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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:

CASE NO. 14690

APPLICATION OF MEWBOURNE OIL COMPANY FOR  
APPROVAL OF A NON-STANDARD OIL SPACING AND  
PRORATION UNIT AND COMPULSORY POOLING,  
LEA COUNTY, NEW MEXICO

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: TERRY G. WARNELL, Hearing Examiner

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July 21, 2011

Santa Fe, New Mexico

This matter came on for hearing before the  
New Mexico Oil Conservation Division, TERRY G. WARNELL,  
Hearing Examiner on Thursday, July 21, 2011, at the  
New Mexico Energy, Minerals and Natural Resources  
Department, 1220 South Street Francis Drive, Room 102,  
Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke  
PAUL BACA PROFESSIONAL COURT REPORTERS  
500 Fourth Street, NW, Suite 105  
Albuquerque, NM 87102

1 A P P E A R A N C E S

2 For the Applicant:

3 JAMES GARRETT BRUCE  
 4 ATTORNEY AT LAW  
 5 P.O. Box 1056  
 Santa Fe, New Mexico 87504-1056  
 (505) 982-2043

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7 I N D E X

	PAGE
9 DIRECT EXAMINATION OF COREY MITCHELL	4
10 DIRECT EXAMINATION OF NATHAN CLESS	12
11 CERTIFICATE OF COMPLETION OF DEPOSITION	21
12 EXHIBITS	MARKED/IDENTIFIED
13 1. Land Plat Map	11
14 2. Tract Ownership	11
15 3. Summary of Communications	11
16 4. Authorization for Expenditure	11
17 5. Affidavit of Notice	11
18 6. Offset Operators and Working Interest Owners	11
19 7. Affidavit of Notice	11
20 8. Structure Map	18
21 9. Map	18
22 10. Map	18
23 11. Production Data Table	18
24 12. DDC Well Planning Report	18

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1 HEARING OFFICER WARNELL: Are we going to  
2 hear each of these cases separately?

3 MR. BRUCE: Well, Mr. Examiner, the  
4 Mewbourne case, the next one, that's just one.

5 HEARING OFFICER WARNELL: Yeah, okay.

6 MR. BRUCE: And then with the Cimarex cases  
7 we're basically going to put on one case because  
8 virtually all four are identical so it won't take very  
9 long.

10 HEARING OFFICER WARNELL: And I apologize  
11 about that Mewbourne. I don't know, for some reason I  
12 had written down -- I'll double check on that, but I'm  
13 sure the error is mine. Unfortunately, I don't have the  
14 folder for it.

15 MR. BRUCE: There's not much to it.

16 HEARING OFFICER WARNELL: Should I run  
17 upstairs and find the folder?

18 MR. BRUCE: I don't think you need it. If  
19 there's anything you need I can give it to you.

20 HEARING OFFICER WARNELL: Okay. Very well.  
21 With that, then, we'll call Case 14690, application of  
22 Mewbourne Oil Company for approval of a non-standard oil  
23 spacing proration unit and compulsory pooling, Lea  
24 County, New Mexico.

25 Call for appearances.

1 MR. BRUCE: Mr. Examiner, Jim Bruce of  
2 Santa Fe representing the applicant. I have two  
3 witnesses.

4 HEARING OFFICER WARNELL: Very well. Will  
5 the witnesses please stand and state your name and be  
6 sworn. And if you could supply the court reporter with  
7 a business card, that's always helpful.

8 MR. CLESS: Nathan Cless, Tyler, Texas.

9 MR. MITCHELL: Corey Mitchell, Midland,  
10 Texas.

11 [WHEREUPON the witnesses were duly sworn.]

12 HEARING OFFICER WARNELL: Call your first  
13 witness.

14 MR. BRUCE: I call Mr. Mitchell to the  
15 stand.

16 COREY MITCHELL

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

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name and city of  
22 residence for the record?

