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NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10758

IN THE MATTER OF:

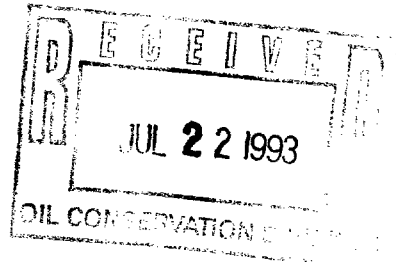
The Application of Mewbourne Oil
Company for an Unorthodox Oil Well
Location, Eddy County, New Mexico.

BEFORE:

MICHAEL E. STOGNER
Hearing Examiner
State Land Office Building
Thursday, July 1, 1993

REPORTED BY:

CARLA DIANE RODRIGUEZ
Certified Court Reporter
for the State of New Mexico



ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel
State Land Office Building
Post Office Box 2088
Santa Fe, New Mexico 87504-2088

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY
Post Office Box 2068
Santa Fe, New Mexico 87504-2068
BY: **JAMES BRUCE, ESQ.**

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1 EXAMINER STOGNER: Call next case, No.
2 10758.

3 MR. STOVALL: Application of Mewbourne
4 Oil Company for an unorthodox oil well location,
5 Eddy County, New Mexico.

6 EXAMINER STOGNER: Call for
7 appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce
9 representing the Applicant, and I have one
10 witness to be sworn.

11 EXAMINER STOGNER: Any other
12 appearances?

13 Will the witness please stand to be
14 sworn.

15 ROBIN VASICEK

16 Having been first duly sworn upon his oath, was
17 examined and testified as follows:

18 EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name and
21 city of residence?

22 A. My name is Robin Vasicek. I live in
23 Midland, Texas.

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

1 A. I work for Mewbourne Oil Company as a
2 petroleum engineer.

3 Q. Have you previously testified before
4 the Division as a petroleum engineer?

5 A. Yes, I have.

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

8 A. Yes, they were.

9 Q. Are you familiar with the engineering
10 matters related to this application?

11 A. Yes, I am.

12 Q. Does your area of responsibility
13 include Southeast New Mexico?

14 A. Yes, it does.

15 MR. BRUCE: Mr. Examiner, I tender Mr.
16 Vasicek as an expert petroleum engineer.

17 EXAMINER STOGNER: Mr. Vasicek is so
18 qualified.

19 Q. Briefly, Mr. Vasicek, what does
20 Mewbourne Oil Company seek in this case?

21 A. Mewbourne seeks approval of an
22 unorthodox location in the Strawn formation, for
23 its Cedar Breaks "2" State Well #1.

24 Q. What is the current status of this
25 well?

1 A. It's currently in the Bone Springs
2 formation. It's a marginal producer, but we plan
3 to deepen it from the Bone Springs to the Strawn.

4 Q. Referring to Exhibit 1, would you
5 discuss the area of interest?

6 A. Exhibit 1 is a land plat, showing
7 Section 2, Township 18 South, Range 30 East. The
8 west half is highlighted in yellow and comprises
9 the Cedar Lake-Strawn Pool.

10 The two Strawn producers are in the
11 west half, and they are highlighted in green.
12 They are the Loco Hills State #1 in the southwest
13 quarter, and the State CE in the northwest
14 quarter.

15 Our Cedar Breaks "2" State Well #1 is
16 highlighted in pink, and is in the northeast
17 quarter of Section 2, and that northeast quarter
18 will be dedicated to the well.

19 Q. Who are the operators in this section?

20 A. Mewbourne Oil Company operates the west
21 half and the northeast quarter of Section 2, and
22 the operators in the southeast quarter are
23 Mewbourne and Yates Petroleum. Yates operates
24 their Walters Lake State AML #1, which is a Bone
25 Springs producer, and is located in the northwest

1 quarter of the southeast quarter.

2 Q. What are the spacing and well location
3 requirements for a Strawn well?

4 A. The Cedar Lakes-Strawn pool is spaced
5 on 160 acres, under Order No. R-9554(a), with
6 wells to be located at least 660 from the outer
7 boundary of the well unit.

8 Q. What is the location of your subject
9 well?

10 A. The subject well is located 2130 from
11 the north line, and 1980 feet from the west
12 line. This makes it 150 feet too close to the
13 south outer boundary of the unit.

14 Q. Referring to Exhibit 2, why was the
15 well originally drilled at this location?

16 A. We had originally planned to drill the
17 well 1980 feet from the west line and 1980 from
18 the north line, which would make it an orthodox
19 location for the Strawn. However, there was a
20 pipeline there, and that caused us to move the
21 location to 2130 from the north line.

22 Exhibit 2 is a copy of the daily report
23 indicating why the well was restaked.

24 Q. Why are you deepening the well rather
25 than drilling a new well?

1 A. This well is based primarily on
2 economics.

3 Q. What is the cost of deepening the well?
4 And I refer you to Exhibit 3.

5 A. Exhibit 3 is an AFE for deepening the
6 well. Our expected completed cost will be
7 approximately \$523,000.

8 Q. And, referring to Exhibit 4, what is
9 the cost of drilling a completely new well?

10 A. Exhibit 4 is an AFE prepared to drill a
11 completely new well, and its completed well costs
12 would be \$764,000.

13 Q. You're saving about \$240,000 by just
14 deepening the existing well?

15 A. Yes, that's correct.

16 Q. How does this effect well economics?
17 And I'll refer you to your Exhibits 5 and 6.

18 A. Exhibits 5 and 6 are unrisks economic
19 runs for a well that would produce similar to
20 the--on a decline similar to the two current
21 Strawn producers that are in the west half.

22 This is based on expectancy of about
23 112,000 barrels of oil over the lifetime, and 280
24 million cubic feet of gas.

25 Exhibit 5 is used to illustrate a

1 recompletion. Exhibit 6 will be used to
2 illustrate a new well. Under investment, you can
3 see the two associated costs.

4 On this exhibit, the first six rows are
5 the six months for 1993, and then it goes
6 annually from there. From this, in the right
7 hand corner, you can see that we're looking at,
8 for a recompletion, our profit indicators, we're
9 looking at about one year and six months pay-out,
10 and a 2.87-to-1 return on our investment.

11 For a new well, we're looking at a two
12 years and seven months pay-out, and about a
13 1.97-to-1 return on investment. Normally, we
14 would like to see under two and a half years for
15 a pay-out, two-and-a-half-to-one on our money.
16 This makes both of these fairly marginal. The
17 recompletion, of course, will be a lot better
18 than a drilled well.

19 Q. Are there any other factors which
20 Mewbourne considered in a decision to deepen the
21 well rather than drill a new well?

22 A. Yes. We had just finished drilling our
23 Cedar Breaks "2" State Well #3.

24 Q. Where is that located?

25 A. That's in the southwest quarter of the

1 southeast quarter.

2 Q. Of Section 2?

3 A. Of Section 2. We drilled to the Bone
4 Springs and then deepened it to the Strawn.
5 While we were drilling our intermediate string,
6 we encountered a water flow at approximately 40
7 barrels a minute, and we also had a severely
8 deviated hole, which cost us approximately
9 \$250,000 extra. And we don't really want to risk
10 encountering that again.

11 Q. Did geology play a roll in the decision
12 to deepen the well rather than drill a new well?

13 A. No. Let's look at Exhibit No. 7. This
14 is an isopach of the Strawn. On this isopach, we
15 have our two Strawn wells highlighted in green.
16 The wells with circles are wells that have
17 penetrated the Strawn formation, and the wells
18 with squares are Bone Springs producers.

19 X marks the location of an orthodox
20 location and, as you can see, there are several
21 other prospective locations which could be as
22 good or better than the proposed location.
23 However, based on the costs of deepening the
24 existing well versus drilling a new well, we
25 don't feel that any of the other locations are as

1 good, economically.

2 Q. Will the offsetting acreage be affected
3 by this unorthodox location?

4 A. No, we don't think so. The
5 encroachment is very small. It's 150 feet. And
6 then there are existing Strawn wells in the
7 northwest quarter and the southwest quarter, and
8 Mewbourne is in the process of completing its
9 Cedar Breaks "2" Well No. 3, located in the
10 southwest quarter of the southeast quarter. It
11 will be completed in the Strawn. Therefore,
12 there will be a Strawn well in each quarter
13 section.

14 Q. Were offset operators notified of this
15 application?

16 A. Yes. Yates was an operator that, when
17 we filed the application, they have since farmed
18 out their interest to us with regard to the
19 Strawn.

20 Q. And Exhibit 8 is just a copy of my
21 Affidavit of Notice, with the notice letter to
22 Yates?

23 A. Yes, it is.

24 Q. Were Exhibits 1 through 7 prepared by
25 you or compiled from company records?

1 A. Yes, they were.

2 Q. In your opinion, is the granting of
3 this application in the interest of conservation
4 and the prevention of waste?

5 A. Yes, it is.

6 Q. One final question, Mr. Vasicek. Do
7 you have a drilling deadline?

8 A. We have internal deadlines with our
9 partners which would require us to spud this by
10 August 1st, or we're going to meet with some
11 problems.

12 MR. BRUCE: Okay. At this time, Mr.
13 Examiner, I move the admission of Exhibits 1
14 through 8.

15 EXAMINER STOGNER: Exhibits 1 through 8
16 will be admitted into evidence.

17 EXAMINATION

18 BY EXAMINER STOGNER:

19 Q. Mr. Vasicek, what was the original
20 intent of this well?

21 A. The original intent of this well was a
22 Bone Springs producer. The Bone Springs didn't
23 pan out. It's produced about two barrels and
24 about 10 Mcf a day.

25 We recently drilled our Cedar Breaks

1 "2" State No. 2, which is in the northeast
2 quarter of the northeast quarter, and it's a
3 Morrow producer. Prior to drilling that well, we
4 really had no control for the Strawn for that
5 half-section, and when we drilled that well, it
6 kind of opened things up for us to where we could
7 see that we might have some Strawn potential in
8 that quarter.

9 Q. What is the proposed depth of the
10 Strawn?

11 A. 10,700 feet.

12 EXAMINER STOGNER: Are there any other
13 questions of this witness? He may be excused.

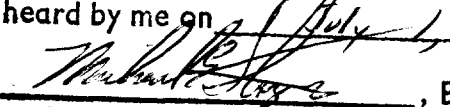
14 Mr. Bruce, anything further?

15 MR. BRUCE: No, sir.

16 EXAMINER STOGNER: Case No. 10758 will
17 be taken under advisement.

18 And with that, hearing adjourned.

19 (And the proceedings concluded.)
20
21
22

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
25 the Examiner hearing of Case No. 10758
heard by me on July 1, 1998.

Michael Stogner, Examiner
Oil Conservation Division

1 CERTIFICATE OF REPORTER

2

3 STATE OF NEW MEXICO)
 4 COUNTY OF SANTA FE) ss.

5


6 I, Carla Diane Rodriguez, Certified
 7 Court Reporter and Notary Public, HEREBY CERTIFY
 8 that the foregoing transcript of proceedings
 9 before the Oil Conservation Division was reported
 10 by me; that I caused my notes to be transcribed
 11 under my personal supervision; and that the
 12 foregoing is a true and accurate record of the
 13 proceedings.

14 I FURTHER CERTIFY that I am not a
 15 relative or employee of any of the parties or
 16 attorneys involved in this matter and that I have
 17 no personal interest in the final disposition of
 18 this matter.

19 WITNESS MY HAND AND SEAL July 22, 1993.

20

21

22 

23 CARLA DIANE RODRIGUEZ, RFR
 24 CCR No. 4

25