

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:)

CASE NO. 13,276

APPLICATION OF MEWBOURNE OIL COMPANY)
 FOR COMPULSORY POOLING, EDDY COUNTY,)
 NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGSEXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

May 27th, 2004

Santa Fe, New Mexico

2004 JUN 10 PM 3:25

This matter came on for hearing before the New Mexico Oil Conservation Division, MICHAEL E. STOGNER, Hearing Examiner, on Thursday, May 27th, 2004, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
 (505) 989-9317

I N D E X

May 27th, 2004
 Examiner Hearing
 CASE NO. 13,276

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APPLICANT'S WITNESS:

D. PAUL HADEN (Landman)

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E X H I B I T S

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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
 Attorney at Law
 P.O. Box 1056
 Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 10:24 a.m.:

3 EXAMINER STOGNER: Okay, at this time I'll call
4 Case Number 13,276, which is the Application of Mewbourne
5 Oil Company for compulsory pooling. Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
7 representing the Applicant. I have one witness.

8 EXAMINER STOGNER: There's nobody else in the
9 room. So noted.

10 Witness please stand to be sworn.

11 (Thereupon, the witness was sworn.)

12 D. PAUL HADEN,
13 the witness herein, after having been first duly sworn upon
14 his oath, was examined and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

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

19 A. My name is Paul Haden. I live in Midland, Texas.

20 Q. And who do you work for?

21 A. I work for Mewbourne Oil Company as a petroleum
22 landman.

23 Q. Have you previously testified before the Division
24 as a landman?

25 A. Yes, I have.

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

3 A. Yes, they were.

4 Q. Are you familiar with the land matters involved
5 in this case?

6 A. Yes, sir, I am.

7 MR. BRUCE: Mr. Examiner, I tender Mr. Haden as
8 an expert petroleum landman.

9 EXAMINER STOGNER: Mr. Haden is so qualified.

10 Q. (By Mr. Bruce) Mr. Haden, could you identify
11 Exhibit 1 and describe what Mewbourne seeks in this case?

12 A. Exhibit Number 1 is a land plat of the area. It
13 depicts our proposed spacing unit in yellow, shaded in
14 yellow, as being in the south half of Section 32 of
15 Township 20 South, Range 28 East. It also indicates our
16 proposed well location, which is 660 from the south line
17 and 1650 from the east line of said Section 32.

18 Q. Okay. And Exhibit 2, a lot of data there, but
19 what does that depict?

20 A. Exhibit 2 indicates the tract ownership in the
21 proposed spacing unit.

22 Q. Okay, so it goes tract by tract, and then on the
23 final part is a 320-acre unit ownership summary?

24 A. Yes, sir, that's correct.

25 Q. Why don't you go through that a little bit for

1 the Examiner?

2 A. As described in the tract ownership, it has the
3 west half, southeast quarter below a depth of 6614 feet
4 beneath the surface to a depth of 11,600 feet beneath the
5 surface.

6 On the second page it shows the same 80-acre
7 tract, being the west half of the southeast quarter, the
8 ownership below a depth of 11,600 feet beneath the surface.
9 The reason for that is, a one-half mineral interest below
10 depths of 11,600 feet beneath the surface is currently
11 unleased. That would also affect the east half of the
12 southeast quarter.

13 Page Number 3 of said exhibit also describes the
14 ownership in the east half of the southeast quarter, as
15 does page 4, as to the ownership in the east half of the
16 southeast quarter below 11,600 feet.

17 Page 5 indicates, first, the southwest quarter,
18 the ownership there. Mewbourne Oil Company, 100 percent as
19 to rights below the base of the Bone Spring formation
20 through the Morrow formation. It also depicts the unit
21 ownership.

22 Q. Okay. Now, on this, just so we're clear on the
23 record as to who we seek to pool, could you go down these
24 people and tell the status of each company, other than
25 Mewbourne?

1 A. Right, Lowe Partners, L.P., the second from the
2 top, it indicates the ownership there of 24.8-some-odd
3 percent ownership in the unit. We have just made a verbal
4 agreement with them Monday.

