

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 GAS SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15915

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
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102
(505) 843-9241

1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

3 JAMES G. BRUCE, ESQ.
 4 Post Office Box 1056
 5 Santa Fe, New Mexico 87504
 (505) 982-2043
 jamesbruc@aol.com

6

7 INDEX

8 PAGE

9 Case Number 15915 Called 3

10 Mewbourne Oil Company's Case-in-Chief:

11 Witnesses:

12 Mitchell Robb:

13 Direct Examination by Mr. Bruce 3
 14 Cross-Examination by Examiner Goetze 9

15 Nate Cless:

16 Direct Examination by Mr. Bruce 11
 17 Cross-Examination by Examiner Goetze 14
 Cross-Examination by Examiner Dawson 15

18 Proceedings Conclude 16

19 Certificate of Court Reporter 17

20

21 EXHIBITS OFFERED AND ADMITTED

22 Mewbourne Oil Company Exhibit Numbers 1 through 9 8

23 Mewbourne Oil Company Exhibit Numbers 10 through 14 17

24

25

1 (2:18 p.m.)

2 EXAMINER DAWSON: We'll now go to Number 19
3 on the list, Case Number 15915, which is application of
4 Mewbourne Oil Company for a nonstandard gas spacing and
5 proration unit and compulsory pooling, Eddy County, New
6 Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have two
10 witnesses, Mr. Robb and Mr. Cless, if the record could
11 reflect they've both been previously sworn and
12 qualified.

13 EXAMINER DAWSON: Okay. They both have
14 been previously sworn in.

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

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 **Q. Mr. Robb, could you identify Exhibit 1 for the**
21 **Examiners and describe the well unit -- the lands you**
22 **seek to force pool?**

23 A. Exhibit 1 is a Midland Map of the proration
24 unit highlighted in yellow, and both are our Whitesnake
25 wells, the north one being the Whitesnake 20/21 W0BC Fee

1 #2H, and the southern one, the Whitesnake 20/21 W2BC Fee
2 #1H, 320-acre spacing in the Wolfcamp Formation.

3 Q. And this is kind of an unusual one because it's
4 the northeast quarter of -- the northwest quarter of
5 Section 21, regular half section?

6 A. Yes.

7 Q. Are the -- is the well information set forth on
8 the C-102 submitted as Exhibit 2?

9 A. Yes, it is.

10 Q. And referring to Exhibit 3, who do you seek to
11 pool in this application?

12 A. BNSF Railway Company.

13 Q. Could you move to -- and there is no one else
14 you seek to pool or no unlocatable interest owners?

15 A. Correct.

16 Q. Could you move on to Exhibit 4 and discuss your
17 attempts to obtain a lease or -- Burlington Northern to
18 join in the well?

19 A. Yes.

20 Exhibit 4 is a summary of communications.
21 We initially tried to obtain an oil and gas lease from
22 them. We could not come to terms. So then I
23 subsequently sent them a working interest owner proposal
24 for both of these wells.

25 Q. And you have not heard any response to the well

1 **proposal?**

2 A. That is correct.

3 **Q. And is your proposal letter and follow-up**
4 **emails contained within Exhibit 4?**

5 A. Yes, they are.

6 **Q. In your opinion, have you made a good-faith**
7 **effort to obtain the voluntary joinder of BNSF in the**
8 **wells?**

9 A. Yes.

10 **Q. Could you identify Exhibit 5 and discuss the**
11 **costs of the proposed wells?**

12 A. So Exhibit 5 are both our AFEs, the first one
13 being the Whitesnake 20/21 W2BC Fee #1H with a dry-hole
14 cost of \$2,307,100 and completed costs of \$6,087,600,
15 the second being the Whitesnake 20/21 W0BC Fee #2H with
16 a dry-hole cost of \$2,061,700 and a completed cost of
17 \$5,454,700.

18 **Q. The first AFE's a little higher. That's a**
19 **deeper well; is it not?**

20 A. Correct.

21 **Q. And are those costs fair and reasonable and in**
22 **line with the cost of similar wells of this length**
23 **drilled in this area of New Mexico?**

24 A. Yes.

25 **Q. Do you request that Mewbourne be appointed**

1 operator of the wells?

2 A. Yes, I do.

3 Q. And do you have a recommendation as to the
4 overhead rates?

5 A. 8,000 a month for drilling, 800 a month for
6 producing.

7 Q. And are these amounts equivalent to those
8 normally charged by Mewbourne and other operators in
9 this area for wells of this depth and length?

10 A. Yes.

11 Q. Do you request that these rates be adjusted
12 periodically as provided by the COPAS accounting
13 procedure?

14 A. Yes, I do.

15 Q. And do you request the maximum cost plus 200
16 percent risk charge if BNSF does not voluntary join in
17 the well?

