

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

5 APPLICATION OF MEWBOURNE OIL
6 COMPANY FOR A NONSTANDARD OIL
7 SPACING AND PRORATION UNIT AND
8 COMPULSORY POOLING, EDDY
9 COUNTY, NEW MEXICO.

CASE NO. 14984

ORIGINAL

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 July 12, 2013

12 Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
15 DAVID K. BROOKS, LEGAL EXAMINER
16 PHILLIP GOETZE, TECHNICAL EXAMINER

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Richard Ezeanyim,
20 Chief Examiner, David K. Brooks, Legal Examiner, and
21 Phillip Goetze, Technical Examiner, on Friday, July 12,
22 2013, at the New Mexico Energy, Minerals and Natural
Resources Department, 1220 South St. Francis Drive,
Porter Hall, Room 102, Santa Fe, New Mexico.

23 REPORTED BY: Mary C. Hankins, CCR, RPR
24 New Mexico CCR #20
25 Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
Albuquerque, New Mexico 87102

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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OFFERED AND ADMITTED

Mewbourne Exhibit Numbers 1 through 4 8

Mewbourne Exhibit Numbers 5 through 9 15

1 (9:52 a.m.)

2 EXAMINER EZEANYIM: At this point, I call
3 Case Number 14984. This is application of Mewbourne Oil
4 Company for a nonstandard oil spacing and proration unit
5 and compulsory pooling, Eddy 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 EXAMINER EZEANYIM: Any other appearances,
11 please?

12 May the witnesses stand up and state your
13 names and be sworn?

14 MR. HADEN: Paul Haden.

15 MR. HILL: Tyler Hill.

16 (Mr. Haden and Mr. Hill sworn.)

17 D. PAUL HADEN,
18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Haden, where do you reside?

23 A. I reside in Midland, Texas.

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

25 A. Mewbourne Oil Company, as a senior landman.

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

3 A. Yes, I have.

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

6 A. Yes, they were.

7 Q. And are you familiar with the geology and land
8 matters involved in this case?

9 A. Yes, I am.

10 MR. BRUCE: Mr. Examiner, I tender
11 Mr. Haden as an expert petroleum landman.

12 EXAMINER EZEANYIM: Mr. Haden is so
13 qualified.

14 Q. (BY MR. BRUCE) Mr. Haden, could you identify
15 Exhibit 1 and describe what Mewbourne seeks in this
16 case?

17 A. Exhibit Number 1 is a land plat of the area
18 taken from the Midland Map Company. It indicates our
19 Section 4, which is in Township 17 South, Range 29 East.
20 It also indicates our proposed project area, which is
21 highlighted in yellow, which is in the north half of the
22 south half of Section 4. It also illustrates our
23 proposed surface and bottom-hole locations.

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

25 A. The proposed well is called the Burton 4 IL

1 Federal Com #1H well.

2 Q. Now, to address up front one of the questions
3 about well-unit orientation, has Mewbourne drilled other
4 horizontal wells in this section?

5 A. Yes, we have. We've drilled one in the north
6 half of the north half called the Burton 4 Federal Com
7 #3H well and also a Bone Spring well in the south half
8 of the north half known as the Burton 4 Federal Com 4H
9 well.

10 Q. So you're not deviating from the well-unit
11 orientation in this section?

12 A. No, we are not.

13 Q. What is the working interest ownership that you
14 refer to in Exhibit 2?

15 A. Exhibit 2 sets forth the contractual ownership
16 in the well unit in which Mewbourne Oil Company has
17 60.53492 percent, and then it lists the various other
18 parties. And also you'll note that there is an asterisk
19 by one of the owners. It's Mill Neck Associates. It
20 has a percentage interest in the well unit.

21 Q. Is Mill Neck Associates -- have you been able
22 to locate them?

23 A. No, we have not. The last known address was
24 back from the late '70s in Chicago, Illinois. We've
25 forced pooled this entity numerous times, as well as I'm

1 sure other companies have done the same thing.

2 Q. Over the last few years, you have been looking
3 for them and have been unable to locate them?

4 A. That's correct, have not been able to.

5 Q. And I can't remember now, but you have
6 probably -- Mewbourne has probably forced pool Mill Neck
7 five or six times in this area; has it not?

8 A. Yes, sir, at least.

9 Q. What is Exhibit 3?

10 A. Exhibit Number 3 is a copy of our AFE for this
11 proposed well. It indicates the estimated dry-hole
12 cost, which is \$2,792,100, and a completed well cost of
13 \$4,907,400. It also indicates the surface location and
14 the bottom location in this proposed well.

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

18 A. Yes. We have found it to be a good estimate.

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

21 A. Yes, we do.

22 Q. And do you have a recommendation for the
23 amounts which Mewbourne should be paid for its
24 supervision and administrative expenses?

25 A. Yes. And that would be \$7,500 for a drilling

1 well rate and \$750 per month for a producing well rate
2 under the COPAS accounting procedure.

3 Q. And are these amounts equivalent to those
4 normally charged by Mewbourne and other operators for
5 wells in this area?

6 A. Yes, that's correct.

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

10 A. Yes, we do.

11 Q. Do you request the maximum 200-percent risk
12 charge against Mill Neck Associates?

13 A. Yes, we do.

14 Q. Was Mill Neck notified of this hearing by
15 publication?

16 A. Yes, they were.

17 Q. And is that reflected in the Affidavit of
18 Publication marked as Exhibit 4?

19 A. That's correct.

20 Q. Is Mewbourne the operator of all offset acreage
21 to this well?

22 A. Yes, we are.

23 Q. And so no other operator was given notice of
24 the nonstandard unit; is that correct?

25 A. That's correct. It was not necessary.

1 Q. Were Exhibits 1 through 4 prepared by you or
2 compiled under your supervision?

3 A. Yes, they were.

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'd move the
9 admission of Exhibits 1 through 4.

10 EXAMINER EZEANYIM: Exhibits 1 through 4
11 will be admitted.

12 (Mewbourne Exhibit Numbers 1 through 4 were
13 offered and admitted into evidence.)

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

16 EXAMINER EZEANYIM: Thank you, Counselor.
17 Mr. Brooks?

18 EXAMINER BROOKS: I have no questions.

19 EXAMINER GOETZE: One question.

20 CROSS-EXAMINATION

21 BY EXAMINER GOETZE:

22 Q. We're pooling from the surface all the way down
23 to the Bone Spring?

24 MR. BRUCE: Just the Bone Spring.

25 EXAMINER GOETZE: Just the Bone Spring.

1 That's all.

2 CROSS-EXAMINATION

3 BY EXAMINER EZEANYIM:

4 Q. How did you determine your overhead rates?
5 Yesterday I understand that you don't have all those
6 rates now in effect. How do you determine overhead
7 rates?

8 A. Well, we've drilled many wells in this area,
9 and we determine those well rates under the terms of an
10 operating agreement, which our partners listed on this
11 previous exhibit (indicating), they've agreed to those
12 well rates. And this is a common rate that we use in
13 this particular area; also because of the depth.

14 Q. Okay. These rates, as you stated today, are in
15 the JOA?

16 A. Yeah. Yeah. It's in the JOA.

17 Q. Of course, yesterday somebody was telling me
18 they're trying to get the overhead rate by intuition.
19 You can't do that, not by the rules of COPAS.

20 A. Absolutely.

21 Q. Are you also drilling that 40 acres or just the
22 Bone Spring?

23 A. Just the Bone Spring.

24 Q. It appears that you wanted to -- so we can see
25 how we can allocate costs.

1 A. This is in the Parkway Bone Spring pool, for
2 your information.

3 Q. You didn't locate everybody?

4 A. Everybody else was located, and they're under
5 an operating agreement.

6 Q. Except?

7 A. Mill Neck Associates. They're the only party
8 that we are pooling, and they have a very, very small
9 interest, as you can see on the exhibit, less than one
10 percent.

11 Q. This is federal land, right?

12 A. This is federal land, yes.

13 Q. Okay. No further questions.

14 A. Thank you.

15 TYLER HILL,

16 after having been previously sworn under oath, was
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Hill, where do you reside?

21 A. Midland, Texas.

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

23 A. Mewbourne Oil Company, as a petroleum
24 geologist.

25 Q. Did you testify yesterday in one of Mewbourne's

1 cases?

2 A. Yes.

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

5 A. Yes, sir.

6 Q. Are you familiar with the geology involved in
7 this case?

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, I'd tender
10 Mr. Hill as an expert petroleum geologist.

11 EXAMINER EZEANYIM: So qualified.

12 Q. (BY MR. BRUCE) Mr. Hill, could you identify
13 Exhibit 5 for the Examiner?

14 A. Yes, sir. This is a structure on the base of
15 the 2nd Bone Spring Sand. I also have production
16 highlighted. You'll notice in the lower, left-hand
17 corner, I've color-coded them. Pink is Avalon Sand.
18 Orange is 1st Bone Spring Sand. Yellow is 2nd Bone
19 Spring Sand.

20 The structure is dipping to the west. The
21 Burton 4 IL Fed Com #1H is in the north half of the
22 south half of Section 4, and that is highlighted by the
23 red arrow going to the west.

24 You'll notice on the structure map that we
25 have 2nd Bone Spring production downdip of us, as well

1 as updip of us, and the production is on the right side
2 of the wellbore. And the gas is in red. Oil is in
3 black. Water is in blue.

4 Q. What is Exhibit 6?

5 A. Exhibit 6 is an isopach of the 2nd Bone Spring
6 sea sand. This is a gross sand. The amount of sand
7 that we expect to encounter that is in each wellbore is
8 to the lower left wellbore. And within this well, we
9 expect to encounter between 50 and 60 feet of gross
10 sand.

11 Q. In each quarter-quarter section?

12 A. In each quarter-quarter section, which will
13 contribute equally.

14 Q. And what is Exhibit 7?

15 A. Exhibit 7 is a cross section of the three
16 closest wells. The orange, at the top marker, is the
17 top of the 2nd Bone Spring Sand. The red is the 2nd
18 Bone Spring Sea Sand, and then the green is the 2nd Bone
19 Spring Sea Sand. That's two intervals up. And the blue
20 is where we get into the 3rd Bone Spring Carbonate. You
21 can see the horizontal target is denoted by the red
22 arrow on the side.

23 Q. And is the target zone continuous across the
24 proposed well unit?

25 A. Yes, sir. You can see it on each one of the

1 wellbores on this cross section.

2 Q. And what is Exhibit 8?

3 A. Exhibit 8 is an Excel spreadsheet of all of the
4 wells in the nonsection area. The first column is the
5 well name, the operator, API, location, whether it's a
6 vertical or a horizontal well, Bone Spring completion
7 date, the interval it was completed in, cum oil, gas and
8 water.

9 If you'll notice, the orange well, it's the
10 Meridian Federal #1, drilled by Chesapeake, completed on
11 June 2nd of 1990, 2nd Bone Spring Sand. It's in Section
12 3D, 20 South, 29. It was completed in 1990. It
13 produced 45,000 barrels of oil, four-tenths of bcf gas,
14 6,900 barrels of water.

15 The yellow well that I have highlighted,
16 the Burton 4 #4H, is in Section 4, drilled from HE, 20
17 South, 29 East. This was completed last year, July, in
18 the 2nd Bone Spring Sand. It produced 57,000 barrels of
19 oil, two-tenths of bcf gas and 47 barrels of water. So
20 already in one year that well has produced more than the
21 vertical well. And the Burton was drilled as a lay-down
22 from east to west.

23 And then the green well, Colt Federal 3H,
24 Mewbourne Oil Company drilled that in Section 5, PA --
25 from P to A, south to north, 20 South, 29, 2nd Bone

1 Spring Sand horizontal, completed November 8th of 2010
2 within the 2nd Bone Spring Sand. It produced 51,000
3 barrels of oil, one-tenth of bcf gas and 45,000 barrels
4 of water.

5 Q. And that was a stand-up well?

6 A. Yes, sir.

7 EXAMINER EZEANYIM: Which one is a
8 stand-up? I thought they were all lay-down. Which one
9 is the stand-up?

10 THE WITNESS: The one highlighted green.

11 EXAMINER EZEANYIM: Is that in the same
12 section?

13 THE WITNESS: No, sir. That's in Section
14 5, from P to A. That's in the east half of the east
15 half.

16 EXAMINER EZEANYIM: But the other one is
17 the lay-down.

18 THE WITNESS: Yes, sir, in yellow.

19 Q. (BY MR. BRUCE) So based on just the Burton 4,
20 the one well immediately to the north in Section 4, and
21 then the Colt Federal -- Colt 5 Federal 3H to the west,
22 the stand-up, you see demonstrably better results in the
23 lay-down in this area?

24 A. Yes, sir.

25 Q. What is Exhibit 9?

1 A. Exhibit 9 is the Well Planning Report. Our
2 surface location will be in 1,855 from south line and
3 150 from east line. Our bottom hole will be 1,855 from
4 south line and 330 from west line, Section 4 of 20
5 South, 29 East.

6 And if you flip to the last page, it's a
7 wellbore diagram.

8 Q. How many completion stages in the well?

9 A. I believe, 20.

10 Q. And the bottom-hole location will be slightly
11 updip from the beginning of the producing interval?

12 A. Yes, sir.

13 Q. Were Exhibits 5 through 8 prepared by you?

14 A. Yes, sir.

15 Q. And was Exhibit 9 compiled from company
16 business records?

17 A. Yes, sir.

18 MR. BRUCE: Mr. Examiner, I'd move the
19 admission of Exhibits 5 through 9.

20 EXAMINER EZEANYIM: Exhibits 5 through 9
21 will be admitted.

22 (Mewbourne Exhibit Numbers 5 through 9 were
23 offered and admitted into evidence.)

24 Q. (BY MR. BRUCE)In your opinion, is the granting
25 of this application in the interest of conservation and

1 the prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, no further
4 questions of the witness.

5 EXAMINER EZEANYIM: Thank you, Counselor.
6 David?

7 EXAMINER BROOKS: No questions.

8 EXAMINER EZEANYIM: (Indicating.)

9 EXAMINER GOETZE: No questions.

10 CROSS-EXAMINATION

11 BY EXAMINER EZEANYIM:

12 Q. Why don't we go back to Exhibit 6. Let's look
13 at that isopach map where you are drilling. I mean, the
14 arrow is -- the arrow, right?

15 A. That's the well that we're trying to drill, the
16 vertical.

17 Q. Yes. The arrow is?

18 A. Yes, sir. We're drilling --

19 Q. You're going east to west?

20 A. Yes, sir.

21 Q. See, if I look at that, you know -- can you
22 technically say that each of the quarter-quarter
23 sections is going to contribute equally to the
24 production of that well?

25 A. I believe so, yes, sir.

1 Q. How so?

2 A. Because the sand is continuous through this
3 area.

4 Q. There is nothing like continuous. I mean, we
5 just assume it's continuous. No reason it's continuous.
6 It's just an assumption. But if I look at this isopach
7 map, it looks like this three or two 40 units will get
8 more than -- you can look at the isopach map. See how
9 the -- it's thicker going toward the production area
10 than the other two. But the way we're going to ask:
11 Are those four sections going to produce equally? And
12 your answer was yes.

13 A. Uh-huh.

14 Q. Those are things we say, but we don't know
15 whether they are true. And then when we say that -- for
16 me, they are all heterogeneous [sic], but we assume that
17 without calculations. That's an assumption. But I
18 wanted you to see what I'm trying to see on the isopach
19 map. I mean, as a geologist, you see that. If I have
20 interest in those 80 acres at the end, I would begin to
21 argue, although you are doing the right thing. The
22 stand-up is -- but I just want to say that normally when
23 we put in the order that each of the four sections will
24 contribute equally, that's not really right, because
25 it's an assumption. Where does it say that on this map?

1 A. To the best of my knowledge, I believe --

2 Q. Oh, yeah. That's what you said. I just wanted
3 to make sure I point that out.

4 A. Okay.

5 Q. And you think it's east-west or west-east
6 orientation. I see some of them north-south in the
7 area.

8 A. Yes, sir.

9 Q. We described the most productive zones in the
10 area?

11 A. Were they the same?

12 Q. Yeah. I see some of them were stand-up.

13 A. Yes, sir. We drilled the one --

14 Q. Do you drill those stand-up wells?

15 A. Yes, sir, and they're not as good as the
16 lay-downs.

17 Q. Oh, they are not?

18 A. The two that I had on the Excel sheet. The one
19 in Section 5 has been producing for two years.

20 Q. Makes sense. I can see.

21 I think this is 2nd Bone Spring Sand?

22 A. Yes, sir.

23 Q. 2nd Bone Spring Sand?

24 A. Yes, sir, 2nd Bone Spring Sand.

25 Q. Okay. Thank you. You may step down.

1 A. Thank you.

2 EXAMINER EZEANYIM: Anything further,
3 Counselor?

4 MR. BRUCE: Nothing further.

5 EXAMINER EZEANYIM: At this point, Case
6 Number 14984 will be taken under advisement.

7 Can we take a ten-minute break and then
8 continue?

9 (Case 14984 concludes, 10:12 a.m.)

10 (Break taken, 10:12 a.m. to 10:25 a.m.)

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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. 14984
heard by me on July 12, 2013
[Signature]
Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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CERTIFICATE OF COURT REPORTER

I, MARY C. HANKINS, New Mexico Certified Court Reporter No. 20, and Registered Professional Reporter, 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 that were reduced to printed form by me to the best of my ability.

I FURTHER CERTIFY that the Reporter's Record of the proceedings truly and accurately reflects the exhibits, if any, offered by the respective parties.

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 in the final disposition of this case.



MARY C. HANKINS, CCR, RPR
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Date of CCR Expiration: 12/31/2013