

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. 16001

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 8, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the New Mexico Oil Conservation Division, Michael McMillan, Chief Examiner, and David K. Brooks, Legal Examiner, on Thursday, March 8, 2018, 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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EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 11	(attached)
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1 (9:46 a.m.)

2 EXAMINER McMILLAN: Call Case Number 16001,
3 application of Mewbourne Oil Company for a nonstandard
4 gas spacing and proration unit and compulsory pooling,
5 Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I have two
9 witnesses.

10 EXAMINER McMILLAN: Any other appearances?
11 Please proceed.

12 (Mr. Anderson and Mr. Crosby previously
13 sworn.)

14 MR. BRUCE: And, Mr. Examiner, the
15 witnesses will be Mr. Anderson and Mr. Crosby, if the
16 record could reflect they were both previously sworn and
17 qualified.

18 EXAMINER McMILLAN: Okay. Please proceed.

19 JOSHUA G. ANDERSON,
20 after having been previously sworn under oath, was
21 questioned and testified as follows:

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Please state your name for the record.

25 A. Josh Anderson.

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

3 A. I am.

4 **Q. Could you identify Exhibit 1 for the Examiner?**

5 A. Exhibit 1 is a Midland Map Company plat of
6 Township 24 South, Range 28 East in Eddy County, New
7 Mexico. The highlighted portion of the map is the west
8 half of Section 36 and the southwest quarter of Section
9 25, which is the proposed unit. Also on the map are the
10 two proposed wellbores for the Fleetwood 36/25 W0ML
11 State Com #1 and the Fleetwood 36/25 W2ML State Com #2.

12 **Q. And you are seeking the nonstandard unit in the**
13 **Wolfcamp Formation?**

14 A. We are.

15 **Q. And what type of lands are involved in this**
16 **well? Is it all state land?**

17 A. It is.

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

19 A. Exhibit 2 --

20 **Q. 2 and 3.**

21 A. Oh, 2 and 3.

22 2 is the Form C-102 for the Fleetwood 36/25
23 W0ML State Com #1 showing the proposed surface location
24 being 185 feet from the south line and 800 feet from the
25 west line in Section 36, and a proposed bottom-hole

1 location in Section 25, 2,310 feet from the south line
2 and 490 feet from the west line.

3 Exhibit 3 is the C-102 for the Fleetwood
4 36/25 W2ML State Com #2H with a surface location being
5 in Section 36, 185 feet from the south line, 750 feet
6 from the west line, and a proposed bottom-hole location
7 in Section 25, 2,310 feet from the south line and 440
8 feet from the west line.

9 **Q. What is the status of these wells?**

10 A. They are not drilling.

11 EXAMINER McMILLAN: So proposed?

12 THE WITNESS: They are proposed.

13 **Q. (BY MR. BRUCE) What is Exhibit 4?**

14 A. Exhibit 4 is the tract ownership for the
15 proposed unit.

16 **Q. Which interest owners do you seek to force
17 pool?**

18 A. EOG Resources, Inc. and JTD Resources, LLC.

19 **Q. Okay. All of the interests have joined in the
20 proposed wells?**

21 A. They have.

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

23 A. Exhibit 5 is a summary of communications
24 between those two parties we seek to pool.

25 **Q. Okay. And besides the well proposals, have you**

1 had telephone conferences and emails?

2 A. Multiple.

3 Q. In your opinion, has Mewbourne made a
4 good-faith effort to obtain the voluntary joinder of the
5 wells?

6 A. We have.

7 Q. If anyone -- if either of these parties
8 subsequently joins in the well, will you notify the
9 Division?

10 A. We will.

11 Q. What is Exhibits -- what are Exhibits 6 and 7?

12 A. Exhibit 6 is an Authorization for Expenditure
13 for the Fleetwood 36/25 W0ML State Com #1H. On this
14 AFE, it shows the proposed dry-hole cost of \$2,508,200
15 and a completed well cost of \$8,170,900.

16 And Exhibit 7 is the AFE for the 2H, with a
17 proposed dry-hole cost of \$2,720,200 and a completed
18 well cost of \$8,386,500.

19 Q. And are those costs reasonable and in line with
20 the costs of other wells of this type drilled in this
21 area?

22 A. They are.

23 Q. And what is your recommendation as to the
24 supervision and administrative expenses?

25 A. We are asking \$8,000 a month for a drilling

1 well and \$800 a month for a producing well.

2 Q. And are these amounts fair and in line with the
3 costs charged by other operators in this area?

4 A. They are.

5 Q. And are those the amounts charged and set forth
6 in your operating agreement?

7 A. They are.

8 Q. Do you request that the rates be adjusted
9 periodically as provided by the COPAS accounting
10 procedure?

11 A. We do.

12 Q. And does Mewbourne request that it be appointed
13 operator of the wells?

14 A. We do.

15 Q. And do you request the maximum cost plus 200
16 percent risk charge?

17 A. We do.

18 MR. BRUCE: Mr. Examiner, Exhibit 10 is
19 simply my Affidavit of Notice. Additional parties were
20 notified, but the two parties who are being pooled --
21 excuse me. Exhibit 8 is my Affidavit of Notice. There
22 were a couple of unreturned green cards, but they are no
23 longer sought to be pooled, so EOG Resources and JTD
24 Resources were properly notified.

25 Q. (BY MR. BRUCE) Mr. Anderson, does Exhibit 9

1 reflect all of the offset operators or working interest
2 owners for the proposed well?

3 A. It does.

4 Q. And is Exhibit 10 my Affidavit of Notice to all
5 of the offsets?

6 A. It is.

7 MR. BRUCE: And, Mr. Examiner, all of the
8 offsets did receive actual notice.

9 Q. (BY MR. BRUCE) And Exhibit 11 --

10 MR. BRUCE: This is for Mr. Brooks. If you
11 turn to Exhibit 1, Mr. Examiner, the Division has been
12 making us notify mile-and-a-half Wolfcamp laterals. In
13 this case, it should be the northwest quarter of Section
14 25 and the southeast quarter of Section 25. However,
15 Exhibit 11, which is simply taken from the Division's
16 Web site, shows that the north half of Section 25 is
17 already subject to Matador's existing Paul 225H well and
18 that the southeast quarter of Section 25 is part of the
19 well unit for Marathon's Southern Comfort State X Well
20 #1H. So notice to all interest owners in those two
21 quarter sections has not been given.

22 EXAMINER McMILLAN: Okay.

23 MR. BRUCE: These are directed mainly
24 towards Mr. Brooks.

25 EXAMINER McMILLAN: So was notice given in

1 the south half of the north half?

2 MR. BRUCE: Notice was given to the
3 operators but not to all of the interest owners in the
4 well -- in these well units in those quarter sections
5 because they are subject to existing wells.

6 EXAMINER BROOKS: Okay. Do you want me to
7 ask him the questions?

8 EXAMINER McMILLAN: Yeah. Yeah.

9 EXAMINER BROOKS: The subject has been
10 debated here, and the present director is of the opinion
11 that you should comply with that notice requirement
12 for -- for the northwest quarter. But it's only been
13 debated hypothetically, not for this case, but for the
14 northwest quarter but not the southeast quarter.

15 You indicated at one point you wanted to
16 have an opportunity to argue that matter to the
17 director. If you want to go on this record to the
18 director on that, you can -- we can take it under
19 advisement, and you can file a --

20 MR. BRUCE: Well, I'm asking that I not be
21 required to do it because there is an existing well
22 there.

23 EXAMINER BROOKS: Well, that's my
24 understanding. Now, what Ms. Riley said was that was
25 certainly something that could be taken into

1 consideration if there were protests, but that it
2 ought -- the fact of an existing well ought not to
3 categorically waive the requirement for notice because
4 there could be any number of scenarios involved with an
5 existing well. And the notice requirement is simply a
6 notice requirement and does not preclude the -- the
7 applicability of the notice requirement.

8 Now, you know, that, I guess, was sort of
9 an intermediate position but in the position of
10 attempting to apply a rule that is somewhat difficult to
11 interpret and was designed with a completely different
12 scenario in mind, I'm sure.

13 MR. BRUCE: When vertical wells are
14 involved.

15 EXAMINER BROOKS: Right. And contemplated
16 there would probably only be one well per spacing unit
17 probably, although I don't know that. Anyway, that's
18 what I've said -- that's what has been. And, as I say,
19 you can stand on your record and submit your arguments
20 in writing to be considered by the director in this
21 case, and maybe she will come to a different conclusion
22 than the tentative conclusion she's indicated so far, or
23 we can continue the case and allow you to give notice
24 to --

25 MR. BRUCE: I would ask the case be taken

1 advisement. Frankly, this is --

2 EXAMINER BROOKS: Okay. Very well.

3 MR. BRUCE: Maybe I better not say what I'm
4 thinking. I don't think Matador would be too happy if
5 Mewbourne was stirring up trouble with its interest
6 owners -- let's put it that way -- and the fact that
7 this was one of Matador's best wells ever in Eddy
8 County.

9 EXAMINER BROOKS: Well, you know, that's
10 all very relevant, I guess. I don't know that -- I
11 think that categorically it was based on the idea that
12 in certain cases, at least, in both the Bone Spring and
13 the Wolfcamp, where we're having a lot of activity, in
14 both of those, as well as in some Mancos to the
15 northwest, that there are different zones of interest.
16 And the mere presence of the well within the pool does
17 not necessarily mean that that area has been developed
18 within the zone of interest that's being a part of
19 this -- a part of the current project. But I'm going
20 into internal discussions, which really, you know,
21 somebody has to decide these issues, and I can only
22 present what the rule says and what it appears to mean,
23 and I'm not sure what that one means.

24 I can see that certainly it could be argued
25 that if there -- excluded from -- from the spacing unit

1 means excluded from any spacing unit, and if you're
2 making a nonstandard -- it used to be mutually
3 exclusive. If you're making a nonstandard argument, it
4 would be that you're making a nonstandard unit that
5 is -- doesn't -- that excludes part of what would be a
6 standard unit, but that portion is in another unit -- in
7 another nonstandard unit that's been approved, that the
8 authors would not have contemplated that that would be
9 considered an excluded tract, which may be true. But on
10 the other hand, that's not exactly what the rule says.
11 So, you know, that's where we come to the problem. So I
12 will let you elect your remedy.

13 MR. BRUCE: Well, I would ask that the
14 matter be taken under advisement, and I'll write a
15 letter to the division director.

16 EXAMINER BROOKS: That's fine with me.

17 EXAMINER McMILLAN: Okay.

18 MR. BRUCE: We have to do the geology.

19 EXAMINER BROOKS: I would say
20 Mr. Catanach would have mentioned that you notify both
21 quarter-quarter sections.

22 MR. BRUCE: Yeah, we will.

23 EXAMINER McMILLAN: I have no idea what
24 you're talking about (laughter). I'm not clear on it.
25 It's a legal issue. Nothing I can add to.

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CROSS-EXAMINATION

BY EXAMINER McMILLAN:

Q. Unlocatable interests?

A. No, sir.

Q. No depth severances?

A. No, sir.

EXAMINER McMILLAN: Okay. I don't have anything. Thank you.

Please proceed.

EXAMINER BROOKS: And, Mr. Bruce, in view of this, I will -- so you will know what I'm saying and I'm not communicating with the director behind your back in regard to this case, I will set my observations down in something that I can put in the file and give you notice of, not as a counter-argument because I'm not taking -- I'm not really taking a position. I'm just trying to explain the arguments on both sides.

MR. BRUCE: The only comment I'll make is if there was no well in the northwest quarter of Section 25, I can understand, but there are two wells up there, actually.

EXAMINER BROOKS: Yeah. Well, that may have been what the rule was intended to mean. It's not what it says. And I have trouble with that --

MR. BRUCE: How about reasonable

1 interpretation of the rules?

2 EXAMINER BROOKS: -- any legal context.

3 CHARLES CROSBY,

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

6 DIRECT EXAMINATION

7 BY MR. BRUCE:

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

9 A. Charles Crosby.

10 Q. Mr. Crosby, could you identify Exhibit 12?

11 A. This is a structure contour map at the top of
12 the Wolfcamp, the area of interest, showing continuous,
13 consistent structural dip to the east. The proration
14 unit for the proposed wells is shown by the dashed black
15 logs, with the well itself shown by the dashed red
16 arrow. The Wolfcamp Shale wells are highlighted by the
17 blue lines, with the Wolfcamp Sand wells highlighted by
18 the violet lines, and also a cross-section line labeled
19 "A to A prime."

20 Q. One thing: Looking at the north half of
21 Section 25, it appears there is an existing Wolfcamp
22 Sand well.

23 A. Yes.

24 Q. And there is an existing Wolfcamp Shale well.

25 A. Yes.

1 Q. And there is a third proposed well?

2 A. Yes.

3 Q. Do you know if that's shale or sand?

4 A. I believe it's shale.

5 Q. And those are wells operator -- proposed by
6 Matador?

7 A. Yes.

8 Q. What is Exhibit 13?

9 A. This is just a cross section representative of
10 the Wolfcamp, the entire Wolfcamp in the area of
11 interest. The proposed landing zone for the W0 is shown
12 by the red arrow in the Wolfcamp Sand, and this just
13 highlights that the Wolfcamp Sand is consistent
14 throughout the project area.

15 Q. Would you anticipate each quarter section
16 contributing more or less equally to production?

17 A. Yes.

18 Q. And is there any faulting which would affect
19 drilling in this area?

20 A. No.

21 Q. What is Exhibit 14?

22 A. It's just a table with production statistics
23 for Wolfcamp wells in the area just showing that
24 regardless of the well orientation, wells have been
25 completed with similar fracs, similar dates, and show

1 consistent production.

2 **Q. What is Exhibit 15?**

3 A. This is our proposed survey for the well with
4 the surface- and bottom-hole locations at the top.

5 **Q. And will the first and last take points of the**
6 **W0 well be at orthodox locations?**

7 A. Yes.

8 **Q. And what is Exhibit 16?**

9 A. It's just the same Wolfcamp structure map just
10 highlighting the location of the W2 well.

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

12 A. This is the same cross section of the entire --
13 representative of the entire Wolfcamp in the area, just
14 highlighting the proposed landing zone of the W2 well
15 within the Wolfcamp D. And this just shows that
16 Wolfcamp D is consistent throughout the area.

17 **Q. And will each quarter section contribute more**
18 **or less equally to production, in your opinion?**

19 A. Yes.

20 **Q. And is Exhibit 18 the same production table?**

21 A. Yes, it is.

22 **Q. And what is Exhibit 19?**

23 A. Just the survey for the W2 well showing
24 surface- and bottom-hole locations at the top.

25 **Q. And will the first and last take points be at**

1 **orthodox locations?**

2 A. Yes.

3 **Q. Were Exhibits 12 through 19 prepared by you or**
4 **under your supervision or compiled from company business**
5 **records?**

6 A. Yes.

7 **Q. And in your opinion, will the granting of this**
8 **application be in the interest of conservation and the**
9 **prevention of waste?**

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I move the
12 admission of Exhibits 12 through 19.

13 EXAMINER McMILLAN: Exhibits 12 through 19
14 may now be accepted as part of the record.

15 (Mewbourne Oil Company Exhibit Numbers 12
16 through 19 are offered and admitted into
17 evidence.)

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

20 EXAMINER McMILLAN: Thank you.

21 EXAMINER BROOKS: I have no further
22 questions either.

23 MR. BRUCE: I'd ask that the matter be
24 taken under advisement, and I'll write to the division
25 director.

1 EXAMINER BROOKS: Okay. Do you have
2 another witness?

3 MR. BRUCE: This is the last witness.

4 EXAMINER McMILLAN: Case Number 16001 will
5 be taken under advisement.

6 15-minute break.

7 (Case Number 16001 concludes, 10:06 a.m.)

8 (Recess, 10:06 a.m. to 10:21 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 DATED THIS 26th day of March 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