18 A. Yes.

19 Q. And was BNSF notified of this hearing?

20 A. Yes, they were.

21 Q. Is that reflected in Exhibit 6?

22 A. Yes.

23 Q. Does Exhibit 7 reflect the offset operators or
24 interest owners to the well?

25 A. Yes, it does.

1 **Q. What is Exhibit 7-1?**

2 A. Exhibit 7-1 is two support letters both from
3 Marathon and then Kaiser-Francis Oil Company, Marathon
4 being the west half of Section 20, and Kaiser-Francis
5 being the southeast quarter of Section 20 in the
6 southwest -- southwest quarter of Section 21.

7 **Q. Is Exhibit 8 simply from -- C-102s from the OCD**
8 **well files reflecting that there are existing or**
9 **proposed wells in the east half of 21 and the west half**
10 **of 20?**

11 A. Yes.

12 **Q. So that's why you're not extending the well**
13 **further in either direction?**

14 A. Correct.

15 **Q. And was notice given to the offsets?**

16 A. Yes, they were.

17 **Q. And is that reflected in Exhibit 9?**

18 A. Yes.

19 MR. BRUCE: And, once again, I'm lacking a
20 few green cards. They haven't come home for the
21 holidays yet. And so this case also will have to be
22 continued to January 11th just so I can gather green
23 cards or publish notice.

24 EXAMINER DAWSON: Okay.

25 **Q. (BY MR. BRUCE) Were Exhibits 1 through 9**

1 prepared by you or under your supervision or compiled
2 from company business records?

3 A. Yes, they were.

4 Q. And in your opinion, is the granting of this
5 application in the interest of conservation and the
6 prevention of waste?

7 A. Yes.

8 MR. BRUCE: Mr. Examiner, I move the
9 admission of Exhibits 1 through 9.

10 EXAMINER DAWSON: Exhibits 1 through 9 will
11 be admitted to the record at this time.

12 (Mewbourne Oil Company Exhibit Numbers 1
13 through 9 are offered and admitted into
14 evidence.)

15 MR. BRUCE: And just to address a
16 preemptive question from Mr. Brooks, since this isn't a
17 480-acre unit, we did not notify all of the interest
18 owners in the south half -- to the south of the proposed
19 well unit.

20 EXAMINER BROOKS: Okay. Is this in the
21 Purple Sage?

22 MR. BRUCE: Yes.

23 EXAMINER GOETZE: Yes, it is.

24 EXAMINER BROOKS: Well, Purple Sage is
25 supposed to be half sections.

1 MR. BRUCE: This is an unusual half
2 section.

3 EXAMINER BROOKS: Very unusual (laughter).
4 Well, we're going to be continuing this until January
5 11th as well, so the new director will get an early
6 exposure to some of the intricacies of our rules.

7 MR. BRUCE: As long as I don't have to
8 write a memo.

9 Anyway, I have no further questions of this
10 witness.

11 EXAMINER DAWSON: Phillip, do you have any
12 questions?

13 CROSS-EXAMINATION

14 BY EXAMINER GOETZE:

15 Q. Just for clarity, you provide that we have --
16 the west half of 20, we have already a proposed well
17 with that obligated -- 320 dedicated to that well.
18 Actually, two wells. Section 21, we have obligations to
19 320 for a well by Mewbourne. Is there nothing south --
20 what's that -- the mirror image of this project area to
21 the south? That would be the southeast of 20 and the
22 southwest of 21. Do you know if anybody's going to be
23 doing anything there?

24 A. Yes. If you refer to Exhibit 7-1,
25 Kaiser-Francis gave us a support letter. They intend to

1 operate that south half for the mirror image of our
2 proposed proration unit.

3 Q. Then is there any preferences to which well is
4 going to be drilled first?

5 A. I think on the schedule it's the W0BC.

6 Q. 2H and the 1H?

7 A. The 2H.

8 Q. We don't look at your alphabet soup anymore
9 because it's too confusing (laughter).

10 And then if you would, for your C-102 for
11 your 1H, you've got 640 acres dedicated. You might want
12 to correct that.

13 No more questions. Thank you very much.

14 EXAMINER DAWSON: Mr. Brooks?

15 EXAMINER BROOKS: No questions.

16 EXAMINER DAWSON: I have no questions.

17 Thank you.

18 THE WITNESS: Thanks.

19 EXAMINER DAWSON: You can call your second
20 witness.

21 NATE CLESS,

22 after having been previously sworn under oath, was
23 questioned and testified as follows:

24

25

1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q. Mr. Cless, have you performed -- or have you
4 prepared exhibits regarding the two proposed wells in
5 this well units?

6 A. Yes, sir, I have.

7 Q. Could you identify Exhibit 10 and describe its
8 contents?

9 A. So Exhibit 10 is another Wolfcamp horizontal
10 activity map, as well as a Wolfcamp horizontal
11 production map. And then I've also got a structure map
12 on the top of the Wolfcamp Formation in here. The
13 highlighted yellow area is the proration unit that we're
14 talking about. You can see this is -- this is right
15 around the town of Loving, New Mexico. And then I've
16 also got a four-well cross section, which goes through
17 basically the four vertical wells to this project area.

18 Q. And are those -- again, those are logs from
19 older Morrow or deep gas wells?

20 A. Correct.

21 Q. Would you move on to your Exhibit 11 and
22 describe its contents?

23 A. Yes, sir.

24 Exhibit 11 is a four-well cross section.

25 And I probably should have explained. Here we're going

1 to be drilling both the Upper Wolfcamp Sand, as well as
2 the Lower Wolfcamp Shale. So on the previous exhibit,
3 the pink wells represent the Wolfcamp Sand -- the Upper
4 Wolfcamp Sand horizontals that have been drilled, and
5 the blue represents the Lower Wolfcamp Shale.

6 So, again, this is a four-well cross
7 section hung on top of the Wolfcamp. And there is a red
8 arrow up at the top indicating our approximate landing
9 point of our 2H well. The Whitesnake 20/21 W0BC 2H,
10 that'll be an Upper Wolfcamp Sand. You can see for the
11 most part a pretty consistent gross thickness in these
12 Upper Wolfcamp sands.

13 And the lower well also has a red arrow
14 indicating its approximate landing point, and it'll be
15 in, again, what we call the Wolfcamp D. And, again, you
16 can see it's a pretty uniform, consistent thickness of
17 that particular shale and of the Wolfcamp as a whole in
18 this area.

19 **Q. And you expect each quarter section in the well**
20 **unit to contribute, more or less, equally to production**
21 **with each well?**

22 **A. Yes, sir.**

23 **Q. And moving on to your Exhibit 12, your**
24 **production data, is there any preference for lay-down or**
25 **stand-up units in this area?**

1 A. No. Again, you can see on the map there's both
2 north-south, east-west wells. We drilled -- the east
3 half of Section 21, we drilled north-south simply for
4 land reasons, and here we're drilling east-west for land
5 purposes. And so we do both north-south and east-west.
6 It's viable ways to drill these laterals.

7 **Q. And were Exhibits 10, 11 and 12 prepared by**
8 **you?**

9 A. Yes, they were.

10 **Q. Finally, what are Exhibits 13 and 14?**

11 MR. BRUCE: And, Mr. Examiner, I believe I
12 forgot to mark Exhibit 14. It's the second planning
13 report.

14 **Q. (BY MR. BRUCE) But could you briefly explain**
15 **these, Mr. Cless?**

16 A. Yes.

17 So these are just going to be the two
18 horizontal well plans for each particular well. Again,
19 the W2 is going to represent the Lower Wolfcamp -- Lower
20 Wolfcamp Shale horizontal, and the W1 is going to
21 represent -- or the W0 is going to represent the Upper
22 Wolfcamp Sand horizontal that will be drilled. And
23 these wells will be drilled back-to-back. We'll drill
24 the first and then we'll drill the second one, and then
25 we'll frac them at the same time.

1 Q. The first and last take points are at orthodox
2 locations considering the odd well unit?

3 A. Yes, sir.

4 Q. 330-foot setbacks?

5 A. Yes, sir.

6 Q. Were Exhibits 13 and 14 compiled from company
7 business records?

8 A. Yes, they were.

9 Q. In your opinion, is the granting of this
10 application in the interest of conservation and the
11 prevention of waste?

12 A. Yes, sir.

13 MR. BRUCE: Mr. Examiner, I'd move the
14 admission of Exhibits 10 through 14.

15 EXAMINER DAWSON: Exhibits 10 through 14
16 will be admitted to the record at this time.

17 (Mewbourne Oil Company Exhibit Numbers 10
18 through 14 are offered and admitted into
19 evidence.)

20 MR. BRUCE: I have no further questions of
21 the witness.

22 EXAMINER DAWSON: Mr. Goetze?

23 CROSS-EXAMINATION

24 BY EXAMINER GOETZE:

25 Q. One question. On Exhibit 10, you show -- is

1 **that a COG well in 17?**

2 A. The blue line?

3 **Q. Yeah.**

4 A. That's going to be a Mewbourne well.

5 **Q. In Section 17?**

6 A. Yes, Section 17. That's going to be the Styx

7 17 W2PA.

8 **Q. And it's orthodox also as far as --**

9 A. Yes.

10 **Q. -- the first and last take points?**

11 A. Yes, sir. We had the surface cut down in
12 Section 20 for land reasons. But yes, sir. The first
13 and last take points are orthodox.

14 **Q. No further questions. Thank you.**

15 EXAMINER BROOKS: No questions.

16 CROSS-EXAMINATION

17 BY EXAMINER DAWSON:

18 **Q. The well in 17 that you're referring to, that**
19 **hasn't been drilled?**

20 A. The one on the east half has been drilled.
21 There is another wellbore on the west half of Section
22 17 --

23 **Q. Oh, I see?**

24 A. -- the Bone Spring lateral, and it also hasn't
25 been drilled.

1 Q. Okay. Yeah. I was just wondering. I saw that
2 one north of it, and it had some production values on
3 it. So that's why I was asking.

4 Okay. Thank you very much.

5 A. Thank you.

6 EXAMINER DAWSON: So with that, number 19
7 on the list, Case Number 15915, will be continued to
8 January 11th. Thank you.

9 (Case Number 15915 concludes, 2:33 p.m.)

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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
25 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters