

STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION

ORIGINAL

IN THE MATTER OF THE HEARING CALLED
BY THE OIL CONSERVATION DIVISION FOR
THE PURPOSE OF CONSIDERING:

CASE NO. 14806

APPLICATION OF MEWBOURNE OIL COMPANY
FOR APPROVAL OF A NON-STANDARD OIL SPACING
AND PRORATION UNIT, AN UNORTHODOX OIL WELL LOCATION,
AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 13-12

BEFORE: RICHARD EZEANYIM, Hearing Officer
DAVID K. BROOKS, Legal Examiner

APRIL 26, 2012

9:44 AM

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Hearing Examiner, and DAVID K. BROOKS, Legal Examiner,
on THURSDAY, APRIL 26, 2012, at the New Mexico Energy,
Minerals and Natural Resources Department, 1220 South
Street Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Lisa Reinicke
PAUL BACA PROFESSIONAL COURT REPORTERS
500 Fourth Street, NW, Suite 105
Albuquerque, NM 87102

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A P P E A R A N C E S

For Mewbourne Oil Company:

JAMES GARRETT BRUCE, ATTORNEY AT LAW
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I N D E X

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Direct Examination by Mr. Bruce

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NATE CLESS

Direct Examination by Mr. Bruce

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CERTIFICATE OF COMPLETION OF HEARING

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EXHIBITS

MARKED/IDENTIFIED

1. Map

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2. Tract Ownership

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3. Summary of Communications

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4. Authorization for Expenditure

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5. Affidavit of Notice

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6. Affidavit of Publication

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7. Offset Operators or Working Interest Owners

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8. Affidavit of Notice

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9. Map

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10. Map

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11. Map

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12. Production Data Table

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13. DDC Well Planning Report

18

1 MR. EXAMINER: Let's go back to the record.
 2 At this point I will call case number 14806. This is
 3 the application of Mewbourne Oil Company for approval of
 4 a non-standard oil spacing and proration unit, an
 5 unorthodox oil well location, and compulsory pooling in
 6 Eddy County, New Mexico.

7 Call for appearances.

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

11 MR. EXAMINER: Any other appearances? Okay.
 12 May the witnesses stand up to be sworn in. State your
 13 name.

14 MR. CLESS: Nate Cless.

15 MR. MITCHELL: Corey Mitchell.

16 [Whereupon the witnesses were duly sworn.]

17 MR. EXAMINER: Before you start, I wanted to
 18 make an observation. I'm trying to see if we can
 19 squeeze all these cases in today otherwise we might
 20 spill over into tomorrow. So you guys have that in
 21 mind.

22 MR. BRUCE: This case will be pretty quick.

23 MR. EXAMINER: Okay, very good.

24 MR. BRUCE: And, Mr. Examiner, I have given
 25 you a set of exhibits.

1 COREY MITCHELL

2 after having been first duly sworn under oath,
3 was questioned and testified as follows:

4 DIRECT EXAMINATION

5 BY MR. BRUCE:

6 Q. Please state your name and city of residence for
7 the record.

8 A. Corey Mitchell, and I reside in Midland, Texas.

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

10 A. I work for Mewbourne Oil Company as a landman.

11 Q. Have you previously testified before the
12 Division?

13 A. Yes, sir.

14 Q. And were your credentials as a petroleum land
15 expert and petroleum landman accepted as a matter of
16 record?

17 A. Yes, sir.

18 Q. And are you familiar with the land matters
19 involved in this case?

20 A. Yes, sir.

21 MR. BRUCE: Mr. Examiner, I tender
22 Mr. Mitchell as an expert petroleum landman.

23 MR. EXAMINER: So qualified.

24 Q. (By Mr. Bruce) Mr. Mitchell, could you identify
25 Exhibit 1 and describe the well we're here for today?

1 A. Exhibit 1 is a Midland Map Company land plat of
2 township 18 south, range 30 east, our proposed proration
3 unit for Bradley 30 Federal Number 2H well, which
4 comprises the south half, south half of section 30 as
5 highlighted. We are seeking a non-standard oil -- or
6 oil spacing and proration unit and compulsory pooling.

7 Q. And what is the working interest ownership? And
8 I'll refer you to Exhibit 2.

9 A. Exhibit 2 is our tract ownership, which shows the
10 working interest owners. The non-operators I've lumped
11 into one group under Chesapeake Exploration, LLC, et al.
12 due to there being almost 50 owners in there. The
13 parties noted with an asterisk is who we seek to pool,
14 and they are Monarch Oil and Gas down to Ron J. Green
15 and Amy A. Green. And they comprise collectively
16 3.47 percent.

