

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

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

CASE NO. 14892

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: RICHARD EZEANYIM, Chief Examiner
DAVID K. BROOKS, Technical Examiner

September 6, 2012

Santa Fe, New Mexico

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This matter came on for hearing before the
New Mexico Oil Conservation Division, RICHARD EZEANYIM,
Chief Examiner, and DAVID K. BROOKS, Technical Examiner,
on Thursday, September 6, 2012, at the New Mexico
Energy, Minerals and Natural Resources Department, 1220
South St. Francis Drive, Porter Hall, Room 102,
Santa Fe, New Mexico.

REPORTED BY: Mary C. Hankins, CCR, RPR
New Mexico CCR #20
Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
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1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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INDEX

8

PAGE

9 Mewbourne Oil Company's Case-in-Chief:

10 Witnesses:

11 D. Paul Haden:

12	Direct Examination by Mr. Bruce	3
13	Cross-Examination by Examiner Ezeanyim	9

14 Nate Cless:

15	Direct Examination by Mr. Bruce	11
16	Cross-Examination by Examiner Ezeanyim	20

17	Hearing Concluded	21
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18	Certificate of Court Reporter	22
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EXHIBITS OFFERED AND ADMITTED

21	Mewbourne Exhibits 1 through 8	9
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22	Mewbourne Exhibits 9 through 13	19
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1 (8:21 a.m.)

2 EXAMINER EZEANYIM: Now we go to page 2,
3 Case Number 14892, which is the application of Mewbourne
4 Oil Company for approval of a nonstandard oil spacing
5 and proration unit and compulsory pooling, Eddy County,
6 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 EXAMINER EZEANYIM: First off, the
12 witnesses will stand up and state their name this
13 morning.

14 MR. HADEN: Paul Haden.

15 MR. CLESS: Nate Cless.

16 (Mr. Haden and Mr. Cless sworn.)

17 D. PAUL HADEN,
18 after having been previously sworn under oath, was
19 questioned and testified as follows:

20 DIRECT EXAMINATION

21 BY MR. BRUCE:

22 Q. Would you please state your name and city of
23 residence for the record?

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

1 Q. And who do you work for?

2 A. Mewbourne Oil Company.

3 Q. What's your job with Mewbourne?

4 A. Senior landman.

5 Q. Have you previously testified before the
6 Division?

7 A. Yes, I have.

8 Q. And have your credentials as an expert landman
9 been accepted as a matter of record?

10 A. Yes, they have.

11 Q. And are you familiar with the land matter
12 involved in this case?

13 A. Yes, I am.

14 MR. BRUCE: Mr. Examiner, I'd tender
15 Mr. Haden as an expert petroleum landman.

16 EXAMINER EZEANYIM: So qualified.

17 Q. (BY MR. BRUCE) Mr. Haden, could you identify
18 Exhibit 1 for the Examiner, and explain what Mewbourne
19 seeks in this case?

20 A. Exhibit Number 1 is a land plat of the area.
21 It shows Section 4 of Township 20 South, 29 East, Eddy
22 County. It also depicts our project area and a
23 nonstandard proration unit. It's shaded in yellow. It
24 also indicates our wellbore, which has a surface
25 location in the southeast/northeast quarter, in the

1 bottom location, in the southwest/northwest quarter.

2 Q. And what is the name of the well?

3 A. The name of the well is Burton "4" Federal Com
4 #4H well.

5 Q. And what is the API number for the well?

6 A. It is 30-015-40204.

7 Q. And one other thing on Exhibit 1, just because
8 I was confused in looking at it yesterday, there is a
9 north/south wellbore in the east half/west half of that
10 section. What is that?

11 A. That's a location that Mewbourne staked, but we
12 decided not to drill it. We prefer locations going from
13 east to west.

14 Q. And what is Exhibit 2?

15 A. Exhibit 2 is a tract ownership of our proposed
16 spacing unit. It shows all the interest owners. It
17 also shows an asterisk of the parties being pooled,
18 which those parties are Josephine Laughlin Living Trust,
19 Mill Neck Associates and Craig W. Barr. The total
20 interest being pooled is .45920 percent.

21 Q. And does Exhibit 3 contain a summary of your
22 contacts with the parties and copies of the proposal
23 letters?

24 A. Yes, it does.

25 Q. With respect to the Laughlin Living Trust and

1 Craig Barr, they are locatable people, right?

2 A. Correct.

3 Q. Did they not respond, or did they ever get back
4 in touch with you?

5 A. They never responded at all.

6 Q. And then who is the unlocatable party?

7 A. Mill Neck Associates.

8 Q. Mewbourne has force pooled Mill Neck Associates
9 quite a number of times before; isn't that correct?

10 A. That's correct. In this immediate area, a
11 number of times.

12 Q. Over what period of time have you been trying
13 to locate Mill Neck Associates?

14 A. Oh, it's been at least a good ten years.

15 Q. And you have never been able to find a good
16 address for them?

17 A. No.

18 Q. In your opinion, has Mewbourne made a
19 good-faith effort to obtain the voluntary joinder of the
20 interest owner of the well?

21 A. Yes, we have.

22 Q. And what is Exhibit 4?

23 A. Exhibit Number 4 is an AFE of our well.

24 Q. Go ahead.

25 A. It indicates the cost for the well. This is a

1 recent AFE dated March 26 of 2012. It indicates a
2 dry-hole cost of \$2,848,200 and a completed-well cost of
3 4,950,200.

4 Q. And are these costs in line with the costs of
5 other wells drilled to this depth in this area of the
6 state?

7 A. Yes, they are.

8 Q. And Mewbourne has drilled a number of other
9 wells in this area, hasn't it?

10 A. Quite a few, yes, sir.

11 Q. Do you request that Mewbourne be appointed
12 operator of the well?

13 A. We do so request.

14 Q. And do you have a recommendation for the
15 overhead rates?

16 A. 200 percent, plus well costs.

17 Q. And what about the monthly rates?

18 A. We're asking for 7,500 for drilling, and 750
19 for producing. Those are the same rates contained in
20 our operating agreement that the other parties signed.

21 Q. And are these amounts equivalent to those
22 normally charged by other operators for wells of this
23 type in this area of the state?

24 A. We believe they are.

25 Q. And do you request that the overhead rates be

1 adjusted under the COPAS accounting procedure?

2 A. Yes, we do.

3 Q. And were the locatable parties notified of this
4 hearing?

5 A. Absolutely.

6 Q. Is that reflected on my Affidavit of Notice,
7 Exhibit Number 5?

8 A. That's correct.

9 MR. BRUCE: Mr. Examiner, Exhibit 6 is
10 simply the newspaper's -- Carlsbad newspaper's ad for
11 the publication as against Mill Neck Associates.

12 EXAMINER EZEANYIM: Okay.

13 Q. (BY MR. BRUCE) And what is Exhibit 7?

14 A. Exhibit Number 7 indicates the offset operators
15 of our proposed spacing unit.

16 Q. And were those owners given notice of this
17 hearing?

18 A. Yes, they were.

19 Q. And is that reflected in Exhibit 8?

20 A. Absolutely. Yes, that is correct.

21 Q. And were Exhibits 1 through 8 either prepared
22 by you or compiled by company business records?

23 A. Yes, they were.

24 Q. And in your opinion, is the granting of this
25 application in the interest of conservation and the

1 prevention of waste?

2 A. Yes, sir.

3 MR. BRUCE: Mr. Examiner, I'd move for the
4 admission of Exhibits 1 through 8.

5 EXAMINER EZEANYIM: Exhibits 1 through 8
6 will be admitted.

7 (Mewbourne Exhibit Numbers 1 through 8
8 were offered and admitted into evidence.)

9 MR. BRUCE: I have no further questions of
10 the witness.

11 EXAMINER EZEANYIM: Mr. Brooks?

12 EXAMINER BROOKS: No questions.

13 CROSS-EXAMINATION

14 BY EXAMINER EZEANYIM:

15 Q. I mean, I need to talk more about Mill Neck --
16 what do you call that association? Mill Neck
17 Associates?

18 A. Yes, Mill Neck Associates.

19 Q. Is this a company?

20 A. I assume it is. We had a last address of them
21 somewhere up in the northeast, as I recall, and the last
22 known address that we had, the correspondence, back ten
23 years ago, always got returned.

24 Q. Yeah. And this is not the first time you are
25 trying to contact them?

1 A. No, sir. We've -- we've tried to contact them
2 at least five, six times on other wells.

3 Q. You had no address for them, or what?

4 A. No, sir.

5 Q. I think that this question would be appropriate
6 for Exhibit 1. What is the stake there? What did you
7 say about that well going north/south?

8 A. We staked and I believe we also permitted that
9 well. We at first thought, geologically, that it would
10 be better going north to south, but after drilling many
11 second Bone Spring wells, we found that it's best to do
12 it from a lay-down proration unit, either from east to
13 west or west to east, to catch more of the Bone Spring
14 sands.

15 Q. Okay. I think Mr. Cless can speak to that --

16 A. Yes, sir.

17 Q. -- why you want a lay-down or a stand-up.

18 A. Uh-huh.

19 Q. Okay. No further questions.

20 A. Thank you.

21 NATE CLESS,

22 after having been previously sworn under oath, was
23 questioned and testified as follows:

24

25

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Please state your name and city of residence.

A. Nate Cless, Midland, Texas.

Q. And who do you work for and in what capacity?

A. Mewbourne Oil Company, as a geologist.

Q. Have you previously testified before the Division as an petroleum geologist?

A. I have.

Q. And have your credentials as an expert been accepted as a matter of record?

A. They were.

Q. And is this area of southeast New Mexico part of your responsibility?

A. It is.

Q. And are you familiar with the geology involved in this case?

A. Yes, I am.

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

EXAMINER EZEANYIM: So qualified.

Q. (BY MR. BRUCE) Mr. Cless, can you identify Exhibit 9 for the Examiner?

A. Exhibit 9 is a structure map of the immediate area surrounding Section 4. I've highlighted all the

1 Bone Spring producers on here with the orange and the
2 yellow circles. The structure is based off the second
3 Bone Spring base shell marker, which is basically the
4 base of the second Bone Spring sand. It's a regional
5 marker throughout this area, and you can see there is a
6 consistent dip to the southeast in this area. And we
7 have producers both updip -- we have second Bone Spring
8 sand producers both updip and downdip of the proposed
9 location, so we don't believe that the structural plan
10 [sic] will be an issue in this area.

11 You'll also see, in Section 4, we plan on
12 drilling in the south half of the north half of Section
13 4. We've already drilled an east-west horizontal in the
14 north half/north half of Section 4. And then the two
15 wells at Section 5, in the east half of Section 5, are
16 both north-south. We drilled those, also. And we've
17 seen much better results in our east-west well in
18 Section 4 than we have in Section 5. And I'll get into
19 more detail on that in a later exhibit.

20 EXAMINER EZEANYIM: Okay. Before you
21 leave, on Section 5, those two wells have been drilled?

22 THE WITNESS: They have, yes.

23 EXAMINER EZEANYIM: And do you have the
24 production history?

25 THE WITNESS: Yes, I do.

1 EXAMINER EZEANYIM: Okay. Maybe we'll go
2 into it. You know, I just want to make sure. Again, on
3 Section -- what is that section down there? You have
4 east-west below Section 5.

5 THE WITNESS: There are no east-west wells
6 in Section 5.

7 EXAMINER EZEANYIM: Oh. What is that?

8 MR. BRUCE: Section 8.

9 THE WITNESS: Oh, in Section 8. Yes, that
10 is an east-west well, and that's a recent completion of
11 ours. And it is a very good well, and it's a much
12 better well than Section 5. But it was recently
13 completed within the last three or four months.

14 EXAMINER EZEANYIM: Okay. Now what we're
15 going to do here now, since you have did [sic] it, it's
16 very important -- now, if you have this east-west well
17 and you have the north-south, if you have complied with
18 the interval there --

19 THE WITNESS: And I can show you that.

20 EXAMINER EZEANYIM: Yeah. I want you to
21 tell me, so I don't have to ask any questions, because
22 you said that you know what the orientation of those
23 wells will be. Now we have north-south, and then we
24 have these in land area. Depending on the geology, we
25 need to know which orientation gives us the most

1 production -- productive zones, as you know.

2 THE WITNESS: Yeah.

3 EXAMINER EZEANYIM: So that's what they are
4 going to be doing, maybe, going forward?

5 THE WITNESS: Yes.

6 EXAMINER EZEANYIM: Okay. Good.

7 Q. (BY MR. BRUCE) Move on to Exhibit 10,
8 Mr. Cless.

9 A. Exhibit 10 is an isopach map of the lower
10 second Bone Spring sand next to all the wellbores -- all
11 the vertical wellbores. In the bottom left, there is a
12 number showing the gross thickness of the second Bone
13 Spring sand -- of the lower Bone Spring sand in that
14 area. And you'll see in the south half/north half,
15 you're going from 57 feet to 61 feet, so it's a pretty
16 consistent thickness all the way across that area.

17 EXAMINER EZEANYIM: And that's a Bone
18 Spring sand. What is the name of the pool? Do you know
19 the name of the pool?

20 THE WITNESS: Yes. It is the Parkway Bone
21 Spring Pool.

22 EXAMINER EZEANYIM: That is the Parkway?

23 THE WITNESS: And also, going back to
24 Exhibit 9, there is a cross section on there, A to A
25 prime, and it's the two wells that we're going by in

1 this proration unit. And that'll be my next exhibit.

2 Q. (BY MR. BRUCE) Why don't you move on to that,
3 Mr. Cless?

4 A. So Exhibit 11 is the cross section, and it goes
5 from the well in 4F to the well in 4G. And so once
6 again, both of these wells are in the 160-acre proration
7 unit that we have, and you can see the lower second Bone
8 Spring sand. I've highlighted a horizontal target, a
9 horizontal interval, that we plan on drilling
10 horizontally. And you can see that the sand of the
11 lower second Bone Spring interval is relatively -- has a
12 uniform thickness across this area.

13 Q. You're talking about the second Bone Spring, B
14 and C. Is that an internal designation to Mewbourne?

15 A. It is. It is.

16 Q. In your opinion, will -- each quarter-quarter
17 section in the well unit would be more or less equal to
18 production?

19 A. They will.

20 EXAMINER EZEANYIM: Okay. Now, let me go
21 back to that, the cross section. You have something in
22 red. Forgive me if I -- I don't know. I don't
23 understand color, but I think some of them are green.
24 Is that green? There are two green and two red.

25 THE WITNESS: Yeah. That's just an

1 internal designation. You can see that the second Bone
2 Spring sand has a lot of different sand intervals within
3 it.

4 EXAMINER EZEANYIM: Yeah.

5 THE WITNESS: So those are just two
6 different intervals that we've picked out. But we
7 believe that that entire interval will be productive
8 throughout this area, both at what we call the second
9 Bone Spring B sand and the second Bone Spring C sand.
10 We both believe -- or, we believe that both those sands
11 will contribute -- once we frack the well, both those
12 sands will contribute to the production of the well.

13 Q. (BY MR. BRUCE) Let's discuss the production
14 that Mr. Ezeanyim asked about previously. Could you
15 describe Exhibit 12?

16 A. Exhibit 12 is the Bone Spring production table
17 of all the Bone Spring wells in this area. I've listed
18 the names, their locations, who the operator is, and the
19 cum oil and gas and water out of the Bone Spring
20 interval, and I've also listed what part of the Bone
21 Spring it produced it from. So there are -- there are
22 some wells that produced out of the first Bone Spring
23 sand and some wells that produced out of the second Bone
24 Spring sand. And I've also listed vertical or
25 horizontal.

1 And I've highlighted two wells. The first
2 well I've highlighted is a vertical well located in 3D.
3 So this well is just to the northeast of our proposed
4 location, and it was drilled back in 1990. And it's a
5 second Bone Spring sand completion, and in that time,
6 from 1990 on, it made 44.5 thousand barrels of oil.

7 The second well that I've highlighted is
8 the Burton 4 Federal 3H, which is a north offset to our
9 proposed well, and it was drilled in August of 2010, so
10 just about two years ago. And in that two years, it's
11 made 47,000 -- almost 48,000 barrels of oil in that
12 amount of time. So in those two years, it's made just
13 as much oil as the vertical well did in 20-plus years.

14 And I also want to point out, if you look
15 at the well right below the last highlighted well --
16 it's called the Colt 5 Federal 2H. It is a north-south
17 well located in Section 5. It was drilled -- it was
18 drilled in December of 2009, so about eight months prior
19 to the Burton 4 Federal 3H. And in that time, it made
20 24,000 barrels of oil. So it was drilled a little
21 before the Burton 4 3H well, which is an east-west well,
22 and it's made 24,000 barrels of oil, where the Burton
23 4 -- no, I'm sorry. The Burton 4 is an east-west well,
24 and it made 47,000 barrels of oil. And the Colt 5 2H is
25 a north-south well, and it made 24,000 barrels of oil.

1 EXAMINER EZEANYIM: And the Colt 5 Federal
2 2?

3 THE WITNESS: So that well was also
4 drilled -- drilled roughly at the same time as the
5 Burton 4 3H, and it's kind of one of our better
6 north-south wells in this area. If you look at it, it
7 made almost 43,000 barrels of oil, so it's similar to
8 the Burton 4 3H. But we've also done multiple other
9 east-west wells in this area and then also other
10 north-south wells in this area. We just need more
11 consistent, better-proven results with the east-west
12 well as opposed to the north-south wells.

13 Q. (BY MR. BRUCE) In looking at this, these --
14 these wells do not produce a lot of gas, do they?

15 A. No, they don't.

16 Q. Let's just briefly discuss the wellbore for --
17 your well. What is Exhibit 13?

18 A. So Exhibit 13 is the proposed wellbore of our
19 well. If you'll flip to the second page, you can see
20 the -- the wellbore diagram. We're going to kick off
21 our well at approximately 7488 measured depth, and our
22 landing point will be at about 7965 vertical depth. And
23 then we're going to drill to a bottom hole of 12,378
24 feet measured depth and 7915 vertical depth.

25 Q. And how many completion stages in the well?

1 A. We typically run a packer-and-port system that
2 has a 24 -- 20 ports in it, so 20 completion stages.

3 EXAMINER EZEANYIM: 24 stages?

4 THE WITNESS: 20.

5 EXAMINER EZEANYIM: 20.

6 A. And also on the first page of that well plan, I
7 listed the service location and the landing point of the
8 bottom hole location, all of which are legal locations.

9 Q. (BY MR. BRUCE) And were Exhibits 9 through 13
10 prepared by you or compiled through company business?

11 A. They were.

12 Q. And in your opinion, is the granting of this
13 application in the interest of the prevention of waste
14 and the protection of correlative rights?

15 A. It is.

16 MR. BRUCE: Mr. Examiner, move the
17 admission of Exhibits 9 through 13.

18 EXAMINER EZEANYIM: Exhibits 9 through 13
19 will be admitted.

20 (Mewbourne Exhibit Numbers 9 through 13
21 were offered and admitted into evidence.)

22 MR. BRUCE: I have no further questions of
23 the witness.

24 EXAMINER BROOKS: I have no questions.

25

CROSS-EXAMINATION

BY EXAMINER EZEANYIM:

Q. Okay. You are still asking to pool north-south, not east-south well, not east well, right?

A. Yes.

Q. Yeah. Southeast-northeast. Okay.

And then the project area as well?

A. Yes.

Q. And I'd like to go back to your diagram. I see you are within the completed interval. You are going to do 20 stages, right?

A. Yes.

Q. Okay. Now, is that -- is that going to be a north-south completion?

A. Yes, it is. We'll run -- so when we drill our curve -- our curve, we'll run casing through that point.

Q. Okay.

A. And so on the first phase, you'll see the -- it says "LP." That's our landing point. And so that'll basically be where our first packer -- or our first completion will be. That'll be 21 or 20.

Q. Okay. So that will be -- that will be -- that will be casing run on a curve?

A. Yes.

Q. And, of course, you have read the -- what we

1 call the completed interval?

2 A. Yes.

3 Q. I want to make sure it's within the completed
4 interval.

5 A. Yeah.

6 Q. And so in that township, if you go back to
7 that, you already have an east-west option?

8 A. We do. We've seen -- going back to this
9 structure map here, like I said, we've drilled this well
10 down here in Section 8 recently, as well as this well in
11 Section 3 recently. And then we've also got east-west
12 wells right over here in Section 26. And overall, you
13 know, in this township, you certainly see a much
14 better -- a much better -- or a higher success in the
15 east-west wells than we do in the north-south wells.

16 Q. Okay. Nothing further. I think I have
17 everything. Thank you.

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

19 EXAMINER EZEANYIM: Okay. At this point,
20 Case Number 14892 will be taken under advisement, and I
21 believe that concludes today.

22 (The hearing concluded, 8:45 a.m.)

23 I do hereby certify that the foregoing is
24 a complete record of the proceedings in
the Examiner hearing of Case No. 14892
heard by me on 9/16/12

25  Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, New Mexico Certified
6 Court Reporter No. 20, and Registered Professional
7 Reporter, do hereby certify that I reported the
8 foregoing proceedings in stenographic shorthand and that
9 the foregoing pages are a true and correct transcript of
10 those proceedings that were reduced to printed form by
11 me to the best of my