

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 CASE NO. 15862
FOR A NONSTANDARD GAS SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

October 26, 2017

Santa Fe, New Mexico

BEFORE: SCOTT DAWSON, CHIEF EXAMINER
 DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Scott Dawson,
Chief Examiner, and David K. Brooks, Legal Examiner, on
Thursday, October 26, 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.

REPORTED BY: Mary C. Hankins, CCR, RPR
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.
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1 (11:09 a.m.)

2 EXAMINER DAWSON: At this time we'll call
3 number seven, which is Case Number 15862.

4 And it's consolidated with 15863; is that
5 correct?

6 MR. BRUCE: We won't consolidate it, but
7 the second case will be much shorter. We can reference
8 it.

9 EXAMINER DAWSON: Okay. Call Case 15862 at
10 this time, application of Mewbourne Oil Company for a
11 nonstandard gas spacing and proration unit and
12 compulsory pooling, Eddy County, New Mexico.

13 Your witnesses have been sworn in.

14 MR. BRUCE: Yes, Mr. Examiner. If the
15 record could reflect the witnesses for this case are the
16 same as in the prior case, and they have been sworn and
17 qualified.

18 EXAMINER DAWSON: Okay. The witnesses were
19 the same witnesses as testified under Case Number
20 15861 --

21 MR. BRUCE: Yes.

22 EXAMINER DAWSON: -- so there is no
23 swear-in required.

24 And we will continue now, and you can start
25 with 15862, Mr. Bruce.

1 RAYMOND WINKELJOHN,
2 after having been previously sworn under oath, was
3 questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 **Q. Could you state your name for the record?**

7 A. Yes. It's Raymond Winkeljohn.

8 **Q. Could you describe the wells that you are**
9 **seeking to drill?**

10 A. Yes. There is a Midland Map of Township 26
11 South, Range 29 East, Eddy County, New Mexico. It's
12 identifying the project area in yellow, and our proposed
13 wells are in red. The wells are the Fuller 14/11 W2HA
14 Fed Com #3H and the Fuller 14/11 W1HA Fed Com #2H.
15 Mewbourne seeks to pool uncommitted working interests,
16 as well as establishing a nonstandard proration unit for
17 these wells.

18 **Q. Both wells are in the Purple Sage Gas Pool,**
19 **correct?**

20 A. Yes.

21 **Q. What is Exhibit 2?**

22 A. Exhibit 2 is our tract ownership, and the
23 parties that we are desiring to pool have an asterisk
24 next to them.

25 **Q. Okay. Could you describe your efforts to**

1 **either locate or contact these people? And I refer you**
2 **to Exhibit 3.**

3 A. Yes. Most of these companies we haven't seen
4 anything happen with them in quite a while, so we sent
5 proposals to the last addresses that we found in the
6 change of title, as well as searched the Internet for
7 them. Several of them, we've sent multiple well
8 proposals to. The final one, Mr. and Mrs. Graham, we do
9 believe we have a good address for them. We just have
10 received no communication back. And we've tried
11 multiple phone numbers, which seem to be disconnected.
12 But I guess that would be it.

13 Q. **Do you believe that you have made a good-faith**
14 **effort to either locate these five interest owners or to**
15 **contact them and make a reasonable offer to have them**
16 **join in the wells?**

17 A. Yes.

18 Q. **And certainly some of these people are**
19 **unlocatable. And I believe, Mr. Winkeljohn, you saw**
20 **something in a file where I had identified -- or I tried**
21 **to notify Nu-Energy?**

22 A. Yes. One of these parties, Nu-Energy Oil &
23 Gas, was actually pooled by Mr. Bruce in 1986 in the
24 same prospect, so I think that there are a lot of these
25 companies that have -- that may now be defunct.

1 Q. Or disappeared?

2 A. Correct.

3 Q. Could you identify Exhibit 4 and describe the
4 cost of the proposed well?

5 A. Exhibit 4 is a copy of our AFEs for our
6 proposed Fuller wells.

7 For the Fuller 14/11 W2HA Fed Com #3H, we
8 have an approximate dry-hole cost of \$2,879,600 and a
9 completed well cost of \$8,390,700.

10 For our Fuller 14/11 W1HA Fed Com #2, we
11 have an approximate dry-hole cost of \$2,763,400 and a
12 completed well cost of \$8,274,300.

13 Q. And are these costs in line with the cost of
14 other wells drilled to this depth and length in this
15 area of New Mexico?

16 A. They are.

17 Q. And do you request that Mewbourne be appointed
18 operator of these wells?

19 A. Yes.

20 Q. And what is your recommendation for the
21 overhead and supervision expenses?

22 A. We request \$7,500 a month while drilling and
23 \$750 a month for a producing well.

24 Q. Are those the rates set forth in your JOA with
25 the other working interest owners?

1 A. They are.

2 Q. And are those fair and reasonable rates?

3 A. Yes.

4 Q. Do you request that the rates be adjusted
5 periodically as provided by the COPAS accounting
6 procedure?

7 A. We do.

8 Q. Were efforts made to notify the parties being
9 pooled of this hearing?

10 A. Yes.

11 Q. And is that reflected in Exhibit 5?

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, the only --
14 pursuant to what Mr. Winkeljohn has said, I did send
15 notice to Mr. and Mrs. Graham, and they did receive
16 actual notice even though -- the others, either the
17 cards came back or -- the envelopes came back or no
18 envelopes came back.

19 One thing I do want to point out on the
20 final page of Exhibit 5. Nu-Energy has or had an
21 address in Canada. And although the Division requires
22 certified mail, the only thing you can send out of the
23 country is --

24 EXAMINER BROOKS: Registered.

25 MR. BRUCE: -- registered mail.

1 EXAMINER BROOKS: Yes.

2 MR. BRUCE: And so this is the returned --
3 or registered receipt.

4 And then Exhibit 6 is simply the Affidavit
5 of Publication in the Carlsbad paper, which named every
6 person being pooled. So they did receive constructive
7 notice.

8 EXAMINER BROOKS: Okay. Now, did everyone
9 receive actual notice?

10 MR. BRUCE: Just the Grahams. Just the
11 Grahams. That's the only green card I got back.

12 EXAMINER BROOKS: Okay. None of the others
13 received actual notice?

14 MR. BRUCE: Correct.

15 EXAMINER BROOKS: Okay. I guess I need to
16 ask questions of the witness, but you haven't passed the
17 witness, so go ahead.

18 MR. BRUCE: But, again, I did publish
19 notice against every interest owner.

20 EXAMINER BROOKS: Thank you.

21 **Q. (BY MR. BRUCE) Was notice given to all the**
22 **offsets, Mr. Winkeljohn?**

23 A. Yes.

24 **Q. And is Exhibit 8 my Affidavit of Notice to the**
25 **offsets?**

1 A. It is.

2 MR. BRUCE: And all of the offsets did
3 receive actual notice. They are supposed to be in
4 Exhibit 7, which I will bring back after lunch, which
5 simply identify the acreage and the offsets. I left
6 that sitting on my breakfast table today.

7 EXAMINER DAWSON: Okay.

8 **Q. (BY MR. BRUCE) Were Exhibits 1 through 8**
9 **prepared by you or under your supervision or compiled**
10 **from company business records?**

11 A. Yes.

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

15 A. It is.

16 MR. BRUCE: Mr. Examiner, I move the
17 admission of Exhibits 1 through 6 and 8, and I will
18 bring Exhibit 7 after lunch.

19 EXAMINER DAWSON: Okay. At this point
20 Exhibits 1 through 6 and 8 will be admitted to the
21 record.

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

25 MR. BRUCE: I have no further questions of

1 the witness.

2 EXAMINER DAWSON: Okay. Mr. Brooks?

3 CROSS-EXAMINATION

4 BY EXAMINER BROOKS:

5 Q. Looking at Exhibit 1, it isn't really real
6 clear to me where this well is located. Let's see. Do
7 you have -- do you have -- you have the C-102s for both
8 wells attached, right?

9 A. Yes, sir.

10 Q. Now, C-102 for the 3H well indicates the
11 surface location 435 from the east line and 2,500 from
12 the north line of Section 14, and the bottom-hole
13 location is 330 from the north and 440 from the east of
14 Section 11. Now, the penetration points are not
15 shown.

16 EXAMINER BROOKS: I guess -- is this -- is
17 this something I should ask another witness?

18 MR. BRUCE: Mr. Examiner, the next witness
19 does have the horizontal drilling plan showing that the
20 first and last take points are at orthodox locations.

21 EXAMINER BROOKS: Then I will defer that
22 question.

23 Q. (BY EXAMINER BROOKS) And I'll ask: Mr. Bruce
24 told us that only the one -- only had a receipt -- a
25 mail receipt for only one person of the offset interest

1 owners in the proposed pooled unit that were notified?

2 A. Yes, sir.

3 Q. And as to the others, did you conduct a
4 diligent effort to find a good address -- good addresses
5 for these people?

6 A. I did. And we've continued to send out
7 proposals and search for them. And if we are able to
8 locate them, we're willing to let them participate in
9 the well.

10 Q. Can you describe in general terms what efforts
11 you've made to contact them, addresses?

12 A. Yes. I took the latest addresses that I saw
13 filed in the chain of title and I sent proposals to
14 those. So some of these companies, the most recent
15 addresses were back in the '80s, which we thought at
16 first that that would probably not be a right address
17 anyway. So we sent proposals to them nonetheless. And
18 we also deducted -- or conducted an Internet search
19 searching for companies that had similar names or
20 companies located around these addresses. And so I
21 guess that would be how we conducted our search.

22 Q. Okay. But you weren't able to find any other
23 addresses that you thought were even worth trying?

24 A. No. Well, for some of these, like Mokeen
25 Limited Partnership, I've sent five well proposals to

1 different addresses. All of these, other than Graham,
2 have -- we've sent multiple proposals to try and locate
3 the correct address for them.

4 **Q. Okay. Very good. Thank you.**

5 A. Uh-huh.

6 EXAMINER DAWSON: I have no questions.

7 Thank you.

8 MR. BRUCE: I have a couple of follow-up
9 questions. Once again, this is for notice of offsets.

10 REDIRECT EXAMINATION

11 BY MR. BRUCE:

12 **Q. If you look at Exhibit 1, please,**
13 **Mr. Winkeljohn, the next case involves wells that**
14 **include the southeast quarter of Section 14, correct?**

15 A. Correct.

16 **Q. So that is not stranded acreage?**

17 A. Correct.

18 **Q. And then are there wells in the west halves of**
19 **11 and 14?**

20 A. There are.

21 **Q. So, again, there are existing wells, so those**
22 **interest owners are not excluded from this well unit?**

23 A. That's correct.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER DAWSON:

3 Q. And those existing wells, they are in the same
4 targeted formation in the Wolfcamp, Mr. Winkeljohn?

5 A. Yes, sir.

6 Q. Thank you very much.

7 EXAMINER DAWSON: You may call your next
8 witness, Mr. Brooks -- or Mr. Bruce.

9 EXAMINER BROOKS: I'm not calling
10 witnesses.

11 (Laughter.)

12 CHARLES CROSBY,
13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Would you please state your name for the
18 record?

19 A. Charles Crosby.

20 Q. Mr. Crosby, you have in front of you Exhibits 9
21 and 10. The first one is for the 3H well. The second
22 one is for the 2H -- or the 2H well. The second one is
23 for the 3H well. Could you briefly go through them and
24 describe the Wolfcamp geology in this area?

25 A. So this is a structured contoured map of the

1 top of the Wolfcamp in the project area showing
2 continuous, consistent structural dip to the east. The
3 proration unit for the proposed well is shown by the
4 dashed black line with the proposed well itself shown by
5 the dashed red arrow. The Wolfcamp shale wells are
6 highlighted by the blue lines and also shown as a
7 cross-section reference line, A to A prime.

8 The cross section just mentioned A to A
9 prime, so this is representative of the entire Wolfcamp
10 section through the project area. Our delineated
11 Wolfcamp zones are shown -- or labeled to the left of
12 the cross section. The proposed landing point for the
13 well, the W2HA, is shown in the Wolfcamp D by the red
14 arrow, and this just shows good, consistent geology for
15 the Wolfcamp Lower D shale throughout the area.

16 **Q. Whether you're looking at the W1 zone or the W2**
17 **zone, is the Wolfcamp continuous across the well unit?**

18 A. Yes.

19 **Q. And would you anticipate each quarter section**
20 **contributing, more or less, equally to production?**

21 A. Yes.

22 **Q. And then you have the production -- production**
23 **chart also attached?**

24 A. Right. This table showing production for
25 Wolfcamp Shale wells in the area for -- these are all

1 fairly recent wells, but this just shows that the wells
2 in the area have been economic.

3 Q. Okay. And on each exhibit, 9 and 10, you have
4 the horizontal planning report?

5 A. Yes, for both wells.

6 Q. And does the final page of each planning report
7 show the landing point and first and last take points?

8 A. Right. So this is an areal and cross-sectional
9 schematic of the proposed well for both wells, the W2HA
10 and the W1HA. And this just shows that the well --
11 first and last take points will be within the 330
12 setbacks within the proration unit.

13 Q. Were Exhibits 9 and 10 prepared by you, under
14 your supervision or compiled from company business
15 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 move the
22 admission of Exhibits 9 and 10.

23 EXAMINER DAWSON: Exhibits 9 and 10 will be
24 admitted to the record at this time.

25 (Mewbourne Oil Company Exhibit Numbers 9

1 and 10 are offered and admitted into
2 evidence.)

3 EXAMINER DAWSON: Mr. Brooks, do you have
4 any questions?

5 EXAMINER BROOKS: No -- well, this is
6 probably the witness I should ask about the location,
7 right?

8 MR. BRUCE: Yeah.

9 THE WITNESS: Yes, sir.

10 CROSS-EXAMINATION

11 BY EXAMINER BROOKS:

12 Q. Okay. We have the C-102s here, and they show
13 the surface location of each well and the bottom-hole
14 location. And on the one for the #2H well, it shows the
15 intended course is being straight-lined from the surface
16 location to the bottom location -- bottom-hole location.
17 We don't have that filled in on the #3H. Would it be
18 reasonable to presume that the well is to be drilled --
19 that the intention is to drill the well directly from
20 the surface location to the bottom-hole location?

21 A. Yes, sir.

22 Q. And, of course, the penetration -- not the
23 penetration point. We don't use that term anymore. The
24 first take point will be in the southeast of the
25 northeast of Section 14 on the #3H?

1 A. Yes.

2 Q. And also on the #2H, right?

3 A. Yes, sir.

4 Q. Okay. And since you intend to drill them more
5 or less directly, they will be -- you expect the -- do
6 you expect the entire completed interval to be at least
7 330 feet from the east line?

8 A. Yes.

9 Q. East line of Section 14, that is --

10 A. Yes.

11 Q. -- of Section 14 and Section 11?

12 A. Yes, sir.

13 Q. Thank you.

14 CROSS-EXAMINATION

15 BY EXAMINER DAWSON:

16 Q. Mr. Crosby, in looking at this -- in looking at
17 your C-102s, under Exhibit Number 1, the first C-102,
18 the 14/11 W2HA #3H, that has not been sent to the
19 district office yet and approved, right?

20 A. I'm not quite sure if it has.

21 Q. Because this other one looks like the district
22 office did receive it and stamped it. But the first
23 one -- is this just the plat you're planning on sending
24 to the district office?

25 MR. BRUCE: I think that's correct,

1 Mr. Examiner. I know I did look online when I was
2 filing, and I didn't find the well name.

3 Q. (BY EXAMINER DAWSON) Looking at these two
4 C-102s for both the 2H and 3H wells, they both -- do
5 they both have the same bottom-hole location?

6 A. Let me check it.

7 Q. It looks like the bottom-hole location on both
8 these C-102s --

9 A. Yes.

10 Q. -- is the same, right?

11 A. Yes.

12 Q. So you're projecting to have the same
13 bottom-hole location on both wells?

14 A. Right. One would be a Wolfcamp A well, and the
15 other one is Wolfcamp D? So there is about -- there is
16 about 4- or 500 feet of vertical separation between the
17 two.

18 Q. Okay.

19 A. Those two zones are listed on the left side of
20 the cross section.

21 Q. So that also explains why there is a difference
22 of about \$120,000 for the drilling of the D well versus
23 the --

24 A. Right. Deeper, yes.

25 Q. Deeper well, yeah. The deeper well is roughly

1 **about another 120,000, plus or minus, to drill it?**

2 A. Roughly, yes.

3 **Q. And then also I'm going to go back to ask you a**
4 **question on the west half of the east half of Section**
5 **11, 26 South, 29 East and the west half of the northeast**
6 **quarter of Section 14 of 26 South, 29 East, both Eddy**
7 **County, Mewbourne does plan to drill more wells in**
8 **that -- over in that area, right?**

9 A. Yes, sir.

10 **Q. Okay. That's all the questions I have. Thank**
11 **you very much.**

12 MR. BRUCE: Ask that the matter be taken
13 under advisement.

14 EXAMINER DAWSON: Yes, Mr. Bruce. Case
15 Number 15862 at this time will be taken under
16 advisement.

17 (Case Number 15862 recesses, 11:29 a.m.)

18 (1:29 p.m.)

19 EXAMINER DAWSON: At this point we'll go
20 back on record, and I will again call Case 15682 and
21 again call Case 15683. Both of these cases were
22 re-opened now because we need to present Exhibit 7,
23 which is a notification to offset operators.

24 Mr. Bruce, do you have anything to say?

25 MR. BRUCE: Yeah. Mr. Examiner, what I've

1 submitted is a list of the offset operators -- the
2 actual notice letter was marked Exhibit 8 -- and I left
3 this at home -- these at home this morning. So I would
4 simply ask that Exhibit 7 in each of the cases, 15682
5 and 15683, be submitted into the record.

6 EXAMINER DAWSON: Okay. There is no
7 opposition.

8 So Exhibit 7 for both Cases 15682 and 15683
9 will at this time be admitted to the record.

10 (Mewbourne Oil Company Exhibit Number 7 is
11 offered and admitted into evidence.)

12 EXAMINER DAWSON: And would you like to --
13 these cases have already been taken under advisement?

14 MR. BRUCE: Yeah. They should -- again,
15 they should be taken under advisement.

16 EXAMINER DAWSON: Okay. Again, they will
17 be taken under advisement, both 15682 [sic] and 15683
18 [sic]. That concludes those cases.

19 (Case Number 15862 concludes, 1:30 p.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
Paul Baca Professional Court Reporters

24

25