

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 A NONSTANDARD OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15886

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

December 21, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
PHILLIP GOETZE, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Phillip Goetze, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, December 21, 2017, at the New Mexico Energy, Minerals and Natural Resources Department, Wendell Chino Building, 1220 South St. Francis Drive, Porter Hall, Room 102, Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
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1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (9:41 a.m.)

2 EXAMINER DAWSON: Going down to the next
3 case, Number 15 on the list, which is Case Number 15886,
4 and this is application of Mewbourne Oil Company for a
5 nonstandard oil spacing and proration unit and
6 compulsory pooling, Eddy County, New Mexico.

7 Call for appearances, please.

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

11 EXAMINER DAWSON: Okay. Mr. Bruce, may
12 your witnesses please stand and be sworn in by the court
13 reporter?

14 (Mr. Robb and Mr. Cless sworn.)

15 EXAMINER DAWSON: When you're ready,
16 Mr. Bruce.

17 MITCHELL ROBB,
18 after having been first duly sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name for the
23 record?

24 A. Mitchell Robb.

25 Q. Where do you reside?

1 A. Midland, Texas.

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

3 A. Mewbourne Oil Company as a landman.

4 **Q. Have you previously testified before the**
5 **Division as a landman?**

6 A. Yes, I have.

7 **Q. And were your credentials as an expert accepted**
8 **as a matter of record?**

9 A. They were.

10 **Q. And are you familiar with the land matters**
11 **involved in this application?**

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I tender Mr. Robb
14 as an expert petroleum landman.

15 EXAMINER DAWSON: Mr. Robb will be admitted
16 as an expert petroleum landman at this time.

17 **Q. (BY MR. BRUCE) Mr. Robb, could you identify**
18 **Exhibit 1 and describe the lands involved in the**
19 **proposed well?**

20 A. Exhibit 1 is a Midland Map, and it shows -- it
21 outlines the proration unit in the north half of the
22 north half of Section 31 and the north half-north half
23 of Section 32, Township 18 South, Range 29 East. And in
24 red, it shows the wellbore, Pavo Macho 31/32 B2DA Fed
25 Com #1H.

1 **Q. And could you identify Exhibit 2 and describe**
2 **what zone you are seeking to force pool?**

3 A. Exhibit 2 is the APD and C-102 for Pavo Macho
4 well. We are seeking to pool the Bone Spring Formation.
5 It's in the Palmilla East; Bone Spring Oil Pool, Pool
6 Code 49553.

7 **Q. And will the producing interval of the well be**
8 **orthodox?**

9 A. Yes.

10 **Q. Would you identify Exhibit 3, please?**

11 A. Exhibit 3 is a tract ownership, and we're
12 seeking to pool EOG Y Resources, Inc.

13 **Q. And they own 40 acres in the well unit?**

14 A. Correct.

15 **Q. What is Exhibit 4?**

16 A. Exhibit 4 is our summary of communications with
17 EOG Y, including our well proposals, the caption well
18 and the working interest unit being in the north half of
19 31 and the north half of 32.

20 **Q. And EOG Y is the only company you seek to force**
21 **pool?**

22 A. Yes.

23 **Q. In your opinion, have you made a good-faith**
24 **effort to obtain the voluntary joinder of EOG Y**
25 **Resources in the produced well?**

1 A. Yes, we have.

2 Q. Could you identify Exhibit 5 and discuss the
3 cost of the proposed well?

4 A. Exhibit 5 is an AFE for the Pavo Macho well.
5 It has a \$2,382,400 dry-hole cost and \$8,462,400 for a
6 completed cost.

7 Q. Is that cost reasonable and in line with the
8 cost of other similar wells drilled in this area of
9 New Mexico?

10 A. Yes, it is.

11 Q. Was notice of the hearing given to EOG?

12 A. Yes.

13 Q. And is that reflected in Exhibit 7 --

14 A. Yes.

15 Q. -- 6? Excuse me.

16 A. Yes.

17 Q. What overhead rates do you request?

18 A. Request 7,500 for drilling and 750 for
19 producing.

20 Q. And are these costs in line with the costs of
21 other wells drilled by Mewbourne and other operators in
22 this area?

