

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. 14840

APPLICATION OF MEWBOURNE OIL COMPANY FOR
APPROVAL OF A NON-STANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
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

9:32 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

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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No Exhibit

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1 MR. EXAMINER: Now we call case number
2 14840, and this is the application of the Mewbourne Oil
3 Company for approval of a non-standard oil spacing and
4 proration unit and compulsory pooling in Eddy County,
5 New Mexico.

6 Call for appearances.

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

10 MR. EXAMINER: Any other appearances? Okay.
11 Please, the witnesses may stand up and state your name
12 to be sworn.

13 MR. CLESS: Nate Cless.

14 MR. HADEN: Paul Haden.

15 [Whereupon the witnesses were duly sworn.]

16 PAUL HADEN

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

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name and city of
22 residence.

23 A. My name is Paul Haden. I live in Midland, Texas.

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

1 A. Yes, sir, I have.

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

4 A. Yes, they were.

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

7 A. Yes, sir.

8 MR. BRUCE: Mr. Examiner, I'd tender
9 Mr. Haden as an expert in petroleum land matters.

10 MR. EXAMINER: Mr. Haden is so qualified.

11 Q. (By Mr. Bruce) Mr. Haden, could you identify
12 Exhibit 1 for the Examiner and describe what you seek to
13 pool.

14 A. Yes, sir. Exhibit 1 is a land plat of the area
15 prepared from the Midland Map Company's map records. It
16 indicates our proposed well location, both the surface
17 and bottom hole in section 3. Also, the well unit is
18 shaded in yellow. It will be in the south half, south
19 half of section 3. This is in township 20 south, range
20 29 east, Eddy County, New Mexico.

21 Q. And what is the name of the proposed well?

22 A. The name of the proposed well is the Sharps 3
23 Federal Com Number 2H Well.

24 Q. And what zone will the well test?

25 A. It will test the Bone Spring formation. Actually

1 the second sand interval in the Bone Spring.

2 Q. And what is the surface location and the bottom
3 hole location?

4 A. Okay. The surface location is the 400 feet from
5 the south line and 150 feet from the east line. The
6 bottom hole location is proposed at 400 feet from the
7 south line and 330 from the west line of said section 3.

8 Q. Will the entire producing interval be orthodox?

9 A. Yes, it will.

10 Q. Can you identify the working interest ownership
11 of the well unit and who you seek to pool. And I'd
12 refer you to Exhibit 2.

13 A. Exhibit 2 lists the party to be pooled, which is
14 Mill Neck Associates of which we could not find any
15 address. We pooled them many, many times in previous
16 wells. The ownership that they have is approximately
17 .23438 percent working interest in our proposed unit.

18 Q. Okay. They own in one of the quarter, quarter
19 sections in the well?

20 A. Yes. They own in the southwest and southeast
21 quarter of section 3. Their ownership in the well unit
22 is actually .58595 percent.

23 Q. Now, you mentioned you previously pooled them a
24 number of times.

25 A. Yes, sir, we have.

1 Q. So have you been trying to locate them for quite
2 some time?

3 A. We have tried to locate them for a number of
4 years but thus far have been unable to locate them.

5 Q. What steps did Mewbourne take over the years to
6 try to locate Mill Neck Associates?

7 A. We have sent well proposals via certified mail to
8 the last known address, which these letters always came
9 back. We've also tried to find them at previous
10 locations via the Internet. Had no such luck.

11 Q. In your opinion have you made a good faith effort
12 to locate Mill Neck Associates?

13 A. Yes, we have.

14 Q. We've included in here an NSL order as Exhibit 3.
15 Mr. Haden, why was the NSL order obtained?

16 A. At the time we had to get these approvals because
17 of the unorthodox oil well location, which is 150 feet
18 from the east line.

19 Q. And the rules have since changed, correct?

20 A. Yes, they have.

21 Q. And producing interval will be orthodox?

22 A. It will be orthodox.

23 Q. What is Exhibit 4?

24 A. Exhibit 4 is an AFE, which is an estimated well
25 cost for this well. It estimates the cost case in point

1 of \$2,764,200, completed well of \$4,808,400.

2 Q. And are these costs in line with the costs of
3 other horizontal wells drilled to this depth in this
4 area of Eddy County?

5 A. Yes, they are.

6 Q. And do you request that Mewbourne be appointed
7 operator of the well?

8 A. We so request.

9 Q. And what is your recommendation for the overhead
10 rates?

11 A. Overhead rates, we are seeking at \$7,000 per
12 month for the drilling well rate and \$700 per month for
13 the producing well rate.

14 Q. And are these costs in line with the costs
15 charged by Mewbourne and other operators for wells of
16 this depth and in this area?

17 A. Yes, they are.

18 Q. Do you request that these rates be adjusted
19 pursuant to the COPAS accounting procedure?

20 A. We do request.

21 Q. And do you request the maximum cost plus
22 200 percent risk charge?

23 A. Yes, sir, we do.

24 MR. BRUCE: Mr. Examiner, Exhibit 5 is
25 simply the affidavit of publication as against Mill Neck

1 Associates.

2 Q. (By Mr. Bruce) What is Exhibit 6A, Mr. Haden?

3 A. 6A lists the offset operators, the working
4 interest owners who we've notified of our application.

5 MR. EXAMINER: I only have 6B. I don't have
6 6A.

7 EXAMINER BROOKS: You can have this copy.

8 MR. EXAMINER: Okay.

9 Q. (By Mr. Bruce) And is notice to these offset
10 operators reflected in Exhibit 6B of my affidavit of
11 notice?

12 A. Yes, sir.

13 Q. Were Exhibits 1 through 6B prepared by you or
14 under your supervision or compiled from company business
15 records?

16 A. Yes, they were.

17 Q. And is the granting of this application in the
18 interest of conservation and the prevention of waste?

19 A. Yes, it is.

20 MR. BRUCE: Mr. Examiner, I'd move the
21 admission of Exhibits 1 through 6B.

22 MR. EXAMINER: Exhibits 1 through 6B will be
23 admitted.

24 MR. BRUCE: And I have no further questions
25 of Mr. Haden.

1 MR. EXAMINER: Any questions?

2 EXAMINER BROOKS: No questions.

3 MR. EXAMINER: Do you have another witness?

4 MR. BRUCE: We have a geologist.

5 MR. EXAMINER: You may step down.

6 MR. HADEN: Okay. Thank you.

7 MR. BRUCE: Mr. Examiner, the geologist is
8 Nate Cless who has been previously sworn and qualified,
9 if we could have the record reflect that.

10 MR. EXAMINER: The record will reflect that
11 you have been sworn in and qualified, so you may
12 proceed.

13 NATE CLESS

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

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Can you identify Exhibit 7, Mr. Cless?

19 A. Exhibit 7 is a structure map of the area around
20 section 3 with the proposed well highlighted in the
21 south half, south half of section 3. The structure is
22 on the base of the second Bone Spring shale marker. You
23 can see it dips to the east. Once again, we don't
24 believe there's too much of a structural component here.
25 I've also highlighted the Bone Spring production in this

1 area. The yellow production circles indicate wells that
2 produce out of the second Bone Spring sand. The orange
3 represents wells that produce out of the first Bone
4 Spring sand, and the pink represents wells that produce
5 out of the Avalon sand. And you can see we have second
6 Bone Spring producers both up dip and down dip of our
7 proposed location.

8 Q. And the second Bone Spring will be the primary
9 target?

10 A. It will be.

11 Q. In looking at this there is a number of vertical
12 wells. I presume these are older Bone Spring wells?

13 A. They are. And you can also, in this immediate
14 area, we have drilled two other second Bone Spring
15 horizontals. They've both been east, west up in the
16 north half, north half of section 4 and the north half,
17 north half of section 35.

18 Q. So to the extent there is a pattern in this area
19 it is for lay down wells?

20 A. Yes.

21 Q. What is Exhibit 8?

22 A. Exhibit 8 is an isopach of the second Bone Spring
23 C sand. This is a gross interval of the second Bone
24 Spring sand. Again, I have those production circles
25 highlighted. I've also, next to each vertical wellbore

1 to the bottom left, there's a number that's the gross
2 thickness of the second Bone Spring C sand and that
3 interval. And you can see throughout section 3 the
4 thicknesses are all roughly around 50 feet, so we
5 believe that for the most part it will be pretty equal
6 in thickness along the south half, south half of
7 section 3.

8 Q. So you would anticipate each quarter, quarter
9 section more or less equally contributing to production?

10 A. Yes. Also, highlighted is the location of the
11 next exhibit, which would be the cross section to AA
12 prime on here. And it will be the well located at 4P
13 towards the total of our lateral or the bottom hole part
14 of our lateral as well as the well in 10A, which will be
15 near the surface location of our lateral.

16 Q. Please move on to your cross section.

17 A. So, again, this is a two-well cross section
18 showing the second Bone Spring sand. We break this down
19 into the A, B, and C interval. And the C interval is
20 highlighted by the green lines, and that's where we plan
21 on going horizontal in this well. It's where we've gone
22 horizontal in a lot of our other wells in this
23 particular area. And, once again, you can see the
24 thickness is pretty continuous across that south half,
25 south half of section 3.

1 Q. In your opinion, will the horizontal well bore
2 adequately drain this portion of the second Bone
3 Springs?

4 A. Yes, it will.

5 Q. And what is Exhibit 10?

6 A. Exhibit 10 is a production table of the Bone
7 Spring interval. I've listed the name of the well, the
8 operator, API number, whether it's vertical or
9 horizontal as well as its production, cum oil, cum gas,
10 and cum water. You can see at the very bottom of the
11 two horizontal wells that we have drilled. And we've
12 drilled those both within the last two years, and
13 they've both been good economic wells. The second to
14 the last well of the Four Peaks 35 Fed Number 1H. And
15 we've recently completed that, and that's only a partial
16 month's production. So it made 6,000 barrels in less
17 than a month, so it's a good well for us.

18 Q. And finally, what is Exhibit 11?

19 MR. EXAMINER: Before you go there, when the
20 the cum oil is in view, so are you saying that it's --

21 MR. CLESS: Yeah, that's a mistake. That
22 should be 1,000 barrels of oil and then BCF for billion
23 cubic feet and 1,000 barrels of water.

24 MR. EXAMINER: Is that MCF or BCF?

25 MR. CLESS: That should be BCF.

1 MR. EXAMINER: It's confusing. And that
2 would be MVW for the water?

3 MR. CLESS: Yep, it should be MVW.

4 MR. EXAMINER: Okay.

5 EXAMINER BROOKS: There's two orders.
6 There's a big difference between MCF and BCF. He's a
7 geologist.

8 MR. CLESS: I'm sorry. I don't do numbers.

9 MR. EXAMINER: Okay. Go ahead.

10 MR. CLESS: The next exhibit is our
11 horizontal well plan. On the front page it shows our
12 surface locations, our landing point, and our bottom
13 hole location. We'll be drilling this well to a
14 vertical depth of 8,082 feet and a measured depth of
15 12,758 feet. And on the last two pages is the well bore
16 diagram. The very last page shows approximately where
17 we'll kick off at 7,665 feet, where we'll land at the
18 lateral, and then finally our bottom hole, once again,
19 at 12,758 feet.

20 Q. (By Mr. Bruce) And, again, how many completion
21 stages will Mewbourne run?

22 A. We run a packers and port system in this Bone
23 Spring interval, and we'll use about 20 ports in this
24 interval.

25 Q. In your opinion, is the granting of this

1 application in the interest of conservation and the
2 prevention of waste?

3 A. It is.

4 Q. And were Exhibits 7 through 11 prepared by you or
5 compiled from company business records?

6 A. They were.

7 MR. BRUCE: Mr. Examiner, I move the
8 admission of Exhibits 7 through 11.

9 MR. EXAMINER: Exhibits 7 through 11 will be
10 admitted.

11 [Exhibits 7 through 11 admitted.]

12 MR. BRUCE: I have no further questions.

13 MR. EXAMINER: Any questions?

14 EXAMINER BROOKS: No questions.

15 MR. EXAMINER: Now, what is the particular
16 name of the pool, do you know that?

17 MR. CLESS: It is the Parkway Bone Spring.

18 MR. EXAMINER: Parkway?

19 MR. CLESS: Parkway Bone Spring.

20 MR. EXAMINER: Okay. Somebody was not
21 looking at it at all, right?

22 MR. BRUCE: That is correct.

23 MR. EXAMINER: Do you have an API number for
24 the well?

25 MR. CLESS: I do.

1 MR. EXAMINER: What is it?

2 MR. CLESS: 3001539822.

3 MR. EXAMINER: You may step down. At this
4 point case number 14840 will be taken under advisement.

5 [Case number 14840 taken under advisement.]

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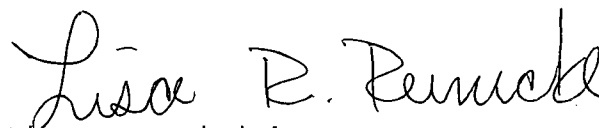
I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 14840
heard by Mr. C.A. [Signature]
Oil Conservation Division Examiner

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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License expires: 8/21/2012

Ex count: