

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED  
BY THE OIL CONSERVATION DIVISION FOR  
THE PURPOSE OF CONSIDERING:

CASE NO. 14857

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

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 21-12

BEFORE: RICHARD EZEANYIM, Hearing Officer  
DAVID K. BROOKS, Legal Examiner

JULY 12, 2012

Santa Fe, New Mexico

10:08 AM

This matter came on for hearing before the  
New Mexico Oil Conservation Division, RICHARD EZEANYIM,  
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,  
on THURSDAY, JULY 12, 2012, 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 Mewbourne Oil Company:

3 JAMES GARRETT BRUCE, ATTORNEY AT LAW  
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 5 Santa Fe, NM 87504-1056  
 (505) 982-2043

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1 MR. EXAMINER: We will now proceed in the  
2 same order we've going through. Go back to page 3. Now  
3 I call case number 14857. This is the application of  
4 Mewbourne Oil Company for approval of a non-standard oil  
5 spacing and proration unit and compulsory pooling in  
6 Eddy County, New 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. Haden and Mr. Cless, who have been  
11 previously sworn and qualified.

12 MR. EXAMINER: Okay. So we don't need to  
13 qualify them, and you may proceed.

14 PAUL HADEN

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

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Please state your name for the record.

20 A. My name is Paul Haden.

21 Q. Mr. Haden, could you identify Exhibit 1 and  
22 describe what Mewbourne seeks in this case.

23 A. Yes, sir. Exhibit Number 1 is a land plat of the  
24 area. It indicates our proposed spacing unit for this  
25 well, which is the west half, west half. That spacing

1 unit is indicated in yellow. It also indicates the  
2 surface and bottom hole location of our proposed well.  
3 The surface location being in the southwest, southwest  
4 quarter, the bottom hole being in the northwest,  
5 northwest. This is in township 23 south, range 28 east,  
6 section 35.

7 Q. And what is the name of the well?

8 A. The well is the Lala 35 MD Fee Com Number 1H  
9 Well.

10 Q. And what is the primary target of this well?

11 A. The primary target is the Delaware.

12 MR. EXAMINER: Delaware, what pool?

13 MR. HADEN: It's in the east Loving Brushy  
14 Canyon Pool.

15 MR. EXAMINER: East Brushy what?

16 MR. HADEN: East Loving Brushy Canyon.

17 MR. EXAMINER: Okay.

18 MR. HADEN: Do you need the API number for  
19 that?

20 MR. EXAMINER: ~~Yeah, sure.~~

21 MR. HADEN: It's 3001540210.

22 MR. EXAMINER: ~~Thank~~ you. Go ahead.

23 Q. (By Mr. Bruce) Could you identify Exhibit 2 for  
24 the Examiner, Mr. Haden?

25 A. Exhibit 2 is the tract ownership. It also

1 describes page 2, the unleased mineral owners that we're  
2 seeking to pool. On page 3 it indicates the ownership  
3 in our proposed well. It also indicates the percentage  
4 of the spacing unit being pooled, and that's  
5 approximately 7.78594 percent. These are unleased  
6 mineral owners, some of which we have not been able to  
7 find. Others, title examination, the chain of title is  
8 confused. We could not figure out exactly what some of  
9 these owners owned nor could they.

10 Q. So on page 2 -- well, page 1 under tract 5 you  
11 list certain -- and tract 2 you list certain unleased  
12 mineral owners?

13 A. Yes, sir.

14 Q. And these are identified on pages 2 and 3?

15 A. Correct.

16 Q. Now you don't break out percentages of ownership  
17 among these interest owners. Why is that?

18 A. For the simple fact we cannot determine their  
19 actual mineral ownership.

20 Q. Did Mewbourne Oil Company have a title opinion  
21 done with respect to this well?

22 A. Yes. We have a drilling title opinion.

23 Q. And the attorney was unable to determine who  
24 owned what; is that correct?

25 A. That is correct.

1 Q. With respect to the people you seek to pool and  
2 have had contacts with, does Exhibit 3 summarize your  
3 contacts with those people?

4 A. Yes, it does. We sent letters via certified  
5 mail. Many of these letters came back undeliverable.

6 Q. I notice that a couple of them have indicated  
7 they will sign a JOA. Will you notify the division if  
8 these people do sign a JOA and participate in the well?

9 A. Yes, we will.

10 Q. What is Exhibit 4?

11 A. Exhibit 4 is a copy of my correspondence, all  
12 these unleased mineral owners of which we've proposed  
13 the well to, offered also to acquire an oil and gas  
14 lease from them on certain terms. And that's about it  
15 basically.

16 Q. With respect to the unlocateable owners, what  
17 steps were taken to determine if they were locateable?

18 A. We've researched the Eddy County records and  
19 we've researched where their last known address was and  
20 we've sent our correspondence to the last known address.  
21 We also have researched, via Internet, the location of  
22 these persons and have been unable to find them.

