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 APPROVAL OF A NONSTANDARD SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

Case 14899

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

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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A P P E A R A N C E S

FOR THE APPLICANT:

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EXAMINER JONES: Let's call Case 14899, application of Mewbourne Oil Company for approval of a nonstandard oil spacing and proration unit, Eddy County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce, of Santa Fe, representing the applicant. I have two witnesses, Mr. Mitchell and Mr. Cless again, so I'd like the record to reflect that they've been previously sworn and qualified.

EXAMINER JONES: Any other appearances?

Let the record reflect that Mr. Mitchell and Mr. Cless have already been sworn.

COREY MITCHELL

Having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Please state your full name for the record.

A. Corey Mitchell.

Q. Are you familiar with the land matters involved in this case?

A. Yes, sir.

Q. Mr. Mitchell, could you identify Exhibit 1 and describe what Mewbourne seeks in this case?

A. Exhibit 1 is a Midland Map Company land plat

which shows Section 30, Township 18 South, Range 30 East, with our subject well highlighted on the plat.

We are seeking a 160-acre nonstandard oil spacing unit, spacing and proration unit, and also pooling the Bone Spring Formation.

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

A. It is the Bradley 30 Fed Com Number 3H.

Q. And could you identify Exhibit 2 and discuss the working interest ownership, please?

A. Exhibit 2 is our tract ownership. This particular well has over 50-plus partners, so I've kind of lumped all those into Chesapeake, et al. And then the remaining parties that are marked with an asterisk is who we are seeking to pool.

Q. What is the total percentage of people you are seeking to pool?

A. It is 4.87 percent.

Q. Could you identify Exhibit 3 and discuss briefly your efforts to obtain the voluntary joinder of these parties?

A. Exhibit 3 is our summary of communications, as well as the relative correspondence with these parties.

Q. What steps did you take to locate -- you indicated how many working interest owners in this well?

A. There's over 50.

Q. What steps did you take to locate the interest owners in this well?

A. Most of the parties we are seeking to pool, we've actually contacted. And I think there's two that we are unable to locate an address for. We've done Internet searches, looked through the county and also talked to the other parties that own an interest in this particular well.

I would also like to note that we drilled two prior wells where we've pooled these same parties.

Q. So aside from this well, you had been in touch with these parties prior to July of 2012 regarding acquiring their interests or getting them to join in the well?

A. Yes, sir.

Q. In your opinion, has Mewbourne made a good-faith effort to obtain the voluntary joinder of the interest owners of this well?

A. Yes, sir.

Q. Could you identify Exhibit 4 and discuss the cost of the proposed well?

A. Exhibit 4 is our AFE, which sets out our estimated costs for this well. We have a dry hole cost of $2,305,100, and a completed well cost of $5,116,100.

Q. Are these costs in line with the cost of other

wells drilled to this depth in this area of Eddy County?

A. Yes, sir.

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

A. Yes, sir.

Q. What recommendation do you have for overhead rates?

A. For this particular well, we are requesting 7,000 a month for drilling and 700 a month for producing.

Q. Are these amounts equivalent to those normally charged by Mewbourne and other operators in this area of New Mexico for wells of this depth?

A. Yes, sir.

Q. And do you request that the rates be adjusted periodically as provided by the COPAS accounting procedure?

A. Yes, sir.

Q. And Mr. Mitchell, were the locatable parties you're pooling notified of this hearing?

A. Yes, sir.

Q. Is that reflected in my affidavit marked Exhibit 5?

A. Yes, sir, it is.

MR. BRUCE: Mr. Examiner, Exhibit 6 is simply the affidavit of publication from the Carlsbad

paper regarding the two unlocatable interest owners.

Q. (By Mr. Bruce) What is Exhibit 7, Mr. Mitchell?

A. Exhibit 7 is our offset owners.

Q. And were they given notice of this hearing?

A. Yes, sir.

Q. Is that reflected in Exhibit 8?

A. Yes, sir, it is.

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

A. Yes, sir.

Q. Were Exhibits 1 through 8 prepared by you or compiled from company business records?

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I move the admission of Mewbourne Exhibits 1 through 8.

EXAMINER JONES: Exhibits 1 through 8 will be admitted.

(Exhibits 1 through 8 were admitted.)

MR. BRUCE: No further questions of the witness.

EXAMINER JONES: I don't have any questions.

EXAMINER BROOKS: Let me confess I wasn't

paying real close attention.

EXAMINATION

BY EXAMINER BROOKS:

Q. Did you comment on the efforts that you've made to locate the unlocated interests?

A. Yes, sir. The unlocatables, we did Internet searches, county searches. We even went through our internal records and also inquired with the other owners in the property.

EXAMINER BROOKS: Okay. Thank you. That's all I have.

EXAMINER JONES: And you published it in the paper?

MR. BRUCE: Yes.

EXAMINER BROOKS: Jim always puts the names on the publication, so I don't even check to make sure anymore.

MR. BRUCE: I learned early.

NATE CLESS

Having been previously duly sworn, testified as follows:

DIRECT EXAMINATION

BY MR. BRUCE:

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

A. Nate Cless.

Q. Are you familiar with the geology involved in this application?

A. I am.

Q. Mr. Cless, could you identify Exhibit 9 for the Examiner?

A. Exhibit 9 is a structure map on the base of the Second Bone Spring Sand. I've highlighted all the Bone Spring producers in this nine-section area.

The yellow circles represent wells that produce out of Second Bone Spring Sand, and the orange represent wells that produce out of the First Bone Spring Sand.

In this area, as far as structure is concerned, it dips from the northwest to the southeast. We drilled two horizontal wells in the south half of Section 30. We're currently proposing to drill a well in the south half/north half of Section 30, so this well will be updip of our two existing horizontal wells.

We also will have vertical production updip of us in the north half of Section 30, as well in the south half/south half of Section 19. So we believe this particular interval will be productive.

Q. And these wells that are identified on this plat, are these some of the wells you mentioned in the prior pooling case?

A. Yes. The prior pooling case is just off this map in Section 34, so just to the southeast of here.

Q. What is Exhibit 10?

A. Exhibit 10 is a gross isopach map of the Second Bone Spring Lower Sand. I'll point out that particular interval on our next exhibit.

Below each well I've marked in a maroon color the gross thickness of that particular well. So you can see we have two wells in the south half/north half of Section 30, and their gross thickness is 110 and 112 feet. And just to the north of us, in the north half/north half of Section 30, the gross thickness is about 106 to 110 feet, so pretty consistent thickness across here.

I've also marked the location of our next exhibit, which is a cross-section, A to A prime. And it's a three-well cross-section going through this particular area.

Q. Let's move on to that cross-section.

A. This is Exhibit 11. And again, it's a three-well cross-section going from the well in 30-D to the well in 30-G and 30-H. It's what we're classifying as the Lower Second Bone Spring Sand, basically what we call the Second Bone Spring A, B and C Sand, so that whole particular interval.

You can see that the gross thickness across all three of those wells is consistent, as well as the thickness of each of those particular sands, the A, B and C sands. They have consistent thickness through there, as well as the porosities. The porosities range from about 12 percent average across that interval.

For this particular well, we're going to be placing our lateral in the B Sand interval. The wells in the south half of Section 30, we placed in the C Sand. But in other areas, we've had better success putting the wells in the middle of this interval, in the B Sand, so that's our target for this particular.

Q. And the B Sand and C Sand are internal Mewbourne designations?

A. Yes, sir.

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

A. Yes, it will.

Q. And will this well efficiently and economically drain this portion of the Bone Spring reservoir?

A. Yes, sir, it will.

Q. What is Exhibit 12?

A. Exhibit 12 is a production table of the Bone

Spring producers in this nine-section area. As you can see, there's quite a number of Bone Spring producers in this area. I've listed the names, the operators, the API, the location, whether it's a vertical well or a horizontal well, when it was completed, and the amount of oil, gas and water that each well has made.

I've also highlighted three wells on here. The first well that I've highlighted in yellow is a vertical Bone Spring producer that was completed back in 1988. It was completed in both the first sand and the second sand, and it's made just over 30,000 barrels of oil.

The second well that I've highlighted in orange is just off of this map in Section 21. It's a well that Mewbourne drilled. It's a north/south well. We drilled it just a year ago, in October of 2011, in the Second Bone Spring Sand. And in that time, it's made just over 21,000 barrels of oil.

The final well that I've highlighted is the Bradley 30 Number 1H. It's in the north half/south half of Section 30. And again, we drilled it just under a year ago in the Second Bone Spring Sand. It's an east/west well. In that time, it's made just over 42,000 barrels of oil.

So we believe that drilling east/west is more

efficient than drilling north/south to more efficiently drain this reservoir.

Q. What is Exhibit 13?

A. Exhibit 13 is a horizontal well plan report that we got from the directional drilling company. The first page shows the surface location, the landing point and the bottomhole location. And if you flip to the second page, the second and third pages are the wellbore diagrams that I put on here. So our kickoff point will be 7,659 true vertical depth, our landing point will be at 8,136 true vertical depth, and our bottomhole will be at 8,179 true vertical depth.

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

A. Yes, sir.

Q. Were Exhibits 9 through 13 prepared by you or under your supervision or compiled from company business records?

A. Yes, sir, they were.

MR. BRUCE: Mr. Examiner, I'd move the admission of Exhibits 9 through 13.

EXAMINER JONES: Exhibits 9 through 13 will be admitted.

(Exhibits 9 through 13 were admitted.)

EXAMINATION

BY EXAMINER JONES:

Q. How do you spell your last name?

A. C-l-e-s-s.

Q. I think it was spelled wrong on some of the earlier cases.

You propose to drill in this -- I noticed your horizontal target includes -- it almost looks like the same sand on the gamma ray. The resistivity and the porosity kind of separates it out. So are you going to go the lower one?

A. We're going to go in the middle one, in the B Sand. So the previous two were in the C Sand. But we've recently started putting wells in this B Sand, and we've had a little better luck with that.

Q. It's kind of trial-and-error type of approach here?

A. Yeah. And as you'll notice, there's a lot of vertical producers in this area. So the two wells that we're going to be going by in Section 30, they both produce out of that lower part in the C Sand. So we're hoping to minimize communication between the two of them by putting a lateral a little bit higher in the B Sand.

Q. What do your frack people say about that? Are they okay with it?

A. We've rarely had problems communicating with these wells. We try to space our ports around these wells to minimize communication and interference with them.

Q. And as far as communication, you've mentioned that. But as far as vertical height goes, can you affect your horizontal target by drilling in this Second Bone Spring B?

A. Yeah. We've done some, not in this particular area, but we've done other areas where we've done microseismic, and we've seen about 100 feet downwards in this frack. So we certainly believe that we'll still be efficiently draining that C Sand.

Q. So you're propping downwards. But how far up can you go and prop?

A. Usually 2- to 300 feet is what we've seen.

Q. Wow.

A. We certainly think it will kind of drain this whole area, or at least effectively frack this whole area.

Q. So by drilling east/west, are you drilling to where your frack jobs will go along your wellbore, or will they go in transverse?

A. In theory, they should go transverse. That's what we'd like to think, at least. And we've seen that

just with production. We've had better production in this area with east/west wells, as opposed to north/south wells.

Q. So you're drilling in the minimum horizontal stress direction?

A. Yes, sir.

Q. And the thing has to turn and go the other way?

A. Um-hum.

EXAMINER JONES: I think that's it. Thanks.

EXAMINER BROOKS: No questions.

MR. BRUCE: That's all I have, Mr. Examiner.

EXAMINER BROOKS: That concludes your presentation, Mr. Bruce?

MR. BRUCE: Yes.

EXAMINER JONES: With that, we'll take Case 14899 under advisement. And thanks to the Mewbourne guys for coming up.

* * *

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

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