

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:

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

CASE NO. 15625

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 2, 2017

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
LEONARD LOWE, TECHNICAL EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, Leonard Lowe, Technical Examiner, and Gabriel Wade, Legal Examiner, on Thursday, March 2, 2017, 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.

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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.
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1 (9:39 a.m.)

2 EXAMINER McMILLAN: I'd call Case Number
3 15625, application of Mewbourne Oil Company for
4 compulsory pooling, Eddy County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the Applicant. I have two
8 witnesses, and they will be the witnesses in each of the
9 five cases.

10 EXAMINER McMILLAN: Any other appearances?

11 Thank you.

12 The two witnesses, will you please stand up
13 and be sworn in at this time?

14 Thank you.

15 (Mr. Pearson and Mr. Cless sworn.)

16 CLAYTON PEARSON,

17 after having been first duly sworn under oath, was
18 questioned 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. My name is Clayton Pearson. I live in Midland,
24 Texas.

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

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

3 **Q. Have you previously testified before the**
4 **Division?**

5 A. I have.

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

8 A. Yes, they were.

9 **Q. And does your area of responsibility cover the**
10 **portion of southeast New Mexico involved in this**
11 **application?**

12 A. Yes.

13 **Q. And does it also cover the -- the lands**
14 **involved in the subsequent four Mewbourne cases?**

15 A. Yes.

16 **Q. And are you familiar with the land matters**
17 **involved in this case?**

18 A. I am.

19 MR. BRUCE: Mr. Examiner, I tender
20 Mr. Pearson as an expert petroleum landman.

21 EXAMINER McMILLAN: So qualified.

22 **Q. (BY MR. BRUCE) Mr. Pearson, what is Exhibit 1?**

23 A. Exhibit 1 is a Midland Map showing the area
24 around the proposed well, which is our Loving Townsite
25 21 W2PA Fee #1H. The proration unit and project area is

1 highlighted in yellow, which is the east half of Section
2 21. And the red is a representative wellbore of the
3 proposed well.

4 **Q. Okay. The surface location is outside of the**
5 **well unit; is that correct?**

6 A. That's correct. It's in Unit Letter A of
7 Section 28 just to the south.

8 **Q. And will -- will the footages of the producing**
9 **interval, the wellbore, be orthodox?**

10 A. They will.

11 **Q. And what zone is being force pooled?**

12 A. The Wolfcamp Formation.

13 **Q. And the spacing is 320 acres?**

14 A. That is correct.

15 **Q. Could you identify Exhibit 2 for the Examiner?**

16 A. Exhibit 2 is the tract ownership of the project
17 area, which again is the east half of Section 21. It
18 shows up here that Mewbourne Oil Company is the operator
19 and Tierra Oil Company, et al. as the nonoperators
20 representing 95.5 percent. And the remaining list of
21 parties are unleased mineral interest owners that are
22 found within this proration unit.

23 **Q. Is it all fee lands?**

24 A. All of the lands are fee, and we seek to pool
25 4.49 percent in this well.

1 **Q. Okay. And a lot of these are small lots within**
2 **the town of Loving?**

3 A. That is correct. These are small town lots
4 found within a subdivision of the town of Loving, New
5 Mexico.

6 **Q. Beautiful downtown Loving, New Mexico?**

7 **Because of the town site, I'm suggesting**
8 **that title is a little difficult in this section?**

9 A. Title is somewhat complex here. The
10 subdivision goes back to the 1940s, so title can be very
11 complex here.

12 **Q. Okay. Are there -- in looking at this, you've**
13 **designated with an asterisk all of the people who need**
14 **to be pooled. There are a number of estates involved.**
15 **Were all of the -- were the people who you know are**
16 **deceased, were there probate records on any of them?**

17 A. Not that we could find. Some of these are
18 noted as estates in the title opinion just because there
19 have been other people that appear to be the heirs, but
20 some of it we're not sure if that is the case or what
21 portion of the estate they own or if they own anything.

22 **Q. And are a number of these people unlocatable?**

23 A. Yes.

24 **Q. What steps did you take to locate besides**
25 **having a title opinion? What steps did you take to**

1 locate, to the extent you were able, all of the people
2 that are being force pooled?

3 A. We used online search databases to locate these
4 people and their addresses and possible phone numbers,
5 white pages, and we also looked in the records, their
6 source deeds, to see if they had an address that was
7 filed with that deed.

8 Q. As to those people that you could locate, did
9 you have communications with them?

10 A. We have had communication with several of these
11 mineral interest owners. Pete V. Martinez and Barbara
12 J. Mendoza, as joint tenants, have responded to our
13 offer, and we are in the process of leasing them. Juan
14 Rios and Marie Rios, husband and wife, have responded to
15 our lease offer. Cruz Ornelas and Sandra Ornelas have
16 also responded to our lease offer. And lastly, Wells
17 Fargo Bank has contacted us, and they wish to sell their
18 mineral interest, so we're in the process of acquiring
19 that interest.

20 Q. Okay. When you first -- when you're dealing
21 with these small unleased minerals owners, is it
22 Mewbourne's habit to go out and first try to get them to
23 lease before sending them an official well proposal?

24 A. Correct. We prefer to send a lease offer and
25 summarize our plan for development and then follow up if

1 we don't hear anything with a well proposal, if they
2 like that option.

3 **Q. And Exhibit 3 contains copies of the written**
4 **correspondence with these people?**

5 A. That is correct. We've sent, like you stated,
6 a lease offer to all of these parties and then followed
7 up with a well proposal. And as I stated, we only
8 received a response from a few of these parties, and so
9 a lot of them, we haven't heard anything back from
10 either on the lease offer or offer to participate in the
11 well.

12 **Q. And an AFE was included in the well-proposal**
13 **letters?**

14 A. That is correct.

15 **Q. In your opinion, has Mewbourne made a**
16 **good-faith effort to obtain the voluntary joinder of the**
17 **unleased mineral interest owners in the well?**

18 A. Yes.

19 **Q. And, alternatively, has it made a good-faith**
20 **effort to locate all of the parties involved in this**
21 **well?**

22 A. Yes, sir.

23 **Q. What is Exhibit 4?**

24 A. Exhibit 4 is a copy of our AFE that was sent to
25 all parties. It shows the completed well costs to be

1 \$5,075,300.

2 Q. And is this cost fair and reasonable and in
3 line with the cost of other wells drilled to this depth
4 in this area of New Mexico?

5 A. Yes.

6 Q. And does Mewbourne -- Devon -- excuse me --
7 Mewbourne request that it be named operator of the well?

8 A. Yes.

9 Q. What overhead rates do you request?

10 A. We are requesting 7,500 for drilling months and
11 \$750 for producing months.

12 Q. And are these amounts equivalent to those
13 charged by Devon -- Mewbourne and other operators in
14 this area of wells of this depth?

15 A. Yes.

16 Q. I'm having a speech impediment here.

17 Do you request that the overhead rates be
18 periodically adjusted as provided by the COPAS
19 accounting procedure?

20 A. Yes.

21 Q. And does Devon [sic] request the maximum cost
22 plus 200 percent risk charge if the interest owner goes
23 nonconsent in the well?

24 A. Yes. Mewbourne Oil Company requests that.

25 Q. Mental block.

1 **Was notice mailed to all of the interest**
2 **owners?**

3 A. Yes.

4 **Q. And is that reflected in Exhibit 5?**

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, you can see, in
7 just glancing at Exhibit 5 toward the end, a number of
8 letters were returned. My favorite comment from the
9 post office is, There is no mail receptacle at some of
10 these addresses. But, Mr. Examiner, I did publish
11 notice -- two different notices as against the various
12 interest owners. There are still a couple of people who
13 have not been noticed, and so, again, on this matter,
14 it's going to have to be continued for two weeks. The
15 postal service said they got notice, but I haven't
16 received a couple of the green cards back yet.

17 And the publication affidavits are marked
18 Exhibits 6 and 7.

19 **Q. (BY MR. BRUCE) In your opinion, is the granting**
20 **of this application in the interest of conservation and**
21 **the prevention of waste?**

22 A. Yes.

23 **Q. And were Exhibits 1 through 7 either prepared**
24 **by you under your supervision or compiled from company**
25 **business records?**

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I move the
3 admission of Exhibits 1 through 7.

4 EXAMINER McMILLAN: Exhibits 1 through 7
5 may now be accepted as part of the record.

6 (Mewbourne Oil Company Exhibit Numbers 1
7 through 7 are offered and admitted into
8 evidence.)

9 MR. BRUCE: And I have no further questions
10 of the witness.

11 CROSS-EXAMINATION

12 BY EXAMINER McMILLAN:

13 **Q. I assume this is the Purple Sage; Wolfcamp Gas**
14 **Pool?**

15 A. That is correct.

16 **Q. It's 98221?**

17 A. Yes, sir. I show 98220. I could be wrong on
18 that, but it is the Purple Sage; Wolfcamp Gas Pool.

19 **Q. Okay. Any depth severances?**

20 A. There are not in the Wolfcamp Formation, no.

21 **Q. I'm not clear on the surface location.**

22 A. Okay. It will be located in the
23 northeast-northeast quarter of Section 28. We'll be
24 drilling from the south to the north.

25 **Q. Okay. Because sometimes I see a 220, 450, and**

1 **sometimes I see a 210.**

2 A. Okay. Let me --

3 **Q. Your AFE is saying 210, 450.**

4 A. I believe that was a typographical error on my
5 proposal letters. It should be 210 from north line and
6 450 from east line of Section 28.

7 EXAMINER McMILLAN: Go ahead, Leonard.

8 CROSS-EXAMINATION

9 BY EXAMINER LOWE:

10 **Q. That number you just stated just now, that's**
11 **the surface location?**

12 A. That's the surface location, and those footages
13 correspond with Section 28.

14 **Q. This is a question in general and it refers to**
15 **the list of, I guess, royalty owners that you look for.**
16 **How far do you go -- how far -- you initiate notice to**
17 **them, and then how far -- how extensively do you go with**
18 **that searching?**

19 A. We'll send an offer letter, and then if we
20 don't -- if we receive notice that it wasn't delivered
21 or it was a bad address, we'll look up in the database.
22 We'll enter their name in a database online and see if
23 there is a more current address or if they're possibly
24 deceased. And then we use whatever information we find,
25 and we'll look for probates in the county records to see

1 if we can find their heirs and maybe a more current
2 address. So it's a continuous process. If we don't
3 hear back from our initial contact, we keep looking,
4 using all the resources we have until we either find
5 them or determine them to be unlocatable.

6 **Q. Time frame-wise, how long for a process like**
7 **this? How long did that take?**

8 A. I'd say several months.

9 **Q. Several months.**

10 I was just curious to how in-depth you go
11 on that. That's all I've got.

12 A. Yes, sir.

13 EXAMINER McMILLAN: Go ahead.

14 EXAMINER WADE: No questions.

15 EXAMINER McMILLAN: Thank you very much.

16 THE WITNESS: Thank you.

17 NATE CLESS,

18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 **Q. Would you please state your name and city of**
23 **residence?**

24 A. My name is Nate Cless. I live in Midland,
25 Texas.

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

2 A. I work for Mewbourne as a petroleum geologist.

3 Q. Have you previously testified before the
4 Division?

5 A. Yes, sir.

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

8 A. They were.

9 Q. And are you familiar with the geology involved
10 not only in this case but the succeeding four cases for
11 Mewbourne?

12 A. Yes, I am.

13 MR. BRUCE: Mr. Examiner, I tender
14 Mr. Cless as an expert geologist.

15 EXAMINER McMILLAN: So qualified.

16 Q. (BY MR. BRUCE) Mr. Cless, can you identify
17 Exhibit 8, please?

18 A. Exhibit 8 is a structure map and an activity
19 map of the -- of the horizontal activity in the Wolfcamp
20 Shale Formation in this particular area, with the
21 structure on top of the Wolfcamp. Those are 50-foot
22 contour lines dipping from west to east. I've
23 identified the location of our proration unit in the
24 east half of Section 21. And then the solid blue lines
25 all represent the Wolfcamp Shale wells which have been

1 drilled in this area, and then the dashed blue arrow is
2 our proposed location.

3 **Q. The cross section that's noted on here, were**
4 **these deeper Morrow wells?**

5 A. Yes. They are deeper gas wells.

6 **Q. Okay. Let's move on to your cross section,**
7 **Exhibit 9, and discuss that for the Examiner.**

8 A. Exhibit 9 is a three-well cross section just
9 going through the closest wells that penetrate the
10 Wolfcamp Formation in this area. The cross section kind
11 of runs from north to south.

12 The second well on the cross section is
13 located in Section 21, and it's the closest well we will
14 be drilling near. And this cross section covers the
15 entire Wolfcamp -- or I'd say the upper two-thirds of
16 the Wolfcamp Formation, and I've identified the
17 different Wolfcamp horizons or how we break out the
18 different Wolfcamp Formation. For this particular well,
19 we're going to be targeting what we call the Wolfcamp D
20 Shale, which is the lower part of the cross section.
21 You can see there is a red arrow indicating our landing
22 point, where we project to land this particular well.

23 You can see the Wolfcamp Formation in
24 general is very uniform and consistent across this area.

25 **Q. Are your designations mainly internal**

1 **designations?**

2 A. Yes, they are.

3 **Q. Most companies have different designations for**
4 **the Wolfcamp?**

5 A. Correct.

6 **Q. What is Exhibit 10?**

7 A. Exhibit 10 is just a production data table of
8 all the Wolfcamp shales which have been drilled in this
9 particular area. I've listed five wells on this -- on
10 this table, four of which have been drilled by Mewbourne
11 Oil, one of which was drilled by Matador. And then I
12 just listed the cumulative oil, gas and water which each
13 well has drilled. A majority -- a majority of these
14 wells are drilled north-south, a couple of them are
15 drilled east-west, but really we see very comparable
16 results with the north-south versus east-west wells in
17 this area.

18 **Q. And they've all produced a fair of amount of**
19 **gas, too?**

20 A. Yes. These are -- these are gas wells. They
21 have GORs that are probably around 12,000 or so, pretty
22 high APIs of around 58 gravity. So --

23 **Q. And what is Exhibit 11?**

24 A. Exhibit 11 is just the directional well plan
25 that we have for this particular well. Our landing

1 point and first take point -- as Clayton referenced,
2 we're surfacing Section 28 within our landing point.
3 We'll be 330 from south, 4 -- 440 from the east of
4 Section 21, and then our bottom hole will be 330 from
5 the north, 440 from the east. So we will be in a legal
6 location, and perforations will all be legal.

7 **Q. How many completion stages?**

8 A. We usually run 20 to 30 completion stages, and
9 we'll pump roughly 7 million gallons and 7 million
10 pounds of fluid from this particular well.

11 **Q. In your opinion, is the granting of this**
12 **application in the interest of conservation and the**
13 **prevention of waste?**

14 A. Yes.

15 **Q. And were Exhibits 8 through 11 either prepared**
16 **by you or compiled from company business records?**

17 A. Yes, they were.

18 MR. BRUCE: Mr. Examiner, I'd tender the
19 admission of Exhibits 8 through 11.

20 EXAMINER McMILLAN: Exhibits 8 through 11
21 may now be accepted as part of the record.

22 (Mewbourne Oil Company Exhibit Numbers 8
23 through 11 are offered and admitted into
24 evidence.)

25 MR. BRUCE: I have no further questions.

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CROSS-EXAMINATION

BY EXAMINER McMILLAN:

Q. The project area will be orthodox, correct?

A. Correct.

Q. Because I've got something in my notes that says 330 from the south, 450 -- and you said 440. So it's better it states it's orthodox.

Do you expect every quarter section to contribute equally to production?

A. Yes.

Q. The well is proposed, correct?

A. Yes.

Q. Okay.

EXAMINER McMILLAN: Go ahead, Leonard.

EXAMINER LOWE: I got no questions.

EXAMINER McMILLAN: I do have a question for the attorney, and it involves your -- your application. Can you please clarify what is the definition of beautiful? And is that discriminatory against Malaga?

MR. BRUCE: I believe it is, yes.

EXAMINER McMILLAN: Next time you should be careful when you say that. And how does one exactly tell downtown Loving? Does that mean it's -- is the downtown designated by Allsup's?

1 MR. BRUCE: I believe that's the center of
2 the universe, yes.

3 EXAMINER McMILLAN: Okay. I just wanted to
4 make sure because I would think it would be hard to tell
5 the burbs from downtown.

6 MR. BRUCE: I was anticipating
7 Ms. Davidson to excise that from my -- but she didn't.

8 (Laughter.)

9 EXAMINER McMILLAN: Okay. Thanks. You
10 didn't answer the question.

11 Okay. Case Number 15625 shall be continued
12 until March the 16th. Thanks.

13 (Case Number 15625 concludes, 10:00 a.m.)

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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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4 CERTIFICATE OF COURT REPORTER

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

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

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

20

21

22 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2017
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25