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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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INDEX

PAGE

Case Numbers 15637 and 15638 Called	3
Mewbourne Oil Company's Case-in-Chief:	
Witnesses:	
Clayton Pearson:	
Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner McMillan	8
Cross-Examination by Examiner Lowe	9
Recross Examination by Examiner McMillan	10
Nate Cless:	
Direct Examination by Mr. Bruce	11
Cross-Examination by Examiner McMillan	15
Proceedings Conclude	17
Certificate of Court Reporter	18

EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 5	8
Mewbourne Oil Company Exhibit Numbers 7 through 14	15

1 (10:37 a.m.)

2 EXAMINER McMILLAN: I would like to call
3 Case Number 15637, application of Mewbourne Oil Company
4 for compulsory pooling, Eddy County, New Mexico, and I
5 would also like to call at this time Case Number 15638,
6 application of Mewbourne Oil Company for compulsory
7 pooling, Eddy County, New Mexico. These two cases shall
8 be combined in hearing.

9 CLAYTON PEARSON,
10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 **Q. Would you please state your name for the**
15 **record?**

16 A. Clayton Pearson.

17 **Q. And, Mr. Pearson, what is Exhibit 1?**

18 A. Exhibit 1 is a Midland Map showing the area
19 around the proposed project area which is the east half
20 of Section 3, Township 24 South, Range 28 East, Eddy
21 County, New Mexico. The proration unit is highlighted
22 in yellow, and the two proposed wellbores are
23 highlighted in red.

24 **Q. And what are the names of the two wells?**

25 A. The two wells are the Yardbirds 3 W0AP Fee #2H

1 and Yardbirds 3 W2AP Fee #1H, and we seek to pool the
2 Wolfcamp Formation.

3 Q. And the east half of Section 3 is fee lands?

4 A. It's all fee, correct.

5 Q. And are there any depth severances in the
6 Wolfcamp Formation in the east half of Section 3?

7 A. There are none.

8 Q. Mr. Pearson, I mean, you're proposing two
9 different Wolfcamp wells in the same half section.
10 Normally you could just pool one and then subsequently
11 propose the other well, but do you know at this time
12 which well will be commenced first?

13 A. We're not certain which one will be drilled
14 first.

15 Q. Therefore, you'd like to pool both wells at the
16 same time?

17 A. Correct.

18 Q. What is Exhibit 2?

19 A. Exhibit 2 is the tract ownership found in the
20 project area for both of these wells. It lists
21 Mewbourne Oil Company as operator and MRC Permian
22 Company, et al. as nonoperators representing 96.55
23 percent. And it subsequently lists the three
24 uncommitted working interest owners that we seek to
25 pool: Facowie Energy, the Estate of John P. Bates,

1 deceased, and J.M. Turney and Husband, Steve Turney.
2 Cumulatively, those three parties represent 3.44 percent
3 in these two wells.

4 **Q. Have you had contacts with the interest owners?**

5 A. We have had previous contact with two of the
6 interest owners listed when we had initially proposed
7 some previous wells on this acreage.

8 **Q. And is that the Bates and Turney interests?**

9 A. That is correct.

10 **Q. And you've been in touch with them regarding**
11 **drilling for quite some time?**

12 A. That's correct, a couple of years now.

13 **Q. At this time you have not been able to get in**
14 **touch with Facowie Energy?**

15 A. Actually, we had much earlier -- much earlier
16 contact with them as wells a couple years back, and just
17 recently -- more recently, we have had no contact with
18 them.

19 **Q. They haven't responded?**

20 A. No response.

21 **Q. No response.**

22 **But to the best of your knowledge, all of**
23 **the interest owners are locatable?**

24 A. Correct.

25 **Q. Okay. And in your opinion, have you made a**

1 **good-faith effort either to locate the parties involved**
2 **in this well or a good-faith effort to obtain their**
3 **voluntary joinder in the well?**

4 A. We have.

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

6 A. Exhibit 4 is the summary of communications --

7 **Q. Or no. Exhibit 4.**

8 A. Excuse me. Exhibit 4 is two copies of the AFEs
9 for the subject wells. The Yardbirds 3 W0AP Fee #2H has
10 a completed cost of \$4,815,600, and the completed cost
11 for the Yardbirds 3 W2AP Fee #1H is \$4,885,500.

12 **Q. That well is being drilled slightly deeper than**
13 **the other well?**

14 A. That's correct.

15 **Q. Are these costs in line with the cost of the**
16 **other horizontal wells drilled to this depth in this**
17 **area of southeast New Mexico?**

18 A. They are.

19 **Q. And what is your recommendation as to the**
20 **overhead rates?**

21 A. The overhead rates we are requesting are 7,500
22 for drilling months and \$750 for producing months.

23 EXAMINER McMILLAN: For both applications.

24 THE WITNESS: Correct.

25 **Q. (BY MR. BRUCE) And this is a standard unit in**

1 **the Purple Sage; Wolfcamp Gas Pool?**

2 A. That is correct. It is a standard unit
3 comprised of 320.25 acres due to two lots found in this
4 project area.

5 **Q. Because it's a nonstandard -- because it is a**
6 **standard unit, notice was not given to the offsets; is**
7 **that correct?**

8 A. That's correct.

9 MR. BRUCE: And, Mr. Examiner, this one, I
10 have not received a green card back from Facowie Energy
11 yet. So I will hopefully submit a green card at the
12 next hearing, so I ask this case -- these cases be
13 continued to March 16th.

14 **Q. (BY MR. BRUCE) Were Exhibits 1 through 5 either**
15 **prepared by you or compiled from company business**
16 **records?**

17 A. They were.

18 **Q. And in your opinion, is the granting of the**
19 **applications in these two cases in the interest of**
20 **conservation and the prevention of waste?**

21 A. Yes.

22 **Q. And no outside parties' correlative rights will**
23 **be adversely affected by --**

24 A. That is correct.

25 MR. BRUCE: Mr. Examiner, I move the

1 admission of Exhibits 1 through 5.

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

4 (Mewbourne Oil Company Exhibit Numbers 1
5 through 5 are offered and admitted into
6 evidence.)

7 MR. BRUCE: And I have no further questions
8 of the witness.

9 CROSS-EXAMINATION

10 BY EXAMINER McMILLAN:

11 Q. I didn't understand something you said. You
12 said you had communications in the past with Facowie,
13 and now you no longer have had communications?

14 A. We heard back on an initial well proposal back
15 about two years ago from him, and he didn't wish to
16 join. And we offered to purchase his interest and
17 didn't hear anything back or never made any progress
18 with that deal. So subsequently we've proposed these
19 two wells more recently and have not heard anything back
20 to date.

21 Q. So then how do you even know -- how do you know
22 that your address is correct?

23 A. He had received our initial proposal letter and
24 then called us.

25 Q. When did he call you?

1 A. Back, I think, end of 2015 or early 2016. I
2 believe it was March of 2016.

3 **Q. Okay. Because it appears to me there is a**
4 **question of whether or not he's unlocatable.**

5 MR. BRUCE: Mr. Examiner, we will verify
6 that for the next hearing. At least on one of the
7 mailings to him, I showed it as being received by USPS
8 records but never received any green cards back. But we
9 can verify that for you.

10 EXAMINER WADE: Either we're going to get
11 proof of notice or you're going to publish.

12 MR. BRUCE: Correct. And if I do have to
13 publish against them, it'll have to be an extra couple
14 weeks' continuance. But at this point, I would ask that
15 it be continued just two weeks.

16 EXAMINER McMILLAN: Okay. Go ahead,
17 Leonard.

18 CROSS-EXAMINATION

19 BY EXAMINER LOWE:

20 **Q. You mentioned before, of these two wells, what**
21 **will determine which one you'll drill first?**

22 A. We have tentatively scheduled to drill the
23 Yardbirds 3 W2 -- I believe it's the -- the W2AP Fee #1H
24 to drill first, but I think we're -- on the drilling
25 schedule, we have it set that way, but just in case

1 there is some sort of flop on the plans from the field
2 side, either surface locations or whatnot, that'll
3 determine which one we will drill first, but they will
4 be drilled back-to-back.

5 Q. Okay. Okay. Also, which one will be drilled
6 deeper?

7 A. The W2AP will be slightly deeper.

8 Q. Okay. That's all I got for now.

9 RE CROSS EXAMINATION

10 BY EXAMINER McMILLAN:

11 Q. And then what happens to the pooling order if
12 you -- if you -- actually, now that I'm thinking about
13 it, if it's 320 acres and you go the state allowable for
14 a horizontal well, you've technically developed the
15 spacing unit, right?

16 MR. BRUCE: Correct.

17 EXAMINER WADE: For one well.

18 EXAMINER McMILLAN: Yeah. Both of the
19 wells go whatever, the minimum distance. Then you're
20 technically developing the whole spacing unit.

21 MR. BRUCE: That's correct.

22 EXAMINER McMILLAN: So now I had to
23 think -- okay. So then if one of the wells doesn't meet
24 the minimum horizontal distance, you'd have to come back
25 to hearing, right?

1 MR. BRUCE: That would be correct. I'm
2 hoping that doesn't happen.

3 EXAMINER McMILLAN: I understand that.
4 Okay. I don't have any more questions.

5 THE WITNESS: Thank you.

6 EXAMINER McMILLAN: Thanks.

7 NATE CLESS,
8 after having been previously sworn under oath, was
9 questioned and testified as follows:

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Please state your name for the record.

13 A. Nate Cless.

14 Q. Mr. Cless, let's concentrate on the Upper
15 Wolfcamp well, the W0AP. I'd ask you to run through
16 Exhibits 7 through 10.

17 A. So Exhibit 7 is a gross isopach of the Wolfcamp
18 Sand in this particular area. On this map, there are
19 two different colors which identify them, the blue
20 laterals and the pink laterals. So the blue laterals
21 are going to be the Lower Wolfcamp Shale, what we're
22 calling the W2, and then the pink laterals for this
23 particular case are going to be the Upper Wolfcamp Sand
24 wells which are being drilled.

25 You can see I've outlined the location of

1 our proration unit in the east half of Section 3. And
2 then there are two arrows right there indicating the two
3 wellbores that we're talking about. The pink arrow is
4 the W0s in the Upper Wolfcamp Sand, and the blue arrow
5 is going to be the W2, the Lower Wolfcamp Shale well.

6 And then looking at the next exhibit, which
7 is a cross section A to A prime, is a three-well cross
8 section covering the wells in this particular area.
9 And, again, this cross section covers -- covers the
10 Wolfcamp Formation. And so if you look at the very
11 first log, you can see a red arrow in the upper part of
12 the Wolfcamp Formation. That's going to be your
13 Wolfcamp Sand. That's where we're going to be landing
14 our W0 well.

15 And then if you look on that same log, down
16 toward the bottom, you can see another red arrow.
17 That's going to be in the Wolfcamp D Shale, so that's
18 what we're calling the W2 well. There is roughly going
19 to be -- roughly 1,000 feet of vertical separation
20 between the two wells.

21 **Q. And whether you are looking at the Upper**
22 **Wolfcamp Sand or the Wolfcamp D Shale, they're both**
23 **continuous across the well unit?**

24 A. That's correct.

25 **Q. It's pretty uniform?**

1 A. Yeah. You can see just a lot of correlation
2 markers that we made through here. It's very consistent
3 and very uniform across this interval in both the
4 Wolfcamp Sand and the Wolfcamp Shale.

5 **Q. And Exhibit 9?**

6 A. Exhibit 9 is just going to be the production
7 data table just for the Wolfcamp Sand horizontals. So
8 these are going to be your Upper Wolfcamp Sand wells.
9 There are currently four wells which have been drilled,
10 only two of them that we've got production on. All of
11 these wells have been drilled by Matador in this area,
12 but they've also been drilled recently. The first well
13 was drilled back in March of 2015, and then the second
14 well was drilled in August of 2016. And then there are
15 two other wells which they have down. We just don't
16 have production data on them yet.

17 **Q. And is Exhibit 10 simply the horizontal**
18 **planning report for the well?**

19 A. That's correct, for the Upper Wolfcamp Sand
20 well.

21 **Q. And just briefly on the deeper well, the W2AP**
22 **well, would you run through Exhibits 11 through 13?**

23 A. Yes. This is basically going to be the same
24 map just without the isopach of the Upper Wolfcamp Sand
25 on it. The one difference is you can see their

1 production numbers next to each wellbore which I should
2 have identified on the first map, also. But these
3 numbers are only going to be for the Lower Wolfcamp
4 Shale wells. I've got the same number. I've got
5 production numbers for the Wolfcamp Sand horizontals on
6 the other map as well. But, again, this has the
7 structure at the top of the Wolfcamp Formation, and then
8 it's the same cross section that we just looked at.

9 **Q. People are drilling both east-west and**
10 **north-south in this area?**

11 A. That's correct. That's correct, and, again,
12 with very similar results.

13 And then the next exhibit is just the
14 production data table for the Lower Wolfcamp Shale wells
15 which have been drilled in this particular area. So
16 there are a few more wells which have been drilled in
17 through here. We've drilled a number of them. I
18 believe I've got nine wells listed on here, and we've
19 drilled seven of those nine Wolfcamp Shale wells in this
20 particular area. And, again, most of those have been
21 drilled recently, in 2015 and 2016.

22 **Q. And, again, Exhibit 14 is simply the standard**
23 **planning report for this well?**

24 A. That's correct.

25 **Q. Were Exhibits 7 through 14 either prepared by**

1 **you or compiled from company business records?**

2 A. Yes, sir.

3 **Q. And in your opinion, is the granting of these**
4 **two applications in the interest of conservation and the**
5 **prevention of waste?**

6 A. Yes, sir.

7 MR. BRUCE: Mr. Examiner, I move the
8 admission of Exhibits 7 through 14.

9 EXAMINER McMILLAN: Exhibits 7 through 14
10 may now be accepted as part of the record.

11 (Mewbourne Oil Company Exhibit Numbers 7
12 through 14 are offered and admitted into
13 evidence.)

14 CROSS-EXAMINATION

15 BY EXAMINER McMILLAN:

16 **Q. Do you expect each quarter to contribute**
17 **equally to production?**

18 A. Yes, sir.

19 **Q. And I failed to ask this. There are no depth**
20 **severances, are there?**

21 MR. PEARSON: There are none.

22 **Q. (BY EXAMINER McMILLAN) And is there any**
23 **difference in ultimate reserves north-south versus**
24 **east-west?**

25 A. We don't believe so. We believe the frac line

1 orientation in this is kind of north --
2 northeast-southwest trending. And so you can look on
3 this Wolfcamp Shale production data table. The very
4 last column, I listed north-south versus east-west.

5 And if you look at the bottom well, for
6 example, it's an east-west well drilled in June of 2016,
7 and it made 57,000 barrels of oil and four-tenths of bcf
8 since that time.

9 And then I guess if you look at the -- it
10 would be the fifth well on there, the Yardbirds 34 W20B.
11 It's a north-south well drilled and completed a little
12 bit earlier, about three weeks earlier, and it made
13 67,000 barrels and eight-tenths. So, I mean, they're
14 comparable, especially on the liquid side.

15 These two wells -- also, the gas is a
16 little different on these because the -- the last well
17 landed a little bit higher. It landed about 300 feet
18 higher, so it's not comparing apples to apples. But for
19 the most part, they are similar. Both north-south and
20 east-west are both making good wells.

21 EXAMINER McMILLAN: Do you have any
22 questions, Leonard?

23 EXAMINER LOWE: No. I'm good for now.
24 Thank you.

25 EXAMINER WADE: No questions.

1 EXAMINER McMILLAN: Okay. So Case Number
2 15 --
3 Thank you.
4 15637 shall be continued to March the 16th.
5 Case Number 15638 shall be continued to March the 16th.
6 And I believe this concludes the docket.
7 Thank you.
8 (Case Numbers 15637 and 15638 conclude,
9 10:55 a.m.)
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1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

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
Paul Baca Professional Court Reporters

24

25