

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

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

ORIGINAL

APPLICATION OF MEWBOURNE OIL COMPANY
FOR APPROVAL OF A NONSTANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

CASE NO. 15169

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 10, 2014

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, on Thursday, July 10, 2014, at the
New Mexico Energy, Minerals and Natural Resources
Department, Wendell Chino Building, 1220 South St.
Francis Drive, Porter Hall, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
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1 APPEARANCES
 2 FOR APPLICANT MEWBOURNE OIL COMPANY:
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 (505) 982-2043
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8 INDEX

	PAGE
9 Case Number 15169 Called	3
10 Mewbourne Oil Company's Case-in-Chief:	
11 Witnesses:	
12 Paul Haden:	
13 Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner McMillan	9
14 Nate Cless:	
15 Direct Examination by Mr. Bruce	10
16 Cross-Examination by Examiner McMillan	14
17 Proceedings Conclude	15
18 Certificate of Court Reporter	16

19

20 EXHIBITS OFFERED AND ADMITTED

21 Mewbourne Oil Company Exhibit Numbers 1 through 8	9
22 Mewbourne Oil Company Exhibit Numbers 9 through 12	14

23

24

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1 (9:18 a.m.)

2 EXAMINER McMILLAN: I would like to call
3 Case Number 15169, application of Mewbourne Oil Company
4 for approval of a nonstandard oil spacing and proration
5 unit 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, Mr. Haden and Mr. Cless, and if the record
10 could reflect they've been previously sworn and
11 qualified.

12 EXAMINER McMILLAN: Any other appearances?

13 PAUL HADEN,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Mr. Haden, could you identify Exhibit 1 for the
19 Examiner and describe the well involved in this case and
20 the lands?

21 A. Yes. Exhibit Number 1 is a land plat of the
22 area. It shows our Section 35. It also shows our
23 proposed nonstandard proration unit, which is in the
24 east half of the west half of Section 35, Township 23
25 South, Range 28 East. That nonstandard unit is

1 indicated in the yellow color. It also shows our
2 proposed surface location, which is in the southeast of
3 the southwest quarter and the proposed bottom-hole
4 location in the northeast-northwest quarter.

5 Q. And what formation is being pooled in this
6 case?

7 A. This is the Delaware Formation, Brushy
8 Canyon-Delaware.

9 Q. Okay. And could you identify Exhibit 2,
10 please, and describe what you seek to pool?

11 A. Exhibit Number 2 is a tract ownership of this
12 proposed nonstandard proration unit. It indicates the
13 participating owners, as well as the owners that we've
14 indicated in Tract Number 4 as being uncertain owners.
15 It indicates their total ownership in Tract Number 4,
16 which is 3.6 percent. It also indicates the possible
17 owners who may have a claim for this ownership.

18 Q. And the owners -- I believe in the first case,
19 the prior case, there were some additional owners. But
20 are the title opinions we discussed in the prior case
21 applicable to this case, also?

22 A. Yes, they are.

23 Q. And, again, will a quiet title suit be needed
24 to clear up who owns what of this particular tract?

25 A. Yes. That will have to occur.

1 Q. And is Exhibit 3, again, a portion of the title
2 opinion describing the title issues affecting what you
3 have described as Tract 4 on Exhibit 2?

4 A. Yes, it does.

5 Q. And just to be clear -- I don't think you
6 stated the footage. Does Exhibit 2 set forth the
7 footages of the surface and bottom-hole location for the
8 well?

9 A. Yes, it does. At the top of the page, it has
10 150 feet from the south line, 1,800 feet from the west
11 line, which is a surface location. And then the
12 bottom-hole location is 330 feet from the north line and
13 1,800 feet from the west line of Section 35, 23 South,
14 28 East in Eddy County.

15 Q. And will the producing interval of the well be
16 orthodox?

17 A. It will be orthodox.

18 Q. Do you have an API number for the Layla 35 NC
19 #1?

20 A. Yes, I do. It's API Number 30-015-41122.

21 Q. And what is Exhibit 4?

22 A. Exhibit 4 is a summary of communications
23 involved with this case.

24 Q. And Exhibit 4 is a summary of those people for
25 whom you had a valid address?

1 A. That is correct.

2 Q. Is Exhibit 5 just backup letters and e-mails,
3 et cetera regarding correspondence with these interest
4 owners?

5 A. Yes, that's correct.

6 Q. And in your opinion, has Mewbourne made a
7 good-faith effort to obtain the voluntary joinder of the
8 locatable interest owners in the well?

9 A. Yes, we have.

10 Q. And, again, are there a number of unlocatable
11 owners?

12 A. There are some unlocatable owners.

13 Q. And the steps you discussed in Case 15168,
14 those are the same steps you took to locate these
15 owners?

16 A. That's correct.

17 Q. In your opinion, has Mewbourne made a
18 good-faith effort to track down the addresses for the
19 various interest owners in the well?

20 A. Yes, we have.

21 Q. Could you identify Exhibit 6 for the Examiner?

22 A. Exhibit Number 6 is an AFE for a proposed Layla
23 35 NC #1H well. It indicates the surface and
24 bottom-hole locations. It also indicates the estimated
25 well costs to casing point, which to casing point, it is

1 estimated \$1,805,100 [sic]. Completed well cost is
2 3,544,800.

3 Q. And are these costs in line with the costs of
4 other Delaware wells drilled in this area?

5 A. Yes, they are.

6 Q. In fact, Mewbourne has drilled another Delaware
7 well in this section; has it not?

8 A. Yes. We've drilled one in the west half-west
9 half of this section.

10 Q. Do you request that Mewbourne be appointed
11 operator of the well?

12 A. Yes. We're requesting that.

13 Q. And what is your recommendation for the amounts
14 Mewbourne should be paid for supervision and
15 administrative expenses?

16 A. 7,000 for a drilling well rate and \$700 per
17 month as a producing well rate. Those are the same
18 costs associated with the February 1st, 2012 Joint
19 Operating Agreement with the other participating
20 parties.

21 Q. And do you believe these amounts are fair and
22 reasonable?

23 A. We do.

24 Q. Do you request that the rates be periodically
25 adjusted by the COPAS accounting procedure?

1 A. Yes, we do.

2 Q. And was notice mailed to the persons who you
3 believe had valid addresses?

4 A. Yes, they were.

5 Q. And is that reflected in Exhibit 7?

6 A. That's what Exhibit 7 is, yes.

7 MR. BRUCE: And, again, Mr. Examiner, three
8 or four of them have not been returned despite the fact
9 that we thought we had valid addresses, so I'll again
10 request that this case be continued for two weeks. I
11 have published an additional notice in the newspaper.

12 Q. (BY MR. BRUCE) Was notice given to the 40-acre
13 offsets of the nonstandard unit?

14 A. Yes.

15 Q. And is that reflected in Exhibit 8?

16 A. That's correct.

17 MR. BRUCE: And, Mr. Examiner, everyone
18 received notice. Once again, the Chevron green card did
19 not make it back, so I'll submit that later, too.

20 EXAMINER McMILLAN: Okay.

21 Q. (BY MR. BRUCE) Were Exhibits 1 through 8 either
22 prepared by you or under your supervision or compiled
23 from company business records?

24 A. Yes, they were.

25 Q. In your opinion, is the granting of this

1 application in the interest of conservation and the
2 prevention of waste?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I'd move the
5 admission of Exhibits 1 through 8.

6 EXAMINER McMILLAN: So accepted.

7 (Mewbourne Oil Company Exhibit Number 1
8 through 8 were offered and admitted into
9 evidence.)

10 MR. BRUCE: And I have no further questions
11 of Mr. Haden.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. The question is: What is the formal pool name?

15 A. The pool name?

16 Q. Yeah.

17 A. Malaga North Delaware. The Pool Code is 42960.

18 Q. 42960?

19 A. Yes, 42960. The original APD was for a Bone
20 Spring well, which is -- we later amended that
21 application by sundry notice to set forth that it's a
22 Delaware well.

23 Q. Are all of the acres 100 percent fee?

24 A. 100 percent fee.

25 Q. So no state or BLM?

1 A. No, sir.

2 Q. I have no further questions at this time.

3 Thank you very much.

4 A. Thank you, Mr. Examiner.

5 NATE CLESS,

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. Cless, can you identify Exhibit 9 and
11 identify its content?

12 A. Exhibit 9 is an isopach structure map of the
13 Basal Brushy-Delaware Formation. The structure is on
14 the top of Bone Spring interval. This is a gross
15 isopach map. I've also highlighted all of the Delaware
16 producers with a brown circle. So you can see there are
17 a number of vertical Delaware producers in this area.

18 You'll also see the location of the
19 previous horizontal that we've drilled in the west
20 half-west half of Section 35, and then the red arrow
21 indicates the location of our proposed well in the east
22 half-west half of Section 35.

23 Q. Will the thickness of the Delaware zone you're
24 targeting in this well be roughly equivalent to that in
25 the west half-west half --

1 A. Yeah. We believe it will be approximately --
2 the gross interval is approximately 350 feet thick.

3 Q. What is Exhibit 10?

4 A. Exhibit 10 is a three-well cross section going
5 through all the adjacent vertical wells to our proposed
6 lateral. It's a north-south cross section. So the
7 first well is located in Section 35, Unit C. And so you
8 can see just a gross interval. This is basically of the
9 Basal Brushy Formation, and where we're going to land
10 this horizontal is in the lower part of the Basal
11 Brushy. That's where we landed the previous well.

12 You can see there is a ton of porosity
13 throughout all of -- all of the Delaware Formation. But
14 the last well on this cross section is a resistivity
15 log, and you can see the resistivity sticks up in the
16 lower part of the Basal Brushy, so that's the interval
17 that we're targeting. But overall you can see there is
18 a uniform thickness across this entire interval.

19 Q. And in your opinion, will each quarter-quarter
20 section of the well unit contribute more or less equally
21 to production?

22 A. Yes, it will.

23 Q. And, again, there is no faulting on here which
24 would prevent the drilling of this well?

25 A. That's correct.

1 Q. Let's move on to Exhibit 11. What does that
2 show?

3 A. Exhibit 11 is a production data table of the
4 Delaware Formation. Again, you can see there is a
5 number of vertical -- vertical Delaware producers in
6 this area. And then the last well that I've highlighted
7 is the Layla 35 MD 1H. It's the only horizontal that's
8 drilled in this nine-section area. It was drilled by
9 Mewbourne. We drilled it and completed it back in
10 December of 2012. And in that time period, it's made
11 almost 152,000 barrels of oil. And you can see -- all
12 the vertical wells, none of them made over -- I think
13 the highest -- the biggest is 80,000 barrels. You can
14 see that horizontal drilling is the way to go in this
15 Delaware Formation.

16 Q. And the best vertical wells have been producing
17 for --

18 A. A number of years.

19 Q. -- over two decades to produce half of what
20 you've gotten in your horizontal well?

21 A. That's correct.

22 Q. Based on the results of the first Layla
23 Delaware well, is there any reason to orient the well to
24 anything other than as a stand-up?

25 A. No. We don't believe so.

1 Q. Finally, what is Exhibit 12?

2 A. Exhibit 12 is the horizontal well plan of the
3 proposed well. The first page just indicates the
4 surface location, the landing point, the bottom-hole
5 location. Our landing point would be at 725 from the
6 south, 1,800 from west. We will be in a legal location.
7 And then our bottom hole will be 330 from the north,
8 1,800 from the west. We will be at a legal location to
9 the lateral.

10 Q. Are these Delawares completed more or less with
11 the same number of stages as the Bone Spring wells?

12 A. Yeah. We, again, use a packer and port system.
13 We use about 20 ports -- or 20 completion stages for
14 this Delaware Formation.

15 Q. Were Exhibits 9, 10, 11 and 12 either prepared
16 by you or compiled from company business records?

17 A. Yes, they were.

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

21 A. Yes.

22 MR. BRUCE: Mr. Examiner, I move the
23 admission of Exhibits 9 through 12.

24 EXAMINER McMILLAN: So accepted.

25 (Mewbourne Oil Company Exhibit Numbers 9

1 through 12 were offered and admitted into
2 evidence.)

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

5 CROSS-EXAMINATION

6 BY EXAMINER McMILLAN:

7 Q. One general question: Why do you think the
8 Delaware wells underperform relative to the Bone Spring
9 wells?

10 A. There's a lot -- you can see there is a lot of
11 porosity, so, you know, there is some type of a fluid in
12 these Delaware Formations. For the most part, it's
13 water, but then there are certain areas that we get just
14 higher oil cuts for various reasons, for structural
15 reasons or just for various reasons. And in this
16 particular area, like, you can see there is a big --
17 we're offsetting a big Delaware field -- a Delaware
18 vertical field. And there's a -- there's a subtle -- a
19 subtle structure that kind of sets that field up. And
20 so in this particular area, I think that's why you get
21 higher oil cuts than the Delaware.

22 Q. Because I've seen some Delaware wells that have
23 essentially been water wells. Is that because it's not
24 charged as well?

25 A. Yeah. And, I mean, you need something to --

1 you need some geologic feature to -- to enhance that oil
2 to -- to get a higher oil cut in these areas. So even
3 the smallest little feature sometimes seems to help.

4 Q. I don't have any further questions.

5 EXAMINER McMILLAN: And this case will be
6 continued for two weeks.

7 Thank you.

8 Tell you what, let's take about a 15-minute
9 break and come back at quarter till.

10 (Case Number 15169 concludes, 9:34 a.m.)

11 (Break taken, 9:34 a.m. to 9:50 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. 15169
heard by me on July 10 2014

Michael McMullan, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

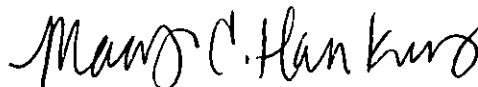
5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced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

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21

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

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