5 Q. But you still need to pool them at this time?

6 A. Yes, we still need to pool them until there's an
7 executed agreement between us and Lowe Partners, L.P.

8 The same goes with OXY USA WTP Limited
9 Partnership, roughly 8.333 percent unit interest. We made
10 a verbal agreement with OXY yesterday, and we're just
11 waiting on an executed agreement.

12 The interest of Lloyd Largent and Rock Eagle
13 Ranch Corporation, it describes a percentage interest less
14 than one percent. As to Lloyd Largent we have a farmout
15 agreement with him that covers a life estate. However,
16 Rock Eagle Ranch Corporation, they were named as one of the
17 poolees because they have a remainder interest. We had
18 requested them to execute a ratification farmout agreement.
19 Actually, the principal of Rock Eagle Ranch is the brother-
20 in-law of Lloyd Largent.

21 Q. So you would still need to pool Rock Eagle?

22 A. Yes.

23 Q. Okay.

24 A. Also the Estate of Helen G. Harrison, Deceased,
25 .58119 percent interest, currently negotiating with them.

1 Apparently they are working out a trade with Lowe Partners,
2 L.P. We've agreed to also acquire that interest by virtue
3 of acquiring the Lowe Partners interest. Actually, the
4 Helen Harrison interest also owns some rights in some
5 producing Bone Spring wells which are operated by Lowe
6 Partners, L.P., within Section 32.

7 Also, the Bilberry Exploration, Inc., Interest,
8 it says it's .05, however that's a typo. It should be
9 .542478 percent. They acquired their interest through Axis
10 Energy Corporation, which is right below the OXY interest.
11 In fact, Axis had already signed an AFE as to the combined
12 interest, however we have not received an executed AFE from
13 Bilberry Exploration, Inc. Also, they have not signed the
14 JOA. Axis Energy, on the other hand, has.

15 The two bottom interests, Dolores L. McCall and
16 Charles Cline Moore, very small interests. We've had
17 dealings with these people in the past. They have never
18 responded to anything. They own some interest in Township
19 21 South, 27 East. So we'd like to pool them.

20 Q. Okay, so you'll pool those. All the others, you
21 know, Axis and the Yates group, et cetera, those people
22 have agreed to join in the well?

23 A. Yes, they have.

24 Q. Let's move on to your efforts to get the people
25 to join in, and could you identify Exhibit 3 and maybe just

1 run through it briefly?

2 A. Okay, Exhibit Number 3 is a summary of
3 communications, and behind those three pages of the
4 summary, behind that, is a copy of all the correspondence
5 and notes of communications with all these people.

6 Let's start on page 1, Lowe Partners, L.P. We
7 had several communications with them back in January of
8 '03, February, May, July, August. We finally proposed the
9 well to them by a letter dated 11-13-03, with an AFE
10 attached. There were subsequent conversations and phone
11 calls and letters where we currently are.

12 Also listed is OXY USA. We proposed the well
13 August -- or, excuse me, November 13th. It indicates the
14 communications with OXY.

15 The next page, the Helen G. Harrison Estate
16 interest, it notes the date on which we proposed the well,
17 which is February 23rd, '04, with an AFE, follow-up
18 conversations, et cetera.

19 Next interest, Rock Eagle Ranch Corporation, it
20 indicates our communications with them.

21 Dolores L. McCall, the same applies. Well
22 proposed November 18th, '03, with AFE.

23 The Charles Cline Moore interest, well proposed
24 November 18th, '03, with AFE.

25 Davis Brothers interest, which is a mineral

1 interest below 11,600 feet, this interest showed up later
2 in our title. Unfortunately, our examining attorney didn't
3 pick this up. Apparently the previous lease had a Pugh
4 clause in it. It was a 1975-vintage lease, originally,
5 which at the end of the primary term rights below the
6 deepest depth drilled in the proration unit would revert
7 back to the lessors, so we sent them a well proposal, we
8 had subsequent conversations regarding leasing that
9 interest. We have come to an agreement with them as of
10 last Monday. We're just waiting on the execution of a
11 lease covering that mineral interest.

12 The last page, Bilberry Exploration, Inc., the
13 well was originally proposed to Axis Energy, Inc., on
14 November 5th of '03, as I've previously indicated. Their
15 title came through -- that is, Bilberry Exploration
16 Company's title came through Axis Energy, so we named them
17 as poolee, pending execution of an operating agreement, an
18 AFE.

19 The interests of Desert States Energy, Inc., they
20 are dismissed. They've signed an AFE and also an operating
21 agreement.

22 Q. Okay. So Mr. Haden, except for Davis Brothers
23 and the Helen Harrison Estate, the initial proposal letter
24 went out in November of '03?

25 A. That's correct.

1 Q. And the other ones went out a couple months
2 after?

3 A. Right.

4 Q. And have you had -- besides the correspondence --
5 the correspondence is in the back of Exhibit 3, is it not?

6 A. That's correct.

7 Q. And then there are also -- it looks like phone
8 notes, so you had phone conversations with a number of
9 these people?

10 A. Yes, sir, that's correct.

11 MR. BRUCE: Okay. Mr. Examiner, with respect to
12 Bilberry Exploration, I received a phone call from Mr.
13 Bilberry a couple weeks ago, and he informed me that he
14 would just be force pooled, and he would probably
15 participate under the pooling order, so...

16 THE WITNESS: That's news to me.

17 Q. (By Mr. Bruce) In your opinion, has Mewbourne
18 made a good-faith effort to obtain the voluntary joinder of
19 the interest owners in the well?

20 A. Yes, we have.

21 Q. Could you identify Exhibit 4 for the Examiner?

22 A. Exhibit Number 4 is our AFE. It indicates the
23 name of the well, being the Saladar "32" Federal Com Number
24 1 well, which is, as I previously indicated, located 660
25 from the south line, 1650 from the east line. It's an

1 11,800-foot proposed test well. It also indicates the
2 estimated cost to casing point, which is \$739,000, and also
3 the estimated total completed cost of \$1,252,200.

4 Q. And is this cost in line with the cost of other
5 wells which Mewbourne has drilled to this depth in this
6 immediate area?

7 A. Yes, it is.

8 Q. Does Mewbourne request that it be designated
9 operator of the well?

10 A. Yes, we do.

11 Q. And do you have a recommendation for the amounts
12 which Mewbourne should be paid for supervision and overhead
13 expenses?

14 A. Yes, sir, \$6500 per month for drilling and \$650
15 per month for a producing well rate.

16 Q. And does Mewbourne request that these rates be
17 adjusted under the COPAS accounting procedure?

18 A. Yes, we do.

19 Q. Does Mewbourne request that the maximum cost-
20 plus-200-percent risk penalty be assessed against
21 nonconsenting interest owners?

22 A. We do.

23 Q. And with respect to the overhead rates, are those
24 similar to overhead rates assessed by Mewbourne and other
25 operators in this area?

1 A. Yes, also being the same rates that our current
2 joint interest owners have agreed to.

3 Q. Okay. Were Exhibits 1 through 5 prepared by you
4 or under your supervision or compiled from company business
5 records?

6 A. Yes, they were.

7 Q. And in your opinion, is the granting of this
8 Application in the interests of conservation and the
9 prevention of waste?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I'd move the admission
12 of Exhibits 1 through 5.

13 EXAMINER STOGNER: Exhibits 1 through 5 will be
14 admitted into evidence.

15 EXAMINATION

16 BY EXAMINER STOGNER:

17 Q. Mr. Haden, referring now to page 5 of your second
18 exhibit, I want to make sure that I've got the Yates
19 interest adequately addressed. Now, you mentioned in your
20 testimony that Yates Drilling Company, as I understand it
21 -- Yates Drilling, that's the first Yates you come to down
22 the list?

23 A. Well, that would include the Yates group, which
24 includes Yates Drilling Company; MYCO Industries, Inc.; Los
25 Chicos Partnership; Yates Petroleum Corporation; John A.

1 Yates, Jr., individually; and John A. Yates, Jr., as
2 Trustee of the "Q" Trust".

3 Q. They have all verbally, but you have not -- you
4 do not have a signed agreement?

5 A. They've executed AFEs, each one of those parties
6 have executed an AFE, they've agreed to join in the well,
7 they've been presented with the operating agreement, which
8 they seem to have no problem executing that.

9 MR. BRUCE: They were not notified of this
10 Application, Mr. Examiner.

11 THE WITNESS: No.

12 EXAMINER STOGNER: Oh, okay, I thought I heard
13 somewhere that one of the Yates --

14 THE WITNESS: No.

15 Q. (By Examiner Stogner) Okay, so none of the Yates
16 are to be force pooled?

17 A. No, sir.

18 Q. Okay. Then again, who is? I've got Lowe --

19 A. -- Lowe, OXY --

20 Q. -- OXY --

21 A. -- Lloyd Largent/Rock Eagle Ranch Corporation;
22 Estate of Helen G. Harrison, Deceased; Bilberry
23 Exploration, Inc.; Dolores L. McCall; and Charles Cline
24 Moore.

25 Q. Okay, I had -- Now, with respect to OXY, that's a

1 verbal --

2 A. That's a verbal agreement within. They've agreed
3 to farm out their interest to us. We have not reviewed
4 their proposed farmout agreement yet.

5 Q. Okay. And what percentage of the south half of
6 32 is state minerals and what percentage of it is fee?

7 A. Actually, the south -- 37 1/2 percent of the unit
8 is federal, which includes the west half of the southwest
9 quarter and also southeast and southwest quarter. The
10 balance of the acreage is fee in the south half.

11 MR. BRUCE: Did you say federal or state, Mr.
12 Haden?

13 THE WITNESS: I said -- I said federal. I
14 believe that's a federal lease, not state acreage, although
15 it says state on the plat.

16 EXAMINER STOGNER: Section 32 is usually a state
17 lease.

18 MR. BRUCE: I think it is state, Mr. Examiner.

19 THE WITNESS: Okay, well, I'll have to check my
20 records on that.

21 EXAMINER STOGNER: Let's assume they're state --

22 THE WITNESS: Okay --

23 EXAMINER STOGNER: -- but if you find out
24 otherwise, if you would contact me.

25 MR. BRUCE: But regardless, 3/8 would be in that

1 lease --

2 THE WITNESS: Right.

3 MR. BRUCE: -- 3/8 of the well unit.

4 THE WITNESS: That's correct.

5 EXAMINER STOGNER: So far we've been breaking the
6 rule today on what should be state acreage is not state
7 acreage, and what's --

8 THE WITNESS: Right, I thought --

9 EXAMINER STOGNER: Okay, is there anything
10 further in this matter?

11 MR. BRUCE: I have nothing further, Mr. Examiner.

12 EXAMINER STOGNER: Okay. In that case, then Case
13 13,276 will be taken under advisement.

14 And stand at recess, I believe I said 1:15 to the
15 other parties.

16 MR. BRUCE: That's correct.

17 EXAMINER STOGNER: 1:15.

18 (Thereupon, these proceedings were concluded at
19 10:43 a.m.)

20 * * *

21 I do hereby certify that the foregoing is
22 a complete record of the proceedings in
23 the Examiner hearing of Case No. 13276
heard by me on 22 May 2007

24  , Examiner
25 Oil Conservation Division

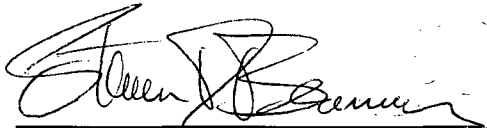
CERTIFICATE OF REPORTER

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

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

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

WITNESS MY HAND AND SEAL June 2nd, 2004.


STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006