

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:

ORIGINAL

APPLICATION OF MEWBOURNE OIL COMPANY
FOR A NONSTANDARD SPACING AND PRORATION
UNIT AND COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO

Case 14920

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

November 1, 2012

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, WILLIAM V. JONES,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, November 1, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
St. Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
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FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW
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1 EXAMINER JONES: Let's call Case 14920,
2 application of Mewbourne Oil Company for a nonstandard
3 oil spacing and proration unit in Eddy County, New
4 Mexico. Call for appearances.

5 MR. BRUCE: Mr. Examiner, Jim Bruce, of
6 Santa Fe, representing the applicant. I have two
7 witnesses, Mr. Mitchell and Mr. Cless. And if the record
8 could just reflect that they've previously been sworn and
9 qualified?

10 EXAMINER JONES: Any other appearances?
11 Is that okay?

12 EXAMINER BROOKS: It's partied by
13 presidency here.

14 EXAMINER JONES: Let the record reflect
15 that two witnesses, Mr. Mitchell and Mr. Cless, have been
16 previously sworn.

17 COREY MITCHELL

18 Having been previously duly sworn, testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. For the record, will you state your name?

22 A. Corey Mitchell.

23 Q. And who do you work for, and in what capacity?

24 A. Mewbourne Oil Company, as a landman.

25 Q. Are you familiar with the land matters

1 involved in this case?

2 A. Yes, sir.

3 Q. Mr. Mitchell, could you identify Exhibit 1 and
4 describe it for the Examiners?

5 Q. Exhibit 1 is a Midland Map Company land plat
6 which shows Section 34, Township 18 South, Range 30 East.
7 Our particular well unit of interest today is highlighted
8 on this map.

9 We are seeking to create a 160-acre
10 nonstandard oil spacing unit in the Bone Spring Formation
11 comprised of the north half/south half of Section 34.
12 Also, we are seeking to pool the Bone Spring Formation.

13 Q. And what is the well name?

14 A. The well is the Dorado 34 Fed Com Number 1H.

15 Q. And just to be specific, in which
16 quarter/quarter section is the surface location?

17 A. The surface location is 1,850 from the south
18 line and 620 from the east line. And the bottomhole
19 location is 1,850 from the south line and 330 from the
20 west line.

21 Q. And what is Exhibit 2?

22 A. Exhibit 2 shows tract ownership for this well.

23 Q. Which party -- this lists all of the working
24 interest owners, does it not?

25 A. Yes, sir. And we are seeking to pool the

1 parties noted by an asterisk, which on Exhibit 2 is Exxon
2 Mobil Corporation.

3 Q. All of others have voluntarily joined in the
4 well?

5 A. Yes, sir, they have.

6 Q. What is Exhibit 3?

7 A. Exhibit 3 sets out our summary of
8 communications with Exxon, as well as copies of relative
9 correspondence.

10 Q. Now, you've been dealing with Exxon Mobil for
11 quite some time, have you not?

12 A. Yes, sir, we have.

13 Q. As a matter of fact, were prior cases filed
14 seeking to pool Exxon Mobil?

15 A. Yes, sir, there was, two of them.

16 Q. But they were dismissed before an order was
17 issued?

18 A. Correct. Yes, sir.

19 Q. So this is the third time out of the gate on
20 this one?

21 A. Yes, sir.

22 Q. Are you continuing to negotiate with Exxon
23 Mobil?

24 A. We have. They have advised us, as of two days
25 ago, that they plan on participating, which they've done

1 before. But we just never received the executed
2 documents. Those are supposed to be on their way to us.

3 Q. If you receive those documents, will you
4 notify the Division so that this case can be dismissed?

5 A. Yes, sir.

6 Q. But at this point, because of the past
7 attempts, you wish to do this pooling hearing?

8 A. Yes, sir.

9 Q. What is Exhibit 4?

10 A. Exhibit 4 is our AFE, which sets out our
11 estimated costs for this well.

12 Q. What is the estimated cost?

13 A. We have an estimated dry hole cost of
14 \$2,493,800 and a completed well cost of \$4,893,100.

15 Q. Are these costs in line with the costs of
16 other wells drilled to this depth in this area of New
17 Mexico?

18 A. Yes, sir.

19 Q. Do you request that Mewbourne be appointed
20 operator of the well?

21 A. Yes, sir.

22 Q. What is your recommendation as to the
23 administrative expenses?

24 A. We recommend 6,500 a month for drilling and
25 650 a month for producing.

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

4 A. Yes, sir, they are. And they are also the
5 amounts in our JOA with with these parties.

6 Q. Do you request that these rates be adjusted
7 periodically, as provided by the COPAS accounting
8 procedure?

9 A. Yes, sir.

10 Q. Do you request that the maximum cost plus 200
11 percent risk charge be assessed if Exxon Mobil goes
12 nonconsent in the well?

13 A. Yes, sir.

14 Q. Was Exxon notified of this hearing?

15 A. Yes, sir.

16 Q. Is that reflected in Exhibit 5?

17 A. Yes, sir.

18 Q. What is Exhibit 6?

19 A. Exhibit 6 lists our offset ownership.

20 Q. And notice was given to those interest owners?

21 A. Yes, sir.

22 Q. And is that reflected in Exhibit 7?

23 A. Yes, sir.

24 Q. Were Exhibits 1 through 7 prepared by you or
25 compiled from company business records?

1 A. Yes, sir.

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

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I move the
7 admission of Exhibits 1 through 7.

8 EXAMINER JONES: One through 7 will be
9 admitted.

10 (Exhibits 1 through 7 were admitted.)

11 MR. BRUCE: I have no further questions of
12 the witness.

13 EXAMINATION

14 BY EXAMINER JONES:

15 Q. No pilot hole on this one, either?

16 A. I don't believe so. The geologist will be
17 able to let you know for sure.

18 Q. Still reasonably expensive, it looks like. Is
19 your cost changing much with your AFEs recently or --

20 A. No. I think we're coming in pretty much in
21 line with our estimated costs.

22 Q. Do you have an API number yet?

23 A. Yes, sir. It is 3001538984.

24 Q. Thank you. And that API has been -- it has
25 the exact same surface hole location as on your AFE?

1 A. Yes, sir.

2 Q. And this is XTO, Exxon Mobil XTO?

3 A. It's in Exxon Mobil, but I believe XTO is
4 handling it and managing it for them.

5 Q. So they're turning over stuff to XTO?

6 A. Yes, sir.

7 Q. XTO is the one in Houston, 810 Houston Street,
8 in Fort Worth?

9 A. I believe they're in Fort Worth. Yes.

10 EXAMINER JONES: I have no more questions.
11 Mr. Brooks?

12 EXAMINATION

13 BY EXAMINER BROOKS:

14 Q. Again, this is Bone Spring only; right?

15 A. Yes, sir.

16 EXAMINER BROOKS: I don't believe I have
17 any other questions, either.

18 EXAMINER JONES: Thank you, Mr. Mitchell.

19 NATE CLESS

20 Having been previously duly sworn, testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Please state your name for the record.

24 A. Nate Cless.

25 Q. And you're a geologist with Mewbourne?

1 A. Yes, sir.

2 Q. Are you familiar with the geology involved in
3 this case?

4 A. I am.

5 Q. Could you identify Exhibit 8 for the
6 Examiners?

7 A. Exhibit 8 is a structure map on the base of
8 the Second Bone Spring Sand. On here I've marked --
9 there's really only -- I've marked the Bone Spring
10 producers in this interval. The producers out of the
11 Second Bone Spring Sand are marked by the yellow circles,
12 and there's one producer out of the Third Bone Spring
13 Sand which is marked by the red circle.

14 On here, the structure is dipping from the
15 northwest to the southeast. I've marked the location of
16 our well with a red arrow in the north half/south half of
17 Section 34. You'll notice there are some horizontal
18 wells that have been drilled in Section 28. Those are
19 east/west wells that Mewbourne has drilled. And then
20 there's a well in Section 3, a north/south well, that was
21 drilled by Cimarex, and it's also a Second Bone Spring
22 Sand producer.

23 So basically, once again we have production
24 out of the Second Bone Spring Sand, both updip and
25 downdip of us. So we believe that the structure will not

1 be too big of an issue where we're drilling in Section
2 34.

3 Q. What is Exhibit 9?

4 A. Exhibit 9 is an isopach map of the Second Bone
5 Spring C Sand. It's a gross isopach map. To the bottom
6 left of every vertical wellbore, there's a number.
7 That's the gross interval of the Second Bone Spring C
8 Sand in that particular area.

9 You can see the contour is kind of across the
10 north half/south half of Section 34. We believe it will
11 all be approximately 70 feet thick in that area, so we do
12 believe that it will be pretty consistent thickness
13 across that interval.

14 Q. And if you'll refer to the cross-section
15 marked Exhibit 10 and discuss that for the Examiner?

16 A. Once again, on Exhibit 9, the location of this
17 next cross-section is A to A prime. And it's a two-well
18 cross-section that goes from the well in 33-0 to the well
19 in 34-J. And the well in 34-J is the closest well that
20 we have to the area that we're going to be drilling.

21 The interval that we're targeting is once
22 again what we call the Second Bone Spring C Sand. On the
23 right, I've marked it in red. That says, "horizontal
24 target." And you can see that it's the lower part of the
25 Second Bone Spring Sand. And it's a consistent -- its

1 gross interval is consistently thick between these two
2 wells. So once again, we believe it will be consistent
3 across the north half/south half of Section 34.

4 The porosities in this interval are about 12
5 to 14 percent through both of these wells. So once
6 again, we believe that it will be productive out of the
7 Second Bone Spring Sand.

8 Q. In your opinion, will each quarter/quarter
9 section in the well unit contribute more or less equally
10 to production?

11 A. Yes, sir.

12 Q. Will this portion of the Bone Spring reservoir
13 be efficiently and economically drained by this
14 horizontal well?

15 A. Yes, sir.

16 Q. If you'll move on to your Exhibit 11, what
17 does this represent?

18 A. Exhibit 11 is a production table of all the
19 Bone Spring producers in this nine-section area. I've
20 given the well name, the operator, the API of each
21 particular well, its location, whether it's a vertical
22 well or a horizontal well, and then when it was completed
23 in the Bone Spring, what particular interval it was
24 completed in as far as first, second or third sand, and
25 then the production that is produced out of the Bone

1 Spring interval.

2 I've also highlighted two wells. One is the
3 Bradley 28 Fed Com 1H, which Mewbourne drilled. And it's
4 up in Section 28 in the units going from Unit E to Unit
5 H. It's a horizontal well that we drilled. It's an
6 east/west well. And it's been producing for 10 months,
7 and in that time it's made about 27.5 MBO.

8 The other well I've highlighted is a well
9 drilled in Section 3 by Cimarex. It's a north/south
10 well. And it been on line for about eight months longer
11 than our well, and it's only produced 22,000 barrels of
12 oil. So we do believe that by drilling east/west, you'll
13 have better efficiency draining these reservoirs.

14 Q. Finally, could you identify Exhibit 12 and
15 discuss briefly how this well will be drilled?

16 A. Once again, this is a horizontal well plan
17 that was given to us by the directional drilling company.
18 The front page has the surface location, our landing
19 point, our bottomhole location. If you flip to the last
20 two pages, it's the wellbore diagram of the particular
21 wells.

22 So for this well, our kickoff point will be
23 8,038 vertical depth, true vertical depth. Our landing
24 point will be at 8,515 TVD, and our bottomhole location
25 will be at 8,405 TVD.

1 Q. How many completion stages?

2 A. We'll run a packer-and-port system with 24
3 completion stages.

4 Q. Were Exhibits 8 through 12 prepared by you or
5 compiled from company business records?

6 A. Yes, sir.

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

10 A. Yes, sir.

11 MR. BRUCE: Mr. Examiner, I move the
12 admission of Exhibits 8 through 12.

13 EXAMINER JONES: Exhibits 8 through 12
14 will be admitted.

15 (Exhibits 8 through 12 were admitted.)

16 MR. BRUCE: I have nothing further.

17 EXAMINATION

18 BY EXAMINER JONES:

19 Q. On Exhibit 11, those are MBOs and MBWs?

20 A. Yes, sir. I apologize for that.

21 Q. I'm just saying for the record, for whoever is
22 reading it.

23 It's still a bit shocking that you propose a
24 \$5 million well when the vertical wells has only made
25 27,000. I'm sure you've got to explain that to your

1 manager?

2 A. Yeah. We've drilled kind of just off this map
3 in Sections 28, 29 and 30, in that area, quite a few
4 second sand wells. We've offset these vertical
5 producers. And also in other areas we've done that same
6 thing, and we've seen pretty good results.

7 This well in Section 28, in the south
8 half/south half of 28, we recently drilled. And it's one
9 of our better wells in this area, so we're confident that
10 this will work in Section 34.

11 Q. That's updip a bit, isn't it?

12 A. It is. But again, to the east and south of
13 here, there's another field of horizontal wells in the
14 second sand, and they're good horizontals.

15 Q. Your water saturation is -- what do you get
16 off this log, and what --

17 A. Usually, it's what we calculate off of the
18 resistivity and the porosity. And in this area, it
19 usually calculates to about 40 to 50 percent with log
20 saturations or log calculations.

21 Q. That goes along with your production, then?

22 A. Yeah, it does. Yes, sir.

23 Q. And no gas?

24 A. Not a whole lot. You get a little bit, but
25 not a whole lot. It's mostly an oil reservoir.

1 Q. It's not giving up gas? That's interesting.
2 I know you've got gas pipelines out there.

3 A. Oh, yeah. Again, in Sections 29 and 30, we
4 also have first sand production. In the First Bone
5 Spring Sand, we get a little more gas out of that. But
6 the Second Bone Spring seems to be a little more oily.

7 Q. What gravity oil is it?

8 A. I believe around 42, but I'm not certain on
9 that.

10 Q. Good stuff?

11 A. Yeah.

12 Q. And did you say a pilot hole on this one, or
13 no pilot hole?

14 A. No pilot hole. We're landing right next to
15 that well in 34-I, so we don't believe it's necessary.

16 Q. It doesn't make you lose sleep at night?

17 A. No, sir.

18 EXAMINER JONES: I don't have any more
19 questions.

20 EXAMINER BROOKS: No questions.

21 EXAMINER JONES: Thanks a lot.

22 Mr. Bruce, is that it for this case?

23 MR. BRUCE: That's it for this case.

24 EXAMINER JONES: With that, we'll take

25 Case 14920 under advisement. 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 _____.

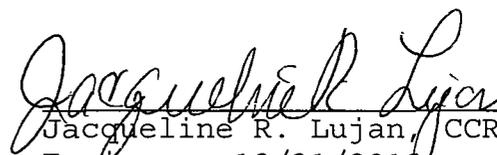
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on November 1, 2012, proceedings in
the above captioned case were taken before me and that I
did report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with 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.

WITNESS MY HAND this 12th day of November,
2012.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2012