

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:

APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY POOLING
AND AN UNORTHODOX WELL LOCATION,
EDDY COUNTY, NEW MEXICO. CASE NO. 15515

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 29, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Technical Examiner,
and David K. Brooks, Legal Examiner, on Thursday,
September 29, 2016, 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.

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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INDEX

	PAGE
Case Number 15515 Called	3
Mewbourne Oil Company's Case-in-Chief:	
Witnesses:	
Clayton Pearson:	
Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner McMillan	9
Cross-Examination by Examiner Jones	10
Questions by Examiner Brooks	11
Jason Lodge:	
Direct Examination by Mr. Bruce	12
Cross-Examination by Examiner McMillan	16
Redirect Examination by Mr. Bruce	17
Continued Cross-Examination by Examiner McMillan	17
Cross-Examination by Examiner Jones	18
Proceedings Conclude	20
Certificate of Court Reporter	21
EXHIBITS OFFERED AND ADMITTED	
Mewbourne Oil Company Exhibit Numbers 1 through 10	16
Mewbourne Oil Company Exhibit Numbers 11 through 14	16

1 (8:39 a.m.)

2 EXAMINER MCMILLAN: I would like to call
3 Case Number 15515, application of Mewbourne Oil Company
4 for compulsory pooling and an unorthodox well location,
5 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.

10 EXAMINER MCMILLAN: Would the witnesses --

11 MR. BRUCE: And they have been previously
12 sworn and qualified.

13 EXAMINER MCMILLAN: Great. Thank you.

14 CLAYTON PEARSON,
15 after having been previously sworn under oath, was
16 questioned and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city of
20 residence for the record?

21 A. My name is Clayton Pearson. I live in Midland,
22 Texas.

23 Q. Were you just previously sworn and qualified as
24 an expert in petroleum land matters?

25 A. I was.

1 Q. And in your position at Mewbourne, does your
2 area of responsibility include this portion of southeast
3 New Mexico?

4 A. Yes.

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

7 A. I am.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. Pearson as an expert petroleum landman.

10 EXAMINER MCMILLAN: So qualified.

11 Q. (BY MR. BRUCE) Mr. Pearson, can you identify
12 Exhibit 1 for the Examiner?

13 A. Exhibit 1 is a plat showing the proration unit
14 for the Yardbirds 34 W2NC Fee #1H well, which is located
15 in the west half of Section 34, Township 23 South, Range
16 28 East, Eddy County, New Mexico. It shows the wellbore
17 location, which is in the east half-west half and was
18 drilled from the south to the north.

19 Q. And is the wellbore unorthodox?

20 A. It is.

21 Q. Is it basically 330 from the end lines of the
22 well unit?

23 A. Correct.

24 Q. And will the next witness discuss the reasons
25 for that?

1 A. Yes.

2 Q. Could you identify Exhibit 2 and describe its
3 contents?

4 A. Yes, sir. Exhibit 2 is the tract ownership
5 associated with the west half of Section 34. It shows
6 that Mewbourne, et al. are signed up under a joint
7 operating agreement, and there are several other parties
8 who have not joined in our uncommitted interest. Any
9 party with an asterisk by their interest is uncommitted
10 and we are requesting to be pooled.

11 Q. The last interest, the Joe Beeman interest, a
12 little over .6 percent, that title is very convoluted;
13 is it not?

14 A. That is correct. There have been numerous
15 quiet title attempts and the chain of title is very
16 convoluted, and so we've lumped all of those owners,
17 approximately 55 claimants, that interest. But we've
18 lumped them all together.

19 Q. Is that discussed in -- what is -- is that
20 discussed in Exhibit 3?

21 A. Yes. Exhibit 3 is a limited portion of our
22 drilling title opinion, and it discusses the chain of
23 title and history associated with this convoluted
24 interest.

25 Q. And this information has been submitted to the

1 Division before?

2 A. That's correct.

3 Q. What is Exhibit 4?

4 A. Exhibit 4 is a list of parties that are no
5 longer subject to this pooling. We have since either
6 had them committed to the well or have acquired an
7 assignment from them.

8 Q. What is Exhibit 5?

9 A. Exhibit 5 is a summary of communications we've
10 had with the uncommitted mineral or working interest
11 owners, and it just lists the dates when the letters and
12 communications were had.

13 Q. And what is Exhibit 6?

14 A. Exhibit 6 is a copy of the communication and
15 proof of notice we've had with each of the parties.

16 Q. Have you had a number of communications with a
17 lot of these parties?

18 A. We have indeed. We've drilled quite a few
19 wells with this convoluted interest involved, and we've
20 dealt with them for the last couple of years in our
21 communications.

22 Q. At least two years?

23 A. At least.

24 Q. In your opinion, has -- there are unlocatable
25 parties; are there not?

1 A. There are.

2 Q. And in connection with those -- this is fee
3 land?

4 A. That's correct.

5 Q. Did Mewbourne have the county records searched?

6 A. We did.

7 Q. Including probate records?

8 A. Correct.

9 Q. And when you couldn't find people there, were
10 other related family members contacted to see if they
11 could give you information regarding their relatives?

12 A. That is correct. We reached out to family
13 members and did Web searches looking for any relatives
14 or other contacts we could reach out to.

15 Q. In your opinion, has Mewbourne made a
16 good-faith effort to locate all of the interested
17 parties, or has it made a good-faith effort to obtain
18 the voluntary joinder of interest owners in the well?

19 A. Yes.

20 Q. What is Exhibit 7?

21 A. Exhibit 7 is a copy of our assessment for the
22 well. It was sent to all of the parties.

23 Q. And are the costs set forth in the AFE fair and
24 reasonable and comparable to the cost of other wells of
25 this type drilled in this area of New Mexico?

1 A. Yes.

2 Q. And what overhead rates do you request?

3 A. We are requesting 7,500 for drilling months and
4 750 for nondrilling months.

5 Q. And are those rates fair and reasonable and
6 comparable to the rates charged by other operators in
7 this area?

8 A. Yes.

9 Q. In the event that an interest owner goes
10 nonconsent, do you request that the maximum cost plus
11 200 percent risk charge be assessed?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, Exhibit 8 is my
14 Affidavit of Notice to all of the parties -- all of the
15 interest owners being pooled in the well unit.

16 Q. (BY MR. BRUCE) Have any of these interest
17 owners subsequently come to terms?

18 A. Yes, they have. And I believe that is
19 requested in the previous exhibit that shows the list of
20 parties no longer being requested to be pooled.

21 MR. BRUCE: Mr. Examiner, Exhibit 9 is
22 simply an Affidavit of Publication as against
23 unlocatable parties or at least parties who did not
24 receive notice. I think if you compare not only Exhibit
25 8 but Exhibit 9 to Mr. Pearson's list of parties who

1 have joined in the well, you will find a lot of them who
2 didn't even receive notice of the -- actual notice of
3 the hearing joined in the well. So they were locatable.
4 They just didn't claim their certified mail.

5 Q. (BY MR. BRUCE) And what is Exhibit 10,
6 Mr. Pearson?

7 A. Exhibit 10 lists the offset ownership
8 associated with this well and the surrounding operators.

9 MR. BRUCE: Mr. Examiner, if you'll look at
10 the beginning and end points of the well, the only
11 affected offset insofar as the unorthodox location goes
12 is Mewbourne Oil Company, and I didn't give notice to
13 anyone as to the unorthodox location. And we did not
14 give notice to the total surrounding people because this
15 is not a nonstandard unit.

16 CROSS-EXAMINATION

17 BY EXAMINER MCMILLAN:

18 Q. What's the status of this well?

19 A. It is drilled and producing.

20 Q. And are there any depth severances within the
21 Wolfcamp?

22 A. No.

23 Q. And is it Culebra Bluff-Wolfcamp South Pool?

24 A. Yes.

25 Q. And the spacing unit is the west half of

1 Section 34?

2 A. Correct.

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. Just to educate me, when you have a convoluted
6 title situation, is it your company's policy to initiate
7 some sort of quiet-title action while you're -- to
8 settle the issue of who is in the well and who is not?

9 A. We usually do not interject ourselves into a
10 convoluted chain of title that we do not have an
11 interest in. If we were to have acquired an interest
12 and then it subsequently became convoluted, we would
13 absolutely initiate a quiet-title suit or some other
14 curative matter. But in this case, the chain of
15 title -- the convolution started over 30 years ago. And
16 with the numerous parties, we'll help as much as we're
17 able to, providing title information, and we'll gladly
18 provide a copy of the title opinion to those who request
19 it in an effort to clear the title, but we usually do
20 not initiate a suit on their behalf.

21 Q. Okay. So I guess I just don't understand.
22 Thank you for that.

23 At what point do you -- is it called
24 convoluted? And then at that point, you ask for them
25 all to be pooled; is that correct?

1 A. I guess that that's up to the examining title
2 attorney and their -- their -- I guess that's up to them
3 to decide based on their recommendation.

4 Q. Okay. Thank you.

5 MR. BRUCE: Mr. Examiner, just -- and this
6 has been presented to the Division before by Mewbourne,
7 but some of these interests in here, the deeds are so
8 conflicting and the interests conveyed were so at odds
9 with each other, you can't tell who owns what. They may
10 own something, but you can't tell if they own
11 one-twelfth interest or no interest or, you know,
12 something in between.

13 EXAMINER JONES: But do you need an
14 attorney's opinion?

15 MR. BRUCE: God bless us, yes.

16 EXAMINER JONES: Okay.

17 EXAMINER BROOKS: This is Wolfcamp gas, I
18 take it, since you said it was a nonstandard unit,
19 correct?

20 MR. BRUCE: Correct.

21 EXAMINER BROOKS: It's 320 spacing and 660
22 setbacks, which is why you set up a nonstandard
23 location?

24 MR. BRUCE: Yes, sir.

25 EXAMINER BROOKS: Okay. There's getting to

1 a lot of Yardbirds in that area.

2 MR. BRUCE: Yeah (laughter).

3 EXAMINER BROOKS: Thank you.

4 EXAMINER MCMILLAN: Thank you.

5 JASON LODGE,

6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Would you please state your name for the
11 record?

12 A. Jason Lodge.

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

14 A. Mewbourne Oil Company as a geologist.

15 Q. And today were you sworn and qualified as an
16 expert petroleum geologist?

17 A. Yes, I was.

18 Q. And are you familiar with the geology involved
19 in this application?

20 A. Yes.

21 Q. Could you turn to what's been marked as Exhibit
22 11 and discuss its contents for the Examiners?

23 A. Yes. This is a base map of the area where
24 Section 34 is highlighted. We have the east half of 34
25 highlighted in blue, and then the west half's

1 highlighted in green. The Yardbirds 34 W2NC surfaced in
2 the south half-south half, and the bottom hole in the
3 north half-north half, so the red arrow points in the
4 direction of the lateral.

5 As far as the colors of the wells here,
6 there are two colors. There is a pink well, which we
7 notate as Wolfcamp sand wells, and then we have the
8 navy-blue color, which are our Wolfcamp Shale wells.
9 The red structure lines are on the top of the Wolfcamp,
10 which is a consistent marker in the area.

11 Q. How many of the wells -- horizontal wells on
12 this plat are Mewbourne's wells?

13 A. Five -- seven wells.

14 Q. Could you turn to Exhibit 12 and identify that
15 and discuss the target zone in a little more detail?

16 A. Sure. On the last exhibit, we also had an A to
17 an A prime, which is the cross section that I'll be
18 discussing here. It starts in the north, in Section 27,
19 and goes down to the south, in Section 3. It covers the
20 interval in Section 34. The entire interval shown here
21 is the Wolfcamp interval. Our target interval in these
22 wells is in the Lower Wolfcamp Shale. You can see on
23 the 34H well and the 34N well, we have red arrows
24 notating where those wells were targeted. And that's a
25 consistent target for us in this area. You can see

1 consistent thickness through the area. There's not a
2 lot of variability in the shale.

3 Q. Is the Wolfcamp continuous across the well
4 unit?

5 A. Yes.

6 Q. And do you believe the entire interval will be
7 productive from the Wolfcamp?

8 A. Yes.

9 Q. What is Exhibit 13?

10 A. Exhibit 13 is a production data table of
11 Wolfcamp producers in the area, specifically in the
12 Lower Wolfcamp Shale. We have the very top well. The
13 Fate 34 #1 is a vertical producer completed in 1986. It
14 only cumed 8,000 barrels of oil versus the three on the
15 bottom. Those are all Mewbourne-operated horizontal
16 wells in the Lower Wolfcamp Shale. They were completed
17 in 2014 and 2015, and they cumed 63- to 85,000 barrels
18 of oil, so horizontals are considerably better here.

19 Q. And move on to Exhibit 14 and identify that.

20 A. Exhibit 14 is the directional plan that we
21 generate before we drill every well. This is for the 34
22 W2NC. If you'll flip to the very last page, this just
23 shows the plat before we drilled it. On the very top,
24 you can see our surface location, 150 from the south,
25 2,240 from the west, and that includes our first take

1 point, 330 from the south, 2,240 from the west, and then
2 also our bottom-hole location at 330 from the north and
3 2,240 from the west.

4 Q. And the first and last take points will be
5 approximately 330 feet from the north and from the south
6 well line?

7 A. Yes, that's correct.

8 Q. And what is the reason for the unorthodox
9 location?

10 A. We'd like to, you know, in most cases, whenever
11 we can, extend the lateral as much as possible.

12 Q. And testimony has previously been presented by
13 Mewbourne and other operators that this is a tight
14 reservoir, right?

15 A. That's correct.

16 Q. And no adverse effect is expected from offsets
17 from having the offset location?

18 A. That's correct.

19 Q. Were Exhibits 11, 12, 13 and 14 prepared by you
20 or under your supervision?

21 A. Yes, they were.

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

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, I'd move the
2 admission of Exhibits 11 through 14.

3 EXAMINER MCMILLAN: Exhibits 11 through 14
4 may now be accepted as part of the record.

5 (Mewbourne Oil Company Exhibit Numbers 11
6 through 14 are offered and admitted into
7 evidence.)

8 MR. BRUCE: And I think I forgot to move
9 Exhibits 1 through 10, but I'd move them at this time.

10 EXAMINER MCMILLAN: Exhibits 1 through 10
11 may now be accepted as part of the record.

12 MR. BRUCE: I have no further questions.
13 (Mewbourne Oil Company Exhibit Numbers 1
14 through 10 are offered and admitted into
15 evidence.)

16 CROSS-EXAMINATION

17 BY EXAMINER MCMILLAN:

18 Q. Okay. And you expect all quarter sections to
19 contribute equally to the production?

20 A. Yes, sir.

21 Q. Okay. Your first explanation of why NSL should
22 be acquired was vague. Why are you -- I want
23 clarification on that point.

24

25

REDIRECT EXAMINATION

BY MR. BRUCE:

Q. Mr. Lodge, with the unorthodox locations, is the wellbore length extended by approximately 660 feet?

A. Yes.

Q. And with the longer wellbore, you believe that would make the well more economical?

A. Yes.

CONTINUED CROSS-EXAMINATION

BY EXAMINER MCMILLAN:

Q. Okay. This goes back to the previous question -- the previous one, case. You said the bottom hole is 330, 2,240?

A. Yes.

Q. But then I see your as-drilled is 342, 2,200.

A. Right. So that -- that -- that would be the as-drilled. Sorry about that.

Q. Oh, the as-drilled is -- so, really, the bottom hole is 342, 2,200, and that's your final perforation?

A. Correct. What I -- what I testified to is our preplanned bottom hole.

Q. Okay. But I'm looking at the as-drilled.

A. Yes. So it's correct.

Q. Well, it would be nice if you would look at that before the hearing.

1 A. I'll do that next time.

2 EXAMINER MCMILLAN: Go ahead.

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. That bottom hole, is that -- that's the TD of
6 the well, but you're just applying for the NSL from that
7 point, but your actual bottom, last perf will be back
8 from that a ways?

9 A. It will, a little bit, yes, sir.

10 Q. Okay. This Wolfcamp, it looks like on your
11 structure it's dipping. As that dips -- continued
12 dipping down towards the Delaware Basin?

13 A. It does, to the east. It dips slightly to the
14 east.

15 Q. Slightly to the east.

16 So does it all go down to a point in the
17 middle of the Basin, or does it kind of level out and --

18 A. It eventually goes to a deeper part of the
19 Basin, and then as you get into Lea County and start
20 coming back up, it goes towards the Shelf, Central
21 Basin.

22 Q. Is there a -- on either side?

23 A. It's a little steeper as you get closer to the
24 Central Basin Platform.

25 Q. Okay. Okay. So how does that structural

1 position of this well affect, do you think, your oil
2 cut -- this well versus the deeper in the Basin versus
3 shallower in the Basin? Does it make a difference?

4 A. Similar -- similar oil cuts once we go to the
5 east in Lea County. Even though it's deeper, it's
6 similar oil cuts.

7 Q. Similar oil cuts?

8 A. Yes.

9 Q. What are you --

10 A. In general, Wolfcamp Shale, you know, 20 to 30
11 percent oil cut.

12 Q. Moving a lot of water then?

13 A. We are.

14 Q. Now, that SWD on your cross section, the left
15 well over the Layla SWD one --

16 A. Yes.

17 Q. -- is that a Devonian SWD?

18 A. Yes, sir, it is.

19 Q. Is that adequate in the Devonian? Is it
20 good -- good porosity in the Devonian?

21 A. Yes, it does.

22 Q. Okay. I don't have any more questions. Thank
23 you very much.

24 EXAMINER MCMILLAN: Do you have any
25 questions?

1 EXAMINER BROOKS: (Indicating.)

2 EXAMINER MCMILLAN: Nothing?

3 Case Number 15515 shall be taken under

4 advisement.

5 (Case Number 15515 concludes, 9:02 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
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4 CERTIFICATE OF COURT REPORTER

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

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20 
21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
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