23 A. Corey Mitchell, Midland, Texas.

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

25 A. Mewbourne Oil Company as a landman.

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

3 A. Yes, sir.

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

6 A. Yes, sir.

7 Q. And does your area of responsibility at Mewbourne  
8 include this area of Southeast New Mexico?

9 A. Yes, sir.

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

12 A. Yes, sir.

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

15 HEARING OFFICER WARNELL: So accepted.

16 Q. (By Mr. Bruce) Mr. Mitchell, could you identify  
17 Exhibit 1 for the Examiner and describe what Mewbourne  
18 seeks in this case?

19 A. Exhibit 1 is a Midland map company land plat,  
20 which shows township 19 south, range 33 east, of Lea  
21 County, New Mexico. It also has our proposed well and  
22 proration unit. We are seeking an order approving a  
23 non-standard well unit comprised of the north half north  
24 half of section 17 and pooling from the surface to the  
25 base of the Bone Spring Formation.

1 Q. In looking at the plat, Mr. Mitchell, the entire  
2 well unit is comprised of a single lease, is it not?

3 A. Correct. Yes, sir.

4 Q. So you would seek to force pool the 40 acres  
5 where the surface well location is as well as the  
6 non-standard unit, correct?

7 A. Yes, sir.

8 Q. And what is the name of the proposed well?

9 A. The proposed well is the Spyglass 17 Federal  
10 Number 2H well. It's a horizontal well at the surface  
11 location 660 from the north, 330 from the west. And a  
12 bottom hole location of 660 from the north, 330 from the  
13 east.

14 Q. And what is the working interest in the well  
15 unit? And I refer you to Exhibit 2.

16 A. Exhibit 2 is a tract ownership of all the working  
17 interest owners in the well. I have noted the people we  
18 are pooling today or seek to pool by an asterisk. It is  
19 an Ard Oil, Limited and James H. Yates, Incorporated.  
20 Together they make up a little over 6.9 percent.

21 Q. And what is Exhibit 3?

22 A. Exhibit 3 is a summary of my communications and  
23 copies of my correspondence with Ard Oil and James H.  
24 Yates, Incorporated.

25 Q. And they were sent well proposals with the AFEs,

1 were they not?

2 A. Yes, sir.

3 Q. And this is a federal well, so these are working  
4 interests, not unleased mineral owners?

5 A. Correct. Yes, sir.

6 Q. Have you received any response from either of the  
7 parties?

8 A. I have not. And this is actually our second well  
9 in this section, and we had to pool these two in the  
10 first well as well.

11 Q. They just simply haven't responded?

12 A. Correct. Yes, sir.

13 Q. And in your opinion has Mewbourne made a good  
14 faith effort to obtain the voluntary joinder of these  
15 interest owners in the wells?

16 A. Yes, sir.

17 Q. Would you identify Exhibit 4 and discuss the cost  
18 of your proposed well?

19 A. Exhibit 4 is our AFE, which shows our estimated  
20 well cost. We have an estimated dry hole cost of  
21 \$2,682,200 and an estimated completed well cost of  
22 \$4,277,400.

23 Q. And are these costs in line with the costs of  
24 other horizontal wells drilled at this depth in this  
25 area of New Mexico?

1 A. Yes, sir.

2 Q. Do you request that Mewbourne be appointed  
3 operator of the well?

4 A. Yes, sir.

5 Q. Do you have a recommendation as to the overhead  
6 rates?

7 A. Yes, sir. We are recommending 7,000 a month for  
8 drilling and 700 a month for producing.

9 Q. And are these amounts equivalent to those charged  
10 by Mewbourne and other operators for wells of this type  
11 in this area of the state?

12 A. Yes, sir.

13 Q. Do you request that the rates be adjusted  
14 periodically as provided by the COPAS accounting  
15 procedure?

16 A. Yes, sir.

17 Q. And does Mewbourne request the maximum cost plus  
18 200 percent risk charge if an interest owner goes  
19 non-consent in the well?

20 A. Yes, sir.

21 Q. And were the parties being pooled notified of  
22 this application?

23 A. Yes, sir.

24 Q. Now, in looking at Exhibit 5, Mr. Mitchell, the  
25 very last page of it shows that Ard Oil was sent

1 certified mail and they have not picked up the certified  
2 mail. Do you know for a fact that this is the correct  
3 address for Ard Oil, Limited?

