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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (1:54 p.m.)

2 EXAMINER DAWSON: Moving down the list, we
3 will now call case number 17 on the list, which is Case
4 Number 15913, and 18.

5 These two will be consolidated?

6 MR. BRUCE: Correct.

7 EXAMINER DAWSON: And 15913 is application
8 of Mewbourne Oil Company for a nonstandard spacing and
9 proration unit and compulsory pooling, Eddy County, New
10 Mexico. And 15914 is application of Mewbourne Oil
11 Company for a nonstandard spacing and proration unit and
12 compulsory pooling in Eddy County, New Mexico.

13 Please call for appearances.

14 MR. BRUCE: Mr. Examiner, Jim Bruce of
15 Santa Fe representing the Applicant. I have two
16 witnesses. The geologist has been previously sworn in.

17 EXAMINER DAWSON: Will your witness please
18 stand and be sworn in by the court reporter?

19 (Mr. Jolly sworn; Mr. Cless previously
20 sworn.)

21 EXAMINER DAWSON: When you're ready,
22 Mr. Bruce.

23 MR. BRUCE: Just a clarification before I
24 begin, Mr. Examiner. What I've given you are the land
25 exhibits for the first case and then the geology which

1 is applicable to both. After my one witness testifies,
2 I'll have a good -- for 15914.

3 The second case 15914, pooling is no longer
4 needed, but we do need a nonstandard unit. And we'll go
5 into that a little bit. I don't know how you want to
6 handle it, but I'd rather not to have to send out notice
7 again.

8 EXAMINER GOETZE: Don't you have a little
9 meter in your office?

10 MR. BRUCE: No (laughter).

11 TYLER JOLLY,
12 after having been previously sworn under oath, was
13 questioned and testified as follows:

14 DIRECT EXAMINATION

15 BY MR. BRUCE:

16 **Q. Would you please state your name and city of**
17 **residence?**

18 A. Tyler Jolly, Midland, Texas.

19 **Q. And who do you work for and in what capacity?**

20 A. I work for Mewbourne Oil Company, and I'm a
21 landman.

22 **Q. Have you previously testified before the**
23 **Division?**

24 A. No, I have not.

25 **Q. Could you please summarize your educational and**

1 **employment background?**

2 A. I have a bachelor of business administration
3 from Texas Tech University in May 2015, and I've worked
4 for Mewbourne for two-and-a-half years approximately.

5 **Q. Have you always been in the Midland office?**

6 A. Yes.

7 **Q. And so your area at Mewbourne includes this**
8 **portion of southeast New Mexico?**

9 A. Yes.

10 **Q. And are you familiar with the land matters**
11 **involved in this application?**

12 A. Yes.

13 MR. BRUCE: Mr. Examiner, I tender
14 Mr. Jolly as an expert petroleum landman.

15 EXAMINER DAWSON: Mr. Jolly will be
16 accepted as an expert petroleum landman at this time.

17 **Q. (BY MR. BRUCE) Mr. Jolly, could you identify**
18 **Exhibit 1 and describe briefly what Mewbourne seeks in**
19 **this case?**

20 A. Exhibit 1 is a Midland Map plat that includes
21 Township 24-29, 24 South, 29 East. And because this
22 section is abutting up against 23-28, as well as 23-29
23 and 24-28, those townships and ranges are also included.
24 The proration unit of the well that we seek to pool is
25 outlined in red, and the wellbore is in green.

1 Q. What is the name of the well?

2 A. The name of the well is the Pecos Valley 7-6
3 W2ED Fed Com #1H.

4 Q. And portions of -- and this is a Wolfcamp well,
5 correct?

6 A. Correct.

7 Q. And portions of the well unit are lots,
8 nonstandard quarter-quarter sections?

9 A. That's correct.

10 MR. BRUCE: And, Mr. Examiner, the
11 application -- for the lots.

12 Q. (BY MR. BRUCE) And you are seeking to force
13 pool in this case just the Wolfcamp Formation; is that
14 correct?

15 A. That's correct.

16 Q. Are there any depth severances within the
17 Wolfcamp Formation?

18 A. No.

19 Q. Would you identify Exhibit 2 and describe who
20 you seek to pool in this case?

21 A. Exhibit 2 lists the interest owners in the
22 well, and we seek to pool Hold The Door, L.P. with an
23 interest of 15.730032 percent.

