

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:

ORIGINAL

APPLICATION OF MEWBOURNE OIL COMPANY
FOR APPROVAL OF A NONSTANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

Case No. 14742

TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: TERRY WARNELL, Presiding Examiner
DAVID K. BROOKS, Legal Examiner

October 13, 2011

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, TERRY WARNELL,
Presiding Examiner, and DAVID K. BROOKS, Legal Examiner,
on Thursday, October 13, 2011, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South St.
Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
Paul Baca Professional Court Reporters
500 Fourth Street, N.W., Suite 105

A P P E A R A N C E S

FOR THE APPLICANT:

JAMES BRUCE, ATTORNEY AT LAW
P.O. Box 1056
Santa Fe, New Mexico 87504
(505)982-2043

WITNESSES:

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Corey Mitchell:

Direct examination by Mr. Bruce
Examination by Examiner Warnell

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Jason Lodge:

Direct examination by Mr. Bruce
Examination by Examiner Warnell

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EXHIBITS 6 THROUGH 9 ADMITTED

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REPORTER'S CERTIFICATE

19

1 EXAMINER WARNELL: The next case we'll
2 call is Case 14742, application of Mewbourne Oil Company
3 for approval of a nonstandard oil spacing and proration
4 unit and compulsory pooling, Eddy County, New Mexico.
5 Call for appearances.

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

9 EXAMINER WARNELL: Any other appearances?
10 Would the two witnesses please stand and state
11 your names and be sworn?

12 MR. MITCHELL: Corey Mitchell.

13 MR. LODGE: Jason Lodge.

14 (Two witnesses were sworn.)

15 COREY MITCHELL

16 Having been first duly sworn, testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city of
20 residence?

21 A. ~~Corey Mitchell~~. I reside in Midland, Texas.

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

23 A. ~~Mewbourne Oil Company as a landman.~~

24 Q. Have you previously testified before the
25 Division?

1 A. Yes, sir.

2 Q. And were your credentials as an expert
3 petroleum landman accepted as a matter of record?

4 A. Yes, sir.

5 Q. Are you familiar with the land matters
6 involved in this case?

7 A. Yes, sir.

8 MR. BRUCE: Mr. Examiner, I tender
9 Mr. Mitchell as an expert petroleum landman.

10 EXAMINER WARNELL: Mr. Mitchell is so
11 recognized.

12 Q. (By Mr. Bruce) Would you please identify
13 Exhibit 1 and describe what Mewbourne seeks in this case?

14 A. Exhibit 1 is a Midland Map Company land plat
15 of Township 20 South, Range 25 East, Eddy County, New
16 Mexico. It shows our proposed well, along with the
17 proration unit, being the west half/west half of Section
18 21.

19 Mewbourne Oil Company is seeking ~~approval of~~
20 ~~an unorthodox well location, a nonstandard spacing unit~~
21 ~~and pooling all uncommitted interests from the surface to~~
22 ~~the base of the Glorieta-Yeso formation in the west~~
23 ~~half/west half of Section 21.~~

24 Q. Are you also ~~seeking to force pool the~~
25 ~~southwest quarter/southwest quarter as to depths from the~~

1 ~~surface to the top of the Glorieta-Yeso?~~

2 A. Yes, sir.

3 MR. BRUCE: Mr. Examiner, one thing is
4 that ~~there is an unorthodox location involved~~, and I
5 correctly included it in certain things and excluded it
6 in others. So this case will ~~need to be readvertised~~ for
7 ~~the November 10th hearing to include the unorthodox~~
8 ~~location in the case notice.~~

9 EXAMINER WARNELL: Okay.

10 EXAMINER BROOKS: Okay. I suppose you
11 could -- alternatively, you could withdraw the request
12 for approval and present it as an administrative
13 application. It's up to you.

14 MR. BRUCE: I'll talk with my client after
15 the hearing and email the Examiner.

16 Q. (By Mr. Bruce) What is the name of the
17 proposed well?

30-015-39370

18 A. ~~Pine-Box-21-MD-Fed-Com-Number-1H~~

19 Q. And what are the surface and bottomhole
20 footages?

21 A. We have a surface location of 90 feet ~~from the~~
22 ~~south line and 650 from the west line, and a bottomhole~~
23 ~~location of 330 from the north line and 330 from the west~~
24 ~~line of Section 21.~~

25 Q. And will the entire producing interval be

1 orthodox?

2 A. Yes, sir.

3 Q. What is the working interest ownership of the
4 well? And I refer you to Exhibit 2.

5 A. Exhibit 2 sets out the working interest
6 parties in this well, along with ~~the parties we are~~
7 ~~seeking to pool. They are noted with an asterisk.~~ And
8 collectively they equal a total of ~~5.427859~~ percent.

9 Q. And what is Exhibit 3?

10 A. Exhibit 3 is a summary of my communications
11 with these parties and also a copy of all of the relative
12 correspondence with them.

13 Q. There's a number of unknown addresses in here.
14 Could you go through the steps -- first of all, have you
15 force pooled these people before?

16 A. Yes, sir. We've pooled them in at least two
17 prior wells.

18 Q. Okay. And so you've been looking for these
19 parties for quite some time?

20 A. Yes, sir.

21 Q. Could you go through the steps that you have
22 taken to try to locate these parties?

23 A. We've done county searches, Internet searches.
24 We've also contacted the other family members that own
25 interests in here, trying to locate them, and have been

1 unsuccessful.

2 Q. Okay. You've contacted family members and
3 asked about everybody in the family --

4 A. Yes, sir.

5 Q. -- and have been unsuccessful in trying to
6 locate all of these interest owners?

7 A. Yes, sir.

8 Q. In your opinion, has Mewbourne made a
9 good-faith effort either to locate the parties in this
10 well unit or to attempt to get them to join voluntarily
11 in the well?

12 A. Yes, sir.

13 Q. Would you identify Exhibit 4 and discuss it
14 for the Examiners?

15 A. Exhibit 4 is our AFE, which shows our
16 estimated costs for this well. We have an estimated dry
17 hole cost of \$948, and a completed well cost of
18 \$2,156,600.

19 Q. And are these costs in line with the costs of
20 wells drilled at this depth in this area of the state?

21 A. Yes, sir.

22 Q. Do you request that Mewbourne be appointed
23 operator of the well?

24 A. Yes, sir.

25 Q. Do you have a recommendation for the overhead

1 costs?

2 A. ~~We recommend \$6,000 a month for drilling and~~
3 ~~\$600 a month for producing.~~

4 Q. Are these amounts equivalent to those charged
5 by Mewbourne and other operators for wells of this depth?

6 A. Yes, sir.

7 Q. Do you request that these rates be adjusted
8 periodically under the COPAS accounting procedure?

9 A. Yes, sir.

10 Q. Does Mewbourne request the maximum cost plus
11 200 percent risk charge if any interest owner goes
12 nonconsent?

13 A. Yes, sir.

14 Q. What is Exhibit 5?

15 A. Exhibit 5 is a list of the offset ownerships,
16 offset operators or working interest owners.

17 MR. BRUCE: And Mr. Examiner, I didn't do
18 the notice exhibits, because I thought that I may have to
19 re-advertise and re-notify some people, so I don't have
20 those here today. In addition, we did publish notice in
21 the Carlsbad newspaper, which I will submit subsequently,
22 as against all of the unlocatable parties in the well
23 unit.

24 Q. (By Mr. Bruce) Were Exhibits 1 through 5
25 prepared by you or under your supervision?

1 A. Yes, sir.

2 Q. And in your opinion, is the granting of this
3 application in the interest of conservation and the
4 prevention of waste?

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I tender the
7 admission of Exhibits 1 through 5.

8 EXAMINER WARNELL: Exhibits 1 through 5
9 are admitted.

10 (Exhibits 1 through 5 were admitted.)

11 MR. BRUCE: I have no further questions of
12 the witness.

13 EXAMINER WARNELL: Mr. Brooks?

14 EXAMINER BROOKS: It looks to me like
15 this is right in the middle of an area where I own some
16 properties. I assume you don't know of anything in this
17 particular immediate area, or you would have notified me.
18 I know it's very close, so I won't ask any questions.

19 EXAMINER WARNELL: I don't know if he's
20 bragging or complaining.

21 EXAMINER BROOKS: I wish I owned more
22 interest in those areas.

23 EXAMINER WARNELL: Mr. Mitchell, I think
24 you like Santa Fe.

25 THE WITNESS: I'm getting acquainted.

EXAMINATION

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BY EXAMINER WARNELL:

Q. I'm curious as to what these family members had to say to you that you contacted about unlocatable family members.

A. A bunch of them, I guess, were deceased a long time ago, and the chain through the family has been lost. And they were unable to provide me any heirs or possible leads that I could -- and some of them didn't even have any children, so it kind of gets lost through that way.

