

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 AMENDED APPLICATION CASE NO. 16183
OF MEWBOURNE OIL COMPANY FOR
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

November 29, 2018

Santa Fe, New Mexico

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

This matter came on for hearing before the New Mexico Oil Conservation Division, Scott Dawson, Chief Examiner, Terry Warnell, Technical Examiner, and David K. Brooks, Legal Examiner, on Thursday, November 29, 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.

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APPEARANCES

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1 (9:06 a.m.)

2 EXAMINER DAWSON: So we'll go back to the
3 first two cases. 16020 --

4 MR. BRUCE: No, no, no, sir. They're not
5 consolidated.

6 EXAMINER DAWSON: Okay.

7 MR. BRUCE: Do the second one first.

8 EXAMINER DAWSON: I was just explaining the
9 cases we're going to hear.

10 MR. BRUCE: Okay.

11 EXAMINER DAWSON: We'll go to the second
12 case first on the list, which is Case Number 16183.
13 This has been amended and re-advertised. It's continued
14 from the October 2018 examiner hearing. It's
15 application of Mewbourne Oil Company for compulsory
16 pooling, Eddy County, New Mexico.

17 Please call for appearances.

18 MR. BRUCE: Mr. Examiner, Jim Bruce of
19 Santa Fe representing Mewbourne Oil Company. I have no
20 witnesses. I am presenting this case by affidavit.

21 MR. GALLEGOS: Mr. Examiner, my name is
22 Gene Gallegos, Santa Fe New Mexico, appearing on behalf
23 of the Intervenor, Jalapeno. And I appreciate the
24 Applicant taking Case 16183 first.

25 EXAMINER DAWSON: Okay.

1 MS. KESSLER: Mr. Examiners, Jordan Kessler
2 from the Santa Fe office of Holland & Hart. I represent
3 various this EOG entities that are the subject of.
4 this --

5 EXAMINER DAWSON: Okay. You may continue
6 when you're ready, Mr. Bruce.

7 MR. BRUCE: Very briefly to get the case
8 started, Mr. Examiner, I handed you a packet of
9 exhibits. The purpose of this case is to pooling
10 interest owners into a 320-acre horizontal spacing unit
11 in the Bone Spring Formation below the top of the 2nd
12 Bone Spring Sand, and that definition is in the
13 application -- the amended application filed in this
14 case. The unit will be dedicated to the Virgo 24/23
15 B2HE Fed Com #1H, a horizontal well which is being
16 drilled and completed in the 2nd Bone Spring Sand.

17 And before I go any further, Mewbourne has
18 reached agreement with Jalapeno Corporation and with the
19 EOG entities. Therefore, they are not being forced
20 fooled from this case, and they should be dismissed from
21 this application.

22 EXAMINER DAWSON: Okay.

23 MR. GALLEGOS: Mr. Examiner, if that motion
24 is accepted, I'd like to be excused, if that's
25 permissible.

1 EXAMINER BROOKS: What motion is this now?

2 MR. GALLEGOS: Well, I think that -- I
3 believe -- well, maybe I shouldn't have said it's a
4 motion, but I believe it's been stated by the Applicant
5 that an agreement has been reached with Jalapeno and
6 that they are not seeking to force pool my client.

7 EXAMINER BROOKS: Okay. Is that correct.
8 Mr. Bruce, what he just said?

9 MR. BRUCE: Correct.

10 EXAMINER BROOKS: Okay. Very good. You
11 may be excused, Mr. Gallegos. Thank you very much.

12 MR. GALLEGOS: Thank you.

13 EXAMINER DAWSON: Thank you, Mr. Gallegos.
14 Go ahead, Mr. Bruce.

15 (Mr. Gallegos exits the hearing, 9:06 a.m.)

16 MR. BRUCE: Like I said, I'm handing you a
17 package of exhibits. Exhibit 1 is a verified statement
18 of Paul Haden.

19 One thing about the depth severance -- and,
20 Mr. Brooks, you're getting a lot of these depth
21 severances.

22 EXAMINER BROOKS: We're getting a lot of
23 them.

24 MR. BRUCE: And as stated in the affidavit,
25 the depth severance resulted from a vertical well

1 drilled to the Bone Spring by the Yates Petroleum
2 Corporation years ago, and under their various
3 agreements, they only drilled to a depth sufficient to
4 test the 1st Bone Spring. And so there is different
5 ownership between the 1st Bone Spring and then the 2nd
6 and 3rd Bone Spring together.

7 EXAMINER BROOKS: Right.

8 MR. BRUCE: So that is the reason for --
9 one of the reasons for the depth severance. And also,
10 Yates Petroleum Corporation, now EOG, does not wish to
11 disrupt any interest in that well, so that is why
12 Mewbourne agreed to make this application below the top
13 of 2nd Bone Spring.

14 EXAMINER BROOKS: Well, yeah. I think that
15 is the direction that we are going with the depth
16 severances because the Oil and Gas Act says we can pool
17 the spacing unit or a part thereof.

18 MR. BRUCE: Yeah.

19 EXAMINER BROOKS: I think the direction we
20 are headed now is to pool depth-limited portions of the
21 spacing unit.

22 MR. BRUCE: Okay. Moving on, if you go to
23 the attachments, starting on the fourth page back,
24 Attachment A is simply a land plat showing the new well
25 unit. It's in the south half-north half of both

1 Sections 23 and 24.

2 The next exhibit, Attachment B, is the
3 C-102 for the well. This well has not been drilled. It
4 does have a required commencement date of about
5 February 1, and that is the only date we're concerned
6 about. And the pool name, pool code and API number are
7 on the C-102.

8 Attachment C shows all the interest owners
9 in the well unit. And there are asterisks by certain of
10 the names, and those are the companies being pooled,
11 Devon, Marathon and MRC.

12 And just for the record, Kyle Perkins, from
13 Matador, or MRC Delaware Resources, and Jennifer
14 Bradfute on behalf of Marathon Oil Permian, entered
15 appearances in this case. They would like their entries
16 of appearance noted on the record, so I'm mentioning
17 that now before I forget.

18 EXAMINER DAWSON: Okay. So noted.

19 One question I have.

20 MR. BRUCE: Sure.

21 EXAMINER DAWSON: On page 2 of the verified
22 statement of Paul Haden --

23 MR. BRUCE: Yeah.

24 EXAMINER DAWSON: -- it says that
25 Marathon's requesting administrative and overhead costs

1 of \$7,500 per month for a drilling well and 700 for a
2 producing well.

3 MR. BRUCE: That is correct.

4 EXAMINER DAWSON: That's what they want?

5 MR. BRUCE: That's correct.

6 EXAMINER DAWSON: They don't want 7,500 and
7 750?

8 MR. BRUCE: They put this in there. It
9 must be what they want.

10 EXAMINER DAWSON: All right. Usually it's
11 the same --

12 EXAMINER BROOKS: Usually it's 1 percent --
13 or 10 percent.

14 MR. BRUCE: Yeah.

15 Attachment D contains a summary of contacts
16 with both MRC, Marathon and Devon, together with backup
17 well proposals. Mewbourne believes they've made a
18 good-faith effort to obtain -- to either locate the
19 interest owners in the proposed well or to obtain their
20 voluntary joinder in the well. There are no overriding
21 royalty owners who need to be pooled.

22 Attached as Attachment E is the AFE for the
23 well, which is about 9.2 million, which is stated to be
24 fair and reasonable, and we've already gone over the
25 overhead rates.

1 There is -- I'll get to this in a minute.
2 There are one or two unlocatable royalty owners, and the
3 affidavit does state what was done to locate these
4 interest owners.

5 And then this application -- I know we've
6 gone through this before, but this is just to cover
7 myself. This application was originally filed under the
8 old rule. It was amended in --

9 Didn't we amend them in August, I think,
10 Jordan?

11 MS. KESSLER: August or September.

12 MR. BRUCE: But I still notified the
13 offsets. Exhibit F lists the offsets.

14 And the landman states that the application
15 is in the interest of conservation and the prevention of
16 waste.

17 Exhibit 2 is my Affidavit of Notice
18 regarding the amended application. You'll see down
19 below. Phoebe Jane Welch and Phoebe Jane Welch III and
20 Sanders Thomas Welch, those parties were unlocatable.
21 Notice was mailed to those we had addresses for. You'll
22 see that some came back -- or I didn't -- yeah. One
23 green card -- or one envelope came back unclaimed. That
24 was to Phoebe Jane Welch. And I never received a green
25 card back from Cannon Exploration.

1 Exhibit 3 is my notice to the offsets, and
2 all of the offsets did receive notice.

3 And then Exhibit 4 is an Affidavit of
4 Publication. So any person who did not receive actual
5 notice did receive constructive notice by publication in
6 the Carlsbad newspaper.

7 Exhibit 5 is the affidavit of Charles
8 Crosby, Mewbourne's landman -- excuse me -- geologist.
9 He attaches a structure map, a gross sand isopach. And
10 he concludes that the horizontal spacing unit is
11 justified from a geologic standpoint. Each
12 quarter-quarter section in the well unit will contribute
13 more or less equally to production, and there is no
14 faulting or other impediment to drilling a horizontal
15 well in this area.

16 He also states in paragraph five of his
17 affidavit that there is 450 to 500 feet of tight,
18 impermeable mixed carbonates and clastics vertically
19 separating the 1st Bone Spring Sand and 2nd Bone Spring
20 Sand, so there will be no cross-flow between zones.

21 Attachment D to his affidavit is simply
22 noting -- identifying other Bone Spring wells in this
23 area -- 2nd Bone Spring wells in this area. And.
24 Mr. Crosby states that production per well with similar
25 completions and similar time online seem to show a

1 preference for the lay-down orientation, and the recent
2 completions in the area seem to be economic.

3 And Attachment E is simply the survey
4 calculations for the horizontal well.

5 With that, I move the admission of Exhibits
6 1 through 5.

7 MS. KESSLER: No objection.

8 I do have a quick question, Jim.

9 On Attachment C, is the proposed lateral in
10 the second -- second set of logs, is it the one with the
11 little red arrow? Is it the line with the red arrow?

12 MR. BRUCE: Yeah. And that reminds me. I
13 know these maps keep getting -- yeah. Over on the right
14 on the cross section, it shows the target interval, so
15 it looks like the upper part of the Lower 2nd Bone
16 Spring.

17 And I did bring along some slightly
18 bigger --

19 EXAMINER DAWSON: Thank you. Thank you. I
20 appreciate you guys bringing these legible larger cross
21 sections that are, you know, easy to read.

22 EXAMINER BROOKS: Mr. Dawson expresses
23 himself more courteously in this respect than does
24 Mr. McMillan.

25 (Laughter.)

1 MR. BRUCE: I didn't hear that comment.

2 EXAMINER DAWSON: Is that it?

3 MR. BRUCE: Mr. Examiner, if you don't have
4 any questions, I'd ask that the matter be taken under
5 advisement.

6 EXAMINER DAWSON: Do you have any
7 questions, Jordan?

8 MS. KESSLER: No.

9 EXAMINER DAWSON: Exhibits 1 through 5 will
10 be admitted to the record.

11 (Mewbourne Oil Company Exhibit Numbers 1
12 through 5 are offered and admitted into
13 evidence.)

14 EXAMINER DAWSON: There are no further
15 questions from the opposing counsel.

16 Does anyone up here -- David or --

17 EXAMINER BROOKS: What marker are you using
18 for defining the top of -- are you going by the base of
19 the 1st Bone Spring or the top of the 2nd Bone Spring?
20 And how do you define the marker?

21 MR. BRUCE: The amended application filed,
22 it's a measured depth. Top of the 2nd Bone Spring Sand,
23 measured depth of 8,450 feet, and the base of the Bone
24 Spring, 9,675 feet, as identified on the neutron density
25 log of the Shooter West 19 Federal Well #3 located 1,980

1 feet from the south line and from the west line of
2 Section 19, adjoining Section 19 and 1,830 --

3 EXAMINER BROOKS: Sounds like that's good
4 enough to satisfy the geologist.

5 MR. BRUCE: Yeah. And I believe both
6 Mewbourne's geologist and EOG's geologist consulted on
7 this to agree to it and a specified interval.

8 EXAMINER BROOKS: Okay. Let's see. Did
9 you notify everyone -- all the owners in the spacing
10 unit?

11 MR. BRUCE: Yes.

12 EXAMINER DAWSON: What about overrides?

13 MR. BRUCE: There are no overrides. Either
14 Mewbourne has the right to notify overrides, or they
15 have voluntarily joined the com agreement.

16 EXAMINER BROOKS: Okay. I'm sorry. I
17 didn't understand that last part. You first said there
18 were no overrides.

19 MR. BRUCE: I meant there are no overrides
20 who need to be pooled.

21 EXAMINER BROOKS: No overrides that need to
22 be pooled, and then you said Mewbourne has the right --

23 MR. BRUCE: Either has the right or a com
24 agreement.

25 EXAMINER BROOKS: What?

1 MR. BRUCE: Or com agreement.

2 EXAMINER BROOKS: Oh, oh. Yeah.

3 Ratification of the com agreement would take care of it.

4 Mewbourne has that right according to the terms of the

5 leases or --

6 MR. BRUCE: Or EOG would have the right to

7 voluntarily join their overrides.

8 EXAMINER BROOKS: Right. And that applies

9 to all interests in the spacing unit, including -- I

10 mean, the fact that you do not -- there is no one else

11 who needs to be noticed applies to the entire spacing

12 unit, not just the portion you're requesting for force

13 pooling?

14 MR. BRUCE: That is correct.

15 EXAMINER BROOKS: Thank you. I think that

16 covers everything.

17 EXAMINER WARNELL: I have a question for

18 Mr. Bruce. The land in the spacing unit, is that all

19 federal?

20 MR. BRUCE: The land in Section 23, it is

21 partly federal.

22 EXAMINER WARNELL: Are you looking at

23 Exhibit -- or Attachment A?

24 MR. BRUCE: Attachment A.

25 EXAMINER WARNELL: Okay.

1 MR. BRUCE: It is federal and fee. Like in
2 Section 23, you'll see there is a lease from T. Wilson,
3 a Midland guy. And so it's federal and fee.

4 EXAMINER WARNELL: Okay. No state trust
5 land?

6 MR. BRUCE: Not that I see.

7 EXAMINER WARNELL: Could you just verify
8 that for us?

9 MR. BRUCE: I will.

10 EXAMINER WARNELL: Thank you.

11 EXAMINER DAWSON: I have no questions.
12 Do you have anything else, Jordan --
13 Ms. Kessler?

14 MS. KESSLER: No.

15 EXAMINER DAWSON: So at this point, Case
16 Number 16183 will be taken under advisement.

17 Thank you very much.

18 (Case Number 16183 concludes, 9:18 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 21st day of December 2018.

21

22

23 MARY C. HANKINS, CCR, RPR
24 Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2019
Paul Baca Professional Court Reporters

25