23 A. Yes, they are.

24 Q. Do you request that Mewbourne be appointed
25 operator of the well?

1 A. Yes.

2 Q. And do you request that the overhead rates be
3 periodically adjusted as provided by the COPAS
4 accounting procedure?

5 A. Yes, we do.

6 Q. And do you request the maximum cost plus 200
7 percent risk charge in the event EOG Y does not join in
8 the well?

9 A. Yes.

10 Q. And what is Exhibit 7?

11 A. Exhibit 7 is the same Midland Map reflecting
12 the offset ownership.

13 Q. And was notice mailed to the offsets?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, Exhibit 8 is my
16 Affidavit of Notice. I am missing one green card for
17 OXY USA, so I have to continue the case to January the
18 11th at the end of the hearing.

19 EXAMINER DAWSON: Okay.

20 Q. (BY MR. BRUCE) Were Exhibits 1 through 8 either
21 prepared by you or under your supervision or compiled
22 from company business records?

23 A. Yes, they were.

24 Q. And in your opinion, is the granting of the
25 application in the interest of conservation and the

1 **prevention of waste?**

2 A. Yes.

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

5 EXAMINER DAWSON: Exhibits 1 through 8 will
6 be admitted to the record at this time.

7 (Mewbourne Oil Company Exhibit Numbers 1
8 through 8 are offered and admitted into
9 evidence.)

10 MR. BRUCE: I have no further questions of
11 the witness.

12 EXAMINER DAWSON: Okay. Mr. Goetze, do you
13 have any questions?

14 EXAMINER GOETZE: Just one question.

15 CROSS-EXAMINATION

16 BY EXAMINER GOETZE:

17 **Q. I notice the history of conversations between**
18 **you and EOG Y. Other than the AFE, were any other**
19 **considerations given to agreement alternative to the**
20 **participation?**

21 A. We're currently working on a trade on it right
22 now.

23 **Q. So there were other -- other attempts to do**
24 **this other than just pay an assignment?**

25 A. Yes.

1 Q. Thank you. That's all I have.

2 CROSS-EXAMINATION

3 BY EXAMINER BROOKS:

4 Q. Looking at Exhibit 3, this list totals 100
5 percent. Now, is this -- which -- who are you pooling?

6 A. EOG Y Resources.

7 Q. Is that the only one you're pooling?

8 A. Yes.

9 Q. Okay. The others have all joined the operating
10 agreement?

11 A. Correct.

12 Q. And I don't understand the sentence with the
13 asterisk because it looks like Southwest Royalties'
14 interest is subject to two or more operating agreements
15 that cover parts of this unit. Is that what it says?

16 A. Yes. There is a previous operating agreement,
17 but our new one will supersede that.

18 Q. Okay. So the new operating agreement is going
19 to cover the entire unit, and it will supersede the one
20 that Southwest signed?

21 A. Yes. It'll cover the north half of 32 and then
22 the north half of 31.

23 Q. And you're not requesting to pool the interest
24 of Southwest Royalties?

25 A. No.

1 **Q. Okay. Thank you.**

2 EXAMINER DAWSON: I have no questions.

3 You can call your next witness, Mr. Bruce.

4 EXAMINER GOETZE: Do you want to enter
5 exhibits?

6 MR. BRUCE: Oh. Move Exhibits 1 through 8.

7 EXAMINER DAWSON: Exhibits 1 through 8 will
8 be admitted at this time.

9 (Mewbourne Oil Company Exhibit Numbers 1
10 through 8 are offered and admitted into
11 evidence.)

