

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. 15991

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 8, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, March 8, 2018, 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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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.
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1 (9:28 a.m.)

2 EXAMINER McMILLAN: Looks like I'm going to
3 be calling Case Number 15991, re-advertised, application
4 of Mewbourne Oil Company for compulsory pooling, Eddy
5 County, New Mexico.

6 Please proceed.

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

10 EXAMINER McMILLAN: Any other appearances?
11 Please proceed.

12 (Mr. Anderson and Mr. Crosby sworn.)

13 JOSHUA G. ANDERSON,
14 after having been first duly sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 **Q. Will you please state your name and city of**
19 **residence?**

20 A. Josh Anderson, Midland, Texas.

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

22 A. Mewbourne Oil Company. I'm a petroleum
23 landman.

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

1 A. I have not.

2 **Q. Could you please summarize your educational and**
3 **employment background for the Examiner?**

4 A. I graduated from the University of Oklahoma
5 with a bachelor's in business administration, majoring
6 in energy management and minoring in finance, in
7 December of 2010. I interned for Plains Exploration
8 Company in the summer of 2009 in Houston and interned
9 for Mewbourne Oil Company in the summer of 2010 in
10 Oklahoma City. Then I've since worked for -- I've been
11 employed by Mewbourne Oil Company since graduation for
12 five-and-a-half years, working their Oklahoma assets,
13 and in the last year and a half, working the Permian
14 Basin.

15 **Q. Does your area of responsibility at Mewbourne**
16 **include this portion of southeast New Mexico?**

17 A. It does.

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

20 A. I am.

21 MR. BRUCE: Mr. Examiner, I tender
22 Mr. Anderson as an expert petroleum landman.

23 EXAMINER McMILLAN: Affiliated with any
24 professional organizations?

25 THE WITNESS: Yeah. I'm a member of the

1 AAPL, PBLA.

2 EXAMINER McMILLAN: That's fine.

3 So qualified.

4 Q. (BY MR. BRUCE) Could you please identify
5 Exhibit 1 and describe the lands you're seeking to pool?

6 A. Exhibit 1 is a Midland Map Company plat showing
7 Township 24 South, 28 -- Range 28 East in Eddy County,
8 New Mexico. The highlighted portion is the south half
9 of Section 32 in the proposed unit.

10 Q. And what formation are you seeking to pool?

11 A. The Wolfcamp.

12 Q. Are there any depth severances in the Wolfcamp
13 Formation in the well unit?

14 A. There are not.

15 Q. Okay. Could you identify Exhibit 2 and
16 describe the well that you intend to drill?

17 A. Exhibit 2 is a Form C-102. It shows the
18 Zeppelin 32 W2LI State Com #2H, with a surface location
19 of 1,980 from the south line and 205 feet from the west
20 line, and the bottom-hole location being 2,310 from the
21 south and 330 from the east.

22 The next one is Form C-102 for the Zeppelin
23 32 W0LI State Com #1H, with the proposed surface
24 location being 2,030 feet from the south line and 205
25 feet from the west line and a bottom-hole location of

1 2,310 feet from the south line and 330 feet from the
2 east line.

3 Q. What type of -- moving on to Exhibit 3, what
4 types of land are involved in the well unit -- or I
5 should say, are state and fee lands involved in the well
6 unit?

7 A. Yes.

8 Q. If you turn to page 2 of Exhibit 3, there is a
9 plat on a bunch of little tracts in there. Are those
10 known as Fairchild farmlands?

11 A. They are.

12 Q. And those were subdivided, what, 90 or 100
13 years ago, I believe?

14 A. Yes.

15 Q. Is ownership quite messed up in this well unit?

16 A. It is.

17 Q. Does the first page of Exhibit 3 list the
18 interest ownership in these various tracts?

19 A. It does.

20 Q. Are there unlocatable people?

21 A. There are.

22 Q. And maybe it's easier to ask: Who are you not
23 seeking to force pool of these people?

24 A. BTA Oil Producers, LLC.

25 Q. All the rest are subject to pooling?

1 A. They are.

2 **Q. First off, let's discuss what did you do to**
3 **locate the -- particularly the fee interest owners in**
4 **these tracts?**

5 A. Used the Eddy County records, various databases
6 on the Internet such as Accurint, white pages, drilling
7 info and such. We sent out proposals to the last known
8 or, if we could find any addresses, we've tried
9 contacting via phone and email.

10 **Q. Okay. And still there are quite a few interest**
11 **owners who are not locatable?**

12 A. There are.

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

14 A. Exhibit 4 is a summary of communications
15 between the parties that we are able to locate.

16 **Q. And is Exhibit 5 just back-and-forth**
17 **correspondence to the locatable parties?**

18 A. It is.

19 **Q. In your opinion, have you made either a**
20 **good-faith effort to locate the interest owners in the**
21 **well unit or to obtain their voluntary joinder in the**
22 **well unit?**

23 A. We have.

24 **Q. Move on to Exhibits 6 and 7 and discuss the**
25 **costs of the two wells.**

1 A. Yes. Exhibit 6 is the Authorization for
2 Expenditure for the Zeppelin 32 W0LI State Com #1. This
3 AFE states that we would have a dry-hole cost of
4 \$2,302,900 and a completed well cost of \$6,472,300.

5 Exhibit 7 is the AFE for the Zeppelin 32
6 W2LI State Com #2H, and this shows a dry-hole cost of
7 \$2,334,400 and a completed well cost of \$6,215,600.

8 **Q. Are these costs fair and reasonable and in line**
9 **with the cost of similar wells drilled by other**
10 **operators in this area of New Mexico?**

11 A. They are.

12 **Q. And do you request that Mewbourne be appointed**
13 **operator of the wells?**

14 A. We do.

15 **Q. And do you request the maximum cost plus 200**
16 **percent risk charge if an interest owner goes nonconsent**
17 **in the well?**

18 A. We do.

19 **Q. What is your recommendation for the**
20 **administrative and supervision expenses which Mewbourne**
21 **should be allowed?**

22 A. \$8,000 a month for drilling the well and 800 a
23 month for producing the well.

24 **Q. And are these amounts equivalent to those**
25 **charged by Mewbourne and other operators in this area at**

1 **this time?**

2 A. They are.

3 **Q. Do you request that the rates be adjusted**
4 **periodically provided by the COPAS accounting**
5 **procedures?**

6 A. We do.

7 **Q. And were the parties being pooled notified of**
8 **this application?**

9 A. They were.

10 MR. BRUCE: Mr. Examiner, Exhibit 8 is my
11 Affidavit of Notice as to those persons for whom
12 Mewbourne had addresses. Most of the parties were
13 unlocatable.

14 Exhibit 9 is the Affidavit of Publication
15 against all of the interest owners who are subject to be
16 pooled.

17 **Q. (BY MR. BRUCE) Were Exhibits 1 through 7**
18 **prepared by you or under your supervision or compiled**
19 **from company business records?**

20 A. They were.

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

24 A. It is.

25 MR. BRUCE: Mr. Examiner, I'd move the

1 admission of Exhibits 1 through 7, plus 8 and 9, which
2 are my affidavit and the newspaper notice.

3 EXAMINER McMILLAN: Exhibits 1 through 9
4 may now be accepted as part of the record.

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

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

10 CROSS-EXAMINATION

11 BY EXAMINER McMILLAN:

12 Q. The first question I've got is: What is the
13 status of the 1H?

14 A. The status of the 1H?

15 Q. Yeah.

16 A. I guess I'm --

17 Q. Has it been drilled?

18 A. It is being drilled.

19 Q. Oh, it's -- okay. So it's drilling.

20 What is the status of the 2H?

21 A. I believe -- since it's a walking rig, I'm not
22 sure if it's started drilling yet or not.

23 Q. Because -- okay. I'm just trying to clarify.
24 I looked for the 2H. It says it's been drilled but not
25 completed. This is the one -- the 2H has been drilled

1 **but not completed. The 1H is -- can you clarify that**
2 **for me?**

3 A. Maybe it is. Sorry. The 2H is drilled but not
4 completed. That's correct.

5 **Q. And then the 1H is drilling?**

6 A. Yes.

7 **Q. Okay.**

8 EXAMINER McMILLAN: Go ahead.

9 EXAMINER BROOKS: I don't believe I have
10 any questions. The notice issues have been covered, so
11 we're in good shape.

12 EXAMINER McMILLAN: Thank you.

13 CHARLES CROSBY,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 **Q. Please state your name for the record.**

19 A. Charles Crosby.

20 MR. BRUCE: Mr. Examiner, could the record
21 reflect that the witness was previously sworn and
22 qualified?

23 EXAMINER McMILLAN: Yes. Please proceed.

24 **Q. (BY MR. BRUCE) Mr. Crosby, let's run through**
25 **these exhibits quickly. What is Exhibit 10?**

1 A. It's a structure contour map of the top of the
2 Wolfcamp in the area of interest showing continuous,
3 consistent structural dip to the east, and the proration
4 unit for the well shown by the dashed black box, with
5 the well itself shown by the dashed red arrow. The
6 Wolfcamp Shale wells are highlighted by the blue lines,
7 with the Wolfcamp Sand lines highlighted by the violet
8 lines, and also a cross-section reference line labeled
9 "A to A prime."

10 **Q. Let's move to your cross section in Exhibit 11**
11 **and discuss that.**

12 A. This is a cross section representative of the
13 entire Wolfcamp section in the area of interest. Our
14 delineated Wolfcamp zones are shown to the left of the
15 cross section, and the landing zone for the W0 is shown
16 within the Wolfcamp sands. And this just highlights
17 that the Wolfcamp Sand in this area is consistent.

18 **Q. In your opinion, will each quarter section**
19 **contribute more or less equally to production?**

20 A. Yes.

21 **Q. And there is no faulting or other geological**
22 **obstacle to drilling these wells?**

23 A. No.

24 **Q. What is Exhibit 12?**

25 A. This is a production statistics table for

1 Wolfcamp wells in the area. It's just meant to show
2 that regardless of well orientation, wells that have
3 similar completion dates and size of completion show
4 similar production.

5 **Q. So there is no favored direction in which to**
6 **drill the wells?**

7 A. No.

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

9 A. Just a schematic areal and cross-sectional view
10 of the well just to show that the well is within the
11 standard proration unit.

12 **Q. The first and last take points will be at**
13 **orthodox locations?**

14 A. Yes.

15 **Q. And then let's discuss the W2 well. Why don't**
16 **you run through Exhibits 14, et cetera?**

17 A. This is the same Wolfcamp structure map as
18 before just meant to highlight the W2 well location.

19 **Q. And Exhibit 15?**

20 A. Same cross section just showing the landing
21 point of the W2 within the Wolfcamp D zone.

22 **Q. Is the Wolfcamp D continuous across the --**

23 A. Yes.

24 **Q. And each quarter section will contribute more**
25 **or less equally to production?**

1 A. Yes.

2 **Q. Is Exhibit 16 the same production chart**
3 **previously shown?**

4 A. Yes, it is.

5 **Q. What is Exhibit 17?**

6 A. Again, just an areal and cross-sectional
7 schematic showing the well within the proration unit.

8 **Q. And the first and last take points will be at**
9 **orthodox locations?**

10 A. Yes.

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

14 A. Yes.

15 **Q. And were Exhibits 10 through 17 prepared by you**
16 **or under your supervision or compiled from company**
17 **business records?**

18 A. Yes.

19 MR. BRUCE: Mr. Examiner, I move the
20 admission of Exhibits 10 through 17.

21 EXAMINER McMILLAN: Exhibits 10 through 17
22 may now be accepted as part of the record.

23 (Mewbourne Oil Company Exhibit Numbers 10
24 through 17 are offered and admitted into
25 evidence.)

1 MR. BRUCE: I have nothing further.

2 EXAMINER McMILLAN: Thank you very much.

3 MR. BRUCE: I ask that our case be taken
4 under advisement.

5 EXAMINER McMILLAN: Case Number 15991 shall
6 be taken under advisement.

7 (Case Number 15991 concludes, 9:44 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 26th day of March 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
Paul Baca Professional Court Reporters

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