

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 COUNTY,
9 NEW MEXICO.

CASE NO. 15079

8 APPLICATION OF MEWBOURNE OIL
9 COMPANY FOR A NONSTANDARD OIL
10 SPACING AND PRORATION UNIT AND
11 COMPULSORY POOLING, EDDY COUNTY,
12 NEW MEXICO.

CASE NO. 15080

ORIGINAL

12 REPORTER'S TRANSCRIPT OF PROCEEDINGS

13 EXAMINER HEARING

14 January 23, 2014

15 Santa Fe, New Mexico

17 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
18 GABRIEL WADE, LEGAL EXAMINER

2014 FEB 1 RECEIVED

19 This matter came on for hearing before the
20 New Mexico Oil Conservation Division, Richard Ezeanyim,
21 Chief Examiner, and Gabriel Wade, Legal Examiner, on
22 Thursday, January 23, 2014, at the New Mexico Energy,
23 Minerals and Natural Resources Department, 1220 South
24 St. Francis Drive, Porter Hall, Room 102, Santa Fe,
25 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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INDEX

PAGE
3

Case Numbers 15079 and 15080 Called

Mewbourne Oil Company's Case-in-Chief:

Witnesses:

Paul Haden:

Direct Examination by Mr. Bruce 4
Cross-Examination by Examiner Ezeanyim 9
Continued Direct Examination By Mr. Bruce 11

Tyler Hill:

Direct Examination by Mr. Bruce 16
Cross-Examination by Examiner Ezeanyim 19

Proceedings Conclude/Certificate of Court Reporter 20/21

EXHIBITS OFFERED AND ADMITTED

CASE NUMBER 15079:

Mewbourne Oil Company Exhibit Numbers 1, 2, 3 and 7 and 8 8

Mewbourne Oil Company Exhibits Numbers 4, 5, 6 and 9 19

CASE NUMBER 15080:

Mewbourne Oil Company Exhibit Numbers 1, 2, 3 and 7 and 8 13

1 (9:39 a.m.)

2 EXAMINER EZEANYIM: The next two cases will
3 be consolidated for the purpose of testimony, and this
4 is Case Number 15079, application of Mewbourne Oil
5 Company for a nonstandard oil spacing and proration unit
6 and compulsory pooling, Eddy County, New Mexico,
7 consolidated with Case Number 15080, application of
8 Mewbourne Oil Company for a nonstandard oil spacing and
9 proration unit and compulsory pooling, Eddy County,
10 New Mexico.

11 For both cases, call for appearances.

12 MR. BRUCE: Mr. Examiner, Jim Bruce of
13 Santa Fe representing the Applicant. I have two
14 witnesses. Again, it's Mr. Haden and Mr. Hill, who have
15 both been sworn and qualified, so if we can avoid that
16 process again.

17 EXAMINER EZEANYIM: Thank you very much.

18 Any other appearances?

19 The witnesses have been sworn, so you guys
20 are still under oath.

21 Counsel, you may proceed.

22 MR. BRUCE: And what we'll do,
23 Mr. Examiner, is run through Case 15079 and briefly go
24 through 15080, because there are just a few differences.

25 EXAMINER EZEANYIM: Okay.

1 PAUL HADEN,

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

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Mr. Haden, could you identify Exhibit 1 and
7 describe it for the Examiner?

8 A. Exhibit Number 1 is the land plat of the area.
9 It shows our proposed proration unit project area, which
10 consists of four 40-acre tracts in the north half-north
11 half. It also shows our proposed surface location and
12 bottom-hole location. The surface location is 405 feet
13 from the north line, 321 feet from the west line --

14 EXAMINER EZEANYIM: Did you say Midland
15 map?

16 THE WITNESS: Midland Map Company.

17 EXAMINER EZEANYIM: You have to say Midland
18 map and -- Midland map.

19 THE WITNESS: Well, that's just a company
20 in Midland that produces --

21 EXAMINER EZEANYIM: Yeah, I know. We
22 know -- I mean, I'm not saying the company, but with the
23 map.

24 THE WITNESS: Plat.

25 EXAMINER EZEANYIM: You are talking about

1 Exhibit Number 1? Is that north half-north half?
2 Right?

3 THE WITNESS: Yes, sir, north half-north
4 half of Section 34. And that's in Township 18 South,
5 Range 30 East, in Eddy County.

