

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. 13,330

APPLICATION OF MEWBOURNE OIL COMPANY)
FOR AN EXCEPTION TO DIVISION RULE)
104.C.(2).(c), EDDY COUNTY, NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Hearing Examiner

September 16th, 2004

Santa Fe, New Mexico

2004 OCT 1 PM 1 59

This matter came on for hearing before the New Mexico Oil Conservation Division, RICHARD EZEANYIM, Hearing Examiner, on Thursday, September 16th, 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.

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September 16th, 2004
Examiner Hearing
CASE NO. 13,330

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
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Santa Fe, New Mexico 87505

FOR THE APPLICANT:

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Attorney at Law
P.O. Box 1056
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* * *

1 WHEREUPON, the following proceedings were had at
2 8:51 a.m.:

3 EXAMINER EZEANYIM: At this time I call Case
4 Number 13,330, Application of Mewbourne Oil Company for an
5 exception to Division Rule 104.C.(2).(c), Eddy County, New
6 Mexico. Oh, the same --

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
9 representing the Applicant. I have two witnesses to be
10 sworn.

11 EXAMINER EZEANYIM: Any other appearances? No
12 other appearances, no?

13 Okay, may the witnesses stand to be sworn?

14 (Thereupon, the witnesses were sworn.)

15 EXAMINER EZEANYIM: Mr. Bruce, you may continue.

16 STEVE COBB,
17 the witness herein, after having been first duly sworn upon
18 his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

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

23 A. Steve Cobb, Midland, Texas.

24 Q. Who do you work for and in what capacity?

25 A. Mewbourne Oil Company as a landman.

1 Q. Have you previously testified before the Division
2 as a landman?

3 A. Yes, I have.

4 Q. And were your credentials as an expert accepted
5 as a matter of record?

6 A. They were.

7 Q. And are you familiar with the land matters
8 involved in this Application?

9 A. I am.

10 MR. BRUCE: Mr. Ezeanyim, I'd tender Mr. Cobb as
11 an expert petroleum landman.

12 EXAMINER EZEANYIM: Mr. Cobb, could you briefly
13 summarize your experience so I can -- just briefly.

14 THE WITNESS: I've been at Mewbourne for 13 --
15 this is my 14th year. Before that I worked for Santa Fe
16 Minerals in Tulsa, Oklahoma, for approximately 10 years.
17 That's as far as my land experience.

18 EXAMINER EZEANYIM: Okay, Mr. Cobb is so
19 qualified.

20 Q. (By Mr. Bruce) Mr. Cobb, before we get into the
21 specific request, could you just identify Exhibit 1 for the
22 Examiner?

23 A. Exhibit 1 is a nine-section area surrounding
24 the... Our section in question here today is Section 20 of
25 20 South, 22 East, Eddy County, New Mexico.

1 Q. And today we're here for the north half of
2 Section 20?

3 A. That's correct.

4 Q. All of Section 20 is one single federal lease, is
5 it not?

6 A. That's correct.

7 Q. Okay. Now, there's an existing well on the
8 proration unit, the north-half unit. What is that well?

9 A. The existing well is the Jetta Foal 20 Federal
10 Number 1 well in the northwest quarter.

11 Q. Okay, in the northeast quarter of the northwest
12 quarter?

13 A. Right.

14 Q. And referring to Exhibit 2, what is the well that
15 Mewbourne proposes to drill?

16 A. Our Dinero 20 Number 2 well.

17 Q. And what quarter quarter section is that well
18 located in?

19 A. That's in the southeast northeast.

20 Q. And again, the north half will be dedicated to
21 both wells, correct? ✓

22 A. That's correct.

23 Q. And Exhibit 2 is just a copy of the Form C-102
24 for the well?

25 A. Right.

1 Q. Now, with respect to the north half, the Foal
2 Federal -- Who operates the Foal Federal 20 Number 1?

3 A. Jetta Production Company.

4 Q. And today you are here proposing that Mewbourne ✓
5 be the record operator of the Dinero 20 Federal Number 2?

6 A. That's correct.

7 Q. And therefore you seek an exception to
8 104.C.(2).(c); is that correct?


9 A. Correct.

10 Q. What formation is the Jetta Foal 20 Federal
11 Number 1 producing from?

12 A. From the Morrow formation. ✓

13 Q. And is the Morrow formation the primary target of
14 Mewbourne's well?

15 A. Yes, it is. ✓

16 Q. However, Mewbourne does request that it be
17 allowed to operate the well, regardless of whether it's a
18 Morrow, Atoka or Strawn well; is that correct? 

19 A. Correct.

20 Q. Anything spaced on 320 acres? ✓

21 A. That's right.

22 Q. Mr. Cobb, there was a couple of questions asked
23 in the last case, and let me ask you them now. Mewbourne
24 has had a couple of these cases before the Division now,
25 has it not?

1 A. We have.

2 Q. And they are both on federal land? ✓

3 A. Correct.

4 Q. Has Mewbourne discussed with the BLM in Roswell
5 these applications?

6 A. We have.

7 Q. And has the BLM expressed any objection to having
8 two operators on a 320-acre well unit? ✓

9 A. No, they have not.

10 Q. Okay. One other matter. With respect to the
11 Jetta well, who are the interest owners in the Jetta well?

12 A. I believe it's Jetta, 75 percent, and Nearburg,
13 25 percent.

14 Q. Is there different ownership in Mewbourne's well?

15 A. Yes, there is.

16 Q. Who are the owners, and what are their
17 approximate interests in the Dinero well?

18 A. It's Mewbourne, Jetta, Nearburg and EOG.

19 Q. Okay.

20 A. And we own approximately (47) percent, Jetta (22,
21 Nearburg (15) and EOG (15).

22 Q. Okay. So there will be a difference in ownership
23 between the two wells?

24 A. Correct.

25 Q. Were all of the working interest owners notified

1 of this hearing?

2 A. Yes, they were.

3 Q. And would you refer to Exhibit Number 5, the
4 affidavit of notice, Mr. Cobb?

5 A. Right.

6 Q. There's a notice letter that went out to Jetta,
7 Nearburg and EOG. Those are the only other working
8 interest owners besides Mewbourne; is that correct?

9 A. That's correct.

10 Q. Now, notice was also given to Dominion Oklahoma
11 Texas Exploration and Production, Inc. Do they own an
12 interest in the north half?

13 A. No, they do not. They only own in the south
14 half.

15 Q. Okay, so that was just a mistake to notify them? X

16 A. Right.

17 Q. Mr. Cobb, were Exhibits 1, 2 and 5 prepared by
18 you or under your supervision or compiled from company
19 business records?

20 A. Yes, they were.

21 Q. And in your opinion, is the granting of this
22 Application in the interests of conservation and the
23 prevention of waste?

24 A. Yes, it is.

25 MR. BRUCE: Mr. Examiner, I'd move the admission

1 of Mewbourne Exhibits 1, 2 and 5.

2 EXAMINER EZEANYIM: Exhibits 1, 2 and 5 will be
3 admitted into evidence.

4 MR. BRUCE: I pass the witness, Mr. Examiner.

5 EXAMINER EZEANYIM: Thank you. Gail?

6 MS. MacQUESTEN: No questions.

7 EXAMINER EZEANYIM: Okay, I may have to ask you
8 some of the questions that I asked the other --

9 MR. BRUCE: Yeah, and I do have an engineer,
10 also, to testify briefly, Mr. --

11 EXAMINER EZEANYIM: Okay, yeah, but -- Okay,
12 maybe I can resolve my question after the testimony.

13 MR. BRUCE: Okay.

14 EXAMINER EZEANYIM: Okay.

15 BRYAN M. MONTGOMERY,
16 the witness herein, after having been first duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

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

21 A. My name is Bryan Montgomery.

22 Q. Where do you reside?

23 A. I reside in Tyler, Texas.

24 Q. Who do you work for and in what capacity?

25 A. I work for Mewbourne Oil Company as the manager

1 of reservoir engineering.

