

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. 16002

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

March 8, 2018

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
GABRIEL WADE, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and Gabriel Wade, 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:

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FOR EOG RESOURCES, INC. AND EOG Y RESOURCES, INC.:

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1 (8:24 a.m.)

2 EXAMINER McMILLAN: Okay. What we're going
3 to do now is we're going to go a little bit out of
4 order. We are going to call Case Number 16002,
5 application of Mewbourne Oil Company for a nonstandard
6 gas spacing and proration unit and compulsory pooling,
7 Eddy County, New Mexico.

8 Call for appearances.

9 MR. BRUCE: Mr. Examiner, Jim Bruce of
10 Santa Fe representing Mewbourne Oil Company.

11 EXAMINER McMILLAN: Any other appearances?

12 MR. FELDEWERT: Mr. Examiner, Michael
13 Feldewert, with the Santa Fe office of Holland & Hart,
14 appearing on behalf of EOG Resources, Inc. and EOG Y
15 Resources, Inc.

16 EXAMINER McMILLAN: Thank you.

17 Please proceed.

18 MR. BRUCE: I have two witnesses to be
19 sworn.

20 EXAMINER McMILLAN: The witnesses would
21 please stand up and be sworn in at this time.

22 (Mr. McCurdy and Mr. Crosby sworn.)

23 EXAMINER McMILLAN: Mr. Feldewert, do you
24 have any witnesses?

25 MR. FELDEWERT: No, sir.

1 EXAMINER McMILLAN: Thank you.

2 Please proceed. Opening statements?

3 MR. FELDEWERT: No, sir.

4 MR. BRUCE: No.

5 EXAMINER WADE: Will you be doing
6 cross-examination, Mr. Feldewert?

7 MR. FELDEWERT: If I am, it'll be very
8 minimal.

9 EXAMINER WADE: Okay.

10 COLE McCURDY,
11 after having been previously sworn under oath, was
12 questioned and testified as follows:

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Will you please state your name and city of
16 residence for the record?

17 A. Cole McCurdy, Midland, Texas.

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

19 A. Mewbourne Oil Company, and I'm a landman.

20 Q. Have you previously testified before the
21 Division?

22 A. No.

23 Q. Would you summarize your educational and
24 employment background?

25 A. A bachelor's in business administration from

1 Texas Tech, energy commerce. I graduated August 2014
2 and worked for Mewbourne since August of 2014.

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

5 A. Yes.

6 Q. And are you familiar with the land matters
7 involved in this application?

8 A. Yes.

9 MR. BRUCE: Mr. Examiner, I tender the
10 witness as an expert petroleum landman.

11 MR. FELDEWERT: No objection.

12 EXAMINER McMILLAN: So qualified.

13 Q. (BY MR. BRUCE) Would you please identify
14 Exhibit 1 for the Examiner and describe the lands we're
15 seeking to pool?

16 A. This is a Midland Map Company plat that
17 includes Township 24 South, Range 28 East, Eddy County,
18 New Mexico. It shows the proration unit, which consists
19 of the north half of Section 8 and Section 9 of Township
20 24 South, Range 28 East, Eddy County, New Mexico. And
21 also it highlights the wellbores of both the Chicago --
22 Chicago 9/8 W0HE and the Chicago 9/8 W2HE.

23 Q. And are you seeking to force pool the Wolfcamp
24 Formation?

25 A. Yes.

1 **Q. And is interest ownership throughout the**
2 **Wolfcamp common?**

3 A. Yes.

4 **Q. There are no depth severances?**

5 A. No depth severances.

6 **Q. Could you identify Exhibit 2 and discuss who**
7 **you seek to pool in this case?**

8 A. Okay. Exhibit 2 is a tract ownership that
9 shows the ownership of the north half of Section 9 and
10 the north half of Section 8, Township 24 South, Range 28
11 East, Eddy County, New Mexico.

