

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:

CASE NO. 14595

APPLICATION OF MEWBOURNE OIL COMPANY FOR
A NON-STANDARD SPACING AND PRORATION UNIT
UNORTHODOX WELL LOCATION AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO,

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 6-11

BEFORE: DAVID K. BROOKS, Hearing Examiner
WILLIAM V. JONES, Technical Examiner

MARCH 3, 2011

11:22 AM

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, DAVID K. BROOKS,
Hearing Examiner, and WILLIAM V. JONES, Technical
Examiner, on THURSDAY, MARCH 3, 2011, at the New Mexico
Energy, Minerals and Natural Resources Department, 1220
South Street Francis Drive, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

A P P E A R A N C E S

For the Applicant Mewbourne Oil Company:

HOLLAND & HART
110 North Guadalupe, Suite 1
Santa Fe, New Mexico 87501
(505) 988-4421
By: William F. Carr

For Nearburg Producing Company

MONTGOMERY & ANDREWS LAW FIRM
325 Paseo de Peralta
Santa Fe, New Mexico 87501
(505) 982-3873
By: J. Scott Hall, Attorney at Law

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1 EXAMINER BROOKS: At this time I will call
2 Case Number 14595, application of Mewbourne Oil Company
3 for a non-standard spacing and proration unit unorthodox
4 well location and compulsory pooling, Eddy County,
5 New Mexico.

6 MR. CARR: May it please the Examiner, my
7 name is William F. Carr with the Santa Fe office of
8 Holland & Hart. We represent Mewbourne in this matter,
9 and I have two witnesses.

10 EXAMINER BROOKS: Have these witnesses been
11 previously sworn?

12 MR. CARR: They have been, and their
13 qualifications accepted.

14 MR. HALL: Mr. Examiner, Scott Hall of
15 Montgomery & Andrews appearing on behalf of Nearburg
16 Producing Company. No witnesses this morning.

17 EXAMINER BROOKS: Very good. You may
18 proceed, Mr. Carr.

19 COREY MITCHELL
20 after having been first duly sworn under oath,
21 was questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

24 Q. Mr. Mitchell, you were the land person with
25 Mewbourne who was responsible for the area that's

1 involved in this case?

2 A. Yes, sir.

3 Q. And you have prepared exhibits for presentation
4 here today?

5 A. Yes, sir.

6 Q. Would you briefly state what Mewbourne seeks with
7 this application?

8 A. Mewbourne Oil Company is seeking approval of an
9 unorthodox surface location, a non-standard spacing
10 proration unit which is comprised of the southeast
11 southeast quarter of Section 5 and the east half
12 northeast quarter of Section 8, both in Township 20
13 South, Range 25 East. This will be dedicated to our
14 West Draw 58PH Federal Com Well, Number 1H. And also
15 approval of compulsory pool.

16 Q. Would you identify the surface location for the
17 Examiners?

18 A. The surface location is 1500 from the south line
19 and 350 from the east line of Section 5. The bottom
20 hole location is 2310 from the north line and 350 from
21 the east line of Section 8.

22 Q. Could you refer to what has been marked Mewbourne
23 Exhibit 1, identify this and review it for the
24 Examiners?

25 A. Exhibit 1 is a Midland map land plat which shows

1 the proposed lateral along with the spacing unit and the
2 surrounding ownership.

3 Q. What is the primary objective of the well?

4 A. The Yeso formation.

5 Q. And what is the pool?

6 A. The North Seven Rivers-Glorieta Yeso Pool.

7 Q. Would you refer to what has been marked as
8 Mewbourne Exhibit 2 and identify this?

9 A. Exhibit 2 is the tract ownership in the proration
10 unit. And the asterisks identify the people we are
11 seeking to pool.

12 Q. And who are they?

13 A. It is Leslea Ingram Cole and Louis Berney.

14 Q. And what are their interests in the project area?

15 A. Collectively it is 0.204014 percent.

16 Q. And that's the two of them together?

17 A. Yes, sir.

18 Q. What are they individually, do you have that?

19 A. Yes, sir. Louis Berney's interest is
20 0.030404 percent. And Leslea Cole is 0.173610 percent.

21 Q. And all of the interest owners on Exhibit 2 have
22 voluntarily committed to this well?

23 A. Yes, sir.

24 Q. Let's go to Exhibit 3. Can you refer to this and
25 review for the Examiners the efforts you've made to

1 reach a voluntary agreement with both the Berney and the
2 Cole interests?

3 A. Exhibit 3 is a summary of my communications with
4 Mr. Berney and Ms. Cole. I guess I attempted to work a
5 trade with them in January of 2010, at which time they
6 were unresponsive. And we mailed a well proposal to
7 them in January of 2011.

8 Q. And at this present time are there any further
9 negotiations underway with either of these parties?

10 A. No, sir, there is not.

11 Q. Have you made a good faith effort, in your
12 opinion, to locate these individuals and obtain their
13 voluntary participation in the well?

14 A. Yes, sir.

15 Q. Could you refer to what has been marked Mewbourne
16 Exhibit 4, identify that and review the totals shown
17 there?

18 A. Exhibit 4 is an AFE, which is an estimate of our
19 well cost for this well. Our dry hole costs are
20 \$752,700. And a completed cost is \$1,792,300.

21 Q. And are these costs in line with costs you have
22 incurred in drilling other area wells in the area?

23 A. Yes, sir.

24 Q. Have you made an estimate of the overhead and
25 administrative charges to be assessed while drilling and

1 then while producing the well if it is successful?

2 A. Yes, sir. It is \$6,000 a month for drilling and
3 \$600 a month for producing.

4 Q. And these are standard charges Mewbourne uses?

5 A. Yes, sir.

6 Q. Is there a JOA for this well?

7 A. Yes, sir.

8 Q. Do they adopt also these overhead administrative
9 costs?

10 A. Yes, sir.

11 Q. And do you recommend that these figures be
12 incorporated into any order that results from today's
13 hearing?

14 A. Yes, sir.

15 EXAMINER BROOKS: And what were they?

16 MR. MITCHELL: 6,000 a month for drilling
17 and 600 for producing.

18 EXAMINER BROOKS: Okay. Thank you.

19 Q. (By Mr. Carr) Does the joint operating agreement
20 for these properties provide for periodic adjustments in
21 incurring administrative costs in accordance with COPAS
22 procedures?

23 A. Yes, sir.

24 Q. And do you request that the order entered in this
25 case also provide for periodic adjustments in accordance

1 with these procedures?

2 A. Yes, sir.

3 Q. Mewbourne requests that a 200 percent risk charge
4 be imposed on any interest not committed to the well?

5 A. Yes, sir.

6 Q. And does Mewbourne request that it be designated
7 operator of the well?

8 A. Yes, sir.

9 Q. Were Exhibits 1 through 6 either prepared by you
10 or compiled under your direction and supervision?

11 A. Yes, sir.

12 Q. If we look at the notice of affidavit in this
13 case, Exhibit Number 6, and we talk about the notice
14 that has been provided, we have provided notice to just
15 the pooled interest owners?

16 A. Yes, sir.

17 Q. Was notice provided to the offsetting operators?

18 A. No, sir. Mewbourne Oil Company is the offsetting
19 operator.

20 Q. All the way around?

21 A. Yes, sir, all the way around. Sections 5 and 8
22 are committed to the same JOA which covers this proposed
23 well. Sections 4 and 9, Mewbourne is the operator of
24 those sections.

25 Q. So there are no offsets to provide those to, it's

1 you?

2 A. Correct.

3 MR. CARR: With that, Mr. Examiner, I would
4 move the admission of Exhibits 1 through 6.

5 EXAMINER BROOKS: 1 through 6 are admitted.
6 [Exhibits 1 through 6 admitted.]

7 Q. (By Mr. Carr) Mr. Mitchell, in terms of
8 Mewbourne's plans to go forward with drilling in this
9 area, do you request that if possible this application
10 be expedited?

11 A. Yes, sir.

12 MR. CARR: And that concludes my examination
13 of this witness.

14 EXAMINER BROOKS: Okay. Mr. Hall, did you
15 have any questions?

16 MR. HALL: No questions.

17 EXAMINER BROOKS: Now, your service location
18 is shown on the AFE, I noticed. What is the bottom hole
19 location?

20 MR. MITCHELL: The bottom hole location is
21 2310 from the north line and 350 from the east line of
22 Section 8.

23 EXAMINER BROOKS: And, again, I assume I
24 should ask the engineering witness about the point of
25 penetration.

1 MR. MITCHELL: Yes, sir.

2 EXAMINER BROOKS: And you're asking to pool
3 only the Yeso?

4 MR. MITCHELL: Yes, sir.

5 EXAMINER BROOKS: I believe that's all my
6 questions.

7 Mr. Jones?

8 EXAMINER JONES: You're not asking to -- oh,
9 he just asked that. Nothing up the hole even though you
10 show sand on this next exhibit. But just right now the
11 AFE is just for the horizontal point?

12 MR. MITCHELL: Yes, sir.

13 EXAMINER BROOKS: Okay. You may call your
14 next witness.

15 MR. CARR: At this time I would call Jason
16 Lodge. And let the record reflect Mr. Lodge's
17 qualifications as a geologist have been accepted and
18 made a matter of record.

19 JASON LODGE
20 after having been first duly sworn under oath,
21 was questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. CARR:

24 Q. Would you refer, please, to what has been marked
25 Mewbourne Exhibit 7. Identify this and review it for

1 the Examiners.

2 A. This is a structure map of the area, top of the
3 Yeso formation. It's just dipping to the southeast and
4 to the east. Included on this map are production
5 bubbles which include the producing zone. Based on
6 color, Yeso is the pink color. And next to Yeso wells
7 are the production cumulative values. The proposed
8 wellbore path is highlighted in red. And then there's
9 also a cross section that's A to A prime that's notated
10 on this.

11 Q. And is your next exhibit, Exhibit Number 8?

12 A. Yes, it is.

13 Q. And would you move to that, please, and review it
14 for the Examiners?

15 A. Sure. Exhibit 8 is a cross section of the Yeso
16 in this area of offsetting vertical wells, vertical
17 proposed horizontal. There's three wells on here; the
18 West Draw 5K, which is up dip and to the west. The 50
19 and then the Long Draw 4N, which is down dip and to the
20 east. The 5K and the 4N both produce in this zone.
21 This zone is stratigraphically on top of the Glorieta.
22 This is going to be -- I'm sorry, the target on here as
23 far as where we plan to land the horizontal.

24 Q. And this shows the continuous nature of the Yeso
25 across the area?

1 A. Correct.

2 Q. All right. Mr. Lodge, let's go to the production
3 table, Exhibit Number 9. What does this show?

4 A. This is similar to the previous Yeso case. This
5 includes Yeso production in the area, whether it's
6 vertical or horizontal. Just a couple of things to note
7 here is again the difference between the vertical and
8 horizontal production.

9 If you look at the Gun Smoke 9CD Federal,
10 Number 1H, which is located just down dip and to the
11 east of a proposed wellbore path in Section 9, after
12 three and a half months of production we've cumed 22,000
13 barrels of oil.

14 And then if you look at the Long Draw -- I'm
15 sorry, the Gun Smoke 9K, which is a vertical well in
16 that area, in that same section, you can see that after
17 just over a year of production we cumed about 7,000
18 barrels of oil and considerably more water. So we've
19 cut down or our water horizontally.

20 And then also just up dip in 5K you'll note that
21 after just a few months we have cumed about 4,000
22 barrels of oil, 31,000 barrels of water. So there is a
23 risk of water.

24 Q. Based on this production determination, do you
25 have an opinion as to whether or not all of the quarter

1 quarter sections in the horizontal well project area
2 will in fact be productive?

3 A. Yes, sir, I believe they will.

4 Q. You would be producing reserves for each of these
5 quarter quarter sections?

6 A. That is correct.

7 Q. So let's go to the last exhibit, Exhibit 10, the
8 horizontal drilling plan. Could you just briefly
9 summarize the information on this?

10 A. Sure. This is a horizontal drilling plan
11 proposed from the directional company. This shows
12 surface locations we've gone over. We're drilling to
13 the south. It will be 120 acres horizontal. It's going
14 to be roughly about the lateral length of 3200 feet.
15 Estimated total depth will be about 6,070 feet. Landing
16 point is going to be about 2500 foot TBD-wise.

17 Q. The surface location is unorthodox?

18 A. Correct.

19 Q. The entire producing interval will be standard
20 because it's within the producing area for this well?

21 A. Yes, that's correct. We will penetrate the top
22 of the Glorieta, the top of the Yeso, unorthodox. But
23 we will not complete the well until we --

24 Q. In your opinion, will approval of this
25 application be in the best interest of conservation and

1 prevention of waste and the protection of correlative
2 rights?

3 A. Yes, it will.

4 Q. Were Exhibits 7 through 10 prepared by you or
5 compiled at your direction?

6 A. Yes, they were.

7 Q. Can you testify to their accuracy?

8 A. Yes, sir.

9 MR. CARR: I move the admission of
10 Exhibits 7 through 10.

11 EXAMINER BROOKS: Mewbourne Exhibits 7
12 through 10 will be admitted.

13 [Exhibits 7 through 10 are admitted.]

14 MR. CARR: And that concludes my direct
15 examination of Mr. Lodge.

16 EXAMINER BROOKS: Where is the point of
17 penetration at the top of the Yeso?

18 MR. LODGE: It's going to be 1200 from the
19 south line and 350 from the east line. That's
20 Section 5.

21 EXAMINER BROOKS: That's all I have.

22 Mr. Hall?

23 MR. HALL: I have no questions.

24 EXAMINER JONES: At 2500 feet, are you
25 limited on your length that you can drill?

1 MR. LODGE: No, we're not actually. We have
2 drilled four miles. We have had no issues going all the
3 way out to the toe.

4 EXAMINER JONES: I don't have any more
5 questions.

6 EXAMINER BROOKS: Very good. That's all I
7 have. Is there anything further on this case?

8 MR. CARR: That concludes our presentation.

9 EXAMINER BROOKS: Very good. Case
10 Number 14595 will be taken under advisement, and we have
11 noted your request that it be expedited.

12 [Case 14595 was taken under advisement at 11:37 AM.]

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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. 14595,
heard by me on 3-3-11

David K. Brooks Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

1
2
3 I, Lisa Reinicke, New Mexico Provisional
4 Reporter, License #P-405, working under the direction
5 and direct supervision of Paul Baca, New Mexico CCR
6 License #112, Official Court Reporter for the US
7 District Court, District of New Mexico, do hereby
8 certify 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 and
11 was reduced to printed form under my direct supervision.

12 I FURTHER CERTIFY that I am neither employed by
13 nor related to any of the parties or attorneys in this
14 case and that I have no interest whatsoever in the final
15 disposition of this case in any court.

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