

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. 14869

APPLICATION OF MEWBOURNE OIL COMPANY FOR
COMPULSORY POOLING AND AN UNORTHODOX WELL LOCATION,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 21-12

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

JULY 12, 2012

Santa Fe, New Mexico

8:52 AM

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, JULY 12, 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
P.O. Box 1056
Santa Fe, NM 87504-1056
(505) 982-2043

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1 MR. EXAMINER: At this time I call case
2 number 14869, and this is the application of Mewbourne
3 Oil Company for compulsory pooling and an unorthodox
4 well location, Eddy County, New Mexico.

5 Call for appearances.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the applicant. I have one witness
8 in this case.

9 MR. EXAMINER: Any other appearances?
10 Will the witness stand up, state your name and
11 then be sworn.

12 MR. CLESS: Nate Cless.

13 MR. BRUCE: Mr. Examiner, as to the land
14 testimony I'm submitting that by affidavit. I've handed
15 you the verified statement of Steven Smith as Exhibit 1
16 in this case. If you move back to attachment A, the
17 land plat, Mewbourne seeks to drill a horizontal Wolf
18 Camp well in the west half of section 14, 26 south,
19 28 east. The well will have a surface location in the
20 northeast quarter of the northwest quarter and a bottom
21 hole location in the southeast quarter of the southwest
22 quarter.

23 MR. EXAMINER: Mr. Bruce, before you
24 continue, I hope that what is in the docket is what you
25 are doing because I have two applications. I wanted to

1 make sure what is right and what is the wrong one. This
2 is an amended application?

3 MR. BRUCE: This is the amended application.

4 MR. EXAMINER: Okay, this is what you want.

5 MR. BRUCE: Yes.

6 MR. EXAMINER: If that is the case we can
7 proceed because what I saw before you amended it was
8 different.

9 MR. BRUCE: And we'll explain the reason for
10 that.

11 MR. EXAMINER: I just wanted to make sure
12 you had that in mind.

13 MR. BRUCE: Yes, sir. Attachment B is the
14 C102, which shows the location of the horizontal
15 wellbore. This is a Wolf Camp gas well so the bottom
16 location is unorthodox. Mr. Cless will address that
17 later. The only interest owner being force pooled is
18 the Catherine Foley estate who owns slightly less than
19 1 percent interest in the well unit.

20 Mailings to Ms. Foley were delivered, were always
21 delivered, but she never responded. It turns out that
22 she is deceased. Mewbourne has been in touch with one
23 of her children. We do not know the names of her other
24 children. There has been no probate in New Mexico. And
25 Mewbourne is trying to clear title in this matter but

1 has been unsuccessful for the last several months in
2 doing so. So this is explained in the affidavit,
3 subparagraph D.

4 Mewbourne does request a 200 percent risk charge
5 against a non-consenting interest owner, and it is
6 requesting \$7500 a month for a drilling well and \$750 a
7 month for a producing well.

8 The offset operator to the south is COG
9 Operating, LLC, and they have -- just a minute,
10 Mr. Examiner. Also attached to Mr. Smith's affidavit is
11 the AFE for the well. The well will cost approximately
12 \$5 million, which the applicant believes is fair and
13 reasonable for a well of this depth in this area of Eddy
14 County.

15 Exhibit 2 is my affidavit of notice to Ms. Foley.
16 It was delivered to someone named Deanna Foley. Because
17 we were uncertain of her status, we also published
18 notice of this application in the Carlsbad newspaper.
19 That affidavit of publication is marked as Exhibit 3.

20 And, finally, COG Operating, the offset operator
21 was given notice of the unorthodox location and they did
22 receive actual notice. So in so far as the land portion
23 of the testimony goes we would move the admission of
24 Exhibits 1 through 4.

25 MR. EXAMINER: Exhibits 1 through 4 will be

1 admitted. As the land person is not here, I was
2 wondering, you are seeking pooling the northeast,
3 northwest quarter for the horizontal portion of the
4 wellbore?

5 [Exhibits 1 through 4 admitted.]

6 MR. BRUCE: We are simply -- yes, we are
7 seeking to force pool the surface to the top of the Wolf
8 Camp in the northeast quarter, northwest quarter for the
9 vertical portion of the wellbore.

10 MR. EXAMINER: What about the cost
11 allocation?

12 MR. BRUCE: We would ask that the full cost
13 be borne by the Wolf Camp and interest owners, and then
14 only as to recompletion costs would those be borne by
15 the interest owners in the northeast quarter, northwest
16 quarter. And Ms. Foley does own an interest in the
17 northeast, northwest quarter.

