

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)

CASE NO. 13,284

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID R. CATANACH, Hearing Examiner

August 5th, 2004

Santa Fe, New Mexico

2004 AUG 19 AM 10 28

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID R. CATANACH, Hearing Examiner, on Thursday, August 5th, 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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August 5th, 2004
Examiner Hearing
CASE NO. 13,284

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<u>STEVEN J. SMITH</u> (Landman)	
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* * *

A P P E A R A N C E S

FOR THE DIVISION:

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 Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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* * *

1 WHEREUPON, the following proceedings were had at
2 10:16 a.m.:

3 EXAMINER CATANACH: Okay, at this time I'll Call
4 Case 13,284, which is the Application of Mewbourne Oil
5 Company for compulsory pooling, Eddy County, New Mexico.

6 Call for appearances in this case.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
8 representing the Applicant. I have one witnesses.

9 EXAMINER CATANACH: Any additional appearances?

10 There being none, will the witness please stand
11 -- I'm sorry, let the record show that Mr. Smith has
12 testified in the previous case and that he has been
13 previously sworn in and qualified.

14 STEVEN J. SMITH,
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. And Mr. Smith, are you familiar with the land
20 matters involved in this Application?

21 A. I am.

22 Q. Could you identify Exhibit 1 and tell the
23 Examiner what Mewbourne seeks in this case?

24 A. Exhibit 1 is again a copy of a Midland map, with
25 the anticipated proration unit being the west half of

1 Section 33, 16 South, 28, highlighted yellow; it has the
2 well location highlighted by a red dot.

3 Q. What well units and what depths do you seek to
4 pool?

5 A. We seek to pool all rights from the surface to
6 the base of the Morrow for all formations in the west half
7 spaced on 320 acres. We also seek to pool the northwest
8 quarter as to all formations pooled on 160 acres, and we
9 also seek to pool the northeast of the northwest quarter
10 for all formations pooled on 40s.

11 The pool rules that we're aware of right now for
12 the Morrow are the Crow Flats-Morrow Gas Pool, and the
13 Atoka, should it be encountered, will be on the North
14 Empire-Atoka field rules.

15 MR. BRUCE: Mr. Examiner, I looked for 160-acre
16 units and 40-acre spacing, and I couldn't find the specific
17 pool rules in this area, or pools in this area, so they
18 would be on statewide rules.

19 Q. (By Mr. Bruce) What is the approximate footage
20 location, Mr. Smith?

21 A. Well, as currently staked at location 660 feet
22 from the north line and 1980 feet from the west line of
23 Section 33, Township 16 South, Range 28 East.

24 Q. What is the ownership in the well unit? And I
25 refer you to Exhibit 2.

1 A. Exhibit 2, again, is a tract ownership, or it's
2 an ownership summary, first on a tract basis and then
3 finally on a west-half pool basis for the west half.

4 Q. And of these parties, who do you seek to pool at
5 this time?

6 A. We currently seek to pool all parties. I would
7 like to say, though, that with reference to Devon Energy
8 and with the Yates entities, Yates Petroleum, Abo
9 Petroleum, Myco and Yates, we've received indications of
10 the willingness to participate, but we've not received --
11 arrived at a signed joint operating agreement, but I do
12 anticipate being able to do so, and we will notify the OCD
13 in the event we do and would dismiss the case against them.

14 As to Chisos, we have not received any form of
15 voluntary agreement nor received any indication of
16 willingness to participate at this time.

17 Q. Let's discuss your efforts to obtain the
18 voluntary joinder of the interest owners. What is Exhibit
19 3A?

20 A. Exhibit 3A are copies of all written
21 correspondence with all parties. Our initial letters
22 proposing the well went out in May, May 7th of '04.

23 MR. BRUCE: And Mr. Examiner, the letters -- the
24 bottom of the Exhibit are the oldest letters, and then it
25 works forward.

1 Q. (By Mr. Bruce) Go ahead, Mr. Smith.

2 A. We also received -- the only peculiarity in this
3 case is the fact that Chisos notified us that a party, a
4 company by the name of Edge Petroleum, would -- under some
5 agreement they would never allow us to have a copy of --
6 participate in their stead, and therefore we received
7 signed AFEs from Edge Petroleum as well as from Chisos.
8 And those correspondence from both parties indicate that
9 they had a relationship or an agreement, again, that they
10 would not provide us copies of, that would dictate their
11 relationship and the participation by those parties.

12 Subsequent to receiving their commitments,
13 they've advised us that their agreements -- or they're in
14 dispute between one another. We don't -- again, not having
15 copies of their agreement, we don't know the final details,
16 but I do know that it has to do with how big a carry is,
17 whether or not the acreage is subject to what part of the
18 agreement, all of which is their problem.

19 But I've been advised by Edge that they're
20 basically backing away and not willing to discuss this well
21 any further, and that Chisos is at this point not willing
22 to join or sign a JOA.

23 Q. Okay, but let's summarize. There's two groups,
24 there's Devon and then the Yates entities?

25 A. Correct.

1 Q. And they were sent out their well proposals in
2 early May?

3 A. Correct.

4 Q. And in this package are letters from both Devon
5 and the Yates entities whereby they've signed an AFE, and
6 you are currently negotiating a JOA with those parties?

7 A. That's correct, and I --

8 Q. And then with respect -- the other interest owner
9 of record is Chisos --

10 A. Right.

11 Q. -- and they have an unwritten agreement with Edge
12 Petroleum that --

13 A. Actually, it is a written agreement but they will
14 not provide us a copy.

15 Q. Excuse me, yeah, it's a written agreement but
16 it's unrecorded and you have never seen it?

17 A. Correct.

18 Q. Okay. And both Chisos and Edge at one time
19 indicated they were going to join in the well. Because of
20 their internal dispute, they have not indicated a desire to
21 join in the well?

22 A. That's correct, they've withdrawn their
23 willingness.

24 Q. Okay. And Exhibit 3A does contain your letters
25 to the various parties, does it not?

1 A. That's correct.

2 Q. And then there is an Exhibit 3B, which contains
3 -- Well, describe what these are.

4 A. 3B are basically copies of e-mail correspondence
5 between Edge and Chisos, which I was given copies of, and
6 the reason they're being submitted is, it indicates their
7 disagreement and the issues that they're wrestling with
8 that have not been resolved.

9 Q. Okay. So both -- not only Chisos but Edge is
10 aware of these force pooling proceedings --

11 A. Absolutely.

12 Q. -- but they have an internal dispute --

13 A. Correct.

14 Q. -- which is keeping them from joining in the
15 well?

16 A. I spoke with both representatives of Edge and
17 Chisos early this week, and they are certainly aware of
18 this hearing.

19 Q. And with respect to all the parties, you have had
20 telephone discussions with them?

21 A. Many.

22 Q. In your opinion, has Mewbourne made a good-faith
23 effort to obtain the voluntary joinder of the interest
24 owners in the well?

25 A. Yes, I do.

1 Q. Would you identify Exhibit 4 and discuss the cost
2 of the proposed well?

3 A. Exhibit 4 is an AFE for the proposed well.
4 Again, the dryhole cost is estimated at \$677,600, and if
5 completed the well would have a total cost of \$1,082,600.

6 Q. And is this cost in line with the other -- with
7 other wells drilled in this area of Eddy County?

8 A. Yes, it would.

9 Q. Does Mewbourne request that it be named operator
10 of the well?

11 A. Yes, we do.

12 Q. And do you have a recommendation for the amounts
13 which should be paid for supervision and administrative
14 expenses?

15 A. Yes, I do. We recommend that \$6000 drilling and
16 \$600 producing would be applied.

17 Q. Are these amounts equivalent to those normally
18 charged by Mewbourne and other operators for wells of this
19 depth?

20 A. Yes, they are.

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

23 A. Yes, we do.

24 Q. And do you request the maximum cost-plus-200-
25 percent risk charge on nonconsenting interest owners?

1 A. That's correct.

2 Q. Were the parties to this case notified of this
3 Application?

4 A. Yes, they were.

5 Q. And is that notice submitted as Exhibit 5?

6 A. Yes, it is.

7 Q. On the notice list, on Exhibit 5, third page, Mr.
8 Smith, there are a couple of additional parties listed.
9 Mewbourne has come to terms with those parties.

10 A. Yes, we have reached voluntarily agreement with
11 those parties.

12 Q. So EOG Resources, Manix --

13 A. -- ConocoPhillips, Manix, June Johnson Cooper
14 have all reached voluntary agreement.

15 Q. Okay. Were Exhibits 1 through 5 prepared by you
16 or under your supervision or compiled from company business
17 records?

18 A. Yes, they were.

19 Q. And in your opinion is the granting of this
20 Application in the interests of conservation and the
21 prevention of waste?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I'd move the admission
24 of Mewbourne Exhibits 1 through 5.

25 EXAMINER CATANACH: Exhibits 1 through 5 will be

1 admitted.

2 Mr. Bruce, did we do publication notice on this?
3 Pursuant to the new Rules, I think it's the burden of the
4 Applicant to do the publication notice.

5 MR. BRUCE: Isn't that only necessary if personal
6 notice is not given?

7 EXAMINER CATANACH: I would defer that question
8 to Mr. Brooks.

9 MR. BROOKS: My opinion would concur with Mr.
10 Bruce's opinion.

11 EXAMINER CATANACH: Okay.

12 EXAMINATION

13 BY EXAMINER CATANACH:

14 Q. The only issue I have would be, I believe your
15 witness testified that you were pooling all interests from
16 the surface to the base of the Morrow. Your ad says from
17 3000 feet to the base of the Morrow.

18 A. I stand corrected. I meant -- I should have
19 said, and it is intended to cover only 3000 feet.

20 Q. Okay.

21 A. I misspoke.

22 Q. Do you have anything written that says that
23 Chisos and/or Edge are backing out of the proposal?

24 A. No, that's purely verbal, and I can go into
25 greater detail if you'd like.

1 Q. I do not like, I would not need that.

2 MR. BRUCE: He can go into excruciating detail.

3 Q. (By Examiner Catanach) But at this point those
4 are the only two parties, or one or two parties, that you
5 anticipate will have to pool?

6 A. Ultimately, yes.

7 Q. Yeah. You said that the well location has been
8 staked. Do you anticipate that's where it will be drilled?

9 A. Yeah, it's -- I think the APD has been approved
10 there.

11 EXAMINER CATANACH: Okay, I think that's all I
12 have.

13 There being nothing further, Case 13,284 will be
14 taken under advisement.

15 (Thereupon, these proceedings were concluded at
16 10:28 a.m.)

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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. 13284,
heard by me on August 5, 2001.
David R. Catanach
Oil Conservation Division

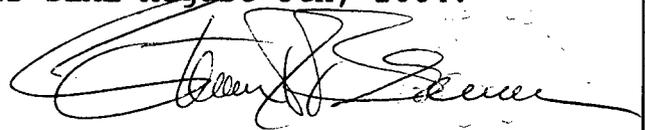
CERTIFICATE OF REPORTER

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 August 8th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006