2 Q. Have you previously testified before the Division
3 as an engineer?

4 A. Yes, I have.

5 Q. And were your credentials accepted as a matter of
6 record?

7 A. Yes, they were.

8 Q. For the Examiner, could you briefly go over your
9 educational and employment background?

10 A. Yes, I received a bachelor's of science degree in
11 petroleum engineering at University of Oklahoma in 1984 and
12 a master's of business administration in 1992 at the
13 University of Texas at Tyler and have worked since 1984 for
14 Mewbourne Oil Company, for about 20 years.

15 Q. And does your area of responsibility at Mewbourne
16 include southeast New Mexico?

17 A. Yes, it does.

18 Q. As well as other areas?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I'd tender Mr.
21 Montgomery as an expert petroleum engineer.

22 EXAMINER EZEANYIM: Mr. Montgomery is so
23 qualified.

24 Q. (By Mr. Bruce) Mr. Montgomery, could you refer
25 to Exhibit 3 and describe the wells drilled in the north

1 half of 20 and some of the adjoining wells?

2 A. Yes, this exhibit was put together by myself and
3 our staff to help show what's going on on the ground out
4 there. The section was first drilled in 1980. If you'll
5 see in the south half, the Jetta-operated Federal AE Number
6 1 Delaware producer --

7 EXAMINER EZEANYIM: Excuse me, where is --

8 THE WITNESS: The color plat.

9 MR. BRUCE: If you don't have it, here's an extra
10 copy.

11 EXAMINER EZEANYIM: Okay, okay, here.

12 THE WITNESS: So in 1979, in the south half of
13 Section 20 where we see the words "Jetta Operated Federal
14 AE #1 Delaware Producer", Amoco actually spudded that well,
15 tested the Morrow, tested some other zones and temporarily
16 abandoned the wellbore.

17 Then in 1984 when they temporarily -- or they
18 plugged it and pulled casing, there was no activity until
19 1997 when Santa Fe re-entered that wellbore and drilled an
20 80-acre Delaware horizontal well.

21 At that point -- or prior to that, just prior to
22 that, in 1996, Santa Fe also spudded and drilled and
23 completed the Foal 20 Number 1 in the northwest quarter as
24 a Morrow well, and --

25 Q. (By Mr. Bruce) It's still producing from the

1 Morrow?

2 A. It's still producing from the Morrow. In June of ✓
3 '02, Jetta took over operations of both those wells in a
4 purchase when they bought a package of wells. After that,
5 Mewbourne put together to drill in the section, and we
6 began in 2004 by spudding and drilling and completing in
7 the Morrow, the 20 Number 1 ^{DIANO} in the south half, and we are
8 the operator of that well. It's currently in the Morrow
9 producing at about a million a day, and it's been on
10 production just a couple of months. It's actually
11 productive in the lower Morrow and the middle Morrow.

12 If I back up, the Foal Number 1 tested wet and
13 nonproductive in the lower Morrow but is producing out of
14 the middle Morrow.

15 And then just recently we have spudded and
16 drilled and are testing the Morrow formation in the 20
17 Number 2, which is the well that we are discussing today in
18 the north half. You see it in the northeast, the MOC
19 Dinero 20 Number 2. It says producer; we're still testing.
20 We're in the lower Morrow; it doesn't look very good. The
21 middle Morrow does look like it's going to be productive. M

22 Q. Now, Jetta bought these properties, but has it
23 expressed a desire to sell their properties in this
24 section?

25 A. Yes, they have. We've talked to Jetta. In fact,

1 we've seen the sale package where the wells are for sale.

2 Q. Okay.

3 A. Yes.

4 Q. Is that one reason why -- I mean, you don't have
5 any problem with Jetta as an operator, as such, do you?

6 A. No. No, they've done a fine job. They haven't
7 been active doing anything in the last couple years, but no
8 problem.

9 Q. But if the properties are sold -- you don't know
10 who the next operator will be, correct?

11 A. That's correct, there's no way to know who that
12 will be and how that will impact us from an operations
13 standpoint, as far as reporting to the Commission.

14 Q. Are there any other reasons why Mewbourne wants
15 to have two operators in the north-half unit?

16 A. Yes, one strong reason is just the ability to be
17 able to have efficiencies in production and operations, ✓
18 physical operations. We plan to drill the Dinero 20 Number
19 3, you can see it on the plat.

20 Right now we are selling gas to El Paso on the 20
21 Number 1. It's a better contract than the Jetta well has.
22 We will tie in our Dinero 20 Number 2 at a common point at ✓
23 the 20 Number 1 and hopefully the 20 Number 3, which will
24 also provide us a better place to compress gas in the
25 future and that type of stuff that an operator can do with

1 multiple wells in an area.

2 Q. Assuming the Division approves this request, will
3 production from the Mewbourne well in the northeast quarter
4 of Section 20 have separate facilities from the Jetta well? ✓

5 A. Yes.

6 Q. Separate surface facilities?

7 A. Yes, absolutely.

8 Q. Okay. Now, you indicated Jetta has put these ✓
9 wells in a package. Is this an area where Mewbourne has
10 been active in New Mexico for a while?

11 A. Yes, that's correct, we have drilled many Morrow
12 wells in this area in Eddy County, near Carlsbad, over the
13 last five -- or two years, we've drilled, I think, a total
14 of 55. And in this area maybe -- there were 25 of them. ✓
15 And we're continuing, as you see, on the 20 Number 3 and in
16 other sections very near here to drill more Morrow wells.

17 Q. Okay, and has Mewbourne been active in New Mexico
18 for some time?

19 A. Yes, we started in the early 1970s and have been
20 operating since then consistently and growing and have a
21 long, strong record of operations in New Mexico.

22 Q. And many of those are Morrow wells or deep gas
23 wells?

24 A. That's correct, that's our primary target.

25 Q. Was Exhibit 3 prepared by you?

1 A. Yes, it was.

2 Q. And in your opinion is the granting of this
3 Application in the interests of conservation and the
4 prevention of waste?

5 A. Yes, it would be.

6 MR. BRUCE: Mr. Examiner, I'd move the admission
7 of Exhibit 3.

8 EXAMINER EZEANYIM: Exhibit 3 will be admitted
9 into evidence.

10 MR. BRUCE: And that concludes my presentation of
11 this witness, Mr. Examiner. I would note for the record
12 that there is no Exhibit 4. Late last night I was
13 numbering these and --

14 EXAMINER EZEANYIM: I was wondering about that.

15 MR. BRUCE: -- skipped.

16 EXAMINER EZEANYIM: Yeah, so that's an omission,
17 right?

18 MR. BRUCE: Yes.

19 EXAMINER EZEANYIM: Okay, Mr. Montgomery -- Do
20 you have any questions for this witness?

21 MS. MacQUESTEN: No, but I just wanted to ask,
22 did we admit Number 3 yet?

23 EXAMINER EZEANYIM: Yeah.

24 MR. BRUCE: Yeah, I think we did.

25 EXAMINER EZEANYIM: I did.

EXAMINATION

BY EXAMINER EZEANYIM:

Q. Mr. Montgomery, you say you are -- that Mewbourne is trying to sell the interest in this unit; is that --

A. That Jetta is selling the interest in the unit.

Q. To you guys?

A. No, Jetta has a sale package to the general public, to sell all their properties in this area and a lot of west Texas, of which these two will be included, and it has just been publicized. We don't feel we will buy it. It's a large package, we will not bid on it, but others will, and it will probably sell in the next few months.

Q. Okay, along that same line, you are saying you discussed with them about this -- where you want to drill in that unit, and they have no problems?

A. That's correct. Yes, we made a deal with them for their interest to drill this infill well, and then we also discussed the operations issues that we're talking about today, and they have no problem with that either.

Q. Okay. And as we discussed in the other one, I know Mr. Bruce asked you about the federal land. This is a federal lease, right?

A. That's correct.

Q. And you made mention that you discussed with the BLM before --

1 A. That's correct, Mr. Cobb did, yes.

2 Q. And then do you know what the discussions were,
3 what --

4 A. No, I wasn't part of that conversation on any of
5 their concerns, but it was my understanding that they were
6 okay with us as the second operator.

7 Q. And they didn't talk about who reports production
8 from that unit. Do you know whether they discussed that?

9 A. No, I was not part of that conversation.

10 Q. And then you said -- How did you acquire interest
11 in this unit?

12 A. I would be guessing, but it's my recollection
13 that we got a big part of our interest from Jetta, and then
14 others maybe also, but it's not something I'm intimately
15 familiar with.

16 Q. Uh-huh.

17 A. I'm sure Mr. Cobb can come back up and answer any
18 of those questions.

19 Q. And see, I ask this question again, and maybe you
20 might help me since you are -- and -- I don't know, it
21 seems to me that in that unit, because you are here in a
22 different 160. You know, did anybody ask that question,
23 because testimony about getting an NSP for that?

24 I'm just asking this question because it might
25 help us. We are trying to revise this rule, and I'm asking

1 this question for the general public to be able to see if
2 there is any input you could give us here, but did you ever
3 think about getting an NSP into a 160?

4 A. I did not, I have to tell you, explore that. It
5 would be an interesting thing to do. I don't know about
6 the ownership of the two wells and how it would all work
7 out, if that would be the way to go, to get two operators.

8 Q. Yeah, but Mewbourne understands that we normally
9 issue administratively those NSPs? You know that we do
10 that, right?

11 A. Sure, yes.

12 MR. BRUCE: Mr. Examiner, again, I kind of feel
13 like Mr. Carr. I think Mr. Carr and I were in a battle
14 over NSPs a couple years ago, and I think it was the
15 Commission would not approve an NSP.

16 And I suppose there's one issue, is, if you form
17 an NSP, how does that affect the working interest where
18 there's already different working interest in the two
19 wells, you know? There might be a wellbore assignment or
20 something of that nature which would complicate if -- it
21 might complicate the title issues involved, especially if
22 -- perhaps, say, down the road, if a third well was drilled
23 in the north half, let's say that Jetta well was plugged
24 and abandoned and somebody drilled a third well. Would the
25 working interest be what it is under the north half, or

1 would it be under, you know -- would it be the 75/25-
2 percent split that's in the first well, or would it be
3 what's in the second well, or issues like that? So it
4 could complicate that also.

5 EXAMINER EZEANYIM: Yeah --

6 MR. BRUCE: That would be a case-by-case basis,
7 but --

8 EXAMINER EZEANYIM: Of course I know, I
9 understand what you're saying. But you know, if you submit
10 an application, we have to review all those and see whether
11 we can approve it, because we only do administrative
12 applications; it's more time -- I mean less time-consuming
13 than going to hearing, and that's why I'm asking the
14 question. I'm not saying necessarily what you do, but I'm
15 asking, did you consider that, you know, and then submit an
16 Application and we said no? You know, that's really the
17 question I'm making. It's not that you should do that, I'm
18 not saying you should do that. I'm trying to get some
19 information on --

20 THE WITNESS: Well, we would be open to
21 discussing that in the future, for sure, on a case-by-case
22 basis.

23 EXAMINER EZEANYIM: Okay. Do you have any more
24 questions?

25 MS. MacQUESTEN: No.

1 EXAMINER EZEANYIM: Okay, you may be excused.

2 THE WITNESS: Thank you.

3 EXAMINER EZEANYIM: With that, Case Number 13,330
4 will be taken under advisement.

5 (Thereupon, these proceedings were concluded at
6 9:11 a.m.)

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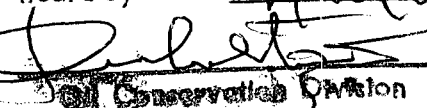
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 13330
heard by me on 9/16/04
 , Examiner
Oil Conservation Division

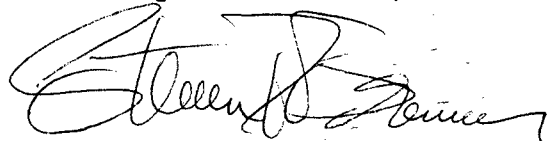
CERTIFICATE OF REPORTER

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 September 17th, 2004.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006