

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 CASE NO. 16313
FOR COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 18, 2018

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, October 18, 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.

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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FOR INTERESTED PARTY MARATHON OIL PERMIAN, LLC:

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1 (11:21 a.m.)

2 EXAMINER JONES: Let's go back on the
3 record and call Case Number 16313, application of
4 Mewbourne Oil Company for compulsory pooling in Eddy
5 County, New Mexico.

6 Call for appearances.

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

10 MS. BRADFUTE: Mr. Examiner, Jennifer
11 Bradfute on behalf of Marathon Oil Permian, LLC, and I
12 have no witnesses.

13 EXAMINER JONES: Any other appearances?
14 Will the witnesses for Mewbourne please
15 stand, and will the court reporter swear the witnesses?

16 (Mr. Jolly and Mr. Crosby sworn.)

17 TYLER JOLLY,
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. Will you please state your name and city of**
23 **residence?**

24 A. Tyler Jolly, Midland, Texas.

25 **Q. And who do you work for and in what capacity?**

1 A. I'm a landman for Mewbourne Oil Company.

2 Q. Have you previously testified before the
3 Division?

4 A. Yes.

5 Q. And were your credentials as an expert
6 petroleum landman accepted as a matter of record?

7 A. Yes.

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

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I tender
12 Mr. Jolly as an expert petroleum landman.

13 EXAMINER JONES: Any objection?

14 MS. BRADFUTE: No objection.

15 EXAMINER JONES: So qualified.

16 Q. (BY MR. BRUCE) Mr. Jolly, could you identify
17 Exhibit 1 for the examiner and describe the lands and
18 the wells involved in this application?

19 A. Yes. Exhibit 1 is a Midland Map Company plat
20 showing the surface- and bottom-hole locations for the
21 Kansas 21/28 W2IP Federal Com #1H and the Kansas 21/28
22 W0IP Federal Com #2H.

23 Q. And are the C-102s for each well attached to
24 page 1?

25 A. Yes.

1 **Q. Do you know the pool name for this?**

2 A. Yes. It's the Purple Sage; Wolfcamp Gas Pool,
3 Pool Code 98220, I believe.

4 **Q. What is Exhibit 2?**

5 A. Exhibit 2 is the tract ownership. And I
6 believe the only party that we seek to pool here is
7 Marathon, but I believe that we've reached an agreement
8 with them. We just have to paper it.

9 **Q. Okay. So when -- if Marathon is the only**
10 **party, as soon as the written agreement is obtained,**
11 **will you notify the Division so this case can be**
12 **dismissed?**

13 A. Yes.

14 **Q. And what is Exhibit 3?**

15 A. Exhibit 3 is our summary of communications with
16 Marathon. We've been in discussions with them for quite
17 some time, and, like I said, I think we have a deal
18 worked out with them. We just need to paper it.

19 **Q. And does this package also contain the original**
20 **proposal letter for this well unit?**

21 A. Yes.

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

23 A. Exhibit 4 is our AFE for both wells. The wells
24 will surface in Section 21, and the bottom hole will be
25 in Section 28, with the footage calls there on the AFE

1 for both wells.

2 Q. Okay. And is the price for these wells, which
3 is a little bit over \$8-1/2 million, fair and reasonable
4 and in line with the cost of other wells of this type
5 drilled in this section of New Mexico?

6 A. Yes.

7 Q. And have you made a good-faith effort to obtain
8 the voluntary joinder of the interest owners in the
9 well?

10 A. Yes.

11 Q. There are no unlocatable parties, are there?

12 A. That's correct.

13 MR. BRUCE: Mr. Examiner, Exhibit 5 is
14 simply my Affidavit of Notice showing that the parties
15 who were then unsigned have all received actual notice.

16 Q. (BY MR. BRUCE) What overhead rates do you
17 request?

18 A. 8,000 for drilling and 800 for producing.

19 Q. And are those rates reasonable and in line with
20 the costs charged by other operators in this area?

21 A. Yes.

22 Q. And are those the rates also set forth in your
23 JOA?

24 A. Yes.

25 Q. Were Exhibits 1 through 5 prepared by you or

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

3 A. Yes.

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 5.

10 EXAMINER JONES: Any objection?

11 MS. BRADFUTE: No objection.

12 EXAMINER JONES: Exhibits 1 through 5 are
13 admitted.

14 (Mewbourne Oil Company Exhibit Numbers 1
15 through 5 are offered and admitted into
16 evidence.)

17 MS. BRADFUTE: No questions.

18 EXAMINER JONES: No questions?

19 Mr. Brooks?

20 EXAMINER BROOKS: No questions.

21 CROSS-EXAMINATION

22 BY EXAMINER JONES:

23 Q. The surface-hole location, it shows to be up in
24 Unit Letter I in Section 21, but on your exhibits, it
25 looks like it might be actually a south-to-north well

1 **instead of north-to-south wells.**

2 A. Yes. That looks to be incorrect. The wells
3 will surface in 21, and the bottom hole will be in 28.
4 So it should be the inverse of what that's showing.

5 Q. Okay. And there are two wells proposed, and
6 both wells are -- looks like you might reach agreement
7 on both wells --

8 A. Yes.

9 Q. -- possibly?

10 A. Yes.

11 Q. Okay.

12 **CROSS-EXAMINATION**

13 BY EXAMINER BROOKS:

14 Q. Okay. The two wells that are proposed look
15 like the same location. Are they different depths?

16 A. Yeah. One's -- and I'll defer to the geologist
17 to confirm. But one's -- I believe the W0 is a Wolfcamp
18 Sand well, and the W2 is a Wolfcamp Shale.

19 Q. Okay. Thank you.

20 A. The wells will be drilled 50 foot apart. We
21 batch drill these, where you drill one and then scoot
22 over 50 feet without taking the rig down and then drill
23 another.

24 Q. Yeah. But they both bottom 400 -- at 330 from
25 the south and 440 from the -- well, that's the -- is

1 that the surface location? You said you're drilling
2 south to north?

3 A. From the north to the south.

4 Q. Oh, from the north to the south side.

5 A. Yeah. Sorry. Exhibit 1 is incorrect.

6 Q. So the surface location is up in Section 21?

7 A. Yes.

8 Q. And they both have the same bottom-hole
9 location in terms of footages, although they're
10 different depths?

11 A. That's correct.

12 Q. So they're not going to intersect at the
13 bottom?

14 A. They shouldn't. Hopefully not.

15 Q. And I would imagine whoever enters this in our
16 computer will change it by 1 foot to make it -- so we
17 won't show them at the same point.

18 EXAMINER JONES: They used to have to do
19 that. I'm not sure if they still do now or not.

20 EXAMINER BROOKS: They don't under the new
21 system.

22 EXAMINER JONES: I don't know.

23 EXAMINER BROOKS: The new system is -- I
24 don't know anything about the new system.

25 EXAMINER JONES: Yeah. I don't know if

1 they have modified that requirement. We are switching
2 today to a new administrative order system, so our
3 database is totally changing. And it totally changed
4 for hearing orders about three weeks ago or so. It was
5 the 26th. Anyway, it's been quite a travail.

6 EXAMINER BROOKS: Also, several weeks ago
7 St. Vincent Hospital got a new computer system, went
8 active on a new computer system, and I'm glad I didn't
9 have surgery scheduled at that time.

10 (Laughter.)

11 CONTINUED CROSS-EXAMINATION

12 BY EXAMINER JONES:

13 Q. Is ownership -- do you have -- you have
14 identified some tracts, right, or just one tract?

15 MR. BRUCE: They are Fed Com wells,
16 Mr. Examiner.

17 EXAMINER JONES: Okay. They're going to be
18 com'd.

19 Q. (BY EXAMINER JONES) Because you're proposing
20 the wells, basically, in the east half-east half. So I
21 was just kind of wondering why you're not -- you're not
22 going to -- you just want to drill these on top of each
23 other, one in the shale and one -- one in the sand and
24 then one down in the shale. And this is Eddy County, so
25 Purple Sage all the way here.

1 Any other questions?

2 MS. BRADFUTE: No questions.

3 EXAMINER JONES: Thanks.

4 THE WITNESS: Thank you.

5 CHARLES CROSBY,

6 after having been previously sworn under oath, was

7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you please state your name for the
11 record?

12 A. Charles Crosby.

13 Q. And where do you reside?

14 A. Midland, Texas.

15 Q. What is your occupation?

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

17 Q. Have you previously testified before the
18 Division?

19 A. Yes.

20 Q. And were your credentials as an expert
21 petroleum geologist accepted as a matter of record?

22 A. Yes.

23 Q. And are you familiar with the geology involved
24 in this application?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I tender
2 Mr. Crosby as an expert petroleum geologist.

3 MS. BRADFUTE: No objection.

4 EXAMINER JONES: So you're in Midland, not
5 in Tyler?

6 THE WITNESS: Yes, sir. I was in Tyler for
7 about two years. I've been in Midland about a year and
8 a half now.

9 EXAMINER JONES: Thanks.
10 He's so qualified.

11 Q. (BY MR. BRUCE) Mr. Crosby, can you identify
12 Exhibit 6 for the examiner and discuss its contents?

13 A. This is a structure contour map on the top of
14 the Wolfcamp in the project area showing consistent,
15 continuous structural dip to the east. Also on this map
16 is highlighted the proration unit by the dashed black
17 box and then the location of the proposed wells.
18 They're pretty tight, so it looks like one line, but the
19 two dashed red arrows. Also, the Wolfcamp Sand wells
20 are highlighted by the violet lines, with Wolfcamp Shale
21 wells highlighted by the navy lines, and the
22 cross-section reference line labeled A to A prime.

23 Q. Looking at this map, besides the horizontal
24 wells, there are a lot of older, deeper gas wells in
25 this area?

1 A. Yes. Yes. Good well control.

2 **Q. And are there any impediments, any faulting**
3 **that would impair the drilling of these wells?**

4 A. No.

5 **Q. What is Exhibit 7?**

6 A. This is the cross section referenced A to A
7 prime in the previous exhibit. This is representative
8 of the entire Wolfcamp section in this area. Our
9 delineated Wolfcamp zones are shown on the left side of
10 the cross section, and then also highlighted are the
11 proposed landing zones of the two wells shown by the red
12 arrows on the far left well log. And this just shows
13 that the geology is consistent for our proposed landing
14 zones -- both proposed landing zones in this area.