17 Q. Are these unleased mineral interest owners?

18 A. Yes, sir. Or they are leasehold owners, excuse
19 me.

20 Q. They are leasehold owners?

21 A. Yes, sir.

22 Q. Okay. Could you identify Exhibit 3 and describe
23 the efforts Mewbourne made to obtain the voluntary
24 joinder of these interest owners?

25 A. Exhibit 3 is our summary of communications. And

1 also attached to that is actual copies of the
2 communication that we've had with each party.

3 Q. And you sent the well proposal letters. I
4 imagine title was examined sometime before this, was it
5 not?

6 A. Yes, sir.

7 Q. And so has Mewbourne been working for some time
8 on getting this well drilled?

9 A. Yes, sir. We've actually already drilled a
10 Bradley 30 Federal Number 1H well, and the same parties
11 were pooled in that well also.

12 Q. There is one unlocatable interest owner, Bernard
13 Jones. What efforts were made to locate Mr. Jones?

14 A. We've done county searches on all the last
15 addresses that he has on documents filed in the county.
16 We've done Internet searches. We've also talked to
17 other owners in this property and have had no success on
18 locating him.

19 Q. In your opinion has Mewbourne made a good faith
20 effort to either obtain the voluntary joinder of the
21 interest owners in the well or to locate the person that
22 you claim is unlocatable?

23 A. Yes, sir.

24 Q. Would you identify Exhibit 4 and discuss the cost
25 of your proposed well?

1 A. Exhibit 4 is our AFE for this well which shows
2 the estimated costs. We have estimated dry hole costs
3 of \$2,476,500 and a completed estimated cost of
4 4,645,500.

5 Q. And are these costs in line with the costs of
6 other wells in this area of New Mexico?

7 A. Yes, sir.

8 Q. Do you request that Mewbourne be appointed as
9 operator of the well?

10 A. Yes, sir.

11 Q. And do you have a recommendation as to rates that
12 should be charged any pooled interest owner?

13 A. We would recommend 7,000 a month for drilling and
14 700 a month for producing.

15 Q. And are these amounts equivalent to those charged
16 by Mewbourne and other operators in this area for wells
17 of this depth?

18 A. Yes, sir.

19 Q. Do you request that the rates be adjusted
20 periodically as provided by the COPAS accounting
21 procedure?

22 A. Yes, sir.

23 Q. And does Mewbourne request a maximum cost plus
24 200 for set risk charged in the event that an interest
25 owner goes non-consent in this well?

1 A. Yes, sir.

2 Q. And were the parties being pooled notified of
3 this hearing?

4 A. Yes, sir.

5 Q. And is that reflected in Exhibit 5?

6 A. Yes, sir.

7 MR. BRUCE: And, Mr. Examiner, Exhibit 5 was
8 sent to the parties who we did have addresses for and
9 they did all receive actual notice. And Exhibit 6 is a
10 notice published in the Carlsbad Newspaper regarding
11 Mr. Bernard Jones, whose interest was -- who was not
12 locatable.

13 Q. (By Mr. Bruce) Mr. Mitchell, what does Exhibit 7
14 reflect?

15 A. Exhibit 7 is a list of the offset ownership,
16 whether it be operators or working interest owners.

17 Q. And was notice of this hearing given to all of
18 the offset operators or working interest owners?

19 A. Yes, sir.

20 Q. And is that reflected in the affidavit marked
21 Exhibit 3?

22 A. Yes, sir.

23 Q. Were Exhibits 1 through 8 prepared by you or
24 under your supervision or compiled from company business
25 records?

1 A. Yes, sir.

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

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I'd move the
7 admission of Exhibits 1 through 8.

8 MR. EXAMINER: Exhibits 1 through 8 will be
9 admitted.

10 [Exhibits 1 through 8 admitted.]

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

13 MR. EXAMINER: Thank you.

14 EXAMINER BROOKS: No questions.

15 MR. EXAMINER: Tell me again what you are
16 pooling. For the advertisement, what are you pooling?

17 MR. MITCHELL: 160-acre lateral comprised of
18 the south half, south half of section 30 as to the Bone
19 Spring formation.

20 MR. EXAMINER: Yeah, that's what I thought.
21 But what is this 40 acres, are pooling anything apart
22 from that south half, south half?

23 MR. MITCHELL: No, sir.

24 MR. EXAMINER: You have a geologist here to
25 testify, right?

1 MR. BRUCE: Yes, sir.

2 MR. EXAMINER: Okay. So in this case that
3 would be because you couldn't locate somebody?

4 MR. MITCHELL: Yes, sir.

5 MR. EXAMINER: Okay, you may be excused.
6 Call your next witness.

7 NATE CLESS

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

10 DIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Could you please state your name again for the
13 record?

14 A. Nathan Cless.

15 Q. And where do you reside?

16 A. Midland, Texas.

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

18 A. Mewbourne Oil Company as a geologist.

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

21 A. Yes, I have.

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

24 A. Yes, they were.

25 Q. And are you familiar with the geology involved in

1 this application?

2 A. I am.

3 MR. BRUCE: Mr. Examiner, I tender Mr. Cless
4 as an expert petroleum geologist.

5 MR. EXAMINER: You are so qualified.

6 Q. (By Mr. Bruce) Mr. Cless, could you identify
7 your Exhibit 9 and discuss its contents for the
8 Examiner?

9 A. Exhibit 9 is a structure map, and this is a
10 structure map that I made on the second Bone Spring,
11 what I call the base shale marker. And that is a marker
12 that's right below the productive interval that we're
13 going in. These are 25-foot contours, and as you can
14 see it has a dip to the southeast. Also on here all
15 these yellow circles are Bone Spring or wells that
16 produce out of the Bone Spring formation.

17 Now, the Bone Spring formation comprises anywhere
18 from the Avalon shale to the first Bone Spring sand, the
19 second Bone Spring, and the third Bone Spring sand. In
20 this particular area all the wells produce out of either
21 the first Bone Spring sand or the second Bone Spring
22 sand. And you can see I've drawn an arrow in the south
23 half, south half of section 30, and that's the location
24 of the well we're going to be drilling.

25 Q. And what is Exhibit 10?

1 A. Exhibit 10 is an isopach map of what I'm calling
2 the second --

3 MR. EXAMINER: Before you go to that, what
4 is CC?

5 MR. CLESS: CC is, in Exhibit 11 is going to
6 be a cross section. And so CC are the two wells, those
7 are the two wells that I have on cross section.

8 MR. EXAMINER: Okay. Because the arrow
9 indicates horizontal wells. CC's prime is what?

10 MR. CLESS: It's the cross section that I'm
11 going to get to.

12 MR. EXAMINER: Oh, okay. Okay, I see.

13 A. Exhibit 10, again is the isopach map. And this
14 is an isopach map that I made on the second Bone Spring
15 lower sand, and it's a gross isopach, and you can see
16 there are numbers right below each individual vertical
17 well. Those represent the gross amount of sand in each
18 particular well. And so you can see there's 120-foot
19 contour that runs all through the south half of
20 section 30 showing that we believe it's a pretty
21 constant thickness of sand along that south half of
22 section 30.

23 Q. (By Mr. Bruce) And then the cross section, what
24 does that reflect?

25 A. So the cross section is a stratigraphic cross

1 section or it's a structural cross section hung on the
2 second Bone Spring base shale marker. And you can see
3 on the right side of the cross section I've listed the
4 names of the formations, starting with the second Bone
5 Spring carbonate to the upper second Bone Spring sand,
6 the lower second Bone Spring sand, and then the second
7 Bone Spring base shale marker. And, again, that's what
8 I've made my structure map on.

9 Now, these are the two well cross sections going
10 from the well in 300 over to the well in 29M. And you
11 can see in the second Bone Spring, if you look in the
12 lower part of the second Bone Spring sand, you can see
13 it's a pretty constant thickness of sand that's
14 deposited through there. I've also indicated what I
15 call the horizontal target, and those are the target
16 zones that we're going to be going horizontal in.

17 Q. What does Exhibit 12 indicate?

18 A. Exhibit 12 is a production data table, and this
19 goes through lists all the -- this lists all the wells
20 that produce out of the Bone Spring formation in the
21 nine section -- or the three-section radius around
22 section 30. I've listed the name of the wells, the
23 operators, their API, their location, whether they're a
24 vertical well or a horizontal well, when it was
25 completed in the Bone Spring formation, what interval of

1 the Bone Spring they went in, and then the cumulative
2 amount of oil, gas, and water produced out of the Bone
3 Spring formation. And so you can see down kind of in
4 the bottom corridor are all the horizontal wells on
5 there, and you can see we've currently drilled four
6 second Bone Spring sand horizontals in that area, all of
7 which we've had success with.

8 MR. EXAMINER: Where can we see those
9 horizontals? Which of these can we see?

10 MR. CLESS: So the horizontal wells, if you
11 refer back to --

12 MR. EXAMINER: What exhibit, do you know?

13 MR. CLESS: If you refer back to either one
14 of the maps.

15 MR. BRUCE: Exhibit 9 or 10, Mr. Examiner,
16 the structure or the isopach.

17 MR. EXAMINER: Okay.

18 MR. CLESS: If you refer to that you can see
19 up in section 20 on the northeast, we've drilled three
20 horizontal wells so far. In section 29 we've drilled
21 three horizontal wells, and we've permitted another well
22 in the north half, south half of section 29. And then
23 in section 30 we've drilled one horizontal well that was
24 drilled in the north half, south half of section 30.

25 And then the wells that are in section 32 were

1 drilled by Concho, and they were the first Bone Spring
2 sand producers.

3 MR. EXAMINER: That one is north/south?

4 MR. CLESS: We're going east/west in all of
5 ours.

6 MR. EXAMINER: Yeah, but the ones that are
7 north/south.

8 MR. CLESS: The wells in 32?

9 MR. EXAMINER: Yeah, 32A.

10 MR. CLESS: Yeah, those are wells that are
11 in the first Bone Spring sand, so it's about 600 feet
12 above what we're --

13 MR. EXAMINER: Oh, okay. So it's not in
14 this part?

15 MR. CLESS: No.

16 MR. EXAMINER: You know why I'm asking these
17 questions, because I want to know the orientation in the
18 particular pool you are. If these are going north/south
19 and you are going east/west in the same pool. I mean,
20 it is questionable but these are in the four sands,
21 right?

22 MR. CLESS: Yeah, they're in different
23 sands.

24 MR. EXAMINER: You are in the second sand,
25 right?

1 MR. CLESS: Yes, sir.

2 Q. (By Mr. Bruce) And, Mr. Cless, based on your
3 exhibits is it reasonable to follow that this portion of
4 the Bone Spring reservoir requires horizontal wellbores?

5 A. It is.

6 Q. In your opinion will each quarter, quarter
7 section in the well unit contribute, more or less,
8 equally to production?

9 A. They will.

10 Q. And will this well, in your opinion, efficiently
11 and adequately drain this portion of the Bone Spring
12 reservoir?

13 A. Yes, it will.

14 Q. Let's move to your final exhibit, number 13, and
15 what is this?

16 A. Exhibit 13 is a horizontal well plan report that
17 we got from our directional company. On the front page
18 I've listed the surface location, the landing point, and
19 the bottom hole location of this well. We're surfacing
20 a 400 from the south, 240 from the east.

21 MR. EXAMINER: What number are you on?

22 MR. BRUCE: It's Exhibit 13.

23 MR. EXAMINER: Oh, okay.

24 A. And then as you flip through there it has all the
25 data points or the projected well path. It has our

1 projected well path for our horizontal well. And then
2 if you go to the last two pages of that there are a
3 couple of diagrams that show upper post horizontal
4 location. And on the very last page you can see where
5 the little oil derrick is, that's where our proposed
6 well is. And then there are two red line blocks. The
7 inner red line is the 330 hard line -- or the 330 from
8 the section line. And so you can see where it says EOB,
9 that's end of build, will be well within our 330
10 setbacks. And our bottom hole location will be at 330
11 from the west line, so we'll be within those 330
12 setbacks.

13 Q. (By Mr. Bruce) And how many completion stages
14 are done in these wells?

15 A. We run packers and port system with 19 completion
16 stages.

17 Q. In your opinion is the granting of this
18 application in the interest of conservation and the
19 prevention of waste?

20 A. Yes, it is.

21 Q. And were Exhibits 9 through 13 either prepared by
22 you or compiled from company business records?

23 A. Yes, they were.

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

1 MR. EXAMINER: Exhibits 9 through 13 will be
2 admitted.

3 [Exhibits 9 through 13 admitted.]

4 MR. BRUCE: I have no further questions of
5 the witness.

6 EXAMINER BROOKS: No questions.

7 MR. EXAMINER: Okay. I thought I just asked
8 this question. Are you pooling from the surface or from
9 the Bone Springs?

10 MR. CLESS: The Bone Springs.

11 MR. EXAMINER: Just the Bone Springs?

12 MR. CLESS: Yes.

13 MR. EXAMINER: And it's on that project
14 area?

15 MR. CLESS: Yes, just that south half, south
16 half.

17 MR. EXAMINER: Is this well already drilled?

18 MR. CLESS: No.

19 MR. EXAMINER: Do you have any API number
20 for them?

21 MR. CLESS: Yeah, I do have an API number
22 for it.

23 MR. EXAMINER: What is the API number?

24 MR. CLESS: 3001540167000.

25 MR. EXAMINER: We stop at 167 for that.

1 MR. CLESS: Okay.

2 MR. EXAMINER: So you have an API. So you
3 have an APE, right?

4 MR. CLESS: Yes.

5 MR. EXAMINER: So you are ready to drill?

6 MR. CLESS: Yes.

7 MR. EXAMINER: No further questions.

8 MR. BRUCE: Just two things, Mr. Examiner.

9 When I filed the application, I filed for an unorthodox
10 well location because I looked briefly just at the Santo
11 Nino Bone Spring pool, which has 80-acre spacing and it
12 originally had well locations within 150 feet of the
13 center of a quarter, quarter section. Mr. Mitchell
14 informed me that that had recently been changed to the
15 statewide rules of 330 setbacks.

16 EXAMINER BROOKS: Do you recall when that
17 was done?

18 MR. BRUCE: So we do not need an unorthodox
19 well location. And the other question you mentioned,
20 Mr. Examiner, that Mewbourne is ready to drill.

21 Mr. Mitchell, when does Mewbourne plan on
22 commencing oil?

23 MR. MITCHELL: We plan to spud this well in
24 May, late May to early June.

25 MR. BRUCE: So any consideration which could

1 be given to an expedited order would be appreciated.

2 MR. EXAMINER: If everybody asks for an
3 expedited order then nothing gets done. That is the
4 problem because right now there's a lot of cases. I was
5 late.

6 MR. BRUCE: I understand, Mr. Examiner.

7 MR. EXAMINER: So that's why I said plan
8 ahead. We will do whatever we can. So you are saying
9 that if you don't do it at the end of May or June the
10 lease will expire. Is that what you're saying?

11 MR. BRUCE: No, sir. And, Mr. Examiner,
12 they do have the right to drill under each quarter,
13 quarter section so they will be drilling regardless in
14 order to meet their drilling obligations.

15 MR. EXAMINER: They drilling at their own
16 risk. Suppose it's denied?

17 EXAMINER BROOKS: Denied in an uncontested
18 case, that's not likely.

19 MR. EXAMINER: You never know. I can make a
20 recommendation and somebody may overrule it.

21 MR. BRUCE: I guess we better not ask for
22 expedited orders anymore.

23 EXAMINER BROOKS: Well, you know, my policy
24 on expedited orders is that I put them first ahead of
25 the other cases. But, of course, as the Examiner was

1 saying, if everybody asks for an expedited order then
2 obviously we're going to do them in the same order we
3 would have done them if nobody had asked for an
4 expedited order.

5 MR. BRUCE: I've tried not to ask for them
6 in the past few months.

7 EXAMINER BROOKS: But normally I would put
8 expedited orders if somebody has any reason for them,
9 and I have people that don't request them. But not if
10 everybody asks for it.

11 MR. EXAMINER: Okay, anything further?

12 MR. BRUCE: Nothing further.

13 MR. EXAMINER: Okay, very good. At this
14 point case number 14806 will be taken under advisement.

15 [Case 14806 taken under advisement.]

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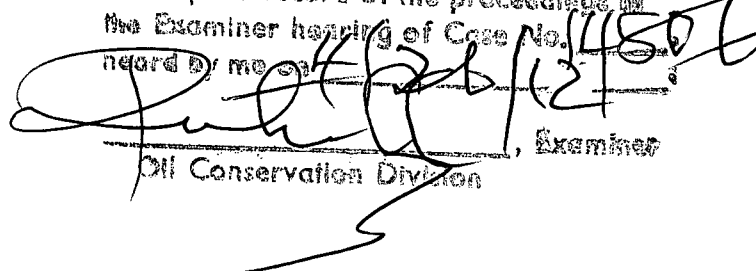
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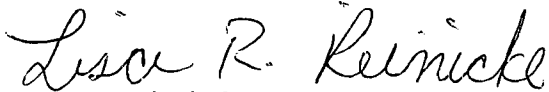
I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14806
heard by me on 4/26/12

Paul Baca, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

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I, Lisa Reinicke, New Mexico Provisional Reporter, License #P-405, working under the direction and direct supervision of Paul Baca, New Mexico CCR License #112, Official Court Reporter for the US District Court, District of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

I FURTHER CERTIFY that I am neither employed by nor related to 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.


Lisa R. Reinicke,
Provisional License P-405
License expires: 8/21/2012

Ex count: