

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 FOR A NONSTANDARD
OIL SPACING AND PRORATION UNIT
AND COMPULSORY POOLING, LEA
COUNTY, NEW MEXICO.

CASE NO. 15189

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 21, 2014

Santa Fe, New Mexico

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BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, on Thursday, August 21, 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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500 4th Street, Northwest, Suite 105
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1 APPEARANCES
 2 FOR APPLICANT MEWBOURNE OIL COMPANY:
 3 JAMES G. BRUCE, ESQ.
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1 (9:23 a.m.)

2 EXAMINER McMILLAN: Good morning. Call
3 back to order Docket 26-14.

4 I will call Case 15189, application of
5 Mewbourne Oil Company for a nonstandard oil spacing and
6 proration unit and compulsory pooling, Lea County,
7 New Mexico

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa Fe representing the Applicant. I have two
11 witnesses.

12 EXAMINER McMILLAN: If the witnesses would
13 please stand up and be sworn in.

14 (Mr. Wallace and Mr. Hill sworn.)

15 EXAMINER McMILLAN: And you have --

16 MR. BRUCE: Two witnesses, Dusty Wallace,
17 the landman, and we'll have our geologist up in a
18 minute.

19 DUSTY WALLACE,
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. Mr. Wallace, would you please state your full
25 name and city of residence for the record?

1 A. Dusty Wallace, Midland, Texas.

2 Q. And who do you work for and in what capacity?

3 A. Mewbourne Oil Company as a landman.

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

6 A. No, I have not.

7 Q. Would you please summarize your educational and
8 employment background for the Examiner?

9 A. Yes. I have a bachelor's of business
10 administration from Texas Tech with a major in energy
11 commerce, and I've been a landman for Mewbourne Oil
12 Company for a little over five years.

13 Q. Have you been in different Mewbourne offices?

14 A. Yes, I have.

15 Q. And what were those offices?

16 A. Amarillo, Texas and Midland, Texas.

17 Q. Does your area of responsibility at Mewbourne
18 include this area of southeast New Mexico?

19 A. Yes, it does.

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

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I tender
24 Mr. Wallace as a petroleum landman.

25 EXAMINER McMILLAN: You went to a good

1 school.

2 So accepted.

3 Q. (BY MR. BRUCE) Mr. Wallace, could you identify
4 Exhibit 1 for the Examiner and describe briefly what
5 Mewbourne seeks in this case?

6 A. Yes. Exhibit 1 is a Midland Map Company land
7 plat. It includes part of Township 19 South, Range 33
8 East. Mewbourne seeks an order approving a nonstandard
9 well unit comprised of the north half of the south half
10 of Section 17 and pooling of the Bone Spring Formation.

11 Q. And what is the name of the well, and where is
12 the well located?

13 A. The well is the Excalibur 17 LI Fed Com #1H.
14 It is a horizontal well with a surface location at 1,700
15 feet from the south line, 200 feet from the west line
16 and a terminus 1,700 feet from the south line, 330 feet
17 from the east line of Section 17.

18 Q. What well is the pool in?

19 A. Let's see. The pool -- the Tonto-Bone Spring
20 pool.

21 MR. BRUCE: And, Mr. Examiner, that is
22 spaced on statewide rules.

23 EXAMINER McMILLAN: The pool code?

24 MR. BRUCE: Mr. Examiner, if you'll look at
25 Exhibit 2, it is -- the C-102 has the pool code on there

1 and the API number.

2 EXAMINER McMILLAN: Okay.

3 Q. (BY MR. BRUCE) Mr. Wallace, who are you seeking
4 to pool in this case?

5 A. We are seeking to pool -- let's see. The owner
6 being pooled is the trustee of the Edward R. Hudson
7 Trust No. 4. The Trust owns a 12-and-a-half percent
8 record title interest, and Federal Lease NM 077004.

9 Q. And you said a record title interest. Do they
10 own any cost-bearing interest, any working interest in
11 the well?

12 A. They do own a cost-bearing interest. It is
13 significantly smaller. Let's see. I have an AFE. It's
14 1.51375 percent.

15 Q. Now, is that subject to a JOA?

16 A. It is, yes, an existing JOA.

17 Q. But they have refused to sign the
18 communitization agreement?

19 A. That's correct.

20 Q. And does the Division need to enter an order so
21 that Mewbourne can obtain approval of the
22 communitization agreement from the BLM?

23 A. Yes.

24 Q. But because their interest -- their working
25 interest is tied up in a JOA, you're not seeking any

1 penalty on production or anything like that?

2 A. That is correct.

3 EXAMINER McMILLAN: Slow down. I'm making
4 notes. So no cost-bearing, correct?

5 MR. BRUCE: Correct. We're not seeking to
6 force pool any cost-bearing interest.

7 EXAMINER McMILLAN: Okay. Thank you.

8 Q. (BY MR. BRUCE) And what is Exhibit 3?

9 A. Exhibit 3 is the proposal letter to the Trust.

10 Q. And did you take any other steps to obtain the
11 Trust's approval of the communitization agreement?

12 A. No, we have not. The Ard family, who controls
13 this trust, in the past has not responded to our
14 proposals. So we sent this one, and we got no reply.

15 Q. And over the past couple of years, I believe,
16 Mewbourne has had to force pool the Edward R. Hudson
17 Trust or the Ard family just for communitization
18 purposes?

19 A. That's correct.

20 Q. And they have never responded to you?

21 A. That's right.

22 Q. In your opinion, has Mewbourne made a
23 good-faith effort to obtain the voluntary joinder in the
24 trust insofar as communitizing the well?

25 A. Yes.

1 Q. And do you request that Mewbourne be appointed
2 operator of the well?

3 A. Yes.

4 Q. And was the Trust notified of this hearing?

5 A. Yes, they were.

6 Q. And is that reflected in the Affidavit of
7 Notice marked Exhibit 4?

8 A. Yes, it is.

9 Q. And what is Exhibit 5?

10 A. Let's see. Exhibit 5 lists the offset owners
11 to the nonstandard well unit.

12 Q. And was notice given to Yates Energy
13 Corporation, the only offset other than Mewbourne?

14 A. Yes.

15 Q. And is that reflected in Exhibit 6?

16 A. Yes, it is.

17 Q. Were Exhibits 1 through 6 either prepared by
18 you or under your supervision or compiled from company
19 business records?

20 A. Yes, they were.

21 Q. And in your opinion, is the granting of this
22 application in the interest of conservation and the
23 prevention of waste?

24 A. Yes.

25 MR. BRUCE: Mr. Examiner, I'd move the

1 admission of Exhibits 1 through 6.

2 EXAMINER McMILLAN: Exhibits 1 through 6
3 are part of the record.

4 MR. BRUCE: And I have no further questions
5 of the witness.

6 (Mewbourne Oil Company Exhibit Numbers 1
7 through 6 were offered and admitted into
8 evidence.)

9 CROSS-EXAMINATION

10 BY EXAMINER McMILLAN:

11 Q. The question I have: Is this 100 percent BLM?

12 A. Yes, it is.

13 Q. I guess the question I have would be for the
14 geologist.

15 A. Okay.

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

17 Thank you very much.

18 A. Thank you.

19 MR. BRUCE: Mr. Examiner, call Tyler Hill,
20 our geologist.

21 TYLER HILL,

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

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DIRECT EXAMINATION

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BY MR. BRUCE:

Q. Mr. Hill, where do you reside?

A. Midland, Texas.

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

A. Mewbourne Oil Company as a geologist.

Q. Have you previously testified before the Division?

A. Yes, sir.

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

A. Yes, sir.

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

A. Yes, sir.

MR. BRUCE: Mr. Examiner, I tender Mr. Hill as an expert petroleum geologist.

EXAMINER McMILLAN: So accepted.

Q. (BY MR. BRUCE) Mr. Hill, could you identify Exhibit 7 for the Examiner?

A. Yes, sir. This is a nine-section map around Section 17 where we plan to drill the Excalibur 17 LI. The wellbore is highlighted in black, with the name right above it, in Section 17. This map shows structure, as well as an isopach. The structure is on

1 top of the target sand that we plan to target in this
2 well, and the isopach is net sand greater than 10
3 percent porosity. This map also shows production in
4 this area produced from the 1st Sand, 2nd Sand and the
5 3rd Bone Spring carbonate.

6 If you'll notice, A to A prime, that's the
7 cross section. That's on Exhibit 8, moving on to that
8 one. This is a 2-0 [sic] cross section. It shows the
9 2nd Bone Spring sand interval, and our target interval
10 would be bounded by the red on the top and the bottom.
11 And this zone is about 100-foot thick sand. It's got 10
12 to 12 percent porosity, and then it's got 7 -- it's
13 about 10,000 feet TVD. So being that the sand is so
14 continuous each quarter-quarter, it should contribute
15 equally.

16 Q. And the 2nd Bone Spring is continuous across
17 the proposed well unit; is it not?

18 A. Yes, sir.

19 Q. If we look at your Exhibit 7, there are other
20 horizontal Bone Spring wells in Section 17. Are those
21 also Mewbourne wells?

22 A. Yes, sir, two to the north and two to the
23 south. All the wells in this area have been drilled
24 east to west.

25 Q. Let's discuss that briefly. Could you identify

1 Exhibit 9 for the Examiner?

2 A. Exhibit 9 is a spreadsheet of production in
3 this area, and I've highlighted two just to kind of show
4 why we're going east-west. The Excalibur 17 MP has been
5 on for two months. We drilled that in February of 2014,
6 and in two months, it's produced 17,000 barrels of oil,
7 14 million gas and 22,000 barrels of water.

8 The Norte Fed Com #1 was drilled by
9 Mewbourne as well. It's highlighted in green. It's in
10 location 19H. It's a vertical well. It was completed
11 in 2010. And it's perfed in the 1st and 2nd sands, as
12 well as the 3rd Bone Spring carbonate, and in four
13 years, it has produced 14,000 barrels of oil, 35 million
14 gas and 68,000 barrels of water.

15 Q. And in the wells on your plat in the immediate
16 area, the ones that are horizontal, are east-west
17 horizontals, correct?

18 A. Yes, sir, all of them. And they're all in the
19 2nd Bone Spring sand.

20 Q. And it appear, ultimately, that they will be
21 commercial wells?

22 A. Yes, sir.

23 Q. And finally, what is Exhibit 10?

24 A. Exhibit 10 is our drilling plat. This shows
25 the horizontal wellbore that we'll drill within the

1 setbacks of 330 feet from the east line.

2 Q. And how many completion stages does Mewbourne
3 use on these wells?

4 A. This is a 20-stage completion.

5 Q. And that is similar to other completions
6 Mewbourne has used on wells in this section --

7 A. Yes, sir.

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

11 A. Yes.

12 Q. And were Exhibits 7 through 10 either prepared
13 by you or compiled from company business records?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, I'd move the
16 admission of Exhibits 7 through 10.

17 EXAMINER McMILLAN: Exhibits 7 through 10
18 are accepted as part of the record.

19 MR. BRUCE: And I have no further
20 questions.

21 (Mewbourne Oil Company Exhibit Numbers 7
22 through 10 were offered and admitted into
23 evidence.)

24

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CROSS-EXAMINATION

1
2 BY EXAMINER McMILLAN:

3 Q. Okay. The first question I have is a pretty
4 simple question. What are the footage calls for your
5 first perforation, and what are the footage calls for
6 your last perforation? Simply, what's the producing
7 interval, footage calls for the producing interval?

8 A. We don't have that yet. It depends on where we
9 set the 7-inch casing, which will be 330 from the west
10 line -- past 330 from the west line. Until we drill the
11 well, we don't know exactly those depths.

12 MR. BRUCE: Mr. Examiner, if you look at
13 Exhibit 10, just on the very first page, you'll see the
14 ending curve is about -- about -- approximately 480 feet
15 east of the surface location.

16 EXAMINER McMILLAN: Okay. So it would be
17 more than 660? Within 20 feet?

18 MR. BRUCE: Yeah, approximately.

19 THE WITNESS: And for the east line, the
20 last one, it's usually 100 feet from the 330. So it
21 would be around 430 -- 430, 450.

22 Q. (BY EXAMINER McMILLAN) I just wanted to make
23 sure it's an orthodox location.

24 Okay. Now, the question I have is -- let's
25 look at Exhibit 7. There appears to be a zero line

1 through the producing interval.

2 A. Uh-huh.

3 Q. So looking at this map, basically how can I say
4 that they're all contributing equally when there is a
5 zero line through part of your producing quarter-quarter
6 or unit?

7 A. Basically, this is a 10 percent isopach, so any
8 sand that's greater than 10 percent is mapped through
9 here. So the sand in the center, highlighted green, may
10 be better, but we don't know that the sand in the zero
11 is going to be any worse. So based on the continuity of
12 the sand, it should contribute equally, each
13 quarter-quarter.

14 Q. So what you're saying is that looking at your
15 map -- okay. The question becomes: In Section 7, that
16 well has a zero, correct?

17 A. Uh-huh.

18 Q. Is there anything productive in it?

19 A. There's nothing being produced out of that well
20 in the 2nd Sand.

21 Q. Based on log evaluation, is there any
22 prospective there?

23 A. Absolutely. Yes.

24 This is my interpretation of the best sand
25 out there. Just because the well in Section 7 doesn't

1 have any porosity greater than 10 percent doesn't mean
2 that I wouldn't drill a well in Section 7.

3 Q. That's real -- but that doesn't satisfy my --
4 your answer doesn't satisfy. Does this well, looking at
5 it, have any -- could it -- could -- anything productive
6 in the 2nd Bone Spring?

7 A. Yes. The 2nd Bone Spring sea sand is pretty
8 well blanketed through here in this area, being far
9 enough away from the shelf, and then we try and map
10 better channels through these intervals to make them --
11 make our best recommendation.

12 Q. Okay. If you look at your well that's in the
13 south half of the north half, that horizontal one --

14 A. Uh-huh.

15 Q. -- do you feel, based on the log -- based on
16 the mud log, do you feel that -- essentially, where you
17 have the zero in there, based on the mud log, do you see
18 part of that as prospective?

19 A. Yes. Absolutely. As we're drilling, we see
20 gas and oil shows all the way through these intervals.

21 Q. Well --

22 A. A better map to show would have been a gross
23 sand isopach rather than a net sand probably.

24 Q. So it would appear to me that this zero could
25 be a big count. You could have offset that fact if you

1 would have supplied the mud log for that teeny, tiny
2 portion.

3 A. To the north?

4 Q. Yeah. I mean, because that way you're
5 making -- you're justifying your zero. Because whenever
6 I see a zero, to me that means it's worthless.

7 A. Right.

8 Q. But if you supply a mud log through the zero
9 portion and you show us prospective, it should be based
10 on an analogy; it should be prospective.

11 MR. BRUCE: And, Mr. Examiner, from my
12 point of view, there are a couple of issues, which is
13 Mr. Hill brought a net isopach partly because Examiner
14 Ezeanyim always gets upset when people bring gross
15 isopachs.

16 MR. McMILLAN: (Laughter.)

17 MR. BRUCE: And as he said, a gross isopach
18 would show that the reservoir is there, number one. And
19 number two -- and Mr. Hill will confirm it -- this is
20 greater than 10 percent.

21 REDIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. So, Mr. Hill, there is reservoir there at less
24 than 10 percent?

25 A. Yes.

1 MR. BRUCE: And insofar as looking at this,
2 there is another factor, which is just simple geometry,
3 I suppose, which is this: The Division wants to know
4 whether the quarter-quarter sections are contributing to
5 production. Of course, Mr. Hill said they were. But
6 the other factor is obviously when you look at the two
7 center quarter-quarter sections, that's going to have
8 1,320 feet of, more or less, perforations. Whereas, the
9 end ones don't have. They might have 990 or even 660,
10 but that's just a vacuum drilling, and that is
11 permissible under the Division's rules.

12 EXAMINER McMILLAN: Okay.

13 RE CROSS EXAMINATION

14 BY EXAMINER McMILLAN:

15 Q. So then the question is: In the offset wells,
16 have you seen, based on the drilling, based on gas and
17 oil shows, that your quote, zero, is prospective?

18 A. Yes.

19 Q. Okay. I mean, you have to be able to justify
20 your map.

21 A. Uh-huh.

22 Q. And I believe the fact that the statement that
23 you saw the shows and they contribute and the fact you
24 are an expert witness, that is acceptable.

25 I have no further questions at this time.

1 Thank you very much.

2 EXAMINER McMILLAN: Case 15189 will be
3 taken under advisement.

4 MR. BRUCE: I do move the admission of
5 Exhibits 7 through 10.

6 EXAMINER McMILLAN: Exhibits 7 through 10
7 are so accepted.

8 (Mewbourne Oil Company Exhibit Numbers 7
9 through 10 were offered and admitted into
10 evidence.)

11 (Case Number 15189 concludes, 9:44 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
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