24 Q. And Hold The Door, the principal of that
25 company is Randy Cate, correct?

1 A. That's correct.

2 Q. And he's been around Midland for quite some
3 time?

4 A. That's correct.

5 Q. And we'll get into this on the notice purposes,
6 but have you been in touch with Mr. Cate regarding this
7 well proposal?

8 A. Yes, I have.

9 Q. And referring to Exhibit 3, can you summarize
10 communications with Mr. Cate?

11 A. Yes. Initially, I sent a well proposal with an
12 AFE proposing our operation. I've talked with Mr. Cate
13 over the phone, suggesting a term assignment, but he did
14 not want to participate in the well. He said he was not
15 interested. And we've emailed back and forth several
16 times about exactly what interest he has because the
17 operating agreements in the area are complicated.

18 Q. In your opinion, have you made a good-faith
19 effort to obtain the voluntary joinder of Mr. -- of Hold
20 The Door in the proposed well?

21 A. Yes.

22 Q. There are no unlocatable owners that you seek
23 to pool; is that correct?

24 A. That's correct.

25 Q. Would you identify Exhibit 4 and discuss the

1 cost of the proposed well?

2 A. Yes. Exhibit 4 is our AFE for this well. It
3 has an estimated dry-hole cost of \$2,903,300 and a
4 completed well cost of \$8,501,000.

5 Q. And are those costs reasonable and in line with
6 the cost of other similar wells drilled in this area?

7 A. Yes.

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

10 A. Yes.

11 Q. And do you have a recommendation for the
12 amounts Mewbourne should be granted for supervision and
13 administrative costs?

14 A. Yes. The operating agreement that we've
15 proposed, we request 8,000 a month be allowed for
16 drilling and 800 a month be allowed for producing.

17 Q. And are those amounts equivalent to those
18 normally charged by Mewbourne and other operators in
19 this area for wells of this depth?

20 A. Yes.

21 Q. Do you request that these rates be adjusted
22 periodically provided by the COPAS accounting procedure?

23 A. Yes.

24 Q. And does Mewbourne request the maximum plus 200
25 percent penalty if Hold The Door does not voluntarily

1 join in the well?

2 A. Yes.

3 Q. And was notice sent to the pooled parties?

4 A. Yes.

5 Q. In looking at Exhibit 5, my Affidavit of
6 Notice, Mr. Jolly, the notice originally went out to
7 Hold The Door, plus five other mineral owners. Have you
8 come to -- four other mineral owners. Have you come to
9 terms with those four mineral owners?

10 A. Yes. We've come to terms on an oil and gas
11 lease with J.M. Mineral Land & Company, Incorporated;
12 Magnolia Royalty Company, Incorporated; Herman Clifford
13 Walker III and Eric D. Boyt.

14 Q. And so you do not seek to force pool them?

15 A. No.

16 Q. Mr. Jolly, I sent notice to the address you
17 gave me. Is that the proper address for Hold The Door
18 or for Randy Cate?

19 A. Yes. He received our well proposal at that
20 address.

21 MR. BRUCE: For the record, I've sent him
22 bills there, so I know that's the correct address.

23 And, Mr. Examiner, Exhibit 6 is the
24 Affidavit of Publication, which did name Hold The Door
25 in case we did not get a green card back.

1 Q. (BY MR. BRUCE) Mr. Jolly, does Exhibit 7
2 correctly list the offset operators and/or working
3 interest owners to the 480-acre wildcat [sic] unit?

4 A. Yes, it does.

5 Q. And with respect to looking at the well unit,
6 due to current Division policy, looking at Exhibit 1,
7 the northeast quarter of Section 7, those interest
8 owners -- that -- that tract is in the subsequent case
9 of this one tract; is that correct?

10 A. The northeast quarter of 7 is in the subsequent
11 case.

12 Q. Yes.

13 And insofar as the rest of the -- normally,
14 you would notify all of the interest owners in the
15 southwest quarter of Section 7. But have you had
16 discussions with OXY USA, Inc., the operator of that
17 half section?

18 A. Yes. I've talked to them on the phone and
19 received emails, and they have confirmed that they are
20 operator of an operating agreement covering the entire
21 south half of Section 7.

22 Q. And they have plans to drill their own well?

23 A. Yes.

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

1 A. Yes.

2 MR. BRUCE: And I can't find Exhibit 8
3 right now, but I believe, Mr. Examiner, there is an
4 operator or two who I have not received the green cards
5 back from again. So the case needs to be continued to
6 January 11th for notice purposes only.

7 EXAMINER DAWSON: Okay.

8 EXAMINER GOETZE: Would that be just for
9 that case, since we're --

10 MR. BRUCE: Both of them, unfortunately.

11 EXAMINER GOETZE: Okay.

12 **Q. (BY MR. BRUCE) And were Exhibits 1 through 8 in**
13 **Case 15913 prepared by you or under your supervision?**

14 A. Yes.

15 MR. BRUCE: Mr. Examiner, I'd move the
16 admission of Exhibits 1 through 8 in Case 15913.

17 EXAMINER DAWSON: At this time Exhibits 1
18 through 8 are admitted to the record on Case 15913.

19 (Mewbourne Oil Company Exhibit Numbers 1
20 through 8 for Case 15913 are offered and
21 admitted into evidence.)

22 **Q. (BY MR. BRUCE) Moving on to Case 15914,**
23 **Mr. Jolly, let's look at that briefly. Again, what is**
24 **Exhibit 1.**

25 A. This should be another Midland Map, similar to

1 15913, showing the proration unit of the nonstandard
2 proration unit that we seek and the wellbore colored in
3 red. The proration unit's in green. And that's
4 comprising of the northeast quarter of Section 7 and the
5 east half of Section 6.

6 Q. Again, it's a Wolfcamp well with a
7 nonstandard -- slightly less than 480-acre unit?

8 A. Correct.

9 Q. And you request no longer -- you no longer need
10 to pool anyone in this well unit?

11 A. That's correct.

12 Q. Do you request approval of the nonstandard
13 unit?

14 A. Yes.

15 Q. And, again, is Exhibit 2 simply the list of the
16 offset operators to the proposed well?

17 A. Yes.

18 Q. And is Exhibit 3 the Affidavit of Notice sent
19 to the offsets?

20 A. Yes.

21 MR. BRUCE: And this Exhibit 3,
22 Mr. Examiner, covers both cases -- identical cases, and
23 you can see I did not receive green cards back from OXY,
24 Marathon and EOG. So this case would have to be
25 continued also for notice purposes only.

1 EXAMINER DAWSON: Okay.

2 Q. (BY MR. BRUCE) Mr. Jolly, were Exhibits 1
3 through 3 prepared by you or compiled from company
4 business records?

5 A. Yes.

6 Q. And in your opinion, is the granting of these
7 cases in the interest of conservation and the prevention
8 of waste?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I move the
11 admission of Exhibits 1 through 3 in Case 15914.

12 EXAMINER DAWSON: At this time Exhibits 1
13 through 3 will be admitted to the record on Case Number
14 15914.

15 (Mewbourne Oil Company Exhibit Numbers 1
16 through 3 for Case 15914 are offered and
17 admitted into evidence.)

18 MR. BRUCE: And I didn't get a chance to
19 discuss this with you before the hearing. We would like
20 an order just so I don't have to go ahead and refile an
21 administrative application for a nonstandard location,
22 but I would like to present, you know -- or show that we
23 did comply with the notice procedures in case this
24 matter was referred back to the administrative docket.
25 I don't know how you're handling that these days.

1 EXAMINER BROOKS: I don't either. And
2 besides, all things that are matters of policy will
3 become moot in about, what, ten days.

4 (Laughter.)

5 MR. BRUCE: Well, anyway, I'd prefer it if
6 we didn't have to file an administrative application for
7 the nonstandard unit.

8 EXAMINER BROOKS: Well, for the nonstandard
9 unit. So you want to go forward with the nonstandard
10 unit --

11 MR. BRUCE: Correct.

12 EXAMINER BROOKS: -- in Case 15913 -- or
13 15914?

14 MR. BRUCE: Yeah.

15 EXAMINER BROOKS: Well, we did that in two
16 cases this morning, and they didn't have -- they were
17 not pooled, two cases --

18 MR. BRUCE: Thank you.

19 I have no further questions of the witness
20 in either case.

21 EXAMINER DAWSON: Okay. Mr. Goetze?

22 CROSS-EXAMINATION

23 BY EXAMINER GOETZE:

24 Q. Do we know what pool we're in?

25 A. Yes. I'm sorry that wasn't mentioned. The

1 Purple Sage; Wolfcamp Gas Pool.

2 Q. This is a Purple Sage. Okay.

3 A. The number is 98220. Sorry about that.

4 Q. Oh, no. It's Mr. Will Jones' phone number
5 right now.

6 Okay. That's the only question I have.

7 Thank you.

8 EXAMINER BROOKS: Okay. Well, that
9 brings -- I was going to ask that same question. And
10 that brings us back to the question of policies because
11 we have -- the current director has a policy on
12 notification in cases where -- where it's the Purple
13 Sage and we have 480-acre nonstandard units. This case
14 is going to be heard again in -- it's going to be
15 continued, you said, for purposes of notice?

16 MR. BRUCE: For notice purposes to January
17 11th.

18 EXAMINER BROOKS: But that raises the
19 question of whether or not we need to actually notice
20 the owners in the southwest quarter and southeast
21 quarter of Section 7.

22 MR. BRUCE: Yes. And Mr. Jolly can
23 reconfirm this.

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REDIRECT EXAMINATION

BY MR. BRUCE:

Q. But that half section is operated by OXY under a current JOA. Is that correct, Mr. Jolly?

A. That's correct.

EXAMINER BROOKS: You said that.

MR. BRUCE: So that would certainly take care of, I believe, the operator and the working interest owners.

EXAMINER BROOKS: Well, it would, but then that raises the question what about other interest owners. And the rule on nonstandard unit notification says any owner of a mineral interest -- or any owner of the mineral estate -- which the way that is defined, clearly they're trying to get the mineral owners --

MR. BRUCE: Correct. I understand.

EXAMINER BROOKS: -- notice to the mineral owners. And there really isn't an exception for developed acreage. So there will be in the new horizontal well rule if it gets passed and everything in its present form and -- but that's a year off, and it probably won't get passed -- won't look all that much different than the present form.

MR. BRUCE: Well, I would simply ask if, you know, if you could get back to me after the hearing,

1 because OXY does plan on developing that acreage under
2 the JOA, which would negate any notice. But since it's
3 continued --

4 EXAMINER BROOKS: Well, we will submit that
5 question to the new director, assuming we have one on
6 January 11th.

7 MR. BRUCE: Okay.

8 EXAMINER BROOKS: Assuming we have one.
9 There's been some discussion about eventuality already
10 today.

11 EXAMINER DAWSON: I have no questions.

12 Thank you.

13 THE WITNESS: Thank you.

14 EXAMINER DAWSON: You may call your next
15 witness.

16 MR. BRUCE: Call Mr. Cless, who has
17 previously been sworn and qualified.

18 NATE CLESS,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 **Q. Mr. Cless, your exhibits -- or at least the**
24 **first three of them would pertain to the geology of both**
25 **proposed wells; is that correct?**

1 A. Yes, sir.

2 **Q. Could you identify Exhibit 9, which is in the**
3 **exhibit file for Case 15913, and describe its contents**
4 **for the Examiner?**

5 A. Yeah. Exhibit 9 is a horizontal activity map
6 of all the Wolfcamp horizontals in the area. I also
7 have a structure map on the top of the Wolfcamp in this
8 particular area. You can see the outline of proration
9 units indicating north half of Section 7, and then
10 Section 6, two blue arrows indicate the two wells that
11 we're talking about, one being on the west of half the
12 section and the other being on the east half of the
13 sections.

14 I've also identified -- or labeled the
15 production for all of the horizontal Wolfcamp wells.
16 There are two different colors there. One's pink.
17 One's blue. The pink represents Upper Wolfcamp Sand
18 horizontals, and the blue represents the Lower Wolfcamp
19 Shale horizontals that have been drilled in this area.
20 And we plan on drilling the Lower Wolfcamp Shale with
21 these first two wells.

22 **Q. And you have a line of cross section on Exhibit**
23 **9. Are these older Atoka or Morrow gas wells?**

24 A. Yes, sir.

25 **Q. Could we move on to your cross section in**

1 **Exhibit 10 and discuss its contents for the Examiners?**

2 A. Yes.

3 So Exhibit 10 is going to be the four deep
4 wells in these two sections. It runs from north to
5 south. So the first two wells are in Section 6. The
6 next two wells are in Section 7. It's hung on the top
7 of the Wolfcamp Formation, which is the dark blue line.

8 And then the Upper Wolfcamp sands are going
9 to be those -- what I've marked as the Wolfcamp X and
10 the Wolfcamp Y Sand. And then as you move down to the
11 Wolfcamp section, you get down to what internally we
12 call the Wolfcamp C and Wolfcamp D Shale. These
13 particular wells that we're going to drill, I've
14 identified where they're going to be with those two red
15 arrows. They're going to be Wolfcamp D horizontals.

16 **Q. Is the Wolfcamp of uniform thickness across**
17 **both well units?**

18 A. Yes, sir.

19 **Q. And in your opinion, will each quarter section**
20 **in the well unit contribute, more or less, equally to**
21 **production?**

22 A. Yes.

23 **Q. And looking at your Exhibit 9, people are**
24 **drilling these wells both as stand-ups and lay-downs?**

25 A. That's correct. A lot it just kind of depends

1 on how your land lays out. We've got a pretty big
2 acreage position to the northwest of this map, and we've
3 drilled both north-south and east-west, and the results
4 are very comparable.

5 **Q. Is that reflected on your Exhibit 11?**

6 A. Yeah.

7 So Exhibit 11 is just going to be a
8 Wolfcamp production data table of all the horizontal
9 Wolfcamp wells drilled in this area. And in this
10 immediate area, a majority of the wells are east-west.
11 But the very first well listed is a Marathon-operated
12 well that's drilled north-south, and it's probably one
13 of the better Wolfcamp Shale horizontal wells drilled in
14 this area. So you have -- both north-south and
15 east-west works.

16 **Q. And finally, what are Exhibits 12 and 13?**

17 A. So these are just going to be the directional
18 surveys for each particular well. The first one is
19 going to be for the Pecos Valley 7-6 W2HA. It's going
20 to be the east-half well, and then the second -- or
21 Exhibit 12 is going to be the directional survey for the
22 Pecos Valley 7-6 W2ED, which is going to be the
23 west-half location.

24 **Q. And, again, the wells are going to be at**
25 **orthodox locations?**

1 A. Yes, sir.

2 Q. Were Exhibits 9 through 11 prepared by you?

3 A. Yes, they were.

4 Q. And were Exhibits 12 and 13 compiled through
5 company business records?

6 A. Yes, sir.

7 Q. In your opinion, is the granting of these
8 applications in the interest of conservation and the
9 prevention of waste?

10 A. Yes, it is.

11 MR. BRUCE: Mr. Examiner, I move the
12 admission of Exhibits 9 through 13.

13 EXAMINER DAWSON: Exhibits 9 through 13
14 will be admitted to the record at this time.

15 (Mewbourne Oil Company Exhibit Numbers 9
16 through 13 are offered and admitted into
17 evidence.)

18 MR. BRUCE: And I have no further questions
19 of the witness.

20 EXAMINER DAWSON: Okay. Mr. Goetze?

21 EXAMINER GOETZE: No. I'm afraid I have no
22 questions for this witness either. Thank you.

23 EXAMINER DAWSON: Mr. Brooks?

24 EXAMINER BROOKS: No questions.

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CROSS-EXAMINATION

BY EXAMINER DAWSON:

Q. So your west well, you said, will be your initial well?

A. I don't know which well will be our initial well, to be honest with you, off the top of my head.

EXAMINER BROOKS: Well, you're not drilling more than one on the pooled unit -- on the unit to be pooled?

THE WITNESS: That's correct.

EXAMINER DAWSON: Yeah. Okay.

Okay. That concludes our questions. Thank you very much.

THE WITNESS: Thank you.

EXAMINER DAWSON: And so case number 17, which is Case Number 15913, and number 18 on the list, Case Number 15914, will both be continued to January 11th, 2018 for notice purposes. And that concludes those two cases, so we'll move on.

(Case Numbers 15913 and 15914 conclude, 2:17 p.m.)

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 DATED this 12th day of January 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2018
Paul Baca Professional Court Reporters

25