

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      CASE NO. 15512  
FOR APPROVAL OF A NONSTANDARD OIL  
SPACING AND PRORATION UNIT AND  
COMPULSORY POOLING, EDDY COUNTY,  
NEW MEXICO.

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 21, 2016

Santa Fe, New Mexico

BEFORE:   MICHAEL McMILLAN, CHIEF EXAMINER  
          WILLIAM V. JONES, TECHNICAL EXAMINER  
          GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Michael McMillan,  
Chief Examiner, William V. Jones, Technical Examiner,  
and Gabriel Wade, Legal Examiner, on Thursday, July 21,  
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.

REPORTED BY:   Mary C. Hankins, CCR, RPR  
                  New Mexico CCR #20  
                  Paul Baca Professional Court Reporters  
                  500 4th Street, Northwest, Suite 105  
                  Albuquerque, New Mexico 87102  
                  (505) 843-9241

## 1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

3 JAMES G. BRUCE, ESQ.  
 4 Post Office Box 1056  
 5 Santa Fe, New Mexico 87504  
 (505) 982-2043  
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(10:24 a.m.)

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EXAMINER McMILLAN: Call Case 15512,  
application of Mewbourne Oil Company for approval of a  
nonstandard oil spacing and proration unit and  
compulsory pooling, Eddy County, New Mexico.

7

Call for appearances.

8

9

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

10

EXAMINER McMILLAN: Okay.

11

12

13

MR. BRUCE: I have two witnesses,  
Mr. Pearson and Mr. Cless, both previously sworn and  
qualified.

14

EXAMINER McMILLAN: Please proceed.

15

CLAYTON PEARSON,

16

17

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

18

DIRECT EXAMINATION

19

BY MR. BRUCE:

20

Q. Mr. Pearson, what is Exhibit 1?

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25

A. Exhibit 1 is a land plat showing the proration  
unit in the wellbore of the Yardbirds 3 D3B0 Fee Number  
1H well, which is located in the west half of the east  
half of Section 3, Township 24 South, Range 28 East,  
Eddy County, New Mexico. We're seeking to pool the

1 Delaware Formation, and there are no severances in this  
2 proration unit of the Delaware.

3 Q. And I believe the well unit contains 159. --  
4 159.95 acres?

5 A. That's correct.

6 Q. What is Exhibit 2?

7 A. Exhibit 2 is the tract ownership associated  
8 with this proration unit. It lists out the parties we  
9 seek to pool.

10 Q. And what is Exhibit 3?

11 A. Exhibit 3 is a summary of communications we've  
12 had with these parties. It just summarizes the  
13 correspondence we've had in our efforts to try and do a  
14 deal with these parties.

15 Q. Okay. Are any of these parties interested in  
16 joining in the well?

17 A. I've heard a response from two of the parties,  
18 and they have expressed interest in either participating  
19 or giving a term assignment. And I haven't finalized  
20 the deal with. We are in negotiations with two of the  
21 parties.

22 Q. Okay. And if you come to terms with them, will  
23 you so notify the Division?

24 A. Yes.

25 Q. What type of land is this?

1 A. This is all fee.

2 Q. What is Exhibit 4?

3 A. Exhibit 4 is a copy of the AFE we've sent to  
4 all of the parties, and it shows the total completed  
5 well cost to be just over \$4.1 million.

6 Q. Is this cost fair and reasonable and in line  
7 with the cost of other wells drilled to this depth of  
8 this area of New Mexico?

9 A. Yes.

10 Q. And what overhead rates do you request?

11 A. 7,500 for drilling months and 750 for  
12 nondrilling months.

13 Q. And are those rates fair and equivalent to  
14 those charged by Mewbourne and other operators in this  
15 area?

16 A. Yes.

17 Q. Do you request the maximum cost plus 200  
18 percent risk charge against the owners?

19 A. Yes.

20 Q. And one question I forgot. In your opinion,  
21 has Mewbourne made a good-faith effort to obtain the  
22 joinder of the parties in this well?

23 A. Yes.

24 Q. What is Exhibit 5?

25 A. Exhibit 5 is a description of the offset.

1 ownership associated with this proration unit. You can  
2 see that Mewbourne operates most of the offset. Matador  
3 is to the south as operator.

4 MR. BRUCE: And, Mr. Examiner, Exhibit 6 is  
5 my affidavit, and it shows that Matador did receive  
6 notice of this hearing.

7 And Exhibit 7 is my Affidavit of Notice to  
8 the interest owners being pooled.

9 Once again, I have not received anything  
10 from Mr. and Mrs. Turney, so I would request that this  
11 application be continued for two weeks. Hopefully the  
12 green card will come back.

13 EXAMINER WADE: Are they the only  
14 unlocatable interest at this point?

15 MR. BRUCE: Yeah. Well, they have received  
16 correspondence from Mewbourne before, so we think the  
17 address is valid.

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

21 A. Yes.

22 Q. And were Exhibits 1 through 7 prepared by you  
23 or under your supervision or compiled from company  
24 records?

25 A. Yes.

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

3 EXAMINER McMILLAN: Exhibits 1 through 7  
4 will now be accepted as part of the record.

5 (Mewbourne Oil Co. Exhibit Numbers 1  
6 through 7 are offered and admitted into  
7 evidence.)

8 MR. BRUCE: I have no further questions of  
9 the witness.

10 CROSS-EXAMINATION

11 BY EXAMINER McMILLAN:

12 Q. What is the status of this well?

13 A. It is drilled and currently producing. Again,  
14 this relates back to some of the title complexity here.  
15 And there are some metes and bounds tract work that  
16 actually ended up being included within this proration  
17 unit. Kind of after the fact, we figured out that these  
18 people do have a standing here, so that's why they're  
19 receiving notice now.

20 Q. And it's in Loving-Brushy Canyon -- pool?

21 A. Yes, Code 40350.

22 EXAMINER McMILLAN: Go ahead.

23 CROSS-EXAMINATION

24 BY EXAMINER JONES:

25 Q. Your drilling cost for the Delaware is really a

1 lot lower, but you're still running a lot of casing  
2 string. So this one was done still back in 2015. Do  
3 you think it changed a lot?

4 A. I couldn't answer you. That's a little over my  
5 head on the technical side, so I'd have to defer that  
6 maybe to our geologist. Sorry.

7 Q. I'll wait on that.

8 And I don't have any more questions.

9 EXAMINER WADE: I don't have any questions.

10 EXAMINER McMILLAN: Thank you.

11 NATE CLESS,

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

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 Q. Please state your name for the record.

17 A. Nate Cless.

18 Q. Mr. Cless, what is Exhibit 8?

19 A. Exhibit 8 is an gross isopach map of -- of what  
20 we call the Basal Brushy Canyon Sand, and it's the  
21 lowest part of the Delaware Formation group. On this  
22 map, I've identified the location of the proposed  
23 wellbore that we're talking about. It's the west half  
24 of the east half of Section 3, Township 24 South --  
25 yeah, 24 South, Range 28 East.

1 I've also identified all the Delaware  
2 producers. There are a number of Delaware producers  
3 just to the north outlined with brown circles around  
4 each wellbore, with their cumulative oil and gas  
5 production just to the right of each wellbore. There  
6 has been one -- Mewbourne also has drilled one -- one  
7 additional horizontal Delaware well in this area. It's  
8 located in the west half-west half of Section 35, and it  
9 is a very good -- very good well for us. That is what  
10 spurred us on drilling another well here in Section 3.

11 Q. What is Exhibit 9?

12 A. Exhibit 9 is a three-well cross section, again  
13 what we call the Basal Brushy Canyon Formation. To the  
14 right is a list of formation names. So you can see that  
15 the dashed red line indicates the top of the Basal  
16 Brushy Formation, and then you can see the top of the  
17 Bone Spring is the bottom of the cross section, solid  
18 blue on -- typical land, these Basal Brushy horizontals.

19 In the lower quarter of the Basal Brushy  
20 Canyon, you can see -- in the resistivity logs, you have  
21 2 feet of sand that has a little higher resistivity.  
22 That's because the oil cut in that area is better.

23 I've also identified -- as I previously  
24 said, there is a lot vertical production in this area,  
25 so the dashed -- the red boxes indicate where these

1 vertical wells produce vertically in the surrounding  
2 area, but you can see overall the formation is present  
3 across this entire 160 proration unit, and it's a  
4 consistent thickness through there.

5 Q. Would you expect each quarter-quarter section  
6 in the well unit to be more or less equal to production?

7 A. Yes.

8 Q. And the Lower Brushy Canyon is continuous  
9 through the well unit?

10 A. That's correct.

11 Q. What is Exhibit 10?

12 A. Exhibit 10 is a production data table of all  
13 the Delaware producers in this area. In the middle of  
14 the table, you can see a column that says "vertical  
15 versus horizontal," and I've highlighted the one  
16 horizontal well in this area and all the other wells  
17 vertical wells. And there is fairly decent vertical  
18 production in this area, and those wells were all  
19 drilled in the early 2000s and late '90s. But then you  
20 can see the horizontal well which we drilled back in  
21 late 2012. It's made 207,000 barrels of oil in four  
22 years.