6 Q. (BY MR. BRUCE) And then Exhibit 2, does it have
7 the surface location and bottom-hole location?

8 A. Yes, it does.

9 Q. And what pool is this in?

10 A. This is in the Leo Bone Spring South pool, and
11 the pool code number is 37920.

12 EXAMINER EZEANYIM: Of both of them?

13 THE WITNESS: Yes.

14 EXAMINER EZEANYIM: Okay. It's 0 what?

15 THE WITNESS: 37920. It's Leo Bone Spring
16 South. The API number for this particular well --

17 EXAMINER EZEANYIM: Let me get the pool
18 code.

19 THE WITNESS: The pool code? 37920.

20 EXAMINER EZEANYIM: Okay. And then the API
21 number?

22 THE WITNESS: 3001541394, and that is for
23 the Dorado 34 AD Federal Com #1H well.

24 Q. (BY MR. BRUCE) And are you only seeking to
25 force pool the Bone Spring Formation?

1 A. Yes, we are.

2 Q. And what is Exhibit 2, Mr. Haden?

3 A. Exhibit 2 lists the tract ownership of the
4 north half-northwest quarter, also the
5 northwest-northeast quarter and the northeast-northeast
6 quarter as to record title ownership.

7 Q. In this case, have all of the working interest
8 owners, the cost-bearing owners voluntarily joined in
9 the well?

10 A. Yes, they have.

11 Q. And you're only, at this point, seeking to
12 force pool a couple of record title owners?

13 A. That's correct.

14 Q. And why is that necessary?

15 A. Because the BLM requires record title owners to
16 execute communitization agreements.

17 Q. And they will accept a forced pooling order
18 from the Division in lieu of signatures on a comm
19 agreement?

20 A. That's correct.

21 Q. And who are the two parties you seek to force
22 pool?

23 A. The two parties -- they are listed denoted by
24 an asterisk by their names -- being Bira M. Wells Trust.
25 It also indicates their prospective record title

1 ownership interest in this particular case. It's 5
2 percent. Also the Richard D. Hughes Trust. His record
3 title ownership is 3.571402. And all the other record
4 title owners have executed the agreement.

5 Q. Did you try to obtain a voluntary joinder of
6 these two interest owners in the communitization
7 agreement?

8 A. Yes, we did. We sent them certified letters
9 with the proposed comm agreements. I sent them both on
10 the comm agreements for the Dorado 34 AD Federal Com
11 well and the other one for the upcoming case, for that
12 well, which is the Dorado 34 EH Federal Com #1H well.

13 Q. And did they ever respond?

14 A. No, they did not.

15 Q. And was notice of this application given to the
16 parties being forced pooled?

17 A. Yes.

18 Q. And is that reflected in my Affidavit of Notice
19 marked Exhibit 7?

20 A. Yes, that's correct.

21 Q. I notice the Bira Wells Trust has -- there are
22 two addresses for it, correct?

23 A. Yes. They are the successor trustees.

24 Q. So there's, quote, "trustees" for the Trust?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, all of the
2 parties did receive actual notice.

3 Q. (BY MR. BRUCE) And did you research the offset
4 ownership to this well unit?

5 A. Yes, sir. And they were so notified.

6 Q. And is that reflected in the Affidavit of
7 Notice marked Exhibit 8?

8 A. That's correct.

9 MR. BRUCE: And, Mr. Examiner, all of those
10 parties received actual notice. Also, one party I
11 didn't get the green card back yet, but the final page
12 of Exhibit 8 is a printout from the postal services Web
13 site that showed it was delivered.

14 Q. (BY MR. BRUCE) And were Exhibits 1, 2 and 3
15 prepared by you or under your supervision, Mr. Haden?

16 A. Yes, they were.

17 MR. BRUCE: Mr. Examiner, I'd move the
18 admission of Exhibits 1, 2, 3, 7 and 8.

19 EXAMINER EZEANYIM: Exhibits 1, 2, 3, 7 and
20 8 will be admitted.

21 (Mewbourne Oil Company Exhibit Numbers 1,
22 2, 3 and 7 and 8 were offered and admitted
23 into evidence.)

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

1 conservation and the prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, I have no further
4 questions of this witness.