I did find one lady who had knowledge of the family, but she was -- had a couple of strokes, so she wasn't able to recall a whole bunch. And she was mainly the one who had done affidavits that you can find of record on other family members, but she was unable to remember much anymore.

Q. And you said the overhead ~~was 6,000 and 600?~~

A. Yes, sir.

EXAMINER WARNELL: I have no further questions.

You can call your next witness, Mr. Bruce.

MR. BRUCE: I'll call Jason Lodge.

1 JASON LODGE

2 Having been first duly sworn, testified as follows:

3 DIRECT EXAMINATION

4 BY MR. BRUCE:

5 Q. Please state your name.

6 A. ~~Jason Lodge.~~

7 Q. Where do you reside?

8 A. Tyler, Texas.

9 Q. Who do you work for?

10 A. Mewbourne Oil Company.

11 Q. What's your job there?

12 A. I'm a geologist.

13 Q. Have you previously testified before the
14 Division?

15 A. Yes.

16 Q. And were your credentials as an expert
17 accepted as a matter of record?

18 A. Yes, they were.

19 Q. And does your area of responsibility at
20 Mewbourne include this portion of Southeast New Mexico?

21 A. Yes, it does.

22 MR. BRUCE: Mr. Examiner, I tender Mr.
23 Lodge as an expert petroleum geologist.

24 EXAMINER WARNELL: Mr. Lodge is so
25 recognized.

1 Q. (By Mr. Bruce) Could you identify Exhibit 6
2 for the Examiners?

3 A. Exhibit 6 is a base map of the area in 20/25.
4 It also has structure, which is the top of the Yeso
5 structure trends in general to the north/northeast. The
6 colored circles are different formations that are
7 completed wells in the area. Most importantly is the
8 pink color, which is the Yeso formation which we're
9 talking about.

10 The proposed wellbore path has been
11 highlighted in red with the name underneath it. And
12 there's also Yeso production in the area posted next to
13 the wells.

14 Q. Is structure of particular importance in the
15 Yeso in this area?

16 A. Not necessarily, no.

17 Q. What is Exhibit 7?

18 A. Exhibit 7 is a cross-section, a three-well
19 cross-section I put together. It's traced on the
20 previous exhibit, A to A prime.

21 Basically, this shows the interval that we'll
22 be going horizontal in in red with arrows. I've put the
23 lobe porosity that we'll be targeting. It's just about
24 50 to 60 feet below the base of the Glorieta. It's
25 dolomite porosity. In general, this is a thick dolomite

1 package with some minor sand and silts interbedded. But
2 again, we'll be targeting the dolomite.

3 Q. In this particular area, is the Yeso more of a
4 target than the Glorieta?

5 A. Yes, it is.

6 Q. Okay. What is Exhibit 8?

7 A. Exhibit 8 is a production table of wells that
8 I put together in the areas that are in the Yeso. It's
9 separated and sorted by well ID. It includes well name;
10 well ID; surface location and bottom hole, if applicable;
11 operator, which is mostly Mewbourne in this area; whether
12 or not it's vertical or horizontal; has cummed oil, water
13 and gas; and then time on production.

14 Just a couple of things of note here. We had
15 drilled a lot of verticals in the area, but we are
16 strictly now horizontal in the area. The reason being,
17 for example, if you look at the third well from the top
18 down, the Limousine 15 CD Fed Com Number 1H, you'll see
19 in a year's time we've cummed 72,000 barrels of oil. And
20 an offset, the 15D, a vertical well that's been on
21 production for over two years, has cummed 21,000 barrels
22 of oil. So the reason we're drilling horizontal is to
23 accelerate production.

24 Q. What is Exhibit 9?

25 A. Exhibit 9 is the drilling plan put together by

1 DDC, Directional Drilling Company. The first few pages
2 are just the actual plan, measured depth, TDDs, what we
3 plan on doing.

4 And if you'll go to the second-to-the-last
5 page, this is a map view of the proposed drilling plan.
6 You'll note that we are surfaced unorthodox. We will be
7 landing within the 330 hard line, so we will be legal
8 when we land. And we will not produce until we are
9 legal.

10 Q. Are there some surface issues out there that
11 require the surface location to be moved?

12 A. Yes, there are. We initially wanted to come
13 from the north. The BLM would not approve, due to
14 sloping. So we said, "Let's go to the south." And they
15 pushed us to the east because of caves.

16 Q. And one final question. When Mewbourne is
17 drilling these wells now, how many stages do you frack in
18 these wells?

19 A. In a mile-long well, we've generally done 20
20 to 17, is the low number of stages. We use packers and
21 ports.

22 And the very last page on this exhibit is a
23 cross-section view. We will begin to build our curve at
24 2,101 measured depth. And then I've entered in red here
25 we will enter the top of the Glorieta formation at 195

1 from the south and 645 from the west, so we will not be
2 legal. This is in the North Seven Rivers Glorieta-Yeso
3 Pool, so we will not be legal when we enter the Glorieta.

4 Q. Were Exhibits 6 through 9 prepared or compiled
5 from company business records?

6 A. Yes, they were.

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

10 A. Yes, sir.

11 MR. BRUCE: Mr. Examiner, I move the
12 admission of Exhibits 6 through 9.

13 EXAMINER WARNELL: Exhibits 6 through 9
14 are admitted.

15 (Exhibits 6 through 9 were admitted.)

16 MR. BRUCE: I have no further questions of
17 the witness.

18 EXAMINER BROOKS: I will amend my
19 statement that I made on the record previously. I'm not
20 participating in this case. I see from Exhibit 2 that in
21 fact I do own an interest in this proposed unit.

22 EXAMINER WARNELL: So we'll just disregard
23 any of your --

24 EXAMINER BROOKS: Disregard any of my
25 comments I may have made before.

1 EXAMINATION

2 BY EXAMINER WARNELL:

3 Q. Mr. Lodge let's start on that last one and
4 talk about where you entered the Glorieta. Now, where
5 will your production start, and how are you going to do
6 that? Is that 3,002?

7 A. That's measured depth, where we'll be landing.

8 Q. That's the measured depth?

9 A. Um-hum.

10 Q. Is that all slotted liner in there?

11 A. I'm sorry?

12 Q. Will you perforate or do slotted liners in
13 your production?

14 A. We'll be doing liners, but we will not put a
15 port until we're legal. Where we are landing is legal,
16 so we will not be completing until we are legal.

17 Q. Okay. And then if we could go back to -- I
18 think it was your first exhibit. Is this Number 6?
19 Yeah, Number 6.

20 Those Morrow test wells that you used, the
21 three right above or right there in the middle --

22 A. Yes, sir.

23 Q. -- are those wells producing or --

24 A. They are producing in the Morrow.

25 Q. That 925 well --

1 A. Yes, sir.

2 Q. -- the one that you come pretty close to, what
3 interval is that being produced at versus where your
4 lateral will go through that area?

5 A. It's about 9,000 feet. We'll be at a TDD of
6 about 2,600 feet, so considerably higher. That well is
7 the reason we've gone diagonally, instead of just going
8 directly north/south, how it's skewed to the northwest.
9 We'll be roughly 100 feet away from the wellbore. It's a
10 Fasken well. Fasken is in this well, so they're aware of
11 what we're doing.

12 Q. So you'll be within 100 feet of that wellbore,
13 more or less?

14 A. Yes, roughly. We'll try to stay as far away
15 as possible.

16 EXAMINER WARNELL: I don't understand
17 directional drilling very well, but it always amazes me
18 how they seem to have such control on the steering.

19 I don't believe I have any more questions of
20 Mr. Lodge.

21 MR. BRUCE: I have nothing further,
22 Mr. Examiner.

23 EXAMINER WARNELL: With that -- will we
24 continue?

25 MR. BRUCE: Yes. Please continue it for

1 four weeks. If we decide otherwise, we can always
2 dismiss it.

3 EXAMINER WARNELL: We'll continue Case
4 14742 to November 10th.

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
heard by me on _____

_____, Examiner
Oil Conservation Division

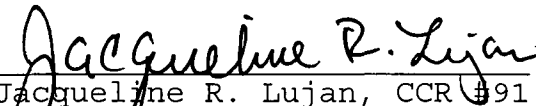
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on October 13, 2011, proceedings in
the above captioned case were taken before me and that I
did report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 26th day of October, 2011.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2011