12 EXAMINER GOETZE: Your drawing?

13 MR. BRUCE: No, no. I draw much better
14 than that.

15 NATE CLESS,
16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 **Q. Please state your name and city of residence.**

21 A. Nate Cless. I live in Midland, Texas.

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

23 A. I'm a geologist for Mewbourne Oil Company.

24 **Q. Have you previously testified before the**
25 **Division?**

1 A. Yes, sir.

2 Q. And were your credentials as an expert
3 geologist accepted and made a matter of record?

4 A. Yes, they were.

5 Q. Does your area of responsibility at Mewbourne
6 include this portion of southeastern New Mexico?

7 A. Yes, it does.

8 Q. And are you familiar with the application
9 involved with the geology involved in this application?

10 A. Yes, I am.

11 MR. BRUCE: Mr. Examiner, I tender
12 Mr. Cless as an expert in petroleum geology.

13 EXAMINER DAWSON: He will be admitted to
14 the record as an expert petroleum geologist at this
15 time.

16 Q. (BY MR. BRUCE) Mr. Cless, could you identify
17 Exhibit 9 for the Examiner?

18 A. Exhibit 9 is a Bone Spring activity map, as
19 well as a net isopach map of the Lower 2nd Bone Spring
20 Sand interval. There is also a structure map on there
21 of the -- based on the 2nd Bone Spring Sand. You'll see
22 there is a bunch of red and green sticks on there
23 representing Bone Spring wellbores. The green wellbores
24 represent 2nd Bone Spring, and the red wellbores
25 represent 3rd Bone Spring Sand.

1 I've highlighted the proration unit that
2 we're talking about here, the north half-north half of
3 31-32, and then the red arrow indicates the location of
4 our proposed -- of our proposed lateral. I've also
5 identified the Bone Spring production, which is going to
6 be numbers just to the right of each vertical wellbore,
7 as well as to the right of the bottom hole for each
8 horizontal wellbore. The red number is going to
9 indicate the cumulative gas. The black number is going
10 to be cumulative oil, and the blue number will be
11 cumulative water produced out of the Bone and each of
12 the wellbores.

13 **Q. What is Exhibit 10?**

14 A. Exhibit 10 is going to be a four-well cross
15 section. And you can see the -- on the previous
16 exhibit, you can see the location of this cross section.
17 It's an east-to-west -- or west-to-east cross section
18 basically covering the four closest -- the vertical
19 wellbores around this -- around this lateral.

20 On the right side of this cross section,
21 I've indicated where our horizontal target is going to
22 be, that red arrow. We're landing in the lower part of
23 the 2nd Bone Spring Sand interval. The 2nd Bone Spring
24 across this area is very consistent, very continuous.
25 You have roughly 8 to 10 percent porosity through the

1 majority of the lower part of the 2nd Bone Spring. This
 2 is the same interval that we've -- we've targeted.
 3 We've drilled a number of other wells in this area, and
 4 we're basically targeting the same particular spot.
 5 So --

6 **Q. Based on Exhibits 9 and 10, is the Lower 2nd**
 7 **Bone Spring continuous across the well unit?**

8 A. Yes. I expect so.

9 **Q. Do you expect each quarter-quarter section to**
 10 **contribute, more or less, equally to production to the**
 11 **well?**

12 A. Yes, sir.

13 **Q. I notice that a lot of the wells on your plats,**
 14 **Bone Spring wells, are east-west. Does it matter**
 15 **whether they're east-west or north-south?**

16 A. It does. There is one well -- the first, a 2nd
 17 Bone Spring Sand well that was drilled out here, was a
 18 half-mile well that was drilled in the south --
 19 southwest quarter of Section 32. It's a north-south
 20 well, and it was drilled back in -- it was drilled back
 21 in 2010. It has only made 26,000 barrels of oil since
 22 then.

23 I guess if you look at my next exhibit --

24 **Q. Exhibit 11?**

25 A. -- yes, Exhibit 11 -- it's a Bone Spring

1 production table. I have all the horizontal wells that
2 have been drilled in this area. You can see the very
3 last column is the orientation. You can see -- as well
4 as north-south or east-west, and every other well is
5 north-south except for that one particular well. You
6 can see the cumulative production for each particular
7 well. All the wells in here need to be drilled
8 east-west.