4 A. Yes, sir.

5 Q. Have you sent other letters to Ard Oil by  
6 certified mail?

7 A. Yes, sir.

8 Q. Did they refuse to pick up the certified mail?

9 A. Yes, sir.

10 Q. How are you contacting them now when you send  
11 well proposals?

12 A. We are sending it overnight mail.

13 Q. And those overnight mails are received by Ard  
14 Oil, Limited?

15 A. Yes, sir.

16 Q. And what is Exhibit 6?

17 A. Exhibit 6 is a list of the offset operators and  
18 working interest owners.

19 MR. BRUCE: Mr. Examiner, on Exhibit 6 if  
20 you go down to the middle where it says southwest  
21 quarter, southwest quarter of section 7, that should be  
22 section 9, not section 7, the tract operated by  
23 Nearburg.

24 Q. (By Mr. Bruce) And were these parties given  
25 notice of the application?

1 A. Yes, sir, they were.

2 Q. And they all received actual notice, did they  
3 not?

4 A. Yes, sir.

5 Q. And were Exhibits 1 through 7 prepared by you or  
6 under your supervision or compiled from company business  
7 records?

8 A. Yes, sir.

9 Q. And 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, there was an error  
14 in the advertisement of this case, and it has already  
15 been readvertised for August 4th. So I'd ask that it be  
16 continued to then.

17 Q. (By Mr. Bruce) But, Mr. Mitchell, as soon as  
18 possible after that date, would you request the entry of  
19 an order in this matter?

20 A. Yes, sir.

21 Q. There is a drilling rig coming to this location,  
22 correct?

23 A. Yes, sir.

24 HEARING OFFICER WARNELL: When do you expect  
25 your drilling rig?

1 MR. MITCHELL: We'll be drilling probably  
2 around the 1st of August. We have an August 15th  
3 obligation date. So definitely before then.

4 MR. BRUCE: And with that, Mr. Examiner, I  
5 move the admission of Exhibits 1 through 7.

6 HEARING OFFICER WARNELL: Exhibits 1 through  
7 7 are admitted.

8 [Exhibits 1 through 7 admitted.]

9 MR. BRUCE: I have nothing further.

10 HEARING OFFICER WARNELL: Okay. Thank you.

11 Mr. Mitchell, did you say this was surface to the  
12 base of the Bone Springs?

13 MR. MITCHELL: Yes, sir.

14 HEARING OFFICER WARNELL: And on BLM land.  
15 And you mentioned the overnight mail. They don't accept  
16 certified?

17 MR. MITCHELL: No, sir. They used to but  
18 they no longer sign for them, so we send it FedEx  
19 overnight.

20 HEARING OFFICER WARNELL: Oh, and so you've  
21 got the signature on FedEx?

22 MR. MITCHELL: Yes, sir. Yes, sir, we do  
23 have verification that they did receive it and sign for  
24 it.

25 HEARING OFFICER WARNELL: Interesting. Now,

1 on this time constraint, so we'll continue to August 4th  
2 and supplement the folder or the file.

3 MR. BRUCE: Yeah, just to reflect, all that  
4 was run incorrect in the first advertisement was the  
5 well number. And so I did get that. And we discovered  
6 that a couple weeks ago, so I e-mailed the Division  
7 secretary and she reset it for August 4th.

8 HEARING OFFICER WARNELL: All right. And do  
9 we have an API number on this well?

10 MR. MITCHELL: I'm not sure if we do or not.

11 MR. BRUCE: I'll check that for you,  
12 Mr. Examiner. I thought we had one.

13 HEARING OFFICER WARNELL: If you could send  
14 me the application. You've got that digitally?

15 MR. BRUCE: Yes.

16 HEARING OFFICER WARNELL: If you could do  
17 that, that might help expedite.

18 I have no further questions. You can call your  
19 next witness, if you'd like.

20 NATHAN CLESS

21 after having been first duly sworn under oath,  
22 was questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. And would state your name and city of residence?

