

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. 16279  
FOR A NONSTANDARD HORIZONTAL SPACING  
UNIT AND COMPULSORY POOLING, EDDY  
COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

August 23, 2018

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, August 23, 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  
New Mexico CCR #20  
Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102  
(505) 843-9241

## 1 APPEARANCES

## 2 FOR APPLICANT MEWBOURNE OIL COMPANY:

3 GARY W. LARSON, ESQ.  
 HINKLE SHANOR, LLP  
 4 218 Montezuma Avenue  
 Santa Fe, New Mexico 87501  
 5 (505) 982-4554  
 glarson@hinklelawfirm.com  
 6

## 7 FOR CIMAREX ENERGY:

8 JENNIFER L. BRADFUTE, ESQ.  
 MODRALL, SPERLING, ROEHL, HARRIS & SISK, P.A.  
 9 500 4th Street, Northwest, Suite 1000  
 Albuquerque, New Mexico 87102  
 10 (505) 848-1800  
 jlb@modrall.com  
 11

## 12 FOR COG OPERATING:

13 ELIZABETH "BETH" A. RYAN, ESQ.  
 Concho Operating, LLC  
 14 Office of General Counsel  
 1048 Paseo De Peralta  
 15 Santa Fe, New Mexico 87501  
 (505) 780-8009  
 16 eryan@concho.com  
 17

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1 (8:37 a.m.)

2 EXAMINER JONES: The first case on the  
3 docket appears to be Case Number 16279, application of  
4 Mewbourne Oil Company for a nonstandard horizontal  
5 spacing unit and compulsory pooling, Eddy County, New  
6 Mexico.

7 Call for appearances in that case.

8 MR. LARSON: Good morning, Mr. Examiner.  
9 Gary Larson, of the Santa Fe office of Hinkle Shanor,  
10 for the Applicant, Mewbourne. I'm pinch-hitting for Jim  
11 Bruce today, and I'll be presenting my case by  
12 affidavit.

13 MS. BRADFUTE: Mr. Examiner, Jennifer  
14 Bradfute on behalf of Cimarex Energy.

15 EXAMINER JONES: Okay. I also I think have  
16 an appearance by Ocean Munds-Dry on behalf of COG in the  
17 record on this case.

18 MS. RYAN: Thank you. It was just for  
19 notice purposes, so we don't have any protest today.

20 (The court reporter requested Ms. Ryan  
21 announce for the record.)

22 MS. RYAN: Elizabeth Ryan with Concho --  
23 COG Operating, Santa Fe. Thank you.

24 EXAMINER JONES: Any other appearances in  
25 this case?

1                   Okay, Mr. Larson.

2                   MR. LARSON:   Mewbourne's amended  
3   application in this case seeks approval of a 200-acre  
4   nonstandard horizontal spacing unit in the 2nd Bone  
5   Spring Sand and the pooling of all uncommitted interests  
6   in that interval.   And the horizontal spacing unit will  
7   be dedicated to the Sapphire 11/12 B2NN State Com #1H  
8   well, which I'll refer to as the Sapphire well.

9                   EXAMINER JONES:   Okay.

10                  MR. LARSON:   Exhibit 1 is the affidavit of  
11   the landman, Paul Haden, and the attachments to  
12   Mr. Haden's affidavit are a Midland Map highlighting the  
13   horizontal spacing unit and a C-102 for the Sapphire  
14   well, a listing of the tract ownership in the proposed  
15   unit, Mewbourne's communication with the interest owners  
16   in the proposed unit regarding the Sapphire well, and an  
17   AFE identifying the total well cost of \$7,292,100.

18                  As you'll see in Mr. Haden's affidavit,  
19   Mewbourne is requesting a nonstandard 200-acre  
20   horizontal spacing unit because the southwest  
21   quarter-southwest quarter of Section 11 is dedicated to  
22   another well operated by another company.   Mewbourne  
23   anticipates that wells to test other Bone Spring zones  
24   will have 240-acre units that will include the southwest  
25   quarter of the southwest quarter of Section 11.

1                   This affidavit also states that Mewbourne  
2   has the right to pool the overriding royalty interests  
3   in the unit, that there is no depth severance in the  
4   Bone Spring Formation. It further states that Mewbourne  
5   is requesting overhead and administrative rates of  
6   \$8,000 a month while drilling and \$800 a month while the  
7   well is producing. And he avers that these rates are  
8   comparable to the rates charged by other operators for  
9   similar wells in this area of Eddy County and are the  
10  same rates as those included in Mewbourne's JOA.

11                  Exhibit 2 is Mr. Bruce's affidavit  
12  addressing notice of today's hearing that was provided  
13  to the interest owners in the proposed horizontal  
14  spacing unit. Attached to the affidavit are copies of  
15  Mr. Bruce's notice letter and the green cards, all of  
16  which were returned.

17                  Exhibit 3 is Mr. Bruce's affidavit  
18  addressing notice of the hearing to offset operators and  
19  working interests, and similarly attached to this  
20  affidavit are copies of Mr. Bruce's notice letter and  
21  the green cards, all of which were returned.

22                  And the final exhibit, Number 4, is the  
23  affidavit of Mewbourne geologist, Jordan Carrell. And  
24  attached to Mr. Carrell's affidavit is a structure map  
25  at the base of the 2nd Bone Spring Sand, a gross sand

1 isopach map of the 2nd Bone Spring Sand, a  
2 northwest-to-southeast cross section, information  
3 regarding other wells drilled in the vicinity and  
4 Mewbourne's planning report for the Sapphire well.

5 And as stated in Mr. Carrell's affidavit,  
6 the producing interval in the Sapphire well will be  
7 orthodox. It further states that the 2nd Bone Spring is  
8 continuous across the proposed unit, that there is no  
9 faulting or other geologic impediment that might  
10 adversely affect the drilling of the Sapphire well and  
11 that each quarter section in the proposed unit will  
12 contribute more or less equally to production.

13 And with that, I move the admission of  
14 Mewbourne Exhibits 1 through 4.

15 EXAMINER JONES: Any objection?

16 MS. BRADFUTE: No objection.

17 MS. RYAN: No objection.

18 (Mewbourne Oil Company Exhibit Numbers 1  
19 through 4 are offered into evidence.)

20 EXAMINER JONES: No objection?

21 Mr. Brooks, is it okay to admit these  
22 exhibits?

23 EXAMINER BROOKS: I'm sure it is.

24 EXAMINER JONES: Okay.

25 EXAMINER BROOKS: If there is no

1 objections.

2 EXAMINER JONES: There is no objection.

3 When presenting by affidavit, there is a  
4 list of things that is required to present by affidavit.  
5 I didn't bring them with me today. I assume that the  
6 attorneys will catch any discrepancies.

7 EXAMINER BROOKS: I would assume so. I  
8 don't have my rule book here today because my rule book  
9 is in the process of being updated. There have been so  
10 many rules made here lately that my rule book is very  
11 out of date, and that process will take a while.

12 EXAMINER JONES: And this application  
13 appears to be a pre-rule application, so it's got the  
14 standard language that they applied for here.

15 MR. LARSON: Yeah. Actually, the initial  
16 application was pre-new horizontal well rules, and then  
17 following discussions with Cimarex, the application was  
18 amended to a different producing interval after -- after  
19 the new rules.

20 EXAMINER JONES: Okay. Okay. Thank you.  
21 So it's basically a post-rule application,  
22 and so there is no question on what the building blocks  
23 are for this well. It's a 40-acre spaced pool. It's  
24 going to be 40 quarter-quarters or however you decide --

25 EXAMINER BROOKS: Yes. I don't think we're

1 going to have any problems --

2 EXAMINER JONES: With this one?

3 EXAMINER BROOKS: -- with 40-acre  
4 constituent tracts -- with horizontal wells built on a  
5 40-acre constituent tract, unless there is a nonstandard  
6 40 somewhere in there that has -- that is smaller or  
7 bigger than what the district office can approve.

8 MR. LARSON: Yeah. It's my understanding  
9 Mr. Bruce filed it as nonstandard because of that  
10 40-acre unit in the southwest-southwest of 11.

11 EXAMINER BROOKS: Yeah. And what is the  
12 acreage of that unit?

13 MR. LARSON: It's 40 acres.

14 EXAMINER BROOKS: It is 40?

15 MR. LARSON: Yes.

16 EXAMINER BROOKS: Well, it's not  
17 nonstandard. Oh, you mean it would have been  
18 nonstandard under the old rule.

19 MS. BRADFUTE: Mr. Examiner -- Mr. Brooks,  
20 if you look at attachment -- Exhibit 1, second page, it  
21 looks like a C-102 is attached for the proposed well.  
22 And if you look at where the surface location is, it  
23 starts in the second 40-acre tract within Section 11.

24 EXAMINER BROOKS: And the  
25 southwest-southwest is not included in the --



1 MS. BRADFUTE: Yeah.

2 EXAMINER BROOKS: Well, of course, that  
3 would have been problematic under the old rule. It's  
4 not -- but you're -- what you're saying is the amendment  
5 converted this into an application under the new rule?

6 MR. LARSON: Yes. It's my understanding.

7 EXAMINER BROOKS: Well, would everybody be  
8 willing to accept it? With all these lawyers around and  
9 nobody protesting, which is what lawyers normally do  
10 best, I think I would accept it.

11 EXAMINER JONES: Okay. Yeah. The well's  
12 got an azimuth of 92 degrees, it looks like, but the  
13 setbacks are basically fine for the new rule.

14 EXAMINER BROOKS: And we're accepting the  
15 Fabiano [sic; phonetic] proposition that there is no  
16 such thing as a stranded unit.

17 EXAMINER JONES: No such thing as stranded  
18 even in the potash area.

19 MS. BRADFUTE: Cimarex has no objection to  
20 the unit for the well, but I don't have the rule in  
21 front of me. I didn't bring it today. If you have a  
22 single 40-acre tract that's not included in the  
23 horizontal spacing unit for the well, I'm not sure if  
24 that classifies as standard under the new rule --

25 EXAMINER BROOKS: That is under the new

1 rule.

2 MS. BRADFUTE: -- unless it's developed by  
3 another well.

4 EXAMINER BROOKS: Doesn't matter. The  
5 Commission -- you know, we had that three-out-of-four  
6 rule that was in the proposed horizontal well rule for a  
7 long time.

8 MS. BRADFUTE: Yeah.

9 EXAMINER BROOKS: Even as it was filed --

10 MS. BRADFUTE: Even as it was filed.

11 EXAMINER BROOKS: -- by the Division, but  
12 the Commission did not adopt that provision.

13 MS. BRADFUTE: Did not adopt that. Okay.  
14 Thank you.

15 EXAMINER JONES: And the pooling parties  
16 are -- you mentioned that the overrides are being  
17 pooled, but they also list that on COG.

18 MR. LARSON: The interests left to be  
19 pooled are Devon and Marathon.

20 EXAMINER JONES: Just Devon and Marathon.  
21 And so no one else at this time?

22 MR. LARSON: That's my understanding.  
23 Correct.

24 EXAMINER JONES: Mr. Haden came up last  
25 time. We hadn't seen him in about a decade, and he

1     showed up at the last hearing I was at. It was nice to  
2     see him.

3                     At that time, his C-102s were totally  
4     different than the ones in the application. So in this  
5     case, it looks like -- not that it would have been his  
6     fault, but it looks like this well is a permanent well,  
7     so it's got a well site already fixed.

8                     I don't have anything else. If anybody  
9     else does --

10                    MR. LARSON: I have nothing further and  
11     request the case be taken under advisement.

12                    EXAMINER JONES: Okay. Case 16279 is taken  
13     under advisement.

14                    MR. LARSON: Thank you.

15                    EXAMINER JONES: Thank you for  
16     pinch-hitting for Mr. Bruce.

17                    (Case Number 16279 concludes, 8:48 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 23rd day of September 2018.  
21

22  
23 MARY C. HANKINS, CCR, RPR  
24 Certified Court Reporter  
25 New Mexico CCR No. 20  
Date of CCR Expiration: 12/31/2018  
Paul Baca Professional Court Reporters