

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

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

ORIGINAL

APPLICATION OF MEWBOURNE OIL COMPANY CASE NO. 15158  
FOR A NONSTANDARD OIL SPACING AND  
PRORATION UNIT AND COMPULSORY POOLING,  
EDDY COUNTY, NEW MEXICO.

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:

3 JAMES G. BRUCE, ESQ.  
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 4 Santa Fe, New Mexico 87504  
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6  
 7

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10 Mewbourne Oil Company's Case-in-Chief:

11 Witnesses:

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21 Mewbourne Oil Company Exhibit Numbers 1 through 5 8

22 Mewbourne Oil Company Exhibit Numbers 6 through 9 14

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1 (10:21 a.m.)

2 EXAMINER McMILLAN: I will call Case Number  
3 15158, application of Mewbourne Oil Company for a  
4 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. I have two  
9 witnesses, Mr. Haden and Mr. Cless, who were previously  
10 sworn and qualified as an expert landman and geologist.

11 EXAMINER McMILLAN: Any other appearances?

12 PAUL HADEN,

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

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Haden, are you familiar with the land  
18 matters involved in this application?

19 A. Yes, I am.

20 Q. What is Exhibit 1?

21 A. Exhibit Number 1 is a land plat of the area.  
22 It shows our proposed nonstandard proration unit, which  
23 is in the west half of the west half of Section 11.  
24 This is in Township 18 South, Range 31 East, Eddy  
25 County, New Mexico. It also indicates two tracts.

1 Tract Number 1 being the west half of the northwest  
2 quarter and Tract Number 2 being the west half of the  
3 southwest quarter in Section 11.

4 Q. And what formation is being pooled in this  
5 well?

6 A. This is the Wolfcamp Formation.

7 Q. And who is the only interest owner being force  
8 pooled?

9 A. This is Ard Oil, Limited.

10 Q. And what is Exhibit 2?

11 A. Exhibit 2 is tract ownership for the west half  
12 of Section 11 -- actually for the west half-west half of  
13 Section 11.

14 Q. Or the west half-west half?

15 A. Yes. The west half-west half of Section 11.

16 Q. And on this list, it says "Ard Oil" -- it also  
17 mentions Javelina Partners, but I believe they have  
18 joined in the well; is that correct?

19 A. They have joined in the well, yes.

20 Q. So the only interest owner is Ard Oil?

21 A. Ard Oil, Limited, correct.

22 Q. And have we -- just as background for the  
23 Examiner, has Mewbourne been in wells -- a number of  
24 wells with Ard Oil over the last several years?

25 A. Yes. In fact, very recently in the east half

1 of the west half of Section 11, they also were pooled,  
2 and this was the subject to Order Number R-13771.

3 Q. Is the problem that they never respond?

4 A. They never respond.

5 Q. And they haven't -- have they responded in this  
6 case?

7 A. They have not responded in this case at all.

8 Q. And have they not responded in the prior cases  
9 in which you have force pooled?

10 A. They have never responded to any of our  
11 proposals in the past several years.

12 Q. And what is Exhibit 3?

13 A. Exhibit 3 is a letter sent to -- to Ard Oil,  
14 Limited proposing our well and/or offering to purchase a  
15 term assignment from them, and they did not want to  
16 participate in this well. We have sent via overnight  
17 mail, and we have evidence that they did receive a  
18 package. The reason why we sent it overnight mail is  
19 that they never respond to certified mail at all. They  
20 just never pick it up. But for overnight FedEx mail,  
21 they do get the package from us.

22 Q. And in response to one of the Examiner's  
23 questions on the other hearings, what type of land is  
24 involved in this application?

25 A. This is federal land.

1 Q. All federal land?

2 A. All federal, yes, sir.

3 Q. And, again, Ard Oil did not respond to the  
4 overnighted proposal?

5 A. They did not.

6 Q. And this is a valid address for Ard Oil?

7 A. This is a valid address.

8 Q. So there was no need to notify any unlocatable  
9 interest owners?

10 A. No, sir.

11 Q. And in your opinion, has Mewbourne made a  
12 good-faith effort to obtain the voluntary joinder of Ard  
13 Oil, Limited in this well?