23 Q. And I notice that the first letters, proposal  
24 letters, went out almost 11 months ago. So have you  
25 been searching for them during that time period?

1 A. Yes, sir, we have.

2 Q. In your opinion, have you made a good faith  
3 effort to determine the names and addresses of all  
4 interest owners in the proposed well?

5 A. Yes, we did the best that we could under these  
6 circumstances.

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

10 A. Yes, we have.

11 MR. BRUCE: Mr. Examiner, there is no  
12 Exhibit 5. I will explain that at the end of  
13 Mr. Haden's testimony.

14 Q. (By Mr. Bruce) Could you identify Exhibit 6 for  
15 the Examiner?

16 A. Exhibit 6 is a copy of our AFE, which is the  
17 estimated well cost for this proposed well. It  
18 indicates the estimated cost case in point, which is  
19 \$1,974,800. It also indicates the completed cost of  
20 \$4,031,800. It also refers references the well name as  
21 well as the surface and bottom hole locations for this  
22 proposed well.

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

1 A. Yes, they are.

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

4 A. We do.

5 Q. And do you have a recommendation for the amounts  
6 which Mewbourne should be paid for supervision and  
7 administrative expenses?

8 A. We are requesting \$7,500 per month for a drilling  
9 well rate and \$750 for a producing well rate.

10 Q. And are these amounts equivalent to those  
11 normally charged by Mewbourne and other operators in  
12 this area for wells of this depth?

13 A. Yes, sir, it is.

14 Q. Do you request that the rates be periodically  
15 adjusted under the COPAS accounting procedure?

16 A. We so request.

17 Q. And were the locateable parties notified of this  
18 hearing?

19 A. Yes, they were.

20 Q. And is that reflected in Exhibit 7?

21 A. That is correct.

22 Q. What is Exhibit 8?

23 A. Exhibit 8 is a listing of the offset owners  
24 whereby notice was sent to them regarding their  
25 application.

1 Q. And is notice to the offsets reflected in  
2 Exhibit 9 by affidavit of notice?

3 A. That's correct.

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

7 A. Yes, sir.

8 Q. And were Exhibits 1 through 4 and 6 through 9  
9 prepared by you or under your supervision or compiled  
10 from company records?

11 A. Yes, they were.

12 MR. BRUCE: Mr. Examiner, that's all the  
13 questions I have of Mr. Haden, and I would move the  
14 admission of Exhibits 1 through 4 and 6 through 9.

15 MR. EXAMINER: Exhibits 1 through 4 and 6  
16 through 9 will be admitted.

17 [Exhibits 1 through 4 and 6 through 9 admitted.]

18 MR. BRUCE: Mr. Examiner, there are  
19 unlocateable parties, and somewhere in my morass of  
20 paperwork I could not find the affidavit of publication  
21 as against the unlocateable parties. So I would ask at  
22 the end of this hearing that this case be continued for  
23 two weeks so that can be provided to you. And that will  
24 be Exhibit 5.

25 MR. EXAMINER: Okay. You have only one

1 continuance.

2 MR. BRUCE: I am safe.

3 MR. EXAMINER: You are safe.

4 MR. BRUCE: And I have no further questions  
5 of the witness.

6 MR. EXAMINER: Okay. The only thing I have  
7 is sharing the costs now, as we say in this case, will  
8 be the same as the others, that the old, old interest  
9 owners are going to a portion of the well and will bear  
10 the costs of those. You want to complete the up hole,  
11 right?

12 MR. BRUCE: That is correct. The initial  
13 Delaware completion will be 100 percent by all of the  
14 interest owners in the 160-acre well unit. And if the  
15 well was later completed up hole in the vertical portion  
16 of the wellbore it would simply -- those recompletion  
17 costs would be borne by the interest owners in the  
18 southeast, southwest quarter of section 35.

19 MR. EXAMINER: Okay, you may be excused.

20 MR. HADEN: Thank you.

21 MR. EXAMINER: Call your next witness.

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NATE CLESS

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Please state your name for the record.

A. Nate Cless.

Q. Mr. Cless, could you identify Exhibit 10 for the  
Examiner?

A. Exhibit 10 is a structure map.

MR. EXAMINER: And Mr. Cless has been  
qualified, right?

MR. BRUCE: Yes.

MR. EXAMINER: He's been qualified so that's  
why you can go to direct examination.

MR. BRUCE: That is correct.

A. Exhibit 10 is a structure map on top of the Basal  
Brushy Canyon in this immediate area surrounding  
section 35. I've also highlighted the production in  
here and all the wells with a brown bubble representing  
wells that produce out of the Delaware formation. Also,  
you can see the location of our proposed well in the  
west half, west half of section 30. We do have Delaware  
production that is both down dip and up dip of us, so we  
do believe that this will be a productive well.

