

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

6 APPLICATION OF MEWBOURNE OIL
7 COMPANY FOR COMPULSORY POOLING,
8 EDDY COUNTY, NEW MEXICO.

CASE NO. 15007

ORIGINAL

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 July 12, 2013

12 Santa Fe, New Mexico

13
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
23 Resources Department, 1220 South St. Francis Drive,
24 Porter Hall, Room 102, Santa Fe, New Mexico.

25 REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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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(10:25 a.m.)

EXAMINER EZEANYIM: At this point, I call Case Number 15007, application of Mewbourne Oil Company for compulsory pooling, Eddy County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe representing the Applicant. I, again, have two witnesses.

EXAMINER EZEANYIM: Any other appearances, please?

Okay. The witnesses may stand up, state your name and be sworn.

MR. HADEN: Paul Haden.

MR. HILL: Tyler Hill.

MR. BRUCE: Mr. Examiner, if the record could reflect they've both been sworn and testified already.

EXAMINER EZEANYIM: Okay. That's right.

D. PAUL HADEN,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. One introductory question: Mr. Haden, are you familiar with the land matters in this case?

1 A. Yes, I am.

2 Q. Could you identify Exhibit 1 and describe what
3 Mewbourne seeks in this case?

4 A. Yes. Exhibit Number 1 is a land plat of the
5 area that's taken from the Midland Map Company that
6 shows our Section 23 and also the proposed Basin unit,
7 which is indicated in yellow.

8 It also indicates the surface location and
9 proposed bottom-hole location of this proposed well, of
10 which the surface location is 375 feet from the south
11 line and 990 feet from the west line of Section 14,
12 which is adjoining. And then the bottom-hole location
13 is proposed at 330 feet from the south line and 660 from
14 the west line of Section 23.

15 Q. And what is the target formation of this well?

16 A. This is the Wolfcamp.

17 Q. And is the Wolfcamp in this area a gas zone?

18 A. Yes, it is a gas zone.

19 Q. So under Division rule, this is a standard
20 320-acre gas well unit; is that correct?

21 A. ~~That's correct.~~

22 Q. And has Mewbourne obtained administrative
23 approval of the unorthodox location?

24 A. ~~Yes, we have.~~

25 Q. And I forget the number off the top of my head,

1 but Mr. Brooks approved it a couple of weeks ago?

2 EXAMINER BROOKS: Yes, I believe I
3 remember.

4 EXAMINER EZEANYIM: Mr. Bruce, but we're
5 not asking for it here. It's not really a matter to be
6 considered today. It's not --

7 MR. BRUCE: Yeah, NSL 6820.

8 EXAMINER EZEANYIM: But the point I'm
9 making, it's not part of the application.

10 MR. BRUCE: It is not part of the
11 application.

12 EXAMINER EZEANYIM: What is the NSL number?

13 MR. BRUCE: 6820. And we don't need a
14 nonstandard unit.

15 Q. (BY MR. BRUCE) Mr. Haden, I refer you to
16 Exhibit 2. What is the interest ownership in this unit?

17 A. Okay. This exhibit sets forth the percentage
18 leasehold interest in the proposed project area, west
19 half of Section 23. It shows all the interest owners,
20 as well as Mobil Producing Texas & New Mexico, Inc. It
21 has their percentage interest of .929688 percent. It
22 also has Corexcal's interest of .199218 percent and an
23 interest for Petrorep -- excuse me -- Petrorep, Inc. at
24 .199218 percent.

25 Q. Go ahead.

1 A. It also indicates the total interests being
2 pooled, and that is 1.328124 percent.

3 Q. And on this exhibit, it shows that Corexcal and
4 Petrorep have unknown addresses?

5 A. That's correct.

6 Q. Has Mewbourne done the usual -- what has become
7 the standard search of county records, et cetera to try
8 to determine their location?

9 A. Yes, we have.

10 Q. And were, as usual, phone records, Internet
11 records, et cetera searched to try to determine if they
12 had a valid address?

13 A. Right.

14 Q. Let's move on to the next exhibit. Could you
15 identify that?

16 A. Okay. Exhibit Number 3 is a Summary of
17 Communications. And the communications attached to this
18 exhibit indicate the interests of Mobil Producing Texas
19 & New Mexico, Inc., the communications set forth there,
20 as well as the attempted communications with Corexcal,
21 whereby it indicates we were unable to find their
22 address. And the same thing goes to the Petrorep, Inc.

23 Q. And it looks like the last time they showed up
24 was over 40 years ago?

25 A. That's correct.

1 Q. In your opinion, has Mewbourne made a
2 good-faith effort to obtain the voluntary joinder of the
3 interest owners or locate their whereabouts?

4 A. Yes, we have. Mobil indicates that they would
5 like to join in the well, but we really don't see them
6 doing that based on the small percentage that they own.
7 It's not going to do anything for Mobil.

8 Q. If they do join, will you notify the Division?

9 A. Yes, we will.

10 Q. And the next exhibit, I believe, Exhibit 4,
11 could you identify that and discuss the cost of the
12 proposed well?

13 A. Exhibit 4 is a copy of our AFE for this well.
14 It indicates the dry-hole cost of \$3,129,600 and
15 completed well cost of \$6,045,700. And it also
16 indicates the surface and bottom-hole locations for this
17 proposed well.

18 Q. In your opinion, is that a reasonable cost for
19 a well of this type, a well drilled to this depth in
20 Eddy County?

21 A. We think it is.

22 Q. Was Mobil notified of this hearing?

23 A. Yes. That's indicated in Exhibit Number 5.

24 Q. And is Exhibit 6 an Affidavit of Notice to the
25 unlocatable parties?

1 A. That is correct.

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

5 A. Yes, they were.

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

8 EXAMINER EZEANYIM: Exhibits 1 through 6
9 will be admitted.

10 (Mewbourne Exhibit Numbers 1 through 6 were
11 offered and admitted into evidence.)

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

14 EXAMINER EZEANYIM: Mr. Brooks?

15 EXAMINER BROOKS: No questions.

16 EXAMINER EZEANYIM: Mr. Goetze?

17 EXAMINER GOETZE: No questions.

18 CROSS-EXAMINATION

19 BY EXAMINER EZEANYIM:

20 Q. What is the name of the pool, the Wolfcamp?

21 A. It's Wolfcamp Wildcat.

22 Q. Oh, it's Wild Card [sic]?

23 A. Wildcat.

24 Q. Okay.

25 A. Pool code 98017.

1 Q. What is the pool code?

2 A. 98017.

3 Q. Okay. Thanks.

4 You have an API number already?

5 A. Matter of fact, we do.

6 Q. Okay. Good.

7 A. Okay. It's 3001541448.

8 Q. The last?

9 A. 1541448.

10 Q. 448. Okay.

11 Did we talk about overhead rates?

12 A. We have not.

13 Q. There is no compulsory pooling? I thought you
14 said compulsory pooling. You should have overhead
15 rates.

16 MR. BRUCE: Oh, that's right.

17 REDIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. What are the overhead rates?

20 A. I'm sorry. For drilling, \$7,500.

21 EXAMINER EZEANYIM: What?

22 THE WITNESS: \$7,500 for drilling. The
23 producing well rate is \$750 per month.

24 Q. (BY MR. BRUCE) Again, do you believe those
25 rates are fair and reasonable?

1 A. Yes, we believe they are.

2 Q. And you ask that they be adjusted under the
3 COPAS accounting procedure?

4 A. Yes, we do.

5 MR. BRUCE: Thank you for reminding me,
6 Mr. Examiner.

7 EXAMINER EZEANYIM: Thank you.

8 I have no further questions.

9 First of all, I want to clarify something.
10 What is your name? I forgot your last name.

11 MR. HADEN: Haden.

12 EXAMINER EZEANYIM: Mr. Haden, you are a
13 very expert witness. And when a question is asked, if
14 you put it in the record, "I think it's this," when I
15 read that, I think it -- then I will say it's the
16 opposite. Why not say yes? Because, no, this has some
17 implication. When I read something where the answer is,
18 "I think it is this," if you are in my shoes, what would
19 you think? You would think that you're not sure.

20 I'm not, you know, trying to -- everybody
21 does that. When we ask questions, either you say yes or
22 no. When you say, "I think it's this," it becomes
23 bothersome to me, because I don't know how to interpret
24 that. Because when I go through those transcripts, I am
25 writing down on the paper what you are trying to say is

1 the answer. Is it yes or no? I just wanted to point
2 that out, that I have a problem trying to complete work
3 when I don't know what the witness is trying to say.
4 It's not only you. Most people do it.

5 So what I do is, I take it as a yes,
6 because, you know -- which is not really -- the judge
7 will tell me it has some gray areas, but I don't know.
8 I'm not an attorney, but I think I can reason. So
9 that's not a question. I'm just making a comment.

10 EXAMINER BROOKS: Just one question here.

11 CROSS-EXAMINATION

12 BY EXAMINER BROOKS:

13 Q. This is all federal land, right? It's called
14 "Federal." It's called "Federal Com," so I assume it's
15 more than one lease.

16 A. It's got federal acreage.

17 MR. BRUCE: Mr. Examiner, if you look at
18 Exhibit 1, you'll see.

19 EXAMINER BROOKS: There are several tracts.

20 MR. BRUCE: There is federal and fee land.

21 THE WITNESS: Yes.

22 EXAMINER BROOKS: What is the status of the
23 unknown people? Are they leasehold interest owners, or
24 are they unleased mineral owners?

25 THE WITNESS: They're leasehold.

1 EXAMINER BROOKS: Very good. Thank you.

2 EXAMINER EZEANYIM: Okay. You may be
3 excused.

4 THE WITNESS: Thank you.

5 TYLER HILL,

6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Hill, are you familiar with the geology in
11 this area?

12 A. Yes, sir.

13 Q. Could you identify Exhibit 7 and discuss it for
14 the Examiner?

15 A. Exhibit 7 is a structure map on top of the
16 Wolfcamp. In Section 23, you'll see our proposed well,
17 the Owl Draw 23 DM Fed Com #1H. It's dashed -- it is a
18 dashed blue line over the top of the wellbore, saying
19 that it's permitted, has not yet been drilled.

20 You'll notice down two-and-a-half miles to
21 the southwest, there is a blue solid line over our
22 wellbore. It's a gas well. That's a Wolfcamp shale
23 horizontal. To date, it cums 95,000 barrels of oil, 1.3
24 bcf and 112,000 barrels of water.

25 EXAMINER EZEANYIM: Is this your well?

1 THE WITNESS: No, sir.

2 EXAMINER EZEANYIM: Whose well is that?

3 THE WITNESS: I believe it's Concho.

4 EXAMINER EZEANYIM: I think it's a good
5 well.

6 THE WITNESS: It's a very good well. It's
7 only been online less than two years.

8 EXAMINER EZEANYIM: I like to see that.

9 THE WITNESS: Yes. And then right below
10 that, you can see the current rates, 75 barrels of oil
11 per day. Also, there is a cross section from A to A
12 prime.

13 Q. (BY MR. BRUCE) From that well that's across the
14 state line, although it uses a lot of gas, it also
15 produces quite a bit of fluids?

16 A. Yes, sir. It's a very gas-rich area, liquid
17 rich.

18 Q. On the New Mexico side of the line, there isn't
19 a nearby Wolfcamp well; is that correct?

20 A. No, sir. The rest are Bone Spring.

21 Q. So the other New Mexico wells in Section 16, to
22 the west and over to the east, those are all Bone Spring
23 wells?

24 A. Yes, sir.

25 Q. Could you identify Exhibit 8?

1 A. Exhibit 8 is the cross section from A to A
2 prime. This is the interval that we're targeting. At
3 the top, in the orange marker, you'll see the top of the
4 Wolfcamp. That's what the structure is on. And then
5 down towards the bottom, you've got the top of the
6 Wolfcamp shale target. The interval that we target is
7 approximately 4- to 500 feet thick. There is a lot of
8 very good shale there.

9 Q. Did either of these wells ever produce from the
10 Wolfcamp?

11 A. Not to my knowledge.

12 Q. When, approximately, were they drilled?

13 A. I am not sure on that, sir. I know that the
14 one in 11J is much older than the one in 17J. The one
15 in 11J -- well --

16 Q. And are those the only two wells in this
17 immediate area that have at least penetrated the
18 Wolfcamp?

19 A. They are the two closest with the best logs.
20 You'll see that there are several others with datums on
21 them. That's the subsidy depth. So there are some to
22 the north, but these were the best two logs that were
23 available to show the interval that we're targeting.

24 Q. Based on your exhibits here, is the 200-percent
25 risk charge justifiable from a geologic standpoint?

1 A. Yes, sir.

2 Q. And then finally, what is Exhibit 9?

3 A. Exhibit 9 is the Well Planning Report, the Owl
4 Draw 23 DM Fed Com #1H. We're surfacing in Section 14,
5 370 from south line, 990 from west line. The bottom
6 hole is 330 from south line and 660 from west line.

7 And the last page will show the wellbore
8 diagram.

9 Q. Approximately how many completion stages are
10 there for this well?

11 A. 30, sir.

12 Q. Were Exhibits 7 and 8 prepared by you?

13 A. Yes, sir.

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

16 A. Yes, sir.

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

20 A. Yes, sir.

21 MR. BRUCE: Mr. Examiner, I'd move the
22 admission of Exhibits 7, 8 and 9.

23 EXAMINER EZEANYIM: Exhibits 7, 8 and 9
24 will be admitted.

25 (Mewbourne Exhibit Numbers 7 through 9

1 were offered and admitted into evidence.)

2 MR. BRUCE: I have no further questions of
3 this witness.

4 EXAMINER EZEANYIM: Thank you.

5 Mr. Brooks?

6 EXAMINER BROOKS: No questions.

7 EXAMINER EZEANYIM: (Indicating.)

8 EXAMINER GOETZE: Yes, I have a few.

9 CROSS-EXAMINATION

10 BY EXAMINER GOETZE:

11 Q. Back to Exhibit Number 7, when you said the
12 wells in 16 are Bone Spring.

13 A. Yes, sir.

14 Q. And 24 and 25, do you know what those are,
15 also?

16 A. They're Bone Spring as well, one Avalon Shale
17 and 2nd Bone Spring Sand.

18 Q. And south, into Texas^a, since you get the work
19 down there, has this been a favorable play as far as
20 going north-south parallel to the dip? Is this a key to
21 its selection going into this orientation?

22 A. Cimarex began drilling the wells east-west, and
23 they have since gone to drilling north-south.

24 Q. So there is a basis for this --

25 A. Absolutely, especially with as good as this

1 well is here.

2 Q. No more questions. Thank you.

3 CROSS-EXAMINATION

4 BY EXAMINER EZEANYIM:

5 Q. Following up on that, I thought that you were
6 better off drilling against the strikes, but you are now
7 going parallel to the strikes. Is it not easier to do
8 your fraction -- to do that parallel to the strikes, you
9 have some problems. Why are you doing that? I mean,
10 based on what he asked you now. You say you are going
11 parallel to the strikes.

12 A. Uh-huh.

13 Q. So why are you doing that?

14 A. It depends on your frac gradient, which way it
15 goes. In the Wolfcamp, to my knowledge, there has not
16 been any microseismic tests. We're going based on
17 better well completions and better wells.

18 Q. This is Mewbourne, right?

19 A. Yes, sir.

20 Q. They should be able to do a fracture
21 initiation, conduct a fracture initiation to see where
22 the right -- so you can -- well, anyway, you could only
23 do that if you have communication between wells.

24 A. Yes, sir.

25 Q. So then you can orient your fracture

1 orientation perpendicular to the -- you know, to the dip
2 or something. But you are going -- because of the
3 testimony I have from the previous witnesses, I wanted
4 to go against the strike, but now I wanted to see why
5 you wanted to go parallel to the strike. Is that where
6 you can collect the most? Is that because of the
7 geology, engineering or -- or is it because of costs?

8 A. Oh, the direction. We're going based on which
9 wells have better production.

10 Q. And those wells are oriented that way, right,
11 the way that you are orienting your new well, right?

12 A. We're doing north-south because of the better
13 wells in the north-south in this area.

14 Q. Because those orientations are also very
15 important to my recommendations, which way is better.
16 If you think east-west is better, I agree with you, but
17 I need to consider and see what you did.

18 A. Uh-huh.

19 Q. And is this well -- the completed interval is
20 within the setbacks? It's a gas well, right?

21 A. Yes, sir.

22 Q. And when you are talking about territory [sic],
23 you're talking about 660?

24 MR. BRUCE: Mr. Examiner, yeah, we did get
25 an unorthodox location.

1 EXAMINER EZEANYIM: Oh, I forgot that.
2 Okay. That's right. Nobody said that, and that's why
3 in the back of my mind I started wondering. Okay. I'm
4 sorry. Okay. Yeah, you have it in this already.

5 No more further questions.

6 THE WITNESS: Thank you.

7 EXAMINER EZEANYIM: Thank you.

8 Call your next witness.

9 MR. BRUCE: I have no further -- nothing
10 further in this case, Mr. Examiner.

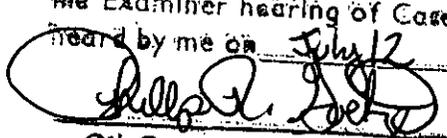
11 EXAMINER EZEANYIM: Okay. Anything
12 further?

13 EXAMINER BROOKS: Nothing further.

14 EXAMINER EZEANYIM: Okay. Very good. At
15 this point, Case Number 15007 will be taken under
16 advisement.

17 (Case Number 15007 concludes, 10:46 a.m.)

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I hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15007
heard by me on July 12 2013
 Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

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

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

19



20

21

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

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