

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. 13,410

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

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM V. JONES, JR., Hearing Examiner

February 3rd, 2005

Santa Fe, New Mexico

2005 FEB 17 AM 9 01

52/24/2-551M

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM V. JONES, JR., Hearing Examiner, on Thursday, February 3rd, 2005, 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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I N D E X

February 3rd, 2005
Examiner Hearing
CASE NO. 13,410

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A P P E A R A N C E S

FOR THE DIVISION:

GAIL MacQUESTEN
Deputy General Counsel
Energy, Minerals and Natural Resources Department
1220 South St. Francis Drive
Santa Fe, New Mexico 87505

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 9:07 a.m.:

3 EXAMINER JONES: And immediately call Case
4 13,410, Application of Mewbourne Oil Company for compulsory
5 pooling, Eddy County, New Mexico.

6 Call for appearances.

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

9 EXAMINER JONES: No other appearances? Okay,
10 then the witness has already been sworn, so...

11 MR. BRUCE: Mr. Examiner, the witness is Mr.
12 Haden who has just been sworn in and qualified, if the
13 record could reflect that in this matter.

14 EXAMINER JONES: Just have the record reflect.

15 D. PAUL HADEN,
16 the witness herein, having been previously duly sworn upon
17 his oath, was examined and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Haden, this case involves the 80 acres
21 immediately to the south of the prior case, does it not?

22 A. That's correct.

23 Q. Could you identify Exhibit 1 and just briefly
24 state what acreage Mewbourne seeks to force pool in this
25 matter?

1 A. Yes, sir. Exhibit Number 1 is a land plat of the
2 area. It describes a portion of Township 18 South, Range
3 30 East. It also describes our proposed spacing unit,
4 which is the south half of the southeast quarter of Section
5 29, which is indicated in yellow.

6 It also depicts the proposed well location, which
7 is indicated as a red dot.

8 Q. And again, you are seeking to pool the 80 acres
9 in the Bone Spring, which is the Santo Nino-Bone Spring
10 Pool?

11 A. That's correct.

12 Q. And then also anything that may be spaced on 40
13 acres for the southwest quarter, southeast quarter?

14 A. Correct.

15 Q. What is the well's footage location again?

16 A. The proposed well is to be located 510 feet from
17 the south line and 2130 feet from the east line of this
18 Section 29.

19 Q. And again, that would be an orthodox location?

20 A. That would be orthodox.

21 MR. BRUCE: Mr. Examiner, I think the location
22 requirements are within 150 feet of the center of the
23 quarter-quarter section.

24 Q. (By Mr. Bruce) Let's move on to Exhibit 2, Mr.
25 Haden, which is the same as the prior Exhibit 2. Could you

1 describe the land holdings in the south half, southeast
2 quarter of this section?

3 A. Yes, sir, that describes the ownership in the
4 south half, southeast quarter of currently Mewbourne Oil
5 Company having 60 percent of the working interest. It also
6 describes the other owners, such as LWJ Partnership;
7 Kenneth G. Cone; Kenneth G. Cone, Trustee of the Trusts
8 created under the will of Kathleen Cone, Deceased; Bank of
9 Oklahoma, which is the Trustee of the Trust created under
10 the will of Kathleen Cone, Deceased; and also another
11 interest owner, Randy Lee Cone. It sets out the respective
12 working interest percentage for each of those entities.

13 Q. Okay. And just for clarification, the Kenneth G.
14 Cone as Trustee, that's for the -- I believe for his
15 children under the trust -- under the will of Kathleen
16 Cone, correct?

17 A. Apparently so.

18 Q. And then the Bank of Oklahoma, I believe, is
19 Trustee of the Trust for the children of Tom Cone under the
20 will of Kathleen Cone?

21 A. That's what my understanding is.

22 Q. And Mewbourne is seeking to pool all of the
23 parties other than, of course, the Mewbourne interest in
24 these well units?

25 A. Correct.

1 Q. Okay, would you move on to your Exhibit 3 and
2 discuss your attempts to obtain the voluntary joinder of
3 these parties?

4 A. Exhibit Number 3 consists of a summary of the
5 communications regarding this case with the parties who are
6 being pooled. It also sets forth a copy of the
7 correspondence with these parties, as well as any notes I
8 might have made regarding phone conversations with them.

9 Q. And in your opinion have you made a good faith
10 effort to obtain the voluntary joinder of these parties?

11 A. We believe we have.

12 Q. Have any of these parties indicated that they do
13 want to join in the well?

14 A. Yes, that would be Randy Lee Cone. He owns 3.33-
15 percent working interest. He has signed our AFE and
16 returned that to us. By letter dated January 24th, '05, I
17 sent him our proposed operating agreement for his execution
18 and advised him that upon our receipt of this executed
19 agreement, that we would dismiss him from the pooling
20 hearing.

21 Q. Okay, and let's move on to Exhibit 4. Would you
22 identify that and describe the cost of the proposed well?

23 A. Exhibit Number 4 is a copy of our AFE for this
24 proposed well, for the Pinta 29 Federal Number 1 well. It
25 describes the location, which I've previously described to

1 you. It also sets forth the estimated dryhole cost of
2 \$437,800, also a completed well cost is \$792,900. And also
3 it sets forth our proposed depth, which is 7600 feet
4 beneath the surface.

5 Q. And again, is this cost in line with the cost of
6 other Bone Spring wells drilled in this area?

7 A. We believe it is.

8 Q. And does Mewbourne request that it be designated
9 operator of this well?

10 A. Yes, we do.

11 Q. And What is your recommendation for the overhead
12 rates?

13 A. As in the previous case, we are recommending
14 \$5000 for a drilling well rate and \$500 per month for a
15 producing well rate.

16 Q. And are these amounts equivalent to those
17 normally charged by operators in this area for Bone Spring
18 wells?

19 A. Yes, they are.

20 Q. Do you request that this rate be adjusted
21 periodically under the COPAS accounting procedure?

22 A. Yes, we do.

23 Q. And do you request the maximum cost-plus-200-
24 percent risk charge be assessed against nonconsenting
25 interest owners?

1 A. Correct, we do.

2 Q. And was notice given to certain interest owners
3 shown on Exhibit 5?

4 A. Yes, they were.

5 MR. BRUCE: Mr. Examiner, there are two -- I am
6 going to request that the case be continued, because the
7 notice to -- this does not contain a notice to LWJ
8 Partnership, which went out late.

9 And in addition, because I have always had
10 trouble getting green cards back from Kenneth Cone, I
11 advertised that in the appropriate newspaper in Eddy
12 County, but I have not received the affidavit of
13 publication back, so I'd ask that this matter be continued
14 to February 17th, so that those notice materials can be
15 submitted to the Division.

16 EXAMINER JONES: Okay, I have one question. Are
17 you --

18 MR. BRUCE: Oh, I would like to --

19 Q. (By Mr. Bruce) Were Exhibits 1 through 5
20 prepared by you or under your supervision, Mr. Haden?

21 A. Yes, they were.

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

25 A. Correct.

1 MR. BRUCE: Mr. Examiner, I move the admission of
2 Mewbourne's Exhibits 1 through 5.

3 EXAMINER JONES: Exhibits 1 through 5 will be
4 admitted into evidence.

5 EXAMINATION

6 BY EXAMINER JONES:

7 Q. Do you have an API number for this well?

8 A. Yes, sir, we do, but I don't know what that
9 number is. We filed the application, permit to drill.

10 Q. So the feds have already approved it?

11 A. Yes.

12 Q. On both of these wells?

13 A. Well, I don't know if the application has been
14 approved yet, but it either has or it's in the process of
15 being approved. It generally takes a minimum of 45 days in
16 which to get them to sign off on it. I don't know the
17 exact date in which we applied for the permit, but we
18 expect it to be approved.

19 Q. There's possibly arrowheads in this country. Are
20 you sure of this location, these locations?

21 A. Well, I have not been advised that it's not okay,
22 so I assume it is. We always do the archaeological studies
23 as required.

24 Q. Do you want these locations to be in the order,
25 as you say here, the footage location?

1 MR. BRUCE: Mr. Examiner, I always prefer if an
2 order states, at an orthodox location in such-and-such
3 quarter-quarter section, just in case some issue does
4 arise.

5 EXAMINER JONES: Okay.

6 Gail, do you have any questions?

7 MS. MacQUESTEN: No questions, thank you.

8 EXAMINER JONES: Thank you.

9 Okay, with that, we'll continue Case 13,410 to
10 February the 17th.

11 (Thereupon, these proceedings were concluded at
12 9:14 a.m.)

13 * * *

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16
17 I do hereby certify that the foregoing is
18 a complete record of the proceedings in
the Examiner hearing of Case No. _____,
19 heard by me on _____

20 _____, Examiner
Oil Conservation Division

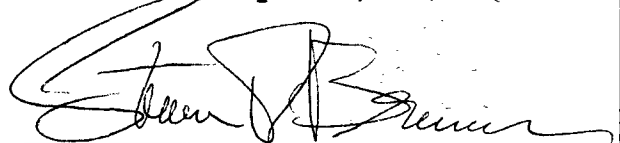
CERTIFICATE OF REPORTER

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 February 4th, 2005.



STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2006