12 And then the parties we seek to pool are
13 EOG Resources, Inc., Costilla Energy, Inc., successors
14 and assigns of Mrs. W.R. Snow, Bird 2000 Limited
15 Partnership, the Estate of M.F. Fraley, Howard D. and
16 Katie H. Henry, Quaestor Corporation, McKay Living Trust
17 7/2/1982, Roy L. McKay, and we are -- Stratco Operating
18 Company.

19 **Q. Okay. There is another company listed with an**
20 **asterisk. You're not seeking to force pool that**
21 **company, are you?**

22 A. Yes. And that is Brooks Oil & Gas Interests,
23 Ltd.

24 **Q. You are not seeking to pool?**

25 A. Not seeking.

1 Q. What is Exhibit 3?

2 A. Exhibit 3 contains copies of our proposal
3 letters and a summary of contact -- contacts, what we
4 had with them.

5 Q. How long has Mewbourne been working on this
6 prospect?

7 A. Several months.

8 Q. Looks like the first letters went out about six
9 or seven months ago?

10 A. Yes.

11 Q. Besides the well-proposal letters as to the
12 locatable people, have you had follow-up phone calls and
13 emails?

14 A. Yes.

15 Q. And behind the summary sheets, are those copies
16 of all the correspondence with the interest owners?

17 A. Yes.

18 Q. There are some unlocatable people here,
19 correct?

20 A. Yes, sir.

21 Q. What steps did you take to try to locate these
22 people?

23 A. We have searched the Eddy County records, the
24 Internet. We have done, you know, phone number
25 searches. I called, emailed and sent letters -- sent

1 proposals.

2 Q. Okay. In your opinion, has Mewbourne made a
3 good-faith effort to obtain the voluntary joinder of the
4 interest owners in the well or to locate the interest
5 owners?

6 A. Yes.

7 Q. Could you briefly discuss -- refer to Exhibits
8 4 and 5 and discuss the costs of each of the wells?

9 A. Yes, sir. The estimated dry-hole costs would
10 be --

11 EXAMINER McMILLAN: Hold on.

12 THE WITNESS: Sorry.

13 EXAMINER McMILLAN: Proceed.

14 THE WITNESS: Thank you.

15 The well has an estimated dry-hole cost of
16 2,661,700, and it has a completed well cost of
17 9,588,800. And that's for the Chicago 9/8 W0HE Fee Com
18 #1H.

19 And the Chicago 9/8 W2HE Fee Com #2H has an
20 estimated dry-hole cost of 2,768,900 and a completed
21 well cost of 9,696,800.

22 Q. (BY MR. BRUCE) Are these costs fair and
23 reasonable and in line with the cost of other similar
24 wells drilled in this area of southeast New Mexico?

25 A. Yes, sir.

1 **Q. What overhead rates do you request?**

2 A. Our overhead rates, we request that -- we
3 request 8,000 a month be allowed for drilling the wells
4 and \$800 a month be allowed for a producing well.

5 **Q. Are those rates the same as in your JOA with**
6 **other working owners?**

7 A. Yes, sir.

8 **Q. And has anyone complained about those rates?**

9 A. No, sir.

10 **Q. Do you request that Mewbourne Oil Company be**
11 **appointed operator of the wells?**

12 A. Yes, sir.

13 **Q. And in the event any interest owner goes**
14 **nonconsent in the wells, do you request that they be**
15 **assessed a cost plus 200 percent risk charge?**

16 A. Yes, sir.

17 **Q. And was notice sent to all of the parties for**
18 **whom you had an address?**

19 A. Yes, sir.

20 MR. BRUCE: And, Mr. Examiner, Exhibit 6 is
21 my Affidavit of Notice. There are some returned letters
22 and some interests that never received green cards back.
23 But Exhibit 7, the Affidavit of Notice, everyone who
24 didn't return a green card has been published against.

25 **Q. (BY MR. BRUCE) And as to this well, is all of**

1 the offsetting acreage to the proposed wells operated by
2 either Mewbourne or Matador Production Company?

3 A. Yes, sir.

4 MR. BRUCE: Mr. Examiner, Exhibit 8 is my
5 Affidavit of Notice to Matador. I have not received the
6 green card back. I know they received the proposal
7 because they called me about it. But at the end of this
8 hearing, it'll have to be continued for two weeks just
9 to get the green card back.

10 Q. (BY MR. BRUCE) Mr. McCurdy, were Exhibits 1
11 through 8 prepared by you, under your supervision or
12 compiled from company business records?

13 A. Yes, sir.

14 Q. And in your opinion, is the granting of the
15 application in the interest of conservation and the
16 prevention of waste?

17 A. Yes, sir.

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

20 MR. FELDEWERT: No objection.

21 EXAMINER McMILLAN: Exhibits 1 through 8
22 may now be accepted as part of the record.

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

1 EXAMINER McMILLAN: Cross-examine?

2 CROSS-EXAMINATION

3 BY MR. FELDEWERT:

4 Q. Mr. McCurdy, I'm looking at your Exhibit Number
5 3. And as counsel pointed out, most of your letters
6 went out in August and July, but I notice that the
7 letter to EOG Recourses proposing the well for the first
8 time did not go out until January 18, 2018; is that
9 right?

10 A. I believe so, but let me check.

11 Yes, sir.

12 Q. Why did the well-proposal letter to EOG go out
13 so late?

14 A. That was when the title opinion was finalized,
15 and we hadn't known before then that EOG had an
16 interest.

17 Q. And then I note that you filed your pooling
18 application roughly within three weeks after you sent
19 the well-proposal letter to EOG. Is there a reason you
20 didn't wait the normal four-week period?

21 A. No, sir. We were just on a timeline deadline
22 so -- wells are coming up.

23 Q. When you say wells are coming up, what do you
24 mean by that?

25 A. Well, we plan to spud in the next two months.

1 Q. I noticed in your summary of communications
2 that there was a question from EOG to your company. You
3 make note -- let's see. I'm looking at page 2 of
4 Exhibit 3. It says that you received a call, and EOG
5 had a question about their interest. Do you recall
6 that?

7 A. Yes. They were wondering how -- they didn't
8 have any records on how they had gotten an interest in
9 this, and they were asking the question of how they got
10 an interest.

11 Q. Did you provide them information on that?

12 A. Yes, sir. I provided them the lease that they
13 own leasehold in and the tracts that were covered by
14 that lease.

15 Q. When did you provide that? Recently?

16 A. Yes.

17 Q. When?

18 A. March 1st, 2018.

19 Q. All right. Now, are you going to drill -- is
20 the company planning on drilling these two wells
21 simultaneously?

22 A. They will be back-to-back with a walking rig.

23 Q. Is there going to be an opportunity for the
24 interest owner to make an election on the second well
25 later than the first well?

1 A. Yes. We'll actively work to, you know -- work
2 a deal with EOG up until the day of spud, but the
3 elections have gone out simultaneously, both of them at
4 the same time.

5 **Q. They're required to make an election on both**
6 **wells at the same time?**

7 A. I mean -- no. We'll give a -- we'll have a
8 period -- you know, since the other one won't be
9 drilling for an estimated 30 days, there will be, you
10 know, an extra -- extra time for them to elect.

11 **Q. Oh, on the second well. So they won't have**
12 **to -- just so I'm clear, they're not going to have to**
13 **make an election on both wells initially? They can make**
14 **an election on the first well first, right?**

15 A. Yes, sir.

16 **Q. And then as you're drilling the first well, at**
17 **some point, you'll give them an opportunity to make an**
18 **election on the second well?**

19 A. Yes. We'll work with -- we'll do our best to,
20 you know, do a deal with them up until the spudding of
21 each well. So --

22 **Q. So the answer to my question is yes?**

23 A. Yes.

24 **Q. All right. Your 8,000 a month while producing**
25 **and -- I mean while drilling and 800 a month while**

1 **producing, you said those are rates that are in the JOA?**

2 A. Yes, sir.

3 **Q. For these wells?**

4 A. Yes, sir.

5 **Q. And has that same JOA been signed by any third**
6 **party?**

7 A. Yes, sir.

8 **Q. How many?**

9 A. At least eight, off the top of my head. I'm
10 not positive.

11 **Q. That's been the anticipated JOA -- or rate?**

12 A. Yes, sir.

13 **Q. All right.**

14 MR. FELDEWERT: That's all the questions I
15 have.

16 CROSS-EXAMINATION

17 BY EXAMINER McMILLAN:

18 **Q. Okay. For clarity purposes, these wells are**
19 **proposed?**

20 A. Yes, sir.

21 **Q. And do you expect each quarter section to**
22 **contribute equally to production? Or I'll wait for the**
23 **geologist?**

24 A. I'll wait for the geologist.

25 **Q. Let's do that.**

1 **And what's the surface location of the 1H?**

2 A. I would like to wait for the geologist. He has
3 all that information.

4 EXAMINER WADE: I don't have any questions.

5 EXAMINER McMILLAN: Thank you.

6 THE WITNESS: Thank you, y'all.

7 CHARLES CROSBY,

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 **Q. Will you please state your name for the record?**

13 A. Charles Crosby.

14 **Q. Where do you reside?**

15 A. Midland, Texas.

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

17 A. Geologist for Mewbourne Oil Company.

18 **Q. Have you previously testified before the**
19 **Division?**

20 A. Yes.

21 **Q. And were your credentials as an expert**
22 **petroleum geologist accepted as a matter of record?**

23 A. Yes.

24 **Q. And are you familiar with the geology involved**
25 **in this application?**

1 A. Yes.

2 MR. BRUCE: Mr. Examiner, I tender
3 Mr. Crosby as an expert petroleum engineer.

4 MR. FELDEWERT: No objection.

5 EXAMINER McMILLAN: So qualified.

6 **Q. (BY MR. BRUCE) What is Exhibit 9, Mr. Crosby?**

7 A. This is a base map of the project area showing
8 the proration unit highlighted by the black-dashed line,
9 the proposed well highlighted by the dashed red arrow.
10 The Wolfcamp Shale wells are highlighted by the blue
11 lines, with Wolfcamp Sand wells highlighted by the
12 violet lines, and a cross-section reference line labeled
13 "A to A prime."

14 **Q. This is for the W0 well -- the upper well,**
15 **correct?**

16 A. Yes, sir.

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

18 A. This is a cross section representative of the
19 entire Wolfcamp section in the area of interest. Our
20 delineated Wolfcamp zones are highlighted on the left
21 side of the cross section, with the proposed landing of
22 the Chicago 9/8 W0HE Fee Com 1H highlighted by the red
23 arrow in the section labeled "Wolfcamp Sands." And this
24 just highlights that the Wolfcamp Sand in this area is
25 consistent sand throughout the project area.

1 Q. And then do you expect each quarter section of
2 the well unit to contribute more or less equally to
3 production?

4 A. Yes.

5 Q. And is there any faulting or any such things
6 that would interfere with the drilling of this well?

7 A. No.

8 Q. What is Exhibit 11?

9 A. This is a production table just showing --
10 highlighting production, completion date, locations for
11 Wolfcamp wells in the area. This is just meant to show
12 and to highlight that wells with similar completion
13 time, completion date and frac sizes, et cetera show
14 similar production regardless of well orientation.

15 Q. And referring to Exhibit 12, what is this?

16 A. This is just the survey -- proposed survey for
17 the well. And at the top -- I apologize for the small
18 font. But at the top, you can see the surface- and
19 bottom-hole locations.

20 Q. Will the producing interval of the wellbore be
21 at orthodox locations?

22 A. Yes.

23 Q. No closer than 330 feet from the outer boundary
24 of the well unit?

25 A. Yes.

1 **Q. And then let's move on to Exhibit 13, and the**
2 **following exhibits are for the W2 well, the lower well?**

3 A. Right. This is the same base map for the
4 project area just highlighting the location for the W2
5 well.

6 **Q. And move on to the cross section, Exhibit 14.**

7 A. Sample cross section, representative of the
8 entire Wolfcamp section in the project area, and this
9 just simply highlights the proposed landing zone of the
10 W2 well. And being in the Wolfcamp D, it just shows
11 good consistent Wolfcamp D zone in this area.

12 **Q. Will each quarter section -- in your opinion,**
13 **will each quarter section more or less equally be**
14 **contributing to production?**

15 A. Yes.

16 **Q. Exhibit 15, what is that?**

17 A. This is the same production table just showing
18 production statistics for Wolfcamp wells in the area.

19 **Q. And, again, well orientation does not matter?**

20 A. No, sir.

21 **Q. And finally, what is Exhibit 16?**

22 A. This is our proposed survey, just survey
23 statistics for the proposed well showing surface- and
24 bottom-hole location at the top.

25 **Q. And will this -- the beginning and -- the**

1 beginning and ending of the producing interval of the
2 wellbore will be orthodox?

3 A. Yes.

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

7 A. Yes.

8 Q. And were Exhibits 9 through 16 prepared by you
9 or under your supervision or compiled from company
10 business records?

11 A. Yes.

12 MR. BRUCE: Mr. Examiner, I move the
13 admission of Exhibits 9 through 16.

14 MR. FELDEWERT: No objection.

15 EXAMINER McMILLAN: Exhibits 9 through 16
16 may now be accepted as part of the record.

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

20 MR. BRUCE: No further questions.

21 EXAMINER McMILLAN: Cross-examination?

22 MR. FELDEWERT: No questions.

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. I'm not clear on the bottom-hole locations on

1 both the wells. So what's the bottom-hole location for
2 the #1?

3 A. For the W0, it'll be 2,200 feet from the north
4 line, 330 feet from the west line in Section 8, 24
5 South, 28 East -- or -- 28 East.

6 Q. Okay. The #2H?

7 A. 2H, 2,300 feet from the north line, 330 feet
8 from the west line, Section 8, 24 South, 28 East.

9 Q. Which wells have the better reserves, the upper
10 or lower zone, generally?

11 A. They're similar. The lower zone has a higher
12 GOR usually than the upper zone, but they're both
13 similar reserve-wise.

14 EXAMINER McMILLAN: Closings?

15 MR. BRUCE: Nothing. I just ask that the
16 case be continued for two weeks for notice purposes.

17 MR. FELDEWERT: The only caveat I have is
18 if the case is going to be continued for two weeks, I
19 don't want it limited for notice purposes at this point.
20 I'm still visiting with the client as to what they want
21 to do. Okay? So we'll know where we're at two weeks
22 from now. So in other words, I don't want the
23 continuance just for the sole purpose of notice.

24 EXAMINER McMILLAN: That's fine. Just for
25 the record, the way the orders have been written, for

1 multiple wells in a spacing unit, each well will have
2 its own election for compulsory pooling.

3 MR. FELDEWERT: At different time frames?
4 That's the issue.

5 MR. BROOKS: That has not been in orders
6 that I've seen.

7 EXAMINER McMILLAN: Case Number 16002 shall
8 be continued until March 22nd.

9 For the record, for Case Number 16002,
10 Gabriel Wade is the attorney of record.

11 EXAMINER WADE: So I have to come back? Is
12 that --

13 EXAMINER McMILLAN: You're going to have to
14 come back.

15 Let's take a ten-minute break.

16 (Case Number 16002 concludes, 8:49 a.m.)

17 (Recess, 8:49 a.m. to 9:03 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