

1 STATE OF NEW MEXICO
2 ENERGY, MINERALS AND NATURAL RESOURCES
3 DEPARTMENT OIL CONSERVATION DIVISION

4 IN THE MATTER OF THE HEARING CALLED
5 BY THE OIL CONSERVATION DIVISION FOR
6 THE PURPOSE OF CONSIDERING:

ORIGINAL

7 APPLICATION OF MEWBOURNE OIL
8 COMPANY FOR COMPULSORY POOLING
9 AND AN UNORTHODOX GAS WELL LOCATION,
10 EDDY COUNTY, NEW MEXICO.

CASE NO. 15143

11 APPLICATION OF MEWBOURNE OIL
12 COMPANY FOR COMPULSORY POOLING,
13 EDDY COUNTY, NEW MEXICO.

CASE NO. 15089

14 REPORTER'S TRANSCRIPT OF PROCEEDINGS

15 EXAMINER HEARING

16 May 29, 2014

17 Santa Fe, New Mexico

18 BEFORE: PHILLIP GOETZE, CHIEF EXAMINER
19 GABRIEL WADE, LEGAL EXAMINER

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22 This matter came on for hearing before the
23 New Mexico Oil Conservation Division, Phillip Goetze,
24 Chief Examiner, and Gabriel Wade, Legal Examiner, on
25 Thursday, May 29, 2014, at the New Mexico Energy,
Minerals and Natural Resources Department, Wendell Chino
Building, 1220 South St. Francis Drive, Porter Hall,
Room 102, Santa Fe, New Mexico.

26

27 REPORTED BY: Mary C. Hankins, CCR, RPR
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33

1 APPEARANCES
 2 FOR APPLICANT MEWBOURNE OIL COMPANY:
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1 (9:05 a.m.)

2 EXAMINER GOETZE: And moving right along,
3 we have two cases that are clumped together. We have
4 Case 15143, application of Mewbourne Oil Company for
5 compulsory pooling and an unorthodox gas well location,
6 Eddy County, New Mexico, and Case Number 15089,
7 application of Mewbourne Oil Company for compulsory
8 pooling, Eddy County, New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce of
11 Santa Fe representing the Applicant. I have two
12 witnesses, Mr. Mitchell and Mr. Townsend, who, if we
13 could just let the record reflect, have been previously
14 sworn and qualified.

15 EXAMINER GOETZE: They are both sworn in
16 and both qualified.

17 MR. BRUCE: Mr. Examiner, if we could start
18 with Case 15089 -- these cases involve the same half
19 section of land and two different wells, and all we are
20 pooling are some unlocatable mineral interest owners.

21 COREY MITCHELL,
22 after having been previously sworn under oath, was
23 questioned and testified as follows as to Case
24 Number 15089:

25 DIRECT EXAMINATION

1 BY MR. BRUCE:

2 Q. Mr. Mitchell, in Case 15089, could you identify
3 Exhibit 1 for the Examiner and describe the well we're
4 here for today?

5 A. Exhibit 1 is a Midland Map Company land plat of
6 Township 26 South, Range 27 East. Our proration unit
7 and well is highlighted in Section 22. This particular
8 well being our Owl Draw 22 BO Federal Com #1H.

9 Q. And what zone is being pooled in this well?

10 A. It is the Wolfcamp.

11 Q. And could you identify Exhibit 2? Describe it
12 and identify the parties you are seeking to pool in this
13 case.

14 A. Exhibit 2 is our tract ownership for this well.
15 We have labeled the parties we are seeking to pool with
16 an asterisk. It is Corexcac and Petrorep, Inc., and the
17 interest totals 1.195312 percent.

18 Q. All of the other parties have signed a JOA?

19 A. Yes, sir.

20 Q. Regarding Corexcac and Petrorep, they are
21 unlocatable; are they not?

22 A. That is correct.

23 Q. Has Mewbourne been searching for them for a
24 number of years?

25 A. Yes, sir. I believe we've pooled them in three

1 or four previous wells.

2 Q. And what types of records have you searched to
3 locate them?

4 A. We have searched the county records, Internet,
5 done Secretary of State searches, and we've also talked
6 with the other mineral owners in their particular tract
7 of ownership to see if we could get any leads, and we
8 have been unable to find anything.

9 Q. In your opinion, has Mewbourne made a
10 good-faith effort over the last several years to try to
11 locate a valid address for these parties?

12 A. Yes, sir.

13 Q. And what is Exhibit 4?

14 A. Exhibit 4 is a copy of our AFE, which lists our
15 estimated costs for this particular well. We have
16 estimated dry-hole costs of 3,131,300 and estimated
17 completed costs of 6,042,100.

18 Q. And are these costs reasonable and in line with
19 the costs of other Wolfcamp wells drilled in this area
20 of New Mexico?

21 A. Yes, sir.

22 Q. Do you request that Mewbourne be appointed
23 operator of the well?

24 A. Yes, sir.

25 Q. And what do you request for the overhead rates

1 for the well?

2 A. We would request 7,500 a month for drilling and
3 750 a month for producing.

4 Q. And are these rates fair and reasonable, and
5 are they also the rates used in your JOA?

6 A. Yes, sir.

7 Q. What is Exhibit 5, Mr. Mitchell?

8 A. Exhibit 5 is our administrative nonstandard
9 location order for this particular well.

10 Q. And was the unorthodox location sought simply
11 to maximize the length of the productive interval of the
12 wellbore?

13 A. Yes, sir.

14 Q. And were Petrorep and Corexcac notified of this
15 hearing by publication?

16 A. Yes, sir.

17 Q. Is that reflected in the Affidavit of
18 Publication marked as Exhibit 6?

19 (Mr. Wade exits the hearing.)

20 A. Yes, sir.

21 Q. Do you request a maximum cost plus 200 percent
22 risk charge against nonconsenting interest owners?

23 A. Yes, sir.

24 Q. And were Exhibits 1 through 6 either prepared
25 by you or compiled from company business records?

1 A. Yes, sir.

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

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I'd move the
7 admission of Exhibits 1 through 6 in Case 15089.

8 EXAMINER GOETZE: Exhibits 1 through 6 are
9 accepted in regards to Case 15089.

10 (Mewbourne Oil Company Exhibit Numbers 1
11 through 6 in Case 15089 were offered and
12 admitted into evidence.)

13 MR. BRUCE: And if you have any questions,
14 fine. Then we would be very brief in the testimony of
15 the next well, since it's virtually identical.

16 EXAMINER GOETZE: So you want to go ahead
17 and give testimony on the second case?

18 MR. BRUCE: Sure.

19 EXAMINER GOETZE: Okay. Very good. Then
20 we will direct comments regarding Case Number 15143, and
21 the landman is the same witness.

22 Proceed, Mr. Bruce.

23 COREY MITCHELL,
24 after having been previously sworn under oath, was
25 questioned and testified as follows as to Case

1 Number 15143:

2 DIRECT EXAMINATION

3 BY MR. BRUCE:

4 Q. Mr. Mitchell, could you identify Exhibit 1?

5 A. Exhibit 1 is a Midland Map Company land plat of
6 Township 26 South, Range 27 East, with the east half of
7 Section 22 being highlighted. This particular well is
8 in the east half-east half of Section 22, and it is our
9 Owl Draw 22 W1AP Federal Com #1H well, which will also
10 be in the Wolfcamp Formation.

11 Q. And I notice the surface location for this well
12 will be in an adjoining section, 15?

13 A. Yes, sir.

14 Q. And moving ahead a little bit to Exhibit 4, it
15 does have the surface and bottom-hole locations; does it
16 not?

17 A. Yes, sir.

18 Q. And, again, the well location is unorthodox?

19 A. Yes, sir.

20 Q. And is the reason for that simply to extend
21 the -- to maximize the length of the productive interval
22 of the well?

23 A. Yes, sir.

24 Q. And Exhibit 2 are the same interest owners and
25 the same percentage interest being force pooled as in

1 the prior case?

2 A. That is correct.

3 Q. And Exhibit 3 is simply a listing of attempts
4 to locate these people?

5 A. Yes, sir.

6 Q. And could you identify Exhibit 4 and discuss
7 the cost of the proposed well?

8 A. Exhibit 4 is our AFE which sets out the
9 estimated costs for this particular well. On this AFE,
10 we have estimated dry-hole costs of \$3,091,400 and
11 completed -- estimated completed costs of \$6,470,500.

12 Q. And are those costs fair and reasonable?

13 A. Yes, sir.

14 Q. And are they in line with the cost of other
15 Wolfcamp wells drilled in this area of New Mexico?

16 A. Yes, sir.

17 Q. And were Petrorep and Corexcals notified of this
18 case -- of this application by publication?

19 A. Yes, sir.

20 MR. BRUCE: And, Mr. Examiner, Exhibit 5 is
21 the Affidavit of Publication. Again, this is one I
22 haven't received, so this case will have to be continued
23 for two weeks.

24 EXAMINER GOETZE: That's what we're
25 probably going to do.

1 Q. (BY MR. BRUCE) And what is Exhibit 6,
2 Mr. Mitchell?

3 A. Exhibit 6 is a list of the offset operators.

4 Q. And this is for purposes of the unorthodox
5 location, correct?

6 A. Yes, sir.

7 Q. And the only other offset is Chevron U.S.A.?

8 A. That is correct.

9 Q. And were they given notice of this application?

10 A. Yes, sir.

11 Q. And is that reflected in Exhibit 7?

12 A. Yes, sir.

13 MR. BRUCE: And, Mr. Examiner, Chevron did
14 receive actual notice of this case.

15 Q. (BY MR. BRUCE) Were Exhibits 1 through 7
16 prepared by you or under your supervision or compiled
17 from company business records?

18 A. Yes, sir.

19 Q. And in your opinion, is the granting of this
20 application in the interest of conservation and the
21 prevention of waste?

22 A. Yes, sir.

23 Q. What overhead rates do you request for this
24 well?

25 A. We are requesting 7,500 a month for drilling

1 and 750 a month for producing.

2 Q. And, again, those rates are in the JOA?

3 A. Yes, sir.

4 Q. And you believe they're fair and reasonable and
5 comparable to the other rates charged by operators in
6 this area?

7 A. Yes, sir.

8 Q. And do you request that Mewbourne be appointed
9 operator of the well?

10 A. Yes, sir.

11 Q. And do you request the maximum cost plus 200
12 percent risk charge be assessed?

13 A. Yes, sir.

14 Q. And insofar as the overhead rates, do you
15 request that they be periodically adjusted under the
16 COPAS accounting procedure?

17 A. Yes, sir.

18 MR. BRUCE: Mr. Examiner, I'd move the
19 admission of Exhibits 1 through 7 in Case 15143.

20 EXAMINER GOETZE: Exhibits 1 through 7 for
21 Case 15143 are so entered.

22 (Mewbourne Oil Company Exhibit Numbers 1
23 through 7 for Case 15143 were offered and
24 admitted into evidence.)

25 MR. BRUCE: And I have no further questions

1 of this witness.

2 EXAMINER GOETZE: I have no questions
3 regarding either case of this witness.

4 ROGER N. TOWNSEND,
5 after having been previously sworn under oath, was
6 questioned and testified as follows as to Case
7 Number 15089:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Townsend, let's first look at Case 15089.
11 Are the exhibits submitted for both cases identical?

12 A. Virtually identical, yes.

13 Q. Would you identify, in Case 15089, Exhibit 7?

14 A. Yes, sir. Exhibit 7 is a structure map around
15 Section 22. It's the structure on the top of the
16 Wolfcamp Formation. The structure is dipping
17 approximately 100 feet per mile to the east.

18 Also, we have the proposed wells. This
19 well, the 22 B0, is in the west half of the east half of
20 Section 22, and it's the Wolfcamp. The color on the map
21 is for Wolfcamp wells in the area. The solid blue lines
22 are wells that have been drilled. The dashed blue lines
23 are wells that are permitted to be drilled.

24 The production in Section 23, the well in
25 the east half, is a Chevron-Wolfcamp well that is new.

1 The Mewbourne well in the west half of Section 23 was
2 drilled a couple of months ago. And then down to the
3 south, there is a north-south well that Concho has
4 drilled just south of Section 34. I believe that's
5 Section 4.

6 Q. Is there any preferred orientation? It looks
7 like on this map the operators are drilling stand-ups
8 for the most part?

9 A. Yes, sir. All of the drilled wells have been
10 stand-ups and all the permitted wells are stand-ups,
11 except for the one east-west well, which is in Section
12 34. I believe that operator didn't have an option, is
13 my guess on that.

14 Q. Section 34 is a short section adjoining the
15 Texas state line?

16 A. Yes.

17 Q. So he had roughly one well unit to drill the
18 well?

19 A. Yes.

20 Q. And what is Exhibit 8?

21 A. Exhibit 8 is that cross section, U to U prime,
22 and that cross section covers from the top of the
23 Wolfcamp Formation, the orange line at the top, down to
24 what Mewbourne is identifying as the base of the middle
25 Wolfcamp Shale. The well on the left actually drilled a

1 pilot hole so that we have a wireline log going through
2 both of the intervals.

3 The upper shale target interval is shaded
4 in kind of a purple color, and the middle shale target
5 is shaded in the blue color. And the significance of
6 this is that the upper shale is over 200 feet thick, in
7 a gross sense, and the middle shale is, I think, 350 to
8 400 feet thick in the area.

9 The reason there is no isopach map is that
10 we do, at this point in this area, only have the one
11 penetration. So with one point, I was not able to
12 generate a local isopach map, but the cross section
13 indicates that there is adequate shale in both intervals
14 to target.

15 Q. Now, the two wells that Mewbourne is drilling,
16 the BO well, the one of the west half of the east half,
17 what is the primary target of that well?

18 A. It is this middle shale target, the blue shaded
19 interval.

20 Q. And the well in the east half-east half of
21 Section 22, what is the target for that well?

22 A. It is the Upper Shale, that purple shaded
23 interval.

24 Q. And both zones are pretty thick; are they not?

25 A. Yes, sir. They are both adequate, and also

1 there's enough -- there's tightness to the rock, that I
2 don't expect that those wells would be able to
3 communicate vertically.

4 Q. And since it is tight rock, do you expect any
5 adverse effect on the offsets from the unorthodox
6 locations of the wells?

7 A. No, sir.

8 Q. And based upon the wells that you've seen
9 drilled, at least in Section 23, do you believe the
10 Wolfcamp will be continuous across the zones being
11 tested by both wells?

12 A. Yes, sir.

13 Q. And what is Exhibit 9?

14 A. Exhibit 9 is a survey plan generated by the
15 Directional Drilling Company, and it is indicating that
16 we would -- we do expect to be at a legal location for
17 this interval.

18 Q. Well, on the north end of the well unit,
19 correct?

20 A. Yes, sir.

21 Q. The south end of the well unit is 330 feet from
22 the south line of the well unit?

23 A. Yes.

24 Q. Were Exhibits 7, 8 and 9 prepared by you or
25 compiled from company business records?

1 A. Yes, sir.

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

5 A. Yes, it is.

6 MR. BRUCE: Mr. Examiner, I'd move the
7 admission of Exhibits 7, 8 and 9 in this case.

8 EXAMINER GOETZE: Exhibits 7, 8 and 9 are
9 so admitted for Case 15089.

10 (Mewbourne Oil Company Exhibit Numbers 7, 8
11 and 9 for Case 15089 were offered and
12 admitted into evidence.)

13 Mr. Bruce: And if I could just ask
14 essentially one question of Mr. Townsend in Case 15143
15 before I pass him to you.

16 EXAMINER GOETZE: Very good.

17 ROGER N. TOWNSEND,
18 after having been previously sworn under oath, was
19 questioned and testified as follows as to Case
20 Number 15143:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Mr. Townsend, in Case 15143, the exhibit
24 numbers are different. The structure map is Exhibit 8.
25 The cross section is Exhibit 9. Are these exhibits the

1 same as 7 and 8 in the prior case?

2 A. Yes, sir.

3 Q. And is Exhibit 10 different in that it's the
4 directional plan for the AP well, the well in the east
5 half-east half of Section 10?

6 A. Yes, sir.

7 Q. And looking at this Exhibit 10, the well will
8 be unorthodox at the terminus of the well unit, correct?

9 A. Yes, sir.

10 Q. It looks like it will be orthodox on the
11 northern end of the well unit?

12 A. Yes, sir.

13 Q. And were Exhibits 8, 9 and 10 prepared by you
14 or compiled from company business records?

15 A. Yes, sir.

16 Q. And in your opinion, is the granting of the
17 application in Case 15143 in the interest of
18 conservation and the prevention of waste?

19 A. Yes.

20 MR. BRUCE: Mr. Examiner, I'd move the
21 admission of Exhibits 8, 9 and 10 in Case 15143.

22 EXAMINER GOETZE: Exhibits 8, 9 and 10 for
23 Case 15143 are so entered.

24 (Mewbourne Oil Company Exhibit Numbers 8, 9
25 and 10 for Case 15143 were offered and

1 admitted into evidence.)

2 MR. BRUCE: And I have no further questions
3 for the witness.

4 CROSS-EXAMINATION

5 BY EXAMINER GOETZE:

6 Q. Okay. Let us look at -- this would be Case
7 15143 -- your Exhibit 10. So all your completed
8 interval is going to be within the 660 setbacks, except
9 at the south end where it's going to be 330?

10 MR. BRUCE: Correct.

11 THE WITNESS: Yes, sir.

12 EXAMINER GOETZE: I just wanted
13 clarification of that because we have it marked down
14 here as 660 hard line going all the way around except to
15 the south end.

16 Q. (BY EXAMINER GOETZE) Do we have a pool name for
17 this? Has the District provided you with any
18 information regarding a pool name?

19 MR. BRUCE: Mr. Examiner, on the first
20 case, 15089, the Division just designated it as wildcat
21 Wolfcamp, and the API number is 3001541622.

22 The second well, the one in the east
23 half-east half, does not have an API number as yet, but
24 both are designated as wildcat Wolfcamp.

25 EXAMINER GOETZE: Okay. We'll proceed with

1 that.

2 Q. (BY EXAMINER GOETZE) For the record, are there
3 any geologic impediments in this area which will cause
4 you problems in the completion of your well?

5 A. Not that I'm aware of.

6 Q. Very good. You passed the test remarkably.

7 EXAMINER GOETZE: No more questions for
8 this witness?

9 MR. BRUCE: No, Mr. Examiner.

10 EXAMINER GOETZE: Case 15089 will be taken
11 under advisement.

12 Case 15143 will be continued to June 12th,
13 with provision of submitting an affidavit.

14 And at this point, we have -- let's take a
15 break right now. We'll take a ten-minute break and
16 we'll come back.

17 (Case Numbers 15143 and 15089 conclude,
18 9:25 a.m.)

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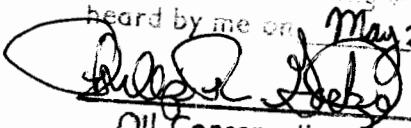
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I do hereby certify that the foregoing is
a complete record of the proceedings in
the last hearing of Case No. 15089 & 15143
heard by me on May 29, 2014.

 , Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

19

20

Mary C. Hankins

21

MARY C. HANKINS, CCR, RPR
Paul Baca Court Reporters, Inc.
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