1 A. Nathan Cless of Tyler, Texas.

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

3 A. Mewbourne Oil Company as a geologist.

4 Q. Have you previously testified before the  
5 Division?

6 A. Yes, sir.

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

9 A. Yes, sir.

10 Q. Does your area of responsibility at Mewbourne  
11 include this area of southeast New Mexico?

12 A. Yes, sir.

13 Q. And are you familiar with geology involved in  
14 this application?

15 A. Yes, sir.

16 MR. BRUCE: Mr. Examiner, I tender Mr. Cless  
17 as an expert petroleum geologist.

18 HEARING OFFICER WARNELL: Mr. Cless is so  
19 recognized.

20 Q. (By Mr. Bruce) Mr. Cless, could you identify  
21 Exhibit 8 for the Examiner?

22 A. Yes, Mr. Examiner, Exhibit 8 is a structure map  
23 of the area. I made this structure map based on what I  
24 call the third Bone Spring carbonate marker. And in  
25 Exhibit 11 I'll show you that marker that I've made the

1 structure map on. But basically it shows that in this  
2 area there is a southeasterly dip. I don't believe that  
3 anything too abnormally is going on in the structure.  
4 Also, on this map you can see all the wells that are  
5 highlighted in yellow, wells that produce from the Bone  
6 Spring interval.

7 Now, the Bone Spring interval is comprised -- is  
8 a couple thousand feet thick, so it comprises the Avalon  
9 Shale, the first Bone Spring sand, the second Bone  
10 Spring sand, and the third Bone Spring sand along with  
11 the first Bone Spring, second Bone Spring, and third  
12 Bone Spring carbonates.

13 As you can see in section 17, section 19, and  
14 section 20, all those wells that are highlighted by  
15 yellow produce out of the second Bone Spring sand. And  
16 our proposed well, the Spyglass 17, Federal Number 2H,  
17 will be structurally up dip from those producers. So we  
18 believe it will be productive. That north half, north  
19 half of section 17 will be productive.

20 Q. And what is Exhibit 9?

21 A. Exhibit 9 is an isopach map on the second Bone  
22 Spring C sand. And I'm going to go ahead and jump to  
23 Exhibit 10 just so I can show you what the sea sand is  
24 and what I'm calling the sea sand. Exhibit 10 is a  
25 cross section of two wells going from the well in 17G to

1 the well in 9M. On the top of this you can see what I'm  
2 calling the top of the second Bone Spring sands. The  
3 second Bone Spring sand consists of multiple sand  
4 intervals. And down about two-thirds of the way you can  
5 see the lines in green are what I'm calling the second  
6 Bone Spring C interval. That's going to be our  
7 horizontal target. And that sand interval is fairly  
8 consistent throughout this whole area. And that sea  
9 sand is what I've made this isopach map on.

10 So going back to Exhibit Number 9, this also  
11 shows the wells that produce out of the Bone Spring.  
12 But also, to the bottom left of every well bore there's  
13 a number, and that number corresponds to the thickness  
14 of the sea sand in that well bore. So you can see,  
15 going from section 18 to section 17 and then up to  
16 section 9, you go from 63 feet to 56 feet back up to 64  
17 feet. So really there's a pretty similar thickness all  
18 along that northern part of section 17, the north half,  
19 north half of section 17.

20 Q. And based on that would you expect that each  
21 quarter, quarter section would contribute to production?

22 A. Yes, sir.

23 Q. And would they contribute more or less equally to  
24 production?

25 A. Yes, sir.

1 Q. What is Exhibit 11?

2 A. Exhibit 11 is a production table of all the wells  
3 that produce out of the Bone Spring in this area. It  
4 lists the well name, the operator, the API number, the  
5 location of the well, whether the well is a vertical  
6 well or a horizontal well, the date that it was  
7 completed in the Bone Spring interval, what Bone Spring  
8 interval it went into.

9 As you can see, the first three wells, which are  
10 located in section 7, section 8, and section 9 produce  
11 out of the first Bone Spring sand and then the third  
12 Bone Spring carbonate. And then all the other wells  
13 produce out of the second Bone Spring sand. Then I also  
14 list the cum oil, the cum gas, and the cum water of  
15 these wells. And I will point out that there have  
16 currently been three horizontal wells that have been  
17 drilled in the second Bone Spring sand. Those wells  
18 have all been drilled recently so there has been no  
19 production released publicly yet.