23 EXAMINER JONES: It's proven to be a very  
24 good well for you than the well in the west half-west  
25 half of 35.

1 THE WITNESS: That's correct.

2 Q. (BY MR. BRUCE) And finally what is Exhibit 11?

3 A. Exhibit 11 is the horizontal drilling plan that  
4 we have for this particular well. As far as location,  
5 185 from north, 2,550 for the east take point, 705 from  
6 north, 2,077 from east, and then our bottom hole and  
7 last take-away point is 330 from south, 2,050 from east.

8 Q. That is an orthodox location?

9 A. Right.

10 Q. Were Exhibits 8 through 11 prepared by you or  
11 under your supervision?

12 A. Yes, they were.

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

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move  
18 admission of Exhibits 8 through 11.

19 EXAMINER McMILLAN: Exhibits 8 through 11  
20 will be accepted as part of the record.

21 (Mewbourne Oil Co. Exhibit Numbers 8  
22 through 11 are offered and admitted into  
23 evidence.)

24 MR. BRUCE: Nothing further.

25 CROSS-EXAMINATION

1 BY EXAMINER McMILLAN:

2 Q. What is the final penetration point?

3 A. 330 from south, 2,050 from east.

4 Q. Okay. And my question is -- I don't really  
5 understand Exhibit 8. It's obviously a structure map,  
6 but I don't really understand the isopach. What is it?

7 A. It's a -- it's a gross isopach of the Basal  
8 Brushy Canyon Formation. So if you were to look at  
9 Exhibit 9, it's basically a gross isopach map from the  
10 dashed red line down to the top of the Bone Spring,  
11 which is the solid blue line. And so it shows --  
12 there's -- there's green numbers to the upper left of  
13 each wellbore. That's the gross amount of sand in each  
14 particular wellbore. And so in this area, we're --  
15 there's approximately 300 to 325 feet of gross sand  
16 across that 160-acre unit.

17 Q. Part of the problem is I don't see a legend.

18 A. It's -- it's the bottom left. There's a --  
19 there's a -- there's a north arrow, and just to the left  
20 of that --

21 Q. So what is the dark -- what does the dark brown  
22 mean?

23 A. The dark brown means a Delaware producer. So,  
24 I mean, those are -- the dark brown circles are all  
25 Delaware producers in this area.

1 Q. Okay. So you see the 325-foot contour near  
2 Section 4?

3 A. Yes.

4 Q. And it looks like your well is in lighter  
5 brown?

6 A. Yes.

7 Q. So is this as good a well as the 207,000-barrel  
8 well?

9 A. We just completed this well, and so it's still  
10 cleaning up a little bit. It doesn't appear to be quite  
11 as strong as that well, but it appears to be an economic  
12 well for us. These are fairly cheap wells to drill, the  
13 horizontal, so --

14 Q. The darker the brown, the thicker the gross  
15 isopach?

16 A. Correct.

17 Q. So this -- it's not very clear on the map.

18 A. About?

19 Q. I'll be honest. The isopach doesn't mean -- I  
20 have a hard time figuring out this map.

21 A. Well, it's -- I mean, we're talking about 300  
22 feet -- 300-plus feet of sand in this area, so it's a  
23 fairly thick interval. So --

24 Q. And going back to Exhibit 9, where is your  
25 landing point?

1           A.    You can see on the second well, in that cross  
2 section, I've got a red arrow indicating the landing  
3 point, so it's the lower part of the Basal Brushy  
4 Canyon.

5                   EXAMINER JONES:  What's the blue line then?

6                   THE WITNESS:  Those are just -- just  
7 correlation markers through there.

8                               CROSS-EXAMINATION

9   BY EXAMINER JONES:

10           Q.    Okay.  We've got geologists on staff here, but  
11 they refuse to talk to me.  So can you go through what  
12 this Basin looked like at the time of the deposition of  
13 this Brushy and from the Bone Spring up?  The Bone  
14 Spring was off the Ancestral Rockies -- Ancestral  
15 Rockies -- I mean -- is that right?

16           A.    Yeah.  I guess -- the Bone Spring Sand and the  
17 Delaware Sands are -- they're all considered to be  
18 turbidite sand, turbidite-sand deposits, which are  
19 deep-water marine, often sheet sand-type deposits.  So  
20 where we're at here, again, we're on a basinal setting  
21 and you're getting these flows that are coming off  
22 the -- off the platform, these sand flows that are  
23 coming off the platform and kind of spreading out in  
24 these sheets.

25                               So that's why this isopach shows -- I mean,

1 it doesn't show a whole lot of change, a little bit of  
2 change across there, but it's fairly consistent. Just  
3 the sand interval is fairly consistent across the  
4 widespread areas.

5           There's a little -- there's -- if -- if I  
6 were to broaden this map up to the north, you can see  
7 that Delaware field extends probably five or six miles  
8 to the north. There are bigger Delaware -- vertical  
9 Delaware fields in Eddy County, and there is a deep  
10 structural feature, which -- which we believe kind of  
11 helps enhance or sets up that Delaware field. And so in  
12 addition to having not only the -- the -- the sand  
13 quality there, releasing the Delaware, it seems like you  
14 have to have some kind of structural component to it  
15 also to help trap the hydrocarbons in that area. So  
16 we're kind of on the southern end of that vertical  
17 field, and so -- but we still believe that there is  
18 still enough of that little structural field there to  
19 help -- to help being in the hydrocarbon trap. So --

20           Q. Is the trap -- would be a lateral trap, or is  
21 there -- is there instances where the Delaware doesn't  
22 have a very good cap on it --

23           A. Uh-huh.

24           Q. -- or even -- I guess the base -- the base  
25 wouldn't matter for a hydrocarbon trap.

1           A.    Yeah.  So I think there's also -- it can also  
2   be a stratigraphic trap to it.  Some of these -- you  
3   know, you pointed out that blue line in through here.  
4   So we've gone through and you can identify probably  
5   four, five different individual sands within that Basal  
6   Brushy Formation.  And those kind of come and go, and so  
7   those will pinch out and then another one will form.  
8   And so we believe that those form the stratigraphic  
9   traps that help trap the oil.  And those -- I mean,  
10  those, they're bound by little -- little shales, which  
11  are a little tighter.  So I think that could be part of  
12  the seal for some of these little smaller sands.

13          Q.    Okay.  So as you move up above the Brushy, what  
14  was happening to the seas at the time?  Was it getting  
15  closer to the land?

16          A.    Yeah.  I mean, as the Basin's filling in,  
17  the -- I guess the -- so above the Brushy Canyon, you  
18  had the Cherry Canyon and the Bell Canyon Formations,  
19  and if you look at them, it's all -- the Delaware  
20  Formation is a total of 3,000 feet of sand.  So you have  
21  a lot of the same processes going on, where the sea  
22  level was -- was -- was changing a little bit, but you  
23  still had -- out in the Basin, you still had a lot of  
24  these big sheet sands that kept piling up and piling up.  
25  And so it's -- it's kind of a lot of the same.

1           The Cherry Canyon and the Bell Canyon are  
2 similar to the Brushy Canyon, but in this particular  
3 area, it just seems like the Brushy Canyon has a little  
4 bit better trap to it, I guess.

5           Q.    Okay. How would somebody like me looking at a  
6 log in the Delaware tell the difference between the  
7 Brushy and the Cherry?

8           A.    There's just -- there's kind of industry  
9 standards for the tops of the Brushy Canyon and the top  
10 of the Cherry Canyon. In this cross section, I just  
11 have the lower part of the Brushy Canyon Formation. If  
12 I were to extend it up probably another 500 feet, it  
13 would be the top of the Brushy Canyon and then into the  
14 Cherry Canyon. But there is some regional shale  
15 markers, which are correlative across the Basin. And so  
16 that's kind of what -- what people use to correlate and  
17 to find the different zones.

18          Q.    I think our geologist is calling the -- out in  
19 the Basin, the Delaware Mountain Group, but then if you  
20 get over in Lea County, he's calling it just the  
21 Delaware. I think that's right.

22          A.    Uh-huh. Uh-huh.

23          Q.    Okay. I don't have any more questions.

24                   EXAMINER WADE: I have no questions.

25                   EXAMINER JONES: Thank you.

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EXAMINER McMILLAN: Thank you.  
Case 15512 will be continued to August 4th.  
Let's take a five-minute break.  
(Case Number 15512 concludes, 10:42 a.m.)  
(Recess 10:42 a.m.)

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

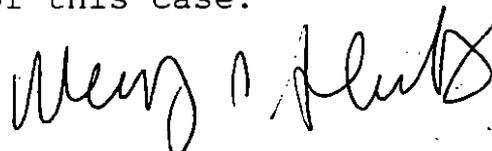
1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

3  
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 MARY C. HANKINS, CCR, RPR  
22 Certified Court Reporter  
23 New Mexico CCR No. 20  
24 Date of CCR Expiration: 12/31/2016  
25 Paul Baca Professional Court Reporters