

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 A NONSTANDARD OIL
8 SPACING AND PRORATION UNIT AND
9 COMPULSORY POOLING, EDDY COUNTY,
10 NEW MEXICO.

CASE NO. 15088

ORIGINAL

8

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 April 3, 2014

12 Santa Fe, New Mexico

13

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER
15 GABRIEL WADE, LEGAL EXAMINER

16

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18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, Richard Ezeanyim,
20 Chief Examiner, and Gabriel Wade, Legal Examiner, on
21 Thursday, April 3, 2014, at the New Mexico Energy,
22 Minerals and Natural Resources Department, 1220 South
23 St. Francis Drive, Porter Hall, Room 102, Santa Fe,
24 New Mexico.

21

22 REPORTED BY: Mary C. Hankins, CCR, RPR
23 New Mexico CCR #20
24 Paul Baca Professional Court Reporters
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (11:00 a.m.)

2 EXAMINER EZEANYIM: At this time I call
3 Case Number 15088, application of Mewbourne Oil Company
4 for a nonstandard oil spacing and proration unit and
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant.

9 I have two witnesses. The geologist is
10 Mr. Cless, who has been previously sworn and qualified,
11 but I do have a different landman.

12 EXAMINER EZEANYIM: Okay. Any other
13 appearances?

14 Okay. Who is the new -- has he been sworn
15 in?

16 MR. BRUCE: Corey Mitchell.

17 EXAMINER EZEANYIM: Corey Mitchell, could
18 you stand up, state your name and be sworn, please.

19 THE WITNESS: Corey Mitchell.

20 EXAMINER EZEANYIM: You may proceed,
21 Counsel.

22 COREY MITCHELL,
23 after having been first duly sworn under oath, was
24 questioned and testified as follows:

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DIRECT EXAMINATION

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BY MR. BRUCE:

Q. Mr. Mitchell, who do you work for and in what capacity?

A. I work for Mewbourne Oil Company as a landman.

Q. Have you previously testified before the Division?

A. Yes, sir.

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

A. Yes, sir.

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

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I tender Mr. Mitchell as an expert petroleum landman.

EXAMINER EZEANYIM: So qualified.

Q. (BY MR. BRUCE) Mr. Mitchell, could you identify Exhibit 1 and discuss the well and the well unit we're here for today?

A. Exhibit 1 is a Midland Map Company land plat showing Township 26 South, Range 27 East. On here highlighted is our proration unit, along with our proposed well, which covers the east half-east half of Section 22, as well the east half-east half of Section

1 27.

2 Q. And the surface location will be in Section 15
3 to the north, correct?

4 A. Yes, sir.

5 Q. Will the entire interval of the -- producing
6 interval of the well be orthodox?

7 A. Yes, sir.

8 Q. And, again, is this a Bone Spring test?

9 A. Yes, sir.

10 Q. I notice several locations here outside the
11 well unit. Are surface locations here sometimes
12 difficult to obtain?

13 A. Yes, sir.

14 Q. Would you identify Exhibit 2 for the Examiner?

15 A. Exhibit 2 is our tract ownership for this well
16 and proration unit and all the parties that are
17 participating, as well the parties we are seeking to
18 pool. They are noted with an asterisk next to their
19 name. Total interest being pooled is .796876 percent.

20 Q. And the two parties are Corexcal, which is
21 C-O-R-E-X-C-A-L, and Petrorep, Inc.?

22 A. Yes, sir.

23 Q. And referring to Exhibit 3, what is the status
24 of those two parties?

25 A. These particular companies are defunct

1 companies that went under in 1972, or at least that was
2 the last trail we could find on them.

3 Q. So at this point, they've been out of the
4 records for over 40 years?

5 A. Yes, sir.

6 Q. Has Mewbourne force pooled these two companies
7 in other wells in the past?

8 A. Yes, sir, we have.

9 Q. And so has Mewbourne searched the records, the
10 county records, Internet, et cetera, in order to try to
11 locate these two parties?

12 A. Yes, sir, we have.

13 Q. And that's been done over a period of well over
14 a couple of years now, at this point, I believe; is that
15 correct?

16 A. Yes, sir.

17 Q. And still no luck in finding them?

18 A. Correct.

19 Q. In your opinion, has Mewbourne made a
20 good-faith effort to attempt to locate Corexcal and
21 Petrorep, Inc.?

22 A. Yes, sir.

23 Q. What is Exhibit 4?

24 A. Exhibit 4 is our AFE for this well, which shows
25 the estimated well cost for drilling and completing.

1 Q. And what is the final well cost of the
2 completed well?

3 A. It is \$7,726,900.

4 Q. And is this cost reasonable and comparable to
5 those of other horizontal wells drilled in this area?

6 A. Yes, sir.

7 Q. And this is a two-mile lateral, so it is more
8 expensive than the other wells Mewbourne has been
9 drilling in this area?

10 A. Correct.

11 Q. Does Mewbourne request that it be named
12 operator of the well?

13 A. Yes, sir.

14 Q. And what overhead rates does Mewbourne request?

15 A. We are requesting 7,500 a month for drilling
16 and \$750 a month for producing.

17 Q. And are those costs reasonable and in line with
18 the costs of other wells drilled -- other wells of this
19 type drilled in this area by Mewbourne and other
20 operators?

21 A. Yes, sir.

22 Q. And are those the numbers that are set forth in
23 Mewbourne's JOA?

24 A. Yes, sir.

25 MR. BRUCE: Mr. Examiner, Exhibit 5 is

1 simply the Affidavit of Publication from the Carlsbad
2 paper as against the two parties being pooled.

3 EXAMINER EZEANYIM: Okay.

4 Q. (BY MR. BRUCE) What is Exhibit 6, Mr. Mitchell?

5 A. Exhibit 6 is a list of the offset ownership.

6 Q. And were all of the offsets given notice of
7 this application?

8 A. Yes, sir.

9 Q. And is that reflected in the Affidavit of
10 Notice marked as Exhibit 7?

11 A. Yes, sir.

12 Q. Mr. Mitchell, were Exhibits 1 through 7 either
13 prepared by you or compiled from company business
14 records?

15 A. Yes, sir.

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

19 A. Yes, sir.

20 Q. And if I didn't ask it, do you request the
21 maximum 200 percent risk charge against nonconsenting
22 owners?

23 A. Yes, sir.

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

1 EXAMINER EZEANYIM: Exhibits 1 through 7
2 will be admitted.

3 (Mewbourne Oil Company Exhibit Numbers 1
4 through 7 were offered and admitted into
5 evidence.)

6 MR. BRUCE: And I have no further questions
7 of the witness.

8 CROSS-EXAMINATION

9 BY EXAMINER EZEANYIM:

10 Q. In the Bone Spring pool, do you know the pool
11 name?

12 A. Yes, sir. It's the Hay Hollow Bone Spring
13 pool, and the pool code for that is 30215.

14 Q. The API number, do you have that?

15 A. Yes, sir. It is 3001541430.

16 Q. 3001542 what?

17 A. 3001541430.

18 Q. You are just confusing me. After I stop at 5,
19 what is the last five digits?

20 A. It is 41430.

21 Q. 42?

22 A. No. 41430.

23 Q. I don't want to mess up the social security
24 [sic] of this number. Okay. Very good. 41430.

25 So if you had found these two guys, we

1 wouldn't be here, right? If you had found these two,
2 correct, Corexcac and Petrorep, you wouldn't be here,
3 because you wouldn't be pooling them?

4 A. Correct. Correct.

5 Q. Okay. And you have been pooling them in all
6 your wells, right?

7 A. Yes, sir.

8 Q. Well, that's what the statute says. You have
9 to continue to pool them even though they don't exist
10 anymore for however many years you continue to pool
11 them. Okay. So you did due diligence.

12 What happened? You sent notice to the
13 attorneys [sic], and they returned it -- returned your
14 notice, right?

15 A. Yeah. We sent notice to the last addresses we
16 could find. And then we did searches through the
17 Secretary of State in the last states, and we were
18 unable to find any leads on them.

19 Q. Let's go back to -- anyway, I think you are not
20 the person for me to ask this question. You may step
21 down.

22 A. Thank you.

23 EXAMINER EZEANYIM: Call your next witness.

24 MR. BRUCE: Call Mr. Cless.

25 EXAMINER EZEANYIM: This is the third time.

1 That's good.

2 NATE CLESS,

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

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

7 Q. Mr. Cless, could you identify Exhibit 8 for the
8 Examiner?

9 A. Yeah. Exhibit 8 is an isopach map on the Lower
10 2nd Bone Spring Sand interval in this area. I've also
11 highlighted all of the 2nd Bone Spring Sand -- 2nd Bone
12 Spring horizontal wells that have been drilled. Those
13 are all highlighted with the green wellbore, and then
14 the ones that we have production on have the blue circle
15 on them. You'll see there are a number of other
16 wells -- horizontal wellbores in this area. There are a
17 bunch of different horizons that are being targeted,
18 anywhere from the Wolfcamp up to the Avalon Shale. But,
19 again, I've highlighted -- all the 2nd Bone Spring Sand
20 wells are highlighted in green.

21 You can see that there are east-west wells
22 that are drilled in Section 16 and Section 19, but then
23 a majority of the other wells drills are all
24 north-south, as well as our proposed well, which we are
25 drilling north-south in this area.

1 Q. And there are a number of horizontal wells that
2 either drilled or proposed that are either a mile and a
3 half or two miles in length?

4 A. Yes, sir. It seems like whenever people get
5 the opportunity to drill longer laterals, they're
6 starting to do that these days.

7 Q. What is Exhibit 9?

8 A. Exhibit 9 is a two-well cross section of the
9 two proposed offset wells to our horizontal that we're
10 going to be drilling. So the 2nd Bone Spring Sand
11 interval and -- the 2nd Bone Spring Sand is
12 approximately 400 to 500 feet thick in this area. Our
13 target area will be called the "2nd Bone Spring Sand
14 Brown Sand." That's just an internal designation we
15 give to this particular interval. It's highlighted with
16 the two brown lines.

17 You can see across this interval -- I guess
18 the two wells that -- the two vertical wells are the
19 wells in 14M, just near our surface location, and then
20 the well in 4D is going to be our bottom-hole location.
21 And you can see the gross interval across that span is
22 very consistent, as well as the amount of porosity. The
23 porosity seems to be pretty consistent at about 12 or 13
24 percent, and we're estimating we're going to add about
25 60 to 70 percent of porosity throughout our proration

1 unit.

2 Q. And based on what you've presented, the 2nd
3 Bone Spring is present across the well unit?

4 A. Yes, sir.

5 Q. And will each quarter-quarter section
6 contribute more or less equally to production?

7 A. Yes, sir.

8 Q. And what is Exhibit 10?

9 A. Exhibit 10 is the production table of the 2nd
10 Bone Spring Sand horizontal wells in this particular
11 area. I've highlighted four different wells. The two
12 wells that are highlighted in green are two east-west
13 wells, and then the two wells highlighted in orange are
14 two north-south wells that I want to point out.

15 And then really what we're seeing in this
16 area is that both going east-west and north-south, both
17 directions seem to be working relatively similar -- very
18 similar to each other. Looking at the two east-west
19 wells, the first one is the Concho Cluster State Com 3H.
20 It was drilled in September of 2012, and in that time
21 period, it made 91,000 barrels of oil.

22 And then if you look down at the two
23 north-south wells, these are all-- all of these wells in
24 this area are drilled by Concho. The first one is the
25 Way South State Com #2H. It was drilled in August of

1 2012, so about the same time as the Cluster State. And
2 it's made 83,000 barrels -- 82.6 thousand barrels of
3 oil. And so it's very comparable to the Cluster State.

4 And then if you look at the SRO State
5 Unit#18H, it was drilled in September 2012. So, again,
6 it was drilled at the same time as the Cluster State.
7 And in that time period, it made 109,000 barrels of oil.
8 So we're seeing good results both going north-south or
9 east-west in this area.

10 Q. And finally, what is Exhibit 11?

11 A. Exhibit 11 is just our horizontal well plan
12 given to us by the Directional Drilling Company. It
13 shows where we'll kick off, our landing point and then
14 where our final bottom hole will be. The total depth of
15 this well will be 17,791 feet, with a TVD of 7,588.
16 And, again, this will be a two-mile lateral.

17 Q. And, again, the productive interval with the
18 wellbore will be at orthodox locations?

19 A. Yes. Our first perforation will be 330 from
20 the north and 660 from the east of Section 22.

21 Q. For a two-mile lateral, how many completion
22 stages are you proposing?

23 A. I believe we're going to run a plug-and-perf
24 completion, and so I'm not 100 percent sure on how many
25 perforations we'll use. But that's the final [sic]

1 completion that we're going to run on this well.

2 Q. Were Exhibits 8, 9, 10 and 11 prepared by you
3 or compiled from company business records?

4 A. Yes, sir.

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

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, I'd move the
10 admission of Exhibits 8 through 11.

11 EXAMINER EZEANYIM: Exhibits 8 through 11
12 will be admitted.

13 (Mewbourne Oil Company Exhibit Numbers 8
14 through 11 were offered and admitted into
15 evidence.)

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

18 EXAMINER EZEANYIM: Thank you.

19 CROSS-EXAMINATION

20 BY EXAMINER EZEANYIM:

21 Q. Mr. Cless, go to your Exhibit Number 8. I can
22 see your proposed well. That other two-mile proposed
23 well in that Section 27, who is drilling those
24 two-mile -- who is proposing that well?

25 A. That is Mewbourne. We plan on drilling those.

1 Q. Oh, you are planning -- okay. But you haven't
2 drilled them. You plan to.

3 A. We haven't drilled those yet.

4 Q. So you have a lot of interest between 22 and
5 27? You own most of the interest in Sections 22 and 27?

6 A. Yes, sir.

7 Q. And then you want to drill most of it with
8 two-mile horizontals?

9 A. Yeah. Again, we're seeing more and more people
10 drill longer laterals and having better --

11 Q. Oh, yeah.

12 A. -- results with the longer lateral. Anywhere
13 that we can drill two miles, we try to do it.

14 Q. Yeah. Okay. I mean, I can see three wells
15 proposed. Maybe additional or more wells will drain
16 those two sections.

17 A. Yeah. We plan on drilling all of 22 and 27.

18 Q. What is your motivation for moving in that
19 direction, 22 and 27?

20 A. I don't know off the top of my head. That
21 would be something that our landman would have to
22 answer.

23 Q. And in the way you've proposed the well, most
24 of the working interest didn't object because of your
25 demonstration of whether it's east-west or north-south.

1 Really it doesn't matter which way you do it.

2 A. That's right.

3 Q. They're all productive. But I'm trying to see
4 how those 22 and 27 are developed. I think it's quite
5 clear that you can do two miles.

6 A. Yes.

7 Q. And let's go to your cross section, Exhibit
8 Number 9.

9 A. Uh-huh.

10 Q. This is interesting. I just saw that. You
11 started with "Top of 2nd Bone Spring Sand." That is
12 called 2nd Bone Spring Sand. Then "Top of 2nd Bone
13 Spring Orange Sand," and then brown sand and brown sand.
14 Is that --

15 A. Those are just internal designations that we
16 give. We tend to -- I mean, you can see that there are
17 many -- I guess we can correlate different markers
18 throughout the area.

19 Q. Yes, I can see that.

20 A. And so it's just -- it's just something we do.
21 And I'm sure a lot of companies break up these sands
22 into smaller intervals.

23 Q. If I look at the orange sand between the brown
24 sand and the brown sand, they are prospective there. If
25 you look at the -- you know, the top of the Bone Spring

1 orange sand and brown sand, but meanwhile you are
2 targeting the brown sand, brown sand?

3 A. Yeah.

4 Q. Does that sand look brown?

5 A. No (laughter). It's just, instead of doing A,
6 B, C or D, we'll sometimes use different colors.

7 Q. Okay. Thank you very much, Mr. Cless. No more
8 questions.

9 EXAMINER EZEANYIM: At this point, Case
10 15088 will be taken under advisement.

11 (Case Number 15088 concludes, 11:17 a.m.)

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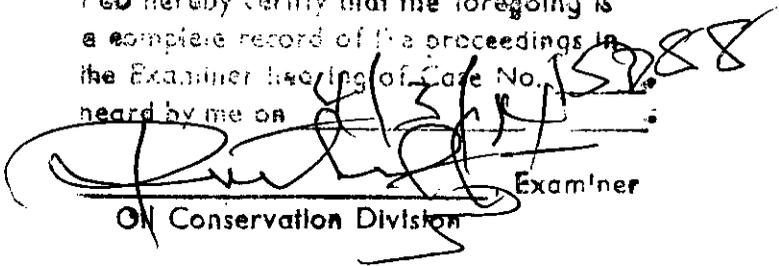
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 15088
heard by me on 4/3/11



Examiner

ON 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: 12/31/2014