14 A. Yes, we have.

15 Q. Could you move to the last page of Exhibit 3  
16 and identify that and describe the cost of the proposed  
17 well?

18 A. Yes. This is a copy of our AFE for the Tamano  
19 11 MD Fed #1H well. It sets forth the surface and  
20 bottom-hole location of this well. This also sets forth  
21 the estimated cost to casing point, which is \$2,226,200,  
22 with an estimated completed well cost of \$4,168,900.

23 Q. And are these costs equivalent to the costs of  
24 other wells drilled to the Bone Spring Formation in this  
25 area of southeast New Mexico?

1 A. That's correct.

2 Q. Do you believe these costs are fair and  
3 reasonable?

4 A. They are fair and reasonable, yes.

5 Q. And was notice of this application mailed to  
6 Ard Oil?

7 A. Yes, they were.

8 MR. BRUCE: And, actually, Mr. Examiner,  
9 someone did sign for my green card, but it was probably  
10 because it wasn't coming from Mewbourne Oil Company.

11 And, Mr. Examiner, Exhibit 5 is my  
12 Affidavit of Notice to offsets.

13 Q. (BY MR. BRUCE) Mr. Haden, does the notice  
14 letter correctly list all of the offset operators to the  
15 proposed nonstandard unit?

16 A. Yes, it does.

17 MR. BRUCE: And, Mr. Examiner, everybody  
18 received notice, for a change.

19 Q. (BY MR. BRUCE) Does Mewbourne request that it  
20 be appointed operator of the well?

21 A. We so request.

22 Q. Do you have a recommendation for the overhead  
23 rates?

24 A. 7,000 for a drilling well rate and \$700 per  
25 month for a producing well rate.

1 Q. And are those the amounts that are set forth in  
2 the JOA which other working interest owners have signed?

3 A. That's correct.

4 Q. And are these amounts fair and reasonable for  
5 wells of this depth in this area?

6 A. They are.

7 Q. Does Mewbourne request the maximum cost plus  
8 200 percent risk charge if Ard Oil goes nonconsent in  
9 this well?

10 A. We do.

11 Q. And were Exhibits 1 through 5 either prepared  
12 by you or compiled from company business records?

13 A. Yes, they were.

14 Q. And is the granting of this application in the  
15 interest of conservation and the prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move the  
18 admission of Exhibits 1 through 5?

19 EXAMINER McMILLAN: So accepted.

20 (Mewbourne Oil Company Exhibit Numbers 1  
21 through 5 were offered and admitted into  
22 evidence.)

23 MR. BRUCE: No further questions.

24 CROSS-EXAMINATION

25 BY EXAMINER McMILLAN:

1 Q. For clarification, what pool is this?

2 A. This is the Tamano-Bone Spring. Let's see.  
3 Yeah, Tamano-Bone Spring.

4 MR. BRUCE: Yeah. I believe that's right.

5 THE WITNESS: The code is 58040.

6 Q. (BY EXAMINER McMILLAN) And do you have an API  
7 number?

8 A. Yes. It's 30-01541349.

9 MR. BRUCE: Mr. Examiner, there is one  
10 thing in this case that is a little unusual. And  
11 Mr. Haden can confirm this. Due to depth severances,  
12 the pooling is only from the base of the 2nd Bone Spring  
13 carbonate to the base of the Bone Spring Formation.

14 EXAMINER McMILLAN: Excuse me. Please  
15 repeat that.

16 MR. BRUCE: From the base of the 2nd Bone  
17 Spring carbonate to the base of the Bone Spring  
18 Formation.

19 EXAMINER McMILLAN: So you're only  
20 interested in that small interval? That's what you're  
21 pooling?

22 THE WITNESS: Correct.

23 MR. BRUCE: Correct. And I don't have the  
24 case number, Mr. Examiner, but you'll see with the  
25 geologist's testimony, there is an offsetting well. And

1 that -- I believe that well -- the pooling order in that  
2 case also had the same depth restriction.

3 Q. (BY EXAMINER McMILLAN) And the proration unit  
4 is in the west half-west half?

5 A. Correct.

6 Q. And is the Tamano-Bone Spring statewide?

7 MR. BRUCE: Yes, I believe it is. I will  
8 verify that.

9 EXAMINER McMILLAN: So 330 from 40?

10 MR. BRUCE: That is correct.

11 EXAMINER McMILLAN: West half of the west  
12 half; 11, 18 South, 31 East?

13 THE WITNESS: That's correct.

14 EXAMINER McMILLAN: I have no further  
15 questions at this time. Thank you.

16 THE WITNESS: Thank you, Mr. Examiner.

17 NATE CLESS,

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

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Mr. Cless, are you familiar with the geology  
23 involved in this application?

24 A. Yes, sir, I am.

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

1           A.    Exhibit 6 is an isopach and structure map.  The  
2 isopach is of the lower 2nd Bone Spring sand.  It's a  
3 gross isopach map, and the structure is on the base of  
4 the lower 2nd Bone Spring sand interval.  You can see  
5 all the green laterals are all the horizontals that have  
6 been drilled in this area.  Mewbourne has drilled in  
7 Section 10, as well as in Section 15 and Section 11.

8                   I've also identified other Bone Spring  
9 producers in this area.  All the yellow circles are the  
10 2nd Bone Spring sand producers, and the blue circles are  
11 the 2nd Bone Spring carbonate producers.

12                   So as Mr. Bruce was talking about the  
13 severance, the severance is basically -- because we  
14 don't have the rights to -- the rights to those 2nd Bone  
15 Spring carbonate producers, and I'll show you on my  
16 cross section where that severance line is.

17           Q.    So there are -- a number of these Bone Spring  
18 carbonate wells are still producing?

19           A.    Yes, they are.

20           Q.    And it looks like the thickness of the Bone  
21 Spring is pretty consistent across all of Section 11?

22           A.    Yeah.  I'll show you on my cross section, but  
23 it's roughly 100 feet.  The gross interval of the -- of  
24 the smaller interval is roughly 100 feet.

25           Q.    Let's move on to your Exhibit 7.

1           A.    Exhibit 7 is a four-well cross section going  
2 through all four 40s that we will be going through in  
3 our proposed well. You can see on the right-hand side  
4 of the cross section I've listed the upper 2nd Bone  
5 Spring sand and the lower 2nd Bone Spring sand.  
6 Basically, that top purple line is where the rights are  
7 severed, basically above that purple line in the 2nd  
8 Bone Spring and even below that purple line in the 2nd  
9 Bone Spring sand.

10                   Where we're targeting is the lower 2nd Bone  
11 Spring. So, again, as you can see across all four of  
12 these wells, there is a uniform gross thickness across  
13 there, and the porosity throughout each of these wells  
14 is roughly 10 or 12 percent.

15           Q.    In your opinion, will each quarter-quarter  
16 section of the well unit contribute more or less equally  
17 to the production of the well?

18           A.    Yes.

19           Q.    And is there any type of faulting or other  
20 geologic impediment that would prevent the proper  
21 drilling of this well?

22           A.    No, sir.

23           Q.    What is Exhibit 8?

24           A.    Exhibit 8 is just a production table of the  
25 horizontal Bone Spring wells that Mewbourne has drilled.

1 And so, again, we've drilled three wells in Section 10.  
2 Those are the first three wells on here. Those are all  
3 east-west wells. I've listed everything from the  
4 locations of them to the oil, gas and water. And then  
5 the last column is the peak month oil. And then I've  
6 also listed the well in Section 15, as well as the  
7 north-south well in Section 11.

8                   So if you look at that last column, the  
9 Peak Month Oil column, you can see that the first two  
10 wells we drilled came on at about 10,000 barrels the  
11 first month. And then as we went south, the wells came  
12 on at 7- and 8,000 barrels for the first month. And  
13 then when we drilled the east-west -- or the north-south  
14 well, it also came on at just over 8,000 barrels the  
15 first month.

16                   So weren't seeing a whole lot of difference  
17 between north-south and east-west. Also, the fact that  
18 we've established -- we've already established stand-ups  
19 in Section 11, we've kind of forced ourselves in  
20 drilling another stand-up well in the west half-west  
21 half of Section 11.

22           Q.    So at this point, you don't see much difference  
23 in stand-ups or lay-downs in this area?

24           A.    Not a whole lot.

25           Q.    Finally, what is Exhibit 9?

1           A.    Exhibit 9 is just the horizontal well plan of  
2   our proposed well.  Again, it shows our surface location  
3   of 188 -- 188 feet from the south line, 903 from the  
4   west, a landing point of 680 from the south, 898 from  
5   the west, so we will get a legal landing location; and  
6   our bottom hole of 330 from the north, 850 from the  
7   west.  So, again, we will be at legal locations.

8           Q.    Were Exhibits 6, 7 and 8 prepared by you?

9           A.    Yes, they were.

10          Q.    And was Exhibit 9 compiled from company  
11   business records?

12          A.    Yes, it was.

13          Q.    And in your opinion, is the granting of this  
14   application in the interest of conservation and the  
15   prevention of waste?

16          A.    Yes.

17                   MR. BRUCE:  Mr. Examiner, I'd move the  
18   admission of Exhibits 6, 7, 8 and 9.

19                   EXAMINER McMILLAN:  So accepted.

20                           (Mewbourne Oil Company Exhibit Numbers 6  
21                           through 9 were offered and admitted into  
22                           evidence.)

23                   MR. BRUCE:  And I have no further questions  
24   of the witness.

25

## CROSS-EXAMINATION

1

2 BY EXAMINER McMILLAN:

3 Q. Once again, do you think there will be any  
4 difference in ultimate cums from north-south to  
5 east-west?

6 A. I don't believe so. I mean, you can see on  
7 that production data table the initial months are -- the  
8 initial peak months are fairly similar. And I guess  
9 just looking at the -- see, that north-south well we  
10 drilled was -- we only have a couple months of  
11 production on it. It was completed in February of this  
12 year, and it's made 19,000 barrels. And then -- let's  
13 see. If you look at the well that's above that, the  
14 well in Section 15, it was completed about a year  
15 earlier, and it's making 42,000 barrels of oil. So I  
16 think it's -- the well in Section 11 versus the well in  
17 Section 15 is kind of on track. We'll probably have the  
18 same ultimate recovery, so I don't believe there is a  
19 whole lot of difference in it.

20 Q. So why did they drill the northwest well in  
21 Section 2? Do you have any idea? I've just never quite  
22 seen that.

23 A. It was a -- it was a reentry, and I'm not sure  
24 why they did that. But it was -- it was a 2nd Bone  
25 Spring vertical producer, and then they went and

1 re-entered that. So I'm not sure what they were  
2 thinking, but --

3 MR. BRUCE: That's not a Mewbourne well.

4 THE WITNESS: It's not a Mewbourne.

5 EXAMINER McMILLAN: I hadn't seen that  
6 before. I didn't know if you knew.

7 I have no further questions.

8 And Case Number 15158 will be taken under  
9 advisement.

10 (Case Number 15158 concludes, 10:38 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. \_\_\_\_\_  
heard by me on \_\_\_\_\_.

\_\_\_\_\_, Examiner  
Oil Conservation Division

1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

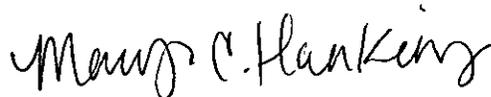
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CERTIFICATE OF COURT REPORTER

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, CCR, RPR  
Paul Baca Court Reporters, Inc.  
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