5 EXAMINER EZEANYIM: Thank you very much,
6 Counsel.

7 CROSS-EXAMINATION

8 BY EXAMINER EZEANYIM:

9 Q. I know we consolidated this case with 15080.
10 You've given me the API number for the 15079. Do you
11 have the API number for the 15080, for that well?

12 A. No. No, sir. Mr. Examiner, the API number has
13 not been issued yet.

14 Q. Okay. Now, what overhead rates are you
15 seeking?

16 A. We're using the rates which are in our
17 operating agreement signed by the participating parties,
18 and that is 7,000 for the drilling well rates and \$700
19 per month for producing well rate.

20 MR. BRUCE: Mr. Examiner, these parties
21 will not be subject to any costs.

22 EXAMINER EZEANYIM: Who?

23 MR. BRUCE: The parties being force pooled.
24 They only have bear record title. They do not own
25 working interest in the Bone Spring Formation.

1 EXAMINER EZEANYIM: Okay. That will be
2 nice. The application will be approved. Then that way
3 change the language.

4 MR. BRUCE: Correct. And I can give you an
5 example. We have force pooled a number of parties for
6 the record title ownership --

7 EXAMINER EZEANYIM: Yeah, because they are
8 not working interests in that case, so they don't
9 have to --

10 MR. BRUCE: Right. And the second case is
11 the same thing.

12 EXAMINER EZEANYIM: Okay. Very good.

13 Q. (BY EXAMINER EZEANYIM) Are these the same two
14 parties you are pooling?

15 A. Uh-huh.

16 Q. They got notice? Did you talk to them at all?

17 A. I've talked to both the Wells. In fact, you'll
18 notice that they are not being pooled in this next case.
19 They signed one comm agreement, but they didn't sign the
20 other. And I sent them to them at the same time. They
21 got confused, I guess.

22 Q. And you didn't ask them why they signed one and
23 didn't want to sign the other?

24 A. There is no reason.

25 Q. They're identical wells.

1 A. Yeah. There is no reason why they shouldn't
2 sign both of them.

3 Q. So you are saying this case will probably be
4 pooled here, but the other case they would not be?

5 A. Correct.

6 Q. That's interesting.

7 CONTINUED DIRECT EXAMINATION

8 BY MR. BRUCE:

9 Q. Mr. Haden, if you could move to your exhibits
10 very briefly for Case 15080, the other well.

11 A. Yes. Again, Exhibit 1 is the land plat that
12 shows the proposed project area and proration unit,
13 which consists of the south half of the north half of
14 Section 34, which is in 18 South, 30 East.

15 And then in Exhibit Number 2, it lists the
16 surface and bottom-hole locations of this well, as well
17 as the parties being pooled. Exhibit 2 shows the
18 Elizabeth White Trust as being a pooled interest owners,
19 and then JJK Holdings, LLC and the Richard D. Hughes
20 Trust. These interests are indicated by an asterisk by
21 their names.

22 Q. And, again, it's simply record title
23 ownership --

24 A. That is correct.

25 Q. -- for purposes of the communitization

1 agreement?

2 A. Correct.

3 Q. And the Richard D. Hughes Trust was in the
4 prior case, also?

5 A. That's correct.

6 Q. And referring to Exhibit 3, did you contact
7 these parties regarding signing a communitization
8 agreement?

9 A. Yes, sir. Exhibit 3 is a copy of my
10 correspondence letter sent to them, with the certified
11 mail receipt for each one of those interest owners.

12 Q. And, again, no response from them?

13 A. No response.

14 Q. And were the parties being pooled notified of
15 this application?

16 A. Yes, they were.

17 Q. And is that reflected in the Affidavit of
18 Notice marked Exhibit 7?

19 A. That's correct.

20 MR. BRUCE: And the parties did receive
21 actual notice, Mr. Examiner.

22 Q. (BY MR. BRUCE) And is Exhibit 8 the Affidavit
23 of Notice to the offset working interest owners to the
24 well unit?

25 A. Yes, that's correct.

1 MR. BRUCE: And, Mr. Examiner, again, all
2 of the parties did receive actual notice, all offset
3 parties.

4 EXAMINER EZEANYIM: Okay.

5 Q. (BY MR. BRUCE) Were Exhibits 1, 2 and 3
6 prepared by you or under your supervision?

7 A. Yes, they were.

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

11 A. That is correct.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits 1, 2 and 3 and Exhibits 7 and 8 in
14 Case 15080.

15 EXAMINER EZEANYIM: For Case Number 15080,
16 Exhibits 1, 2 and 3, 7 and 8 will be admitted.

17 (Mewbourne Oil Company Exhibit Numbers 1,
18 2, 3 and 7 and 8 were offered and admitted
19 into evidence.)

20 MR. BRUCE: And I have no further questions
21 of the witness.

22 EXAMINER EZEANYIM: Thank you.

23 CROSS-EXAMINATION

24 BY EXAMINER EZEANYIM:

25 Q. And for the two cases, the overhead rates will

1 be the same, right?

2 A. Right.

3 Q. 7,000 and 700?

4 A. Yes. But as Mr. Bruce pointed out, they don't
5 have any participation.

6 Q. Okay. No wonder he didn't bring that up in his
7 cross-examination.

8 EXAMINER EZEANYIM: Okay. Now, that brings
9 me to that point. Okay. Please draft the order, in
10 this case, reflecting the point they are not
11 cost-bearing.

12 MR. BRUCE: I will do that.

13 EXAMINER EZEANYIM: There are some legal
14 ramifications in this case -- for both cases.

15 MR. BRUCE: For both cases.

16 EXAMINER EZEANYIM: Yeah. Okay.

17 Q. (BY EXAMINER EZEANYIM) And in this case, I'm
18 going to get the physical location of that second well,
19 in Case Number 15080?

20 A. Yes, sir. That location is listed on this
21 exhibit, Number 2.

22 Q. Okay. And I assume that both the surface
23 location is somehow [sic] the penetration point?

24 A. Yes.

25 Q. Because I didn't see that, so I'm assuming that

1 this is the --

2 A. Correct.

3 Q. You are drilling -- drilling the penetration
4 hole. Okay. So I'm going to assume that the
5 perforation -- penetration point, to make sure whether
6 you are orthodox or not.

7 A. Yes. And our geological witness has the
8 exhibit to --

9 Q. Yeah. Okay. That's not a problem either.
10 And then notice. Since you contacted
11 everybody, that was no need to publish in the newspaper?

12 A. No.

13 Q. And in both cases, what type of land do we
14 have? Is the land federal or state?

15 A. This is federal.

16 Q. Oh, federal.

17 A. Yes, sir.

18 Q. Okay. You may step down. No further
19 questions.

20 EXAMINER EZEANYIM: Call your next witness.

21 TYLER HILL,

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

24

25

DIRECT EXAMINATION

1

2 BY MR. BRUCE:

3 Q. Mr. Hill, let's just use the exhibits from Case
4 15079. Would you identify Exhibit 4 for the Examiner?

5 A. Yes. This is a nine-section plat around
6 Section 34, showing the well location of the Dorado 34
7 DA. The structure's on top of the 2nd Bone Spring Lower
8 Sand, and the gross isopach is -- the net porosity is
9 greater than 10 percent. The structure is dipping from
10 the southeast. The horizontal wells are -- completed
11 horizontal wells are denoted by the yellow circle, which
12 denotes 2nd Bone Spring. The only other producing well
13 within the Bone Spring is a 3rd Bone Spring Sand in
14 Section 34. I also denote a cross section D to D prime.

15 Q. And could you move on to the cross section for
16 the Examiner, Exhibit 5?

17 A. Yes. Cross section in this shows the 2nd Bone
18 Spring interval, with our horizontal target being the
19 Lower 2nd Bone Spring Sand. Average porosity is 10 to
20 12 percent, and each quarter -- each quarter-quarter
21 should contribute equally.

22 Q. And, again, in looking at your Exhibit 4, it
23 appears that in this area there are some stand-up wells.
24 Most of them are lay-down wells. Could you identify
25 Exhibit 9 and discuss the orientation of the well unit?

1 A. Yes. This is a sales spreadsheet of vertical
2 as well as horizontal wells within the area. We've got
3 the well name, operator, API, location, direction of the
4 well drilled -- it's a horizontal -- vertical versus
5 horizontal, Bone Spring completion date, interval
6 completed, cum oil in thousands of barrels, cum gas in
7 bcfs and cum water in thousands of barrels of water.