18 MR. EXAMINER: Okay. You may proceed.

19 NATHAN CLESS

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

22 DIRECT EXAMINATION

23 BY MR. BRUCE:

24 Q. Would you please state your full name and city of
25 residence?

1 A. Nathan Cless, Midland, Texas.

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

3 A. Mewbourne Oil Company as a geologist.

4 Q. Have you previously testified before the division
5 as a geologist?

6 A. I have.

7 Q. And were your credentials as an expert accepted
8 as a matter of record?

9 A. Yes.

10 Q. And are you familiar with the geology involved in
11 the proposed well?

12 A. I am.

13 MR. BRUCE: Mr. Examiner, I'd tender
14 Mr. Cless as an expert petroleum geologist.

15 MR. EXAMINER: He is so qualified.

16 Q. (By Mr. Bruce) Mr. Cless, could you identify
17 Exhibit 5 for the Examiner?

18 A. Exhibit 5 is a structure and production map
19 around section 14. This structure map is on the top of
20 the Wolf Camp formation. You can see it has a slight
21 dip from the west to the east. We don't believe there
22 is any major structural components going on here with
23 this well.

24 Also, I've identified the local production in
25 this area. There is one Wolf Camp producer up in

1 section 10 of the horizontal well operated by Concho.
2 And then also in this area there's some Bone Spring
3 producers producing out of the Avalon shale in the
4 second Bone Springs sand.

5 Q. As to the COG well, was that designated a gas
6 well by the division?

7 A. It was.

8 Q. What does Exhibit 6 reflect, Mr. Cless?

9 A. Exhibit 6 is a cross section going through two
10 wells in this immediate area. There are not a whole lot
11 of wells that go deep enough to see the Wolf Camp
12 formation, so these two wells are located up in
13 section 10. If you refer back to Exhibit 5 you can see
14 the location of the cross section, which is A to A
15 prime. And those are the two wells that are on here.

16 The first well in the cross section is located in
17 the north half of section 10. And the second well is
18 the pilot hole for the COG's Wolf Camp well. And I've
19 located the location of COG's lateral on this cross
20 section. As you can see, the Wolf Camp formation is a
21 thick shale formation that we're going horizontal in,
22 and it's pretty continuous throughout this area. And
23 even though there aren't many other vertical wells in
24 this area, regionally the Wolf Camp formation is pretty
25 continuous throughout this area and so we believe that

1 in section 14 that we'll also be present down there.

2 Q. Does Mewbourne intend to test the same zone that
3 was tested in the COG well?

4 A. We do.

5 Q. You mentioned that the bottom hole location is
6 unorthodox. First of all, is Mewbourne trying to
7 maximize the horizontal wellbore?

8 A. Yes, we are. And in a lot of other places we've
9 gone to 330 off the section line just to maximize our
10 lateral length and to prevent the waste of these
11 minerals.

12 Q. Do you think that will adversely affect the
13 offset acreage?

14 A. I don't believe so.

15 Q. And why is that?

16 A. Again, it's a shale reservoir so it's a very
17 tight reservoir. And we believe that in order to
18 adequately and effectively capture all these minerals
19 it's best to get to 330 instead of 660.

20 Q. What is Exhibit 7?

21 A. Exhibit 7 is a production map of the Wolf Camp
22 producers in this immediate area. And as I said before,
23 there is only one Wolf Camp well. It's the COG Rabbit
24 Hunter 10 Number 2H. It's been online for just under a
25 year. And in that year it's made about 34,000 barrels

1 of oil and almost four-tenths of BCF gas. So it is a
2 very economic well.

3 Q. Finally, could you identify Exhibit 8 and maybe
4 describe briefly how Mewbourne intends to drill and
5 complete this well.

6 A. Exhibit 8 is our horizontal drilling plan. On
7 the front of it I've looked at the surface location, the
8 landing point, and the bottom hole location of this
9 well. And we'll basically drill to a vertical depth of
10 10,068 feet and then we'll kick off and have a 10 degree
11 build until we get to our landing point, which will be a
12 vertical depth of 10,641 feet and then keep pretty much
13 a level lateral to a bottom hole. And our total
14 measured depth is 15,068 feet.

15 Q. And what will the completion stage be?

16 A. Most likely we run a Packers and Port System, so
17 we'll mostly run 20 ports in this.

18 Q. And in your opinion, will the horizontal wellbore
19 adequately drain this portion of the Wolf Camp
20 reservoir?

21 A. I believe so.

22 Q. Were Exhibits 5 through 8 prepared by you or
23 under your supervision or compiled from company records?

24 A. They were.

25 MR. BRUCE: Mr. Examiner, I move the

1 admission of Exhibits 5 through 8.

2 MR. EXAMINER: Exhibits 5 through 8 will be
3 admitted.

4 [Exhibits 5 through 8 admitted.]

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

7 MR. EXAMINER: Any questions?

8 EXAMINER BROOKS: Well, I see you've got
9 both north/south and east/west going on here. Is there
10 any reason one way or another?

11 MR. CLESS: Well, the east/west
12 horizontals -- or I should say the only Wolf Camp well
13 out here is a north/south horizontal.

14 EXAMINER BROOKS: So these are another
15 formation?

16 MR. CLESS: Yes.

17 EXAMINER BROOKS: Okay. That's all I have.

18 MR. EXAMINER: Now, the well in question, is
19 that a gas well or an oil well?

20 MR. CLESS: It's a gas well.

21 MR. EXAMINER: It's going to be a gas well.

22 MR. CLESS: Yes.

23 MR. EXAMINER: And that's why you dedicated
24 that 220 acres to it, right?

25 MR. CLESS: Yes.

1 MR. EXAMINER: But the one that you gave me
2 now, this Federal Com, that is a gas well or an oil,
3 producing oil?

4 MR. CLESS: The Rabbit Hunter 10?

5 MR. EXAMINER: Yeah, the one you gave me.

6 MR. CLESS: It's a gas well.

7 MR. EXAMINER: Is it from the same pool?

8 MR. CLESS: Yes, it will be in the same
9 pool.

10 MR. EXAMINER: But yours is a gas well but
11 this is an oil well.

12 MR. CLESS: No. They will both be gas
13 wells.

14 MR. EXAMINER: Oh, but it's producing some
15 oil.

16 MR. CLESS: It does produce oil.

17 MR. EXAMINER: And how do you decide, you
18 decide on gas well or an oil well.

19 MR. CLESS: It depends on the gas/oil ratio.

20 MR. EXAMINER: What is the gas/oil ratio?

21 MR. CLESS: I'm not 100 percent sure of what
22 the exact cut off is for it.

23 MR. EXAMINER: You see, I'm concerned about
24 misclassification. I don't want to classify an oil well
25 as a gas well.

1 MR. BRUCE: Mr. Examiner, that COG well was,
2 I believe, originally permitted as an oil well but the
3 division itself required that it be classified as a gas
4 well, the district office.

5 MR. EXAMINER: Oh, the district office,
6 okay. When I look at it, what they give me, I don't
7 think if I'm producing oil -- it depends on the gas/oil
8 ratio like he said, but I don't have that information
9 with me. I need to check on that and see whether the
10 classification is correct. Because as you know, of
11 course you should know, you don't drill a gas well when
12 it's supposed to be an oil well.

13 If it's an oil well now you are standard. But
14 because you are asking for a gas well it's not standard,
15 right? That's why you're asking for an alternate
16 location.

17 MR. CLESS: Yes.

18 MR. EXAMINER: So what is the pool, the
19 Morrow that this is producing from?

20 MR. CLESS: This will be a Crow Flats Wolf
21 Camp gas.

22 MR. EXAMINER: Crow Flats?

23 MR. CLESS: Crow Flats Wolf Camp gas.
24 That's what the Concho well was pooled into. Since
25 there are no other immediate Wolf Camp producers in this

1 area it was pooled into that Crow Flats Wolf Camp gas
2 pool.

3 MR. EXAMINER: Okay. Do you have any well
4 construction diagram for that? I have asked a lot of
5 people to come in here and give me that so that we can
6 determine what is happening.

7 MR. CLESS: Yes, I can supplement that to
8 you if you'd like.

9 MR. EXAMINER: Yeah, I will. Get the well
10 construction diagram. And did I hear about the overhead
11 rates?

12 MR. BRUCE: Yeah, they're in the affidavit.
13 7500 and 750.

14 MR. EXAMINER: And you didn't locate one of
15 the interest owners, right?

16 MR. BRUCE: It's an unleased mineral owner.
17 We located her, but Mewbourne has been unable to reach
18 any terms with her heirs.

19 MR. EXAMINER: Now, the pool, that you gave
20 me this pool name, the Crow Flats Wolf Camp, although
21 you are not doing anything with the vertical portion of
22 the well, is that going to be the same pool?

23 MR. CLESS: In the Wolf Camp formation it
24 will be.

25 MR. EXAMINER: Will that be the same pool?

1 MR. BRUCE: Mr. Examiner, the application
2 only requests vertical from the surface to the top of
3 the Wolf Camp, so there are some Bone Spring wells out
4 there that will probably be the other --

5 MR. EXAMINER: You know why I'm saying it is
6 because I think what you are trying to do for your
7 client is that you don't have to come in here to get the
8 compulsory. But I needed to know what -- you don't know
9 what pool it is?

10 MR. BRUCE: I will find out what the Bone
11 Spring pool is, which sometimes gets difficult because
12 the division has stopped doing nomenclature.

13 EXAMINER BROOKS: We're very aware of that.

14 MR. EXAMINER: And notice of this unorthodox
15 location was given to everybody?

16 MR. BRUCE: The offset operator is COG.

17 MR. EXAMINER: And they've been noticed?

18 MR. BRUCE: Yes.

19 MR. EXAMINER: Okay. The only thing
20 remaining here is to supply the well construction guide.
21 Let me see how this relates to the -- anything further?

22 MR. BRUCE: Nothing further, Mr. Examiner.

23 MR. EXAMINER: At this point case number
24 14869 will be taken under advisement.

25 [Case 14869 taken under advisement] a complete record of the proceedings in the Examiner hearing of Case No. 14869 heard by me on 12/12/12

PAUL BACA PROFESSIONAL COURT REPORTERS

Conservation Division

2750 cedar rd 69-47 ca-b5a2-ce2465209bc0

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,
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Ex count: