

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 A NONSTANDARD GAS SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO. CASE NO. 15767

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 20, 2017

Santa Fe, New Mexico

BEFORE: WILLIAM V. JONES, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, William V. Jones, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, July 20, 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 (10:45 a.m.)

2 EXAMINER JONES: Okay. Mr. Bruce, ready
3 for the next one?

4 MR. BRUCE: Yes, sir.

5 EXAMINER JONES: Call Case 15767,
6 application of Mewbourne Oil Company for a nonstandard
7 gas spacing and proration unit and compulsory pooling,
8 Eddy County, New Mexico.

9 Call for appearances.

10 MR. BRUCE: Mr. Examiner, Jim Bruce, of
11 Santa Fe, representing the Applicant, and I have two
12 witnesses.

13 EXAMINER JONES: Any other appearances in
14 this case?

15 Will the witnesses please stand, and the
16 court reporter please swear in the witnesses?

17 (Mr. Scarborough and Mr. Crosby sworn.)

18 LEE M. SCARBOROUGH,
19 after having been first duly sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 **Q. Would you please state your name and city of**
24 **residence for the record?**

25 A. Lee Scarborough, Midland, Texas.

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

2 A. Mewbourne Oil Company as a landman.

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

5 A. Yes.

6 Q. And were your credentials as an expert
7 petroleum landman accepted as a matter of record?

8 A. Yes.

9 Q. Does your area of responsibility at Mewbourne
10 include this portion of southeast New Mexico?

11 A. Yes.

12 Q. And are you familiar with the land matters
13 involved in this case?

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, I tender
16 Mr. Scarborough as an expert petroleum landman.

17 EXAMINER JONES: He is so qualified.

18 Q. (BY MR. BRUCE) Mr. Scarborough, please identify
19 Exhibit 1 and describe the well unit and the well
20 Mewbourne is preparing to drill.

21 A. This is the Ghost rider 25/36 WODM Fed Com #2H.
22 It's in Section 25 and 36 of Township 23 South, 26 East.

23 Q. And it's the west half of Sections 25 and 36?

24 A. That's correct.

25 Q. You've highlighted the entire sections in

1 yellow. Does Mewbourne have plans in the east half
2 also?

3 A. Yes.

4 Q. What formation do you seek to pool?

5 A. Wolfcamp.

6 Q. Are there any depth severances within the
7 Wolfcamp Formation?

8 A. No, there are not.

9 Q. What is Exhibit 2, and who do you seek to force
10 pool?

11 A. Exhibit 2 is the working interest breakdown of
12 each tract in the west half of the two sections. We
13 seek to pool Black Stone Minerals Company, L.P. and F&F
14 Resources.

15 Q. On this list, you only have Black Stone
16 Minerals. What about F&F?

17 A. Black Stone has -- has made a deal with F&F,
18 and we have not seen any paperwork.

19 Q. And so you seek to force pool F&F as a
20 potential successor of Black Stone?

21 A. Correct. Yes, sir.

22 Q. Are there any locatable mineral interest owners
23 or working interest owners in this well unit?

24 A. No, there are not.

25 Q. What are Exhibits 3 and 4?

1 A. These are the -- this is our notice, copies of
2 our proposal letters and summary of contacts.

3 **Q. And without going through them all, at some**
4 **point, do -- I take it one is for Black Stone and one is**
5 **for F&F?**

6 A. Yes. Yes. There is a convergence of the two
7 when they told us they were making their deal. But we
8 have -- we originally sent a certified letter with a
9 well proposal and AFE to Black Stone. We tried to make
10 a deal with them. They decided to sell their --
11 sublease their interest to F&F. And we have since kept
12 our correspondence going with both companies, but have
13 been able to make a deal with them.

14 **Q. And there have been numerous, numerous contacts**
15 **with these two companies?**

16 A. Yes.

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

20 A. Yes, we have.

21 **Q. Will you identify Exhibit 5, please?**

22 A. Exhibit 5 is our AFE for the well.

23 **Q. What is the total well cost?**

24 A. The total well cost is 10.5 million.

25 **Q. And is this cost in line -- in line with the**

1 cost of other wells drilled to this depth and of this
2 length in New Mexico?

3 A. Yes, it is.

4 Q. Do you request that Mewbourne be appointed
5 operator of the well?

6 A. Yes, we do.

7 Q. And what amounts do you recommend for
8 administrative and supervision expenses?

9 A. 8,000 a month for drilling and 800 a month for
10 producing.

11 Q. Now, a lot of times Mewbourne and other
12 operators have asked for 7,000 and 700 or 7,500 and 750.
13 Why do you request the higher rate?

14 A. This is a two-mile lateral.

15 Q. And are extra costs involved?

16 A. Yes.

17 Q. Do you respect that -- do you request that the
18 rates be adjusted periodically as provided in the COPAS
19 accounting procedure?

20 A. Yes.

21 Q. And were the parties being pooled notified of
22 this application?

23 A. Yes, they were.

24 Q. And is Exhibit 6 my Affidavit of Notice?

25 A. Yes, it is.

1 Q. Originally, a number of additional parties were
2 sought to be pooled; is that correct?

3 A. Yes.

4 Q. And you have since come to terms with eight of
5 ten of them?

6 A. Yes.

7 Q. What is Exhibit 7?

8 A. It's the Affidavit of Publication for the
9 parties.

10 Q. No (indicating).

11 A. Oh. It's the wrong one.

12 That's the offset operators' listing.

13 Q. And was notice given to all that?

14 A. Yes, it was.

15 Q. And is Exhibit 8 my Affidavit of Notice?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, if you'll look at
18 the last page of Exhibit 8, I have not received the
19 green cards back yet. As a result, I have published
20 notice in the newspaper, but at the end of this case,
21 it'll have to be continued for two weeks for notice
22 purposes.

23 Q. (BY MR. BRUCE) And were Exhibits 1 through 8,
24 except for the notice affidavits, prepared by you or
25 under your supervision or compiled from company business

1 records?

2 A. Yes, sir.

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

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I move the
8 admission of Exhibits 1 through 8.

9 EXAMINER JONES: Exhibits 1 through 8 are
10 admitted.

11 (Mewbourne Oil Company Exhibit Numbers 1
12 through 8 are offered and admitted into
13 evidence.)

14 MR. BRUCE: I have no further questions of
15 the witness.

16 CROSS-EXAMINATION

17 BY EXAMINER BROOKS:

18 Q. You said, on the overhead costs, that you think
19 they will be higher because of the fact that this is a
20 two-mile lateral. That was very intuitive because the
21 two-mile drilling costs are higher, but can you explain
22 for the record why your -- why your cost of supervision
23 would be greater for a two-mile lateral?

24 A. There is more to supervise.

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CROSS-EXAMINATION

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BY EXAMINER JONES:

Q. Is it part of the -- also reflected in your JOA --

A. Yes.

Q. -- the 8,000 and 800?

A. Yes. Yes. And we have 94 percent of the signatures on our JOA for the working interest unit.

Q. And those have all agreed to the 8,000?

A. They've all agreed to that cost. Yes.

CONTINUED CROSS-EXAMINATION

BY EXAMINER BROOKS:

Q. Which exhibit is the list of parties to be pooled in this case?

A. Exhibit 2, I believe.

Q. 2?

EXAMINER JONES: Except it doesn't include F&F on that exhibit.

F&F is on Exhibit 3; is that correct?

THE WITNESS: Yes. Exactly.

Q. (BY EXAMINER BROOKS) Exhibit 3 is your -- are your contacts with --

A. Correspondence log, yes.

Q. And you said F&F wasn't included on Exhibit 2, and that appears to be the case. What's the character

1 **interest that they have?**

2 A. F&F is taking a term assignment from Black
3 Stone of their interest.

4 **Q. Oh, okay. So it's the Black Stone interest?**

5 A. Yes, sir.

6 **Q. And that is an interest listed on Exhibit 2?**

7 A. Yes, sir.

8 **Q. Okay. These are all uncommitted working**
9 **interest owners?**

10 A. No, sir. Everybody here is committed except
11 for Black Stone, F&F.

12 **Q. Okay. So who are you pooling?**

13 A. Black Stone.

14 **Q. Nobody else?**

15 A. No, sir.

16 **Q. Thank you.**

17 A. Yes.

18 CONTINUED CROSS-EXAMINATION

19 BY EXAMINER JONES:

20 **Q. So this is a two-mile -- two-mile lateral, but**
21 **it's also two wells; is that correct?**

22 A. No.

23 MR. BRUCE: No. This is just one well at
24 this point.

25 EXAMINER JONES: Just the #2H?

1 MR. BRUCE: Yeah, in the west half of each
2 section.

3 THE WITNESS: We submitted two permits. I
4 think this was the first one that we got approved.
5 We've got --

6 Q. (BY EXAMINER JONES) The 2H was the first one?

7 A. Yes.

8 Q. So you're pooling the 2H, but #1H will be an
9 infill well?

10 A. Exactly. Yes, sir.

11 Q. And these are a federal, state -- federal,
12 state com agreement then?

13 A. Federal, state and fee.

14 Q. And Fed com agreement?

15 A. Yes.

16 Q. But your well name, you don't call it a State
17 Fed Com. You just call it a federal com. That's kind
18 of the convention --

19 A. Yes.

20 Q. -- even though some state --

21 And I notice that we've got it on our
22 records as API 440302, and the name is WDDM instead of
23 the O-M. Am I missing --

24 MR. BRUCE: I think so.

25 THE WITNESS: Yes. This is the WODM.

1 Q. (BY EXAMINER JONES) The API is not available
2 yet on this one?

3 A. We've got the API, and it is 2454403432.

4 Q. Our records show WDDM Ghost rider Fed Com #2,
5 with API 440302.

6 A. Yes.

7 Q. So it's --

8 MR. BRUCE: We'll make sure that is
9 corrected.

10 Q. (BY EXAMINER JONES) But that's something you
11 can check with -- with -- at least with our district
12 office, and they'll probably call the BLM.

13 So it's Purple Sage and two different
14 spacing units; is that correct? Yeah. We've got,
15 stacked, two spacing units.

16 MR. BRUCE: (Indicating.)

17 Q. (BY EXAMINER JONES) What are the surface
18 location and bottom-hole locations? I want to make sure
19 I've got that right.

20 A. Surface location is 1,785 from the north line,
21 450 from the west.

22 Q. Got it.

23 A. And that's Section 25. And the bottom hole in
24 36 is 330 from the south, 450 from the west.

25 Q. Got it. So that was what was in our records.

1 **Okay. That's all.**

2 MR. BRUCE: Just a couple of things to
3 clarify.

4 Mr. Brooks, I mean, as far as Mewbourne
5 knows, the working interest owner is Black Stone
6 Minerals, but they've said they're entering into a term
7 assignment with F&F, so we're seeking to force pool both
8 of them.

9 EXAMINER BROOKS: Okay. Whatever
10 interest --

11 MR. BRUCE: Whatever interest is assigned.

12 And, Mr. Examiner, as to notice to the
13 offsets, Exhibit 7 lists all the offsets. The notice
14 letter strictly to offsets is Exhibit 8. But a lot of
15 the offsets were also working interest owners, and so if
16 you look at both exhibits, all of the offsets did
17 receive, but you have to look at both notice exhibits.

18 EXAMINER BROOKS: Except for Black Stone,
19 all the working interest owners are committed, right?

20 THE WITNESS: Correct.

21 MR. BRUCE: Yes.

22 EXAMINER BROOKS: So that's my
23 understanding.

24 EXAMINER JONES: Fed, state and fee. Okay.
25 Thank you very much.

1 THE WITNESS: Thank you.

2 CHARLES CROSBY,

3 after having been previously sworn under oath, was
4 questioned and testified as follows:

5 DIRECT EXAMINATION

6 BY MR. BRUCE:

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

9 A. Charles Crosby.

10 Q. Where do you live?

11 A. Midland, Texas.

12 Q. And who do you work for?

13 A. Mewbourne Oil Company as a geologist.

14 Q. Have you previously testified before the
15 Division as an expert?

16 A. Yes, I have.

17 Q. And were your credentials as an expert
18 petroleum geologist accepted as a matter of record?

19 A. Yes, they were.

20 Q. And are you familiar with the geology involved
21 in this case?

22 A. Yes.

23 MR. BRUCE: Mr. Examiner, I would tender
24 Mr. Crosby as an expert petroleum geologist.

25 EXAMINER JONES: He is so qualified.

1 **Q. (BY MR. BRUCE) Could you identify Exhibit 9 and**
2 **discuss its contents for the Examiner?**

3 A. This is a structural contour map on the top of
4 the Wolfcamp through the area of interest showing
5 consistent and continuous structural dip to the east, no
6 real structural anomalies. The Wolfcamp Sand wells are
7 highlighted by the violet lines, with Wolfcamp Shale
8 wells highlighted by the navy blue lines.

9 The proration unit for the proposed well is
10 shown by the dashed black box, with the proposed wells
11 shown by the dashed red arrow, and there's also a maroon
12 line labeled "A to A prime" as the cross-section
13 reference line.

14 **Q. And on this plat, almost all of the Wolfcamp**
15 **horizontal wells are extended laterals; are they not?**

16 A. Yes, sir.

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

18 A. This is a representative stratigraphic cross
19 section of the entire Wolfcamp zone representing the
20 entire Wolfcamp zone through the area. The datum is the
21 top of the Wolfcamp, and then the area -- or the zone of
22 interest would be in the Wolfcamp sands. Our delineated
23 zones are labeled to the left of the cross section. The
24 zone of interest would be the Wolfcamp Sand labeled by
25 the solid red pick lines. And the proposed landing

1 point for the Ghost rider is shown by the solid red arrow
2 on the second well from the left of the cross section.

3 This just shows fairly uniform thickness in
4 this particular Wolfcamp Sand, good, clean, consistent
5 sand throughout the study area.

6 **Q. And there is a -- quite a few deeper gas wells**
7 **in this area, so the log coverage is pretty well**
8 **established?**

9 A. Yes. There is good well control.

10 **Q. In your opinion, will each quarter section in**
11 **the well unit contribute more or less equally to**
12 **production in the well?**

13 A. Yes.

14 **Q. What is Exhibit 11?**

15 A. This table just gives the location and some
16 production statistics for the Wolfcamp wells in the
17 area. The far right column, you'll see the particular
18 Wolfcamp zone that the wells are landed in, and just to
19 the left of that will be the orientation, east-west,
20 north-south, for those particular wells.

21 This just shows that the wells in this
22 area, there's no -- there's no major difference when it
23 comes to production for wells that have been on line for
24 a similar amount of time when it comes to north-south or
25 east-west orientation.

1 **Q. Finally, what is Exhibit 12?**

2 A. This is just the well plan for the proposed
3 wells showing some survey statistics. And then the
4 final page gives a schematic, areal and cross-sectional
5 view of the proposed wells, with footing calls in the
6 first and last take points labeled.

7 **Q. The first and last take points will be at**
8 **orthodox locations?**

9 A. Yes.

10 **Q. How many completion stages in this well?**

11 A. I have to check back.

12 **Q. A larger than normal number?**

13 A. Right.

14 **Q. Were Exhibits 9, 10, 11 and 12 either prepared**
15 **by you or compiled from company business records?**

16 A. Yes.

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

20 A. Yes.

21 MR. BRUCE: Mr. Examiner, I'd move the
22 admission of Exhibits 9 through 12.

23 EXAMINER JONES: Exhibits 9 through 12 are
24 admitted.

25 (Mewbourne Oil Company Exhibit Numbers 9

1 through 12 are offered and admitted into
2 evidence.)

3 CROSS-EXAMINATION

4 BY EXAMINER JONES:

5 Q. I have a valid question. With all these frac
6 stages, surely they throw you a barbecue out there.

7 A. Potentially.

8 Q. They used to do that.

9 A. I don't know if that could fly anymore
10 (laughter).

11 Q. Oh, okay.

12 A. Be nice.

13 Q. So this was -- this is -- the target zone is
14 Upper Wolfcamp pretty much --

15 A. Yes.

16 Q. -- Wolfcamp Sand?

17 A. Uh-huh.

18 Q. And it's gas -- it's going to be gas because
19 it's Purple Sage.

20 Yeah. I don't have any more questions.

21 Thank you very much.

22 A. Yes, sir.

23 EXAMINER BROOKS: No questions.

24 MR. BRUCE: Mr. Examiner, I'd ask it be
25 continued for two weeks for notice purposes.

1 EXAMINER JONES: Case 15767 has been heard
2 but is continued to August the 3rd.

3 (Case Number 15767 concludes, 11:06 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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24

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