1 Q. And is this the first horizontal Delaware test in  
2 this immediate area?

3 A. In this immediate area. There are many other  
4 horizontal Delaware tests out there, but in this  
5 immediate area it is the first.

6 Q. And what is Exhibit 11?

7 A. Exhibit 11 is an isopach map of the Basal Brushy  
8 Canyon sand. It's a gross isopach. To the upper left  
9 of each wellbore there's a number that indicates the  
10 gross thickness of that interval. You can see in the  
11 west half, west half of section 30 most of the wells  
12 have an approximate thickness of about 340 feet in the  
13 Basal Brushy Canyon.

14 Q. In your opinion, will each quarter, quarter  
15 section in the well unit contribute more or less equally  
16 to production?

17 A. Yes, it will.

18 Q. What is Exhibit 12?

19 A. Exhibit 12 is a cross section. And going back to  
20 the previous exhibit you can see the location of these  
21 wells. This is a three-well cross section going from  
22 section 34 down to section 2. It's at the north of that  
23 cross section showing the Basal Brushy Canyon interval.  
24 On each well there's some red rectangles on here. Those  
25 indicate where these wells were perforated and the Basal

1 Brushy interval. So you can see that for the most part  
2 the production all came out of the lower part of that  
3 Basal Brushy sand. And also on the right-hand side you  
4 can see what is labeled a horizontal target. That's  
5 where we intend to go horizontal on this interval. So  
6 we intend to go kind of in that lower part where most of  
7 the production seems to be coming out of.

8 Q. (By Mr. Bruce) In your opinion, will this well  
9 adequately drain this portion of the Brushy Canyon  
10 interval?

11 A. Yes, sir, it will.

12 Q. What is Exhibit 13?

13 A. Exhibit 13 is a production table of all the  
14 vertical wells in this area that produce out of the  
15 Delaware formation. You can see there are a number of  
16 them in this immediate area. And, once again, it shows  
17 the well name, the operator, the API. All these wells  
18 are all vertical wells when they were completed in the  
19 Delaware, and then the cum oil, cum gas, and cum water  
20 of these. And just looking at the cum oil column, on  
21 average these vertical wells made probably 40,000  
22 barrels of oil out of this Basal Brushy Delaware  
23 interval. So we believe that this horizontal will be a  
24 good test as well.

25 MR. EXAMINER: Are these offset wells?

1 MR. CLESS: These are.

2 MR. EXAMINER: Offset. And that's why you  
3 put that 5 MDC. You think it will do that, right?

4 MR. CLESS: Yes.

5 MR. EXAMINER: The way you put the  
6 production there, I mean, that's not what it's producing  
7 but what you think it will produce?

8 MR. CLESS: Yes.

9 MR. EXAMINER: Okay.

10 Q. (By Mr. Bruce) And, finally, what is Exhibit 14,  
11 Mr. Cless?

12 A. Exhibit 14 is the horizontal well plan of our  
13 proposed well. It's got a surface location of 360 from  
14 the south and 360 from the west. And the bottom hole  
15 will be 330 from the north and 360 from the west. We'll  
16 have a kick off point of 5,658 feet with our landing  
17 points, vertical depth being 6,231 feet. And our bottom  
18 hole measure depth will be 10,602 feet.

19 And then if you go to the last page we have the  
20 wellbore diagram on here. Or the second to the last  
21 page is the wellbore diagram once again showing where  
22 our kick off is, where our landing point is, and where  
23 our final bottom hole location is.

24 Q. Will the entire producing interval of the  
25 wellbore be orthodox?

1 A. It will.

2 Q. Were Exhibits 10 through 14 prepared by you or  
3 compiled from company business records?

4 A. They were.

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

8 A. Yes, sir.

9 [Examiner Brooks enters room at 10:22 AM.]

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

12 MR. EXAMINER: Exhibits 10 through 14 will  
13 be admitted.

14 [Exhibits 10 through 14 admitted.]

15 MR. BRUCE: I have no further questions of  
16 the witness.

17 EXAMINER BROOKS: No questions. I didn't  
18 hear his testimony anyway.

19 MR. EXAMINER: No questions. You may step  
20 down.

21 MR. BRUCE: I have nothing further in this  
22 matter.

23 MR. EXAMINER: At this point case number  
24 14857 will be taken under advisement.

25 [Case 14857 continued until July 26th.]

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of case No.

**PAUL BACA PROFESSIONAL COURT REPORTERS**

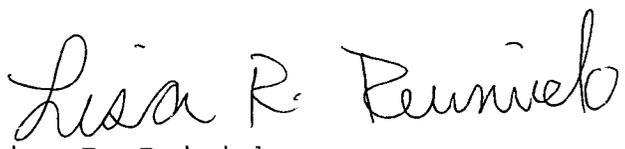
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Examiner  
Oil Conservation Division

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  
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Ex count: