

ORIGINAL

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 COMPANY
7 FOR APPROVAL OF A NONSTANDARD OIL
8 SPACING AND PRORATION UNIT AND
9 COMPULSORY POOLING, EDDY COUNTY,
10 NEW MEXICO.

CASE NO. 15052

11 REPORTER'S TRANSCRIPT OF PROCEEDINGS

12 EXAMINER HEARING

13 October 17, 2013

14 Santa Fe, New Mexico

15 BEFORE: DAVID K. BROOKS, CHIEF EXAMINER

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16 This matter came on for hearing before the
17 New Mexico Oil Conservation Division, David K. Brooks,
18 Chief Examiner, on Thursday, October 17, 2013, at the
19 New Mexico Energy, Minerals and Natural Resources
20 Department, 1220 South St. Francis Drive, Porter Hall,
21 Room 102, Santa Fe, New Mexico.

22
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:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

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1 (8:18 a.m.)

2 EXAMINER BROOKS: We will call Case Number
3 15052, application of Mewbourne Oil Company for approval
4 of a nonstandard oil spacing and proration unit and
5 compulsory pooling, Eddy County, New Mexico.

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

9 EXAMINER BROOKS: Okay. Would the
10 witnesses please stand and identify themselves for the
11 record?

12 MR. HADEN: Paul Haden.

13 MR. CLESS: Nate Cless.

14 EXAMINER BROOKS: Swear the witnesses,
15 please.

16 (Witnesses sworn.)

17 EXAMINER BROOKS: Okay. Mr. Bruce, you may
18 proceed when ready.

19 D. PAUL HADEN,
20 after having been first duly sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q: Where do you reside?

25 A. I reside in Midland, Texas.

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

2 A. Mewbourne Oil Company as a landman.

3 Q. Have you previously testified before the
4 Division?

5 A. Yes, sir, I have.

6 Q. And were your credentials as an expert
7 petroleum landman accepted as a matter of record?

8 A. Yes, they were.

9 Q. And are you familiar with the land matters
10 involved in this case?

11 A. Yes, I am.

12 MR. BRUCE: Mr. Examiner, I tender
13 Mr. Haden as an expert petroleum landman.

14 EXAMINER BROOKS: He is so qualified.

15 Q. (BY MR. BRUCE) Mr. Haden, could you identify
16 Exhibit 1 for the Examiner, and identify the well unit
17 we're here for today?

18 A. Yes. Exhibit 1 is the land plat of the area.
19 It shows Section 11 of 18 South, 31 East in Eddy County,
20 New Mexico. It depicts our working interest unit, which
21 is outlined in the west half of Section 11. It also
22 illustrates our proposed project area, which is in the
23 east half-west half of Section 11. This well will be
24 drilled from a surface location 150 feet from the south
25 line and 2,310 feet from the west line in Section 11.

1 Q. And will the producing interval be orthodox?

2 A. Yes, it will.

3 Q. And what formation are we pooling today?

4 A. This is the Bone Spring Formation. It is in
5 the Tamano Bone Spring pool, Pool Code 58040. The API
6 number for this well is 3001541350.

7 Q. Could you identify Exhibit 2 and identify the
8 party being force pooled in this case?

9 A. Exhibit Number 2 is an ownership plat. It
10 describes ownership in the northwest quarter and also
11 the ownership in the southwest quarter as devised from
12 the Bone Spring Formation to the base of the Wolfcamp
13 Formation. It indicates the party, Ard Oil, Limited, in
14 the southwest quarter. They have a 3.524 -- or excuse
15 me -- 3.542-percent working interest in the southwest
16 quarter.

17 Q. And that is the only party being pooled?

18 A. That is the only party being pooled.

19 Q. Could you identify Exhibit 3 for the Examiner?

20 A. Exhibit Number 3 is the proposal letter dated
21 August 20th, 2013, whereby we propose the drilling of
22 our Tamano 11 NC Fed Com #1H well.

23 Q. And on the last page of Exhibit 3, is that a
24 follow-up letter from Mewbourne to Ard Oil?

25 A. Yes, sir. It's a follow-up letter dated

1 October 21st, 2013.

2 Q. Has Mewbourne had to force pool Ard Oil a
3 number of times over the last few years?

4 A. Yes, sir, we have.

5 Q. Is it fair to say that they rarely, if ever,
6 respond to the proposal letters?

7 A. To our knowledge, they -- well, they never have
8 responded to any well proposal.

9 Q. In your opinion, has Mewbourne Oil Company made
10 a good-faith effort to obtain the voluntary joinder of
11 Ard Oil in this well?

12 A. That's correct.

13 Q. In the event Ard Oil goes nonconsent in this
14 well, do you recommend the risk charge of cost plus 200
15 percent?

16 A. Yes, we do.

17 Q. What is Exhibit 4?

18 A. Exhibit 4 is a copy of our AFE, which is
19 authorization for expenditure for the Tamano 11 NC
20 Federal #1H well. It shows what the cost casing point
21 is, which is \$2,155,700, completed well cost of
22 \$4,363,000.

23 Q. Is this cost fair and reasonable, in your
24 opinion?

25 A. Yes, sir, it is.

1 Q. And what overhead rates does Mewbourne request
2 for this well?

3 A. We're requesting 8,000 for a drilling overhead
4 rate and \$800 per month for producing well rate.

5 Q. And are these amounts fair and reasonable and
6 in line with the cost of overhead rates charged by other
7 operators in this area for wells of this depth?

8 A. That's correct. They're also well rates that
9 we have in our operating agreement, signed by the
10 participating parties.

11 Q. And was Ard Oil notified of this hearing?

12 A. Yes, they were.

13 MR. BRUCE: Mr. Examiner, I messed up in my
14 stapling yesterday. Exhibit 5 is supposed to be the
15 Affidavit of Notice to Ard Oil, but the Attachment A is
16 actually the letter to the offsets. If you go to
17 Exhibit 7, that's actually the letter to Ard Oil.

18 Q. (BY MR. BRUCE) What is Exhibit 6,
19 Mr. Haden?

20 A. It's a listing of the offset operators.

21 Q. And was notice given to all of the offsets of
22 this application?

23 A. Yes, they were.

24 Q. And they all received actual notice?

25 A. They did.

1 MR. BRUCE: And like I said, Mr. Examiner,
2 Exhibits 5 and 7 somehow cover it all.

3 EXAMINER BROOKS: Okay.

4 Q. (BY MR. BRUCE) In your opinion, will the
5 granting of this application be in the interest of
6 conservation and the prevention of waste?

7 A. Yes, it will.

8 Q. And were Exhibits 1 through 7 either prepared
9 by you or compiled from company business records?

10 A. Yes, they were.

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

13 EXAMINER BROOKS: 1 through 7 are admitted.
14 (Mewbourne Exhibit Numbers 1 through 7 were
15 offered and admitted into evidence.)

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

18 EXAMINER BROOKS: We've doing these Rutter
19 & Wilbanks cases for about three, four years now. I
20 have yet to see an offset protest.

21 MR. BRUCE: Yeah (laughter).

22 CROSS-EXAMINATION

23 BY EXAMINER BROOKS:

24 Q. Tamano 11 NC Federal Com #1H?

25 A. Yes, sir.

1 Q. That's the correct and complete name.

2 You read 3001541350?

3 A. That's correct.

4 Q. 150 from the south and 2,310 from the west?

5 A. Yes, sir.

6 Q. Section 11, Township 18 South, Range 31 East?

7 A. Correct.

8 Q. It's in the Tamano Bone Spring pool. I guess
9 that pretty much covers it.

10 You said the completed interval is
11 entirely -- well, first of all, is the Tamano Bone
12 Spring pool -- is it spaced on statewide rules?

13 A. Statewide rules, correct.

14 Q. So the setbacks are 330 feet?

15 A. Yes, sir.

16 Q. Let's see. Will the completed interval of the
17 Tamano 11 NC Federal Com #1H be entirely within an area
18 of more than 330 feet from the -- of the east half of
19 the west half of Section 11?

20 A. Yes, sir. Yes. It will be at a legal
21 interval.

22 Q. Okay. Very good.

23 EXAMINER BROOKS: If there is nothing
24 further, then, Case 15052 will be taken under
25 advisement.

1 MR. BRUCE: We have a geologist.

2 EXAMINER BROOKS: Oh, yeah. You have to
3 get through your geologist. That's right. We'll listen
4 to him.

5 MR. BRUCE: Hate to drag out the hearing.

6 EXAMINER BROOKS: That's fine. It's just
7 that they don't say anything I understand.

8 The C-102 you've got here, is that marked
9 as an exhibit?

10 MR. BRUCE: No. I just put it up this
11 morning just so you'd have it.

12 EXAMINER BROOKS: Well, I'm glad you did.
13 You may proceed.

14 NATE CLESS,
15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Mr. Cless, where do you reside?

20 A. Midland, Texas.

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

22 A. Mewbourne Oil Company as a geologist.

23 Q. Have you previously testified before the
24 Divison?

25 A. Yes, sir.

1 Q. Were your credentials as an expert petroleum
2 geologist accepted as a matter of record?

3 A. Yes, they were.

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

6 A. Yes, sir.

7 MR. BRUCE: Mr. Examiner, I'd tender
8 Mr. Cless as an expert petroleum geologist.

9 EXAMINER BROOKS: He is so qualified.

10 Q. (BY MR. BRUCE) Mr. Cless, could you identify
11 Exhibit 8 for the Examiner?

12 A. Yeah. Exhibit 8 is an isopach map, as well as
13 a structure map of this area surrounding Section 11. On
14 here this is a -- it's a gross isopach map of the 2nd
15 Bone Spring Sand. I have 25-foot contours on here.
16 I've also identified all the Bone Spring producers in
17 this area. You can see there are a number of vertical
18 Bone Spring producers. All the wells with the yellow
19 circles around them produce out of the 2nd Bone Spring
20 Sand, which is the target interval we're going for.

21 And then the other main producer is 2nd
22 Bone Spring carbonate, which has the little blue circles
23 around it. I've drawn a red arrow on here in the east
24 half of the west half of Section 11 showing the location
25 of the proposed horizontal.

1 There have been four other horizontals in
2 the 2nd Bone Spring Sand that have been drilled in this
3 area all by Mewbourne Oil Company. Three of them are in
4 Section 10, in the north half-north half, the south
5 half-north half, as well as the north half-south half of
6 Section 10. And then we've also drilled one in the
7 north half-north half of Section 13.

8 I've also identified my next exhibit, which
9 is a four-well cross section, which is A to A prime, and
10 it will cover -- it goes through all the four wells that
11 we'll be going by with this horizontal.

12 Q. Would you move on to the cross section marked
13 as Exhibit 9 and discuss it for the Examiner?

14 A. Like I said, this is a four-well cross section
15 going from the well at 11C to the well at 11F to 11K to
16 11N, and it's just the 2nd Bone Spring Sand. You can
17 see that there is an upper part of the 2nd Bone Spring
18 Sand, as well as the lower part. Here we're targeting
19 what we call the 2nd Bone Spring A, and that's just an
20 internal designation for this particular sand member.
21 But really our target interval is about 200-foot thick,
22 with porosity about 10 to 12 percent, and it's
23 consistent throughout this whole 160 acres that we're
24 going to be drilling through.

25 Q. Based on these first two exhibits, in your

1 opinion, will each quarter-quarter section contribute to
2 production?

3 A. Yes, sir.

4 Q. And will it contribute more or less equally to
5 production?

6 A. Yes, sir.

7 Q. Just a couple of questions on these two
8 exhibits, Mr. Cless. Is the stand-up unit over in the
9 east half of Section 11, that's mostly controlled by
10 HEYCO, I believe?

11 A. That's correct.

12 Q. Did they inform you that they wanted to develop
13 their own acreage?

14 A. Yes, sir, they did.

15 Q. So that's one factor in drilling a stand-up
16 unit?

17 A. Yeah. And we've drilled east-west horizontals
18 in Section 10, and it's going to be a north-south
19 horizontal. The wells in Section 10, while they're good
20 wells, they aren't great wells, so we're trying
21 something a little different here to see if north-south
22 is a better way to drill these wells.

23 Q. And speaking of those four wells, what is
24 Exhibit 10?

25 A. Exhibit 10 is just -- it's just a production

1 data table of the four horizontals that Mewbourne has
2 drilled in this area. I've listed the names, as well as
3 the APIs and locations of all these wells, when -- when
4 they were completed and then the amount of oil, gas and
5 water that they've produced to date.

6 So you can see that the top well, the
7 Tamano 10 6H, is the first well we drilled out here. We
8 drilled it in November of 2011. So it's about two years
9 old, and it's made 88,000 barrels of oil since then.

10 And so like I said, we believe that these
11 are -- these are good horizontals; they're economic
12 horizontals, but we're hoping for better results
13 drilling north-south.

14 Q. And the 2nd Bone Spring Sand out here produces
15 very little gas?

16 A. That's correct. It's a very oily reservoir.

17 Q. Finally, what is Exhibit 11?

18 A. Exhibit 11 is just the wellbore diagram of the
19 proposed well, and listed on here is the surface
20 location, a landing point, which would be our first
21 point of completion. It's 640 from the south, 2,304
22 from the west. So it will be a legal location, as well
23 as the bottom-hole location. And then you can just flip
24 through this, and it has the exact location of where we
25 plan on placing this wellbore.

1 Q. And how many completion stages will Mewbourne
2 have in the well, approximately?

3 A. We tend to use a sliding-sleeve system, which
4 will have either 20 or 30 completion stages in it -- 20
5 to 30 completion stages in it.

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

9 A. Yes, sir.

10 Q. And were Exhibits 8 through 11 prepared by you
11 or compiled from company business records?

12 A. Yes, sir.

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

15 EXAMINER BROOKS: 8 through 11 will be
16 admitted.

17 (Mewbourne Exhibit Numbers 8 through 11
18 were offered and admitted into evidence.)

19 MR. BRUCE: No further questions of the
20 witness.

21 CROSS-EXAMINATION

22 BY EXAMINER BROOKS:

23 Q. Now, you said you have the exact location. Do
24 you have the location where you expect to place the
25 first perforation?

1 A. It's on Exhibit 11, up at the top. Our landing
2 point will be the first -- will be around our first
3 location. So our first completion will be around that
4 landing point, 640 from the south, 2,304 from the west.

5 Q. Okay. That sounds good. Nothing further.

6 MR. BRUCE: Nothing further, Mr. Brooks.

7 EXAMINER BROOKS: Very good. Then Case
8 Number 15052 will now be taken under advisement.

9 (Case Number 15052 concludes, 8:33 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. 15052
heard by me on 10-17-13
David K. Brook 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

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2013

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