9 **Q. And finally, what is Exhibit 12?**

10 A. Exhibit 12 is just our horizontal survey plat
11 and directional survey for this particular well. I
12 chose our surface-hole location and our bottom-hole
13 location. Our first take point will be 660 from the
14 north, 330 from the west. And our final take point will
15 be 990 from the north, 330 from the east in Section 32,
16 so these will be legal locations.

17 **Q. Were Exhibits 9 through 12 prepared by you or**
18 **compiled from company business records?**

19 A. Yes, they were.

20 **Q. And in your opinion, is the granting of this**
21 **application in the interest of conservation and the**
22 **prevention of waste?**

23 A. Yes, sir.

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

1 EXAMINER DAWSON: The admission of --
2 Exhibits 9 through 12, they will be admitted at this
3 time.

4 (Mewbourne Oil Company Exhibit Numbers 9
5 through 12 are offered and admitted into
6 evidence.)

7 MR. BRUCE: And I have no further questions
8 of the witness.

9 EXAMINER DAWSON: Okay. Mr. Goetze, do you
10 have any questions?

11 CROSS-EXAMINATION

12 BY EXAMINER GOETZE:

13 Q. Yes. On your cross section -- well, actually,
14 in the presentation, the isopach structure map, the well
15 to the south of you, it's a two-mile, which one is that?

16 A. So that's going to be the Pavo Macho 31-32
17 B2EH. We recently drilled that well in November. It is
18 waiting on completion.

19 Q. So you don't have anything much to show for
20 that one?

21 A. Right.

22 Q. And then I guess 35-36, the ones to the west --

23 A. Yes.

24 Q. -- those are mile-and-a-half?

25 A. Yes, sir.

1 Q. And those have been economic with regards to
2 going that extra half mile?

3 A. Yes, sir. Anywhere -- anywhere that we can get
4 longer laterals -- I think the majority of the industry
5 is trying to do that. We see the benefits of the longer
6 laterals.

7 Q. And then just one last question. This is --
8 construction is toe down, heel up?

9 A. This particular one is toe down.

10 Q. Is this based upon -- is this a common practice
11 in this area, or it is just because of your well
12 location?

13 A. It's just because of our well location. The
14 well to the west in 35-36 is toe up, and so we don't see
15 significant changes, I guess, between drilling updip or
16 downdip right now.

17 Q. Thank you very much. That's all I have.

18 EXAMINER DAWSON: Mr. Brooks?

19 EXAMINER BROOKS: No questions.

20 CROSS-EXAMINATION

21 BY EXAMINER DAWSON:

22 Q. I do have one question.

23 On your Exhibit 9, the well north of you
24 in -- looks like -- is that a two-mile lateral in
25 Section -- looks like it's from 29 to 28 --

1 A. Yes, sir.

2 **Q. -- the south half of those two sections?**

3 A. Yes, sir. So those wells -- I should have
4 explained. The dashed wellbores on here are permits,
5 and so that's a permit that we have on 29 to 28. So
6 that well has not been drilled yet.

7 **Q. That's why it says "proposed dash" on it.**

8 **Okay. That's all the questions -- okay.**
9 **One more question?**

10 **Down there in Sections 7 and 8 --**

11 A. Yes, sir.

12 **Q. -- south half of 7 and 8 down there to the**
13 **south of you --**

14 A. Uh-huh.

15 **Q. -- are those two-mile Bone Spring wells?**

16 A. Yes, sir. Yes, sir. Those are two-mile wells
17 that OXY has drilled. They've recently completed them,
18 but there is no monthly production on those yet. So --

19 **Q. Okay. All right. That's all the questions I**
20 **have. Thank you.**

21 MR. BRUCE: I have nothing further,
22 Mr. Examiner. Request that it be continued to January
23 11th.

24 EXAMINER DAWSON: Okay. At this point Case
25 Number 15886 will be continued to January 11th, 2018.

1 Thank you very much.

2 (Case Number 15886 concludes, 9:57 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 DATED this 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
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