20 Q. And looking at this, except for the final well,  
21 the North Maduro Federal Unit Number 2, the production,  
22 vertical production has been marginal, has it not?

23 A. Yes, sir. Yeah, that's why we believe that going  
24 back with the horizontal well will certainly make this  
25 an economic well.

1 Q. And, finally, could you identify Exhibit 12 and  
2 discuss how Mewbourne drills and completes its  
3 horizontal Bone Spring wells?

4 A. Yeah. Exhibit 12 is a preliminary horizontal  
5 survey that we got from a company called Directional  
6 Drilling Company. They're the directional drillers that  
7 we'll use while we're drilling this well. And basically  
8 it's just a preliminary survey of where the horizontal  
9 well path will go.

10 We are not going to be drilling a pilot hole for  
11 this well. We have enough control in this area, and we  
12 drilled the well in the south half of north half of  
13 section 17 without a pilot hole. So we believe we'll be  
14 able to land this well in the correct interval as we're  
15 drilling it.

16 If you'll turn to the very last page of  
17 Exhibit 12, that last box that's labeled Plan  
18 Annotations. It lists our kick off point, our landing  
19 point, and our bottom hole location. You'll see it also  
20 lists the measured depth and the vertical section. The  
21 kick off point will be at 9307 measured depth and 9307  
22 vertical depth. Our landing point will be at 10,196  
23 feet measured depth and a vertical depth of 9880. And  
24 then our bottom hole we estimate that we're going to  
25 have a total measure depth of 14,258 feet and our

1 vertical depth will be at 9,960 feet.

2 Q. How many completion stages does Mewbourne have in  
3 its wells?

4 A. We run a packers and ports completion system.  
5 And we'll usually run either 17 or 20 ports. And we'll  
6 frac each of those ports individually.

7 Q. In your opinion, will the granting of this  
8 application be in the interest of conservation and the  
9 prevention of waste?

10 A. Yes, sir.

11 Q. And were Exhibits 8 through 12 either prepared by  
12 you or compiled from business records?

13 A. Yes, sir.

14 MR. BRUCE: Mr. Examiner, I'd move the  
15 admission of Exhibits 8 through 12.

16 HEARING OFFICER WARNELL: Exhibits 8 through  
17 12 are admitted.

18 [Exhibits 8 through 12 admitted.]

19 HEARING OFFICER WARNELL: Mr. Cless, you  
20 mentioned a well in section 17 in the south, south half,  
21 one that you did recently.

22 MR. CLESS: The south half of the north  
23 half.

24 HEARING OFFICER WARNELL: The south half of  
25 the north half. And what's that well number?

1 MR. CLESS: It's the Spyglass 17 Federal 1H.

2 HEARING OFFICER WARNELL: 17 to 24

3 completion stages?

4 MR. CLESS: 17 to 20.

5 HEARING OFFICER WARNELL: How long does that  
6 take?

7 MR. CLESS: With the packers and port system  
8 it just takes a day because they basically -- they'll  
9 open up the farther stage and they'll frac that. And  
10 then they drop a ball down and that seeds and opens up  
11 the next one. So we're able to frac them fairly  
12 quickly. So we're usually at just one day.

13 HEARING OFFICER WARNELL: So once you start  
14 you run 24 hours?

15 MR. CLESS: Yeah, pretty much until the job  
16 is done.

17 HEARING OFFICER WARNELL: And this is going  
18 to be the second well in that section?

19 MR. CLESS: Yes, sir.

20 HEARING OFFICER WARNELL: I don't have any  
21 further questions.

22 MR. BRUCE: I have nothing further on this  
23 matter, Mr. Examiner. So, again, I'd ask that it be  
24 continued for two weeks.

25 HEARING OFFICER WARNELL: All right. Thank

1 you. Case Number 14690 will be continued to August 4th.

2 [Case Number 14690 continued.]

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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. \_\_\_\_\_ heard by me on \_\_\_\_\_, Examiner  
Oil Conservation Division

## REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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



Lisa R. Reinicke,  
Provisional License P-405  
License expires: 8/21/2011

Ex count: