2 and also
17 included in Exhibit 3 is an AFE. Could you
18 review the totals on that exhibit for Mr. Morrow?

19 A. The AFE for the cost of casing and
20 completion for this proposed well is \$400,089.
21 Completed well costs of \$750,469.

22 Q. Are these costs in line with what other
23 operators in this area charge for similar wells?

24 A. Yes, they are.

25 Q. Is Exhibit No. 4 a copy of an affidavit

1 confirming that notice of today's hearing has
2 been provided to Texaco, as required by the rules
3 of this Division?

4 A. Yes, it is.

5 Q. Could you advise us what the overhead
6 and administrative costs are that you're seeking
7 for this well, while drilling and also while
8 producing if, in fact, it is successful?

9 A. Yes. We're seeking \$6,167 for drilling
10 well rate, and \$626.50 for producing well rate.

11 Q. What is the source of these figures?

12 A. The source of these figures are derived
13 from our experience in this area, in the wells
14 we've drilled and the orders that have been
15 approved in this area.

16 Q. This figure was recently approved by
17 the Division by Order No. R-9684, is that
18 correct?

19 A. That's correct.

20 Q. And that's for a similar well?

21 A. That's correct.

22 Q. Mr. Cobb, do you request that the order
23 which results from this hearing authorize the
24 escalation of these rates in accordance with
25 COPAS procedures?

1 A. Yes, I do.

2 Q. Do you recommend these figures be
3 included in the order that results from this
4 hearing?

5 A. Yes, I do.

6 Q. Is Mewbourne seeking to be designated
7 operator of the proposed well and spacing unit?

8 A. Yes, we are.

9 Q. Will Mewbourne also be calling a
10 geological witness to review the technical
11 portions of this case?

12 A. Yes, we will.

13 Q. Were Exhibits 1 through 4 either
14 prepared by you or compiled at your direction?

15 A. Yes, they were.

16 MR. CARR: At this time, Mr. Morrow, we
17 move the admission into evidence of Mewbourne
18 Exhibits 1 through 4.

19 EXAMINER MORROW: 1 through 4 are
20 admitted.

21 MR. CARR: That concludes my direct
22 examination of Mr. Cobb.

23 EXAMINATION

24 BY EXAMINER MORROW:

25 Q. The force pooling's necessarily because

1 you own all the 40 acres, I assume?

2 A. That's correct. We do own the whole
3 40.

4 Q. How do your proposed rates agree with
5 the Ernst & Young survey?

6 A. They are slightly higher.

7 Q. Do you know what the Ernst & Young
8 rates would be?

9 A. Yes.

10 Q. Would you tell me what those would be?

11 A. I believe they are \$5,146, and \$502 for
12 producing well rate.

13 Q. And tell me again how you propose to
14 escalate the rates.

15 A. There's a paragraph No. 3 of COPAS
16 Bulletin 1984. I have a copy of that.

17 Q. Do you have a reference to an order
18 where that's been used before?

19 A. Yes, sir, I do, the same order that Mr.
20 Carr referred to. I believe it's Order R-9684,
21 and we also have a copy of that.

22 MR. CARR: I have a copy of a page from
23 Order R-9684 that addresses escalation of rates,
24 and I also have the page from the COPAS Bulletin
25 that we referenced in our testimony.

1 EXAMINER MORROW: Good. Okay, Mr.
2 Cobb, thank you, sir.

3 THE WITNESS: Thank you.

4 MR. CARR: At this time we'll call
5 David Shatzer.

6 **DAVID SHATZER**

7 Having been first duly sworn upon his oath, was
8 examined and testified as follows:

9 EXAMINATION

10 BY MR. CARR:

11 Q. Will you state your name for the
12 record, please?

13 A. My name is David Shatzer.

14 Q. How do you spell your last name?

15 A. S-H-A-T-Z-E-R.

16 Q. Where do you reside?

17 A. Midland, Texas.

18 Q. By whom are you employed and in what
19 capacity?

20 A. Mewbourne Oil Company.

21 Q. What is your current position with
22 Mewbourne?

23 A. Petroleum geologist.

24 Q. Mr. Shatzer, have you previously
25 testified before this Division?

1 A. Yes, I have.

2 Q. At the time of that testimony, were
3 your credentials as an expert witness in
4 petroleum geology accepted and made a matter of
5 record?

6 A. Yes, they were.

7 Q. Are you familiar with the application
8 filed in this case?

9 A. Yes.

10 Q. Have you made a geologic study of the
11 subject area?

12 A. Yes, I have.

13 MR. CARR: Are the witness's
14 qualifications acceptable?

15 EXAMINER MORROW: Yes.

16 Q. Mr. Shatzer, did you prepare exhibits
17 for presentation here today?

18 A. Yes, I have.

19 Q. Go to, first, what has been marked as
20 Exhibit No. 5. Would you identify that, please,
21 and then review that for Mr. Morrow?

22 A. Exhibit No. 5 is a structure map in the
23 prospect area, on top of the First Bone Spring
24 sand. The contour interval is 50 feet, and the
25 map scale is one inch to 2,000 feet.

1 The map--the deeper well control that
2 has Bone Spring data is shown in squares and
3 circles. The squares denote Bone Spring
4 penetrations only. The circles denote deeper
5 wells that penetrated the Morrow in, of course,
6 the Bone Spring section. Wells that have simple
7 well symbols, and no squares or circles, are
8 shallow penetrations that are not Bone Spring
9 control points.

10 Q. The small circle shows the proposed
11 location?

12 A. Yes, the small circle shows the
13 proposed location. The structure in general is
14 dipping to the south, with a few undulations.
15 Structure, in and of itself, is not terribly
16 significant in the Bone Spring production. The
17 Bone Spring production is generally
18 stratigraphically controlled, and this just gives
19 a general view of the overall structure in the
20 area. It's basically dipping to the south.

21 Q. All right. Let's go to the production
22 study, Exhibit No. 6. Would you review the
23 information on this exhibit for Mr. Morrow?

24 A. The production study is also shown in
25 the same type of base map as the previous

1 structure map, where the control points were in
2 the squares and circles. The legend for the
3 production color code has one Delaware producer
4 shown in brown.

5 The shallow control, the Yates and
6 Queen, are shown in yellow and pink. The Bone
7 Spring has been broken down into three horizons.
8 The First Bone Spring sand is shown in aqua blue,
9 the second Bone Spring sand, which is the
10 dominant producer in the area, the producer in
11 the E-K Bone Spring Pool generally, except for
12 one well, is shown in gray, and then Bone Spring
13 detrital carbonate zones are shown in the royal
14 blue. And the deep Morrow producers are shown in
15 orange.

16 The production, first line is
17 cumulative oil and gas for the life of the well,
18 and the second line is daily production rate, if
19 it still has active production. And this just
20 shows that, in the Bone Spring, there is the E-K
21 Field, which is generally found in Sections 30
22 and then on a couple of sections to the west of
23 this map control.

24 Most Bone Spring producers found east
25 and south of the E-K main production in Section

1 30 are noneconomic producers, such as the well in
2 Section 33 and the well in Section 31. Section
3 32 has a fairly decent producer out of two
4 different Bone Spring zones.

5 Q. Based on this alone, it is possible, is
6 it not, that you could drill a well at the
7 proposed location that wouldn't be a commercial
8 success?

9 A. Yes, that is correct.

10 Q. This exhibit also contains a trace on
11 it for a cross-section?

12 A. Yes, cross-section G - G' will show the
13 overall Bone Spring stratigraphy and the possible
14 target reservoir zones in the Bone Spring in this
15 area.

16 Q. Let's go to that cross-section now.
17 That's Exhibit No. 7. Would you review the
18 information on the exhibit for the Examiner,
19 please.

20 A. The cross-section, G - G', is
21 stratigraphically hung on the top of the First
22 Bone Spring sand, and shows the several Bone
23 Spring possible producing horizons in the area.

24 The cross-section runs from G in the
25 northwest, to the G' in the southeast in Section

1 33. In Section 30, at the first well on the
2 left, that is the discovery well for the E-K Bone
3 Spring Field, the Hilliard McElvain Federal #1,
4 and it is productive in the Second Bone Spring
5 sand, which is color-coded gray, both on the
6 production map and the cross-section work.

7 The next well on the cross-section is
8 the Hilliard Union State No. 1, located in the
9 northwest/northwest of Section 32. It is
10 productive out of two First Bone Spring sands,
11 which are colored aqua blue and pink. It's the
12 only producer out of the area, out of these two
13 sands.

14 The proposed location is shown in the
15 northwest/southeast of Section 32.

16 The final well on the cross-section is
17 is the Union Pipeline State No. 1, and it was
18 just really a show well. It had poor production,
19 only 7,000 barrels of oil, and four million cubic
20 feet of gas out of both perforations in the
21 Second Bone Spring sand, and also the top of the
22 Second Bone Spring carbonate, which is
23 correlative to the air strip production, about
24 three miles to the northeast of here. That
25 overall carbonate section produces in the air

1 strip field.

2 This cross-section shows that we have
3 good production in the E-K Field, but once you
4 move away from the E-K Field there isn't a lot of
5 well control and those wells have found only
6 marginal Bone Spring production.

7 Q. Is it fair to say that what we're
8 really dealing with here is fairly substantial
9 stratigraphic risk?

10 A. Yes, that's correct. There's different
11 zones and they seem to come and go, and their
12 predictability is difficult.

13 Q. On the bottom portion of this exhibit,
14 you've enlarged the more significant portions of
15 the log shown above, is that right?

16 A. That is correct. I've shown the upper
17 portion of the log was one inch--the small scale
18 log was about one inch to 100 feet; the bottom is
19 2-1/2 inches to 100 feet.

20 I've shown in detail the reservoirs in
21 the area and the variability, from one well to
22 the next, of the control that we have in these
23 reservoirs.

24 Q. Are you prepared to make a
25 recommendation to the Examiner concerning the

1 risk that should be assessed against any interest
2 owner not voluntarily participating in the well?

3 A. Yes, I am.

4 Q. What is that?

5 A. That would be well costs plus 200
6 percent.

7 Q. And that's based on this geologic study
8 that you've presented?

9 A. Yes.

10 Q. In your opinion, will approval of this
11 application and drilling of the proposed well
12 result in the recovery of hydrocarbons that
13 otherwise will not be produced?

14 A. Yes, it will.

15 Q. Will approval of the application
16 otherwise be in the best interest of
17 conservation, the prevention of waste, and the
18 protection of correlative rights?

19 A. Yes, it will.

20 Q. Were Exhibits 5 through 7 prepared by
21 you?

22 A. Yes, they were.

23 MR. CARR: At this time, Mr. Morrow, we
24 move the admission into evidence of Mewbourne
25 Exhibits 5 through 7.

1 EXAMINER MORROW: 5 through 7 will be
2 admitted.

3 MR. CARR: That concludes my direct
4 examination of Mr. Shatzer.

5 EXAMINATION

6 BY EXAMINER MORROW:

7 Q. Mr. Shatzer, what are the rules for the
8 E-K Bone Springs?

9 A. The pool rules are for 80-acre
10 spacing. There are no requirements as to the
11 orientation, other than you have to drill 150
12 feet from the center of each of the
13 quarter/quarter sections.

14 Q. What's the allowable?

15 A. I'm not sure what the allowable is for
16 the field. It would be on a depth basis.

17 Q. It would be whatever the general rules
18 say for 80 acres at that depth?

19 A. Yes.

20 Q. The better wells in the E-K are in
21 Section 30, is that correct?

22 A. Actually, the best well in the field is
23 in Section 30, which is that McElvain I've shown
24 on the cross-section. Some of the better wells
25 are just off the map, in Section 25 of 18-33.

1 The McElvain is a better well because
2 it was an offset for quite a few years and it had
3 a little bit more drainage potential in time than
4 some of the other wells had, but there are some
5 pretty good wells, over 125,000, 150,000 barrels,
6 just off the mapped area.

7 Q. They were cumulative producers, but are
8 there any pretty good wells out there now as to
9 current rates?

10 A. As to current rates, no. The McElvain
11 Federal would be one of the better ones.

12 Q. 18 you show there?

13 A. Yeah, 18 barrels a day. That would be
14 typical Bone spring. Second Bone Spring sand is
15 an extremely low permeability reservoir, and the
16 decline rates are rather steep in the first two
17 years of production, and then they're fairly
18 steady after that. That particular well is a
19 rather old well. It's been around a long time.

20 Q. In picking your location, did you look
21 at up the hole prospects? Is there any Delaware
22 out there or Yates, or shallower formations?

23 A. The location was picked on sort of the
24 cumulative aspects of the Bone Spring. I really
25 didn't--there is potential. It wouldn't be a

1 strong possibility of finding Yates and Delaware,
2 but I didn't influence the location at all with
3 the shallower control. It was the Bone Spring of
4 these various reservoirs, trying to pick the best
5 place we'd have the greatest chance of finding
6 something in at least one of these reservoirs in
7 the Bone Spring, is what influenced this
8 location.

9 EXAMINER MORROW: All right. Thank
10 you, Mr. Shatzer. I appreciate your testimony.

11 MR. CARR: Mr. Morrow, that concludes
12 our presentation in this case.

13 EXAMINER MORROW: Case 10974 will be
14 taken under advisement.

15 (And the proceedings concluded.)
16
17
18
19
20

21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 10974
24 heard by me on June 9 1994

25 
Oil Conservation Division Examiner

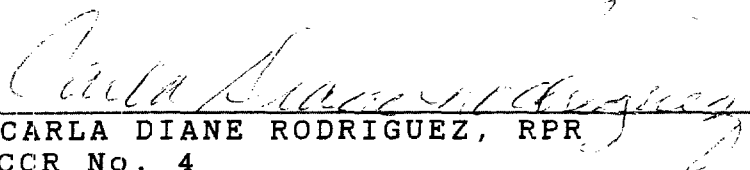
1 CERTIFICATE OF REPORTER

2
3 STATE OF NEW MEXICO)
4 COUNTY OF SANTA FE) ss.
5

6 I, Carla Diane Rodriguez, Certified
7 Shorthand Reporter and Notary Public, HEREBY
8 CERTIFY that the foregoing transcript of
9 proceedings before the Oil Conservation Division
10 was reported by me; that I caused my notes to be
11 transcribed under my personal supervision; and
12 that the foregoing is a true and accurate record
13 of the proceedings.

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

19 WITNESS MY HAND AND SEAL July 18, 1994.
20

21
22 
23 CARLA DIANE RODRIGUEZ, RPR
24 CCR No. 4
25