8 The yellow well was completed in July of
9 2012. It was an east-to-west lay-down. So far to date,
10 it has cumed 53,000, one-tenth of a bcf and 81,000
11 barrels of water.

12 The green well Phoenix 21 Fed 1H was
13 completed in October of 2011. It was a north-south
14 stand-up, and to date, it's produced 33,000 barrels of
15 oil, one-tenth of a bcf and 26,000 barrels of water.

16 Q. So the results were substantially better with
17 the east-west lay-down unit?

18 A. Yes, sir.

19 Q. At least in this area, in terms of Mewbourne's
20 opinion, the 2nd Bone Spring wells should be developed
21 on a lay-down basis?

22 A. Yes, sir.

23 Q. And finally what is Exhibit 6?

24 A. This is a TDT [phonetic] Professional Drilling
25 Company well plat of our planned horizontal before we

1 drill it.

2 MR. BRUCE: And, Mr. Examiner, looking at
3 the second page, the well plat, you can see that the
4 producing interval will begin about 480 feet from the
5 surface location. So it will be orthodox at the
6 beginning of the producing interval.

7 Q. (BY MR. BRUCE) And, Mr. Hill, were Exhibits 4,
8 5, 6 and 9 in Case 15079 prepared by you or under your
9 supervision or compiled from company business records?

10 A. Yes, sir.

11 Q. And were Exhibits 4, 5 and 6 in Case 15080
12 prepared by you or under your supervision?

13 A. Yes, sir.

14 MR. BRUCE: And, Mr. Examiner, Exhibit 6 is
15 the directional drilling plan. So you can see, again,
16 that the well location will be orthodox in Case 15080.

17 EXAMINER EZEANYIM: Sure.

18 Q. (BY MR. BRUCE) In both cases, Mr. Hill, in your
19 opinion, is the granting of the application in the
20 interest of conservation and the prevention of waste?

21 A. Yes, sir.

22 MR. BRUCE: Mr. Examiner, I'd move the
23 admission of Exhibits 4, 5, 6 and 9 in Case 15079 and
24 Exhibits 4, 5 and 6 in Case 15090.

25 EXAMINER EZEANYIM: Let's take it so we can

1 get it into the record. For the 15079, what exhibits
2 are we admitting?

3 MR. BRUCE: 4, 5, 6 and 9.

4 EXAMINER EZEANYIM: 4, 5, 6 and 9 will be
5 admitted under Case 15079.

6 (Mewbourne Oil Company Exhibit Numbers 4,
7 5, 6 and 9 were offered and admitted into
8 evidence.)

9 EXAMINER EZEANYIM: And under 15080?

10 MR. BRUCE: 4, 5 and 6.

11 EXAMINER EZEANYIM: 4, 5 and 6 will be
12 admitted.

13 (Mewbourne Oil Company Exhibit Numbers 4, 5
14 and 6 were offered and admitted into
15 evidence.)

16 MR. BRUCE: We have an extra. That would
17 be Exhibit 9. The oil production information was the
18 same for both cases, so we only presented it once.

19 And that's all I have in this matter.

20 EXAMINER EZEANYIM: Do you have any comment
21 on 15080? You said you would.

22 CROSS-EXAMINATION

23 BY EXAMINER EZEANYIM:

24 Q. I think there is a clear demonstration about
25 why we want to go those ways, north-south.

1 A. Yes, sir.

2 Q. So like I said in the other case, you know,
3 about using nomenclature, the small letter M, I would
4 prefer to have a capital letter M to indicate thousands,
5 because when I see a small letter, I think, oh, this is
6 in millions.

7 A. Yes, sir.

8 Q. I think I've got everything I need to know for
9 that. You may step down.

10 A. Thank you.

11 (Case Numbers 15079 and 15080 conclude,
12 10:00 a.m.)

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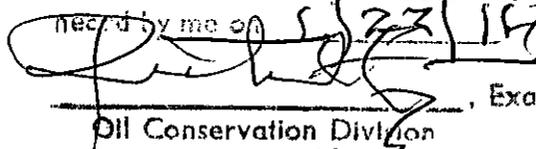
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15079 & 15080
needed by me on 1/27/14

_____, 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
MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2014