15 **Q. And so the Wolfcamp -- the Upper Wolfcamp and**
16 **the Lower Wolfcamp are both continuous across the well**
17 **unit?**

18 A. Yes.

19 **Q. And in your opinion, will each quarter section**
20 **in the well unit contribute more or less equally to**
21 **production from each well?**

22 A. Yes.

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

24 A. This is a table showing some production
25 statistics for Wolfcamp horizontals in the area, and

1 this just primarily is -- shown primarily to highlight
2 that regardless of orientation, east-west, north-south,
3 the production for wells that have been on line for a
4 similar amount of time with similar completions, the
5 production is pretty consistent regardless of
6 orientation.

7 **Q. Okay. So there is no preferred orientation?**

8 A. Right, not in this area.

9 **Q. What are Exhibits 9 and 10?**

10 A. These are just the proposed well plans showing
11 survey statistics for the first couple pages, and then
12 the final page shows a schematic areal and
13 cross-sectional view of the proposed wells.

14 **Q. Were Exhibits 7 through 10 prepared by you or**
15 **under your supervision or compiled from company business**
16 **records?**

17 A. Yes.

18 **Q. In your opinion, is the granting of this**
19 **application in the interest of conservation and the**
20 **prevention of waste?**

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I move the
23 admission of Exhibits 6 through 10.

24 MS. BRADFUTE: No objections.

25 EXAMINER JONES: Exhibits 6 through 10 are

1 admitted.

2 (Mewbourne Oil Company Exhibit Numbers 6
3 through 10 are offered and admitted into
4 evidence.)

5 EXAMINER JONES: Ms. Bradfute?

6 MS. BRADFUTE: No questions.

7 CROSS-EXAMINATION

8 BY EXAMINER JONES:

9 Q. So you got the D, the Y -- the D and Y. So I
10 assume that the Y is above the D; is that right?

11 A. Yes, sir. If you refer to the cross section,
12 so the Y would be the Wolfcamp sands there towards the
13 top. The Y is the red pick lines, and the general
14 nomenclature for the Wolfcamp sands is X, Y, Z for us
15 and when you go into the shale zones, it goes A, B, C
16 and D. So that's just kind of the nomenclature we use,
17 and I believe that's fairly consistent.

18 (Examiner Brooks exits the room, 11:36
19 a.m.)

20 Q. Okay. Thanks for telling me that.

21 What's the deal on the one-and-a-half-mile
22 Purple Sage wells? It seems like everybody wants to
23 drill one-and-a-half mile. They don't want to drill two
24 miles. They don't want to drill one mile. It's always
25 one and a half.

1 A. I think where land permits, the one-and-a-half
2 mile in this area has been working out pretty well for
3 us. So speaking for Mewbourne, I think that's our
4 preferred orientation when the land permits. Generally
5 just longer -- longer laterals is kind of the trend of
6 the industry, it seems like. So --

7 **Q. So it's kind of a land ownership --**

8 A. Where land permits, we generally tend to want
9 to do longer laterals anymore, it seems like.

10 **Q. But you're not going for two miles here, looks**
11 **like?**

12 A. No. For how the land sets up here, we believe
13 that the one-and-a-half mile is the best way to develop.

14 **Q. Well, it looks like your oil cut is around 25**
15 **percent. On your Exhibit 8 is what it looks like to me.**

16 A. Generally.

17 **Q. That's pretty good.**

18 A. It's -- that's a pretty safe average for this
19 particular area, it seems like.

20 **Q. And not much gas, though. Well, that's in**
21 **Bcfs.**

22 A. Yes, sir.

23 **Q. Well, no. The NBO is also --**

24 A. The gas on this table is reported in Bcf, and
25 generally the Wolfcamp D is higher GOR reservoir than

1 the Y sands, seems like.

2 Q. Okay. So you're optimistic about these wells?

3 A. Yes, sir.

4 Q. Thank you very much.

5 EXAMINER JONES: Are we ready to take these
6 under advisement, or do you want to wait two weeks until
7 you positively get a signed signature?

8 MR. BRUCE: We will take them under
9 advisement for now, and we'll --

10 MS. BRADFUTE: That's fine.

11 MR. BRUCE: -- notify the Division as soon
12 as possible. I'm sure -- no need for an expedited
13 order.

14 MS. BRADFUTE: (Laughter.)

15 EXAMINER JONES: Yeah. Sounds like this
16 might be the one exception to the whole day.

17 MS. BRADFUTE: Yes (laughter).

18 EXAMINER JONES: Okay. Well, looks like
19 everybody is ready to break for lunch. Is that true, or
20 does anybody want to go some more?

21 (Discussion off the record.)

22 EXAMINER JONES: We'll take that case under
23 advisement. That was 16313.

24 (Case Number 16313 concludes, 11:40 a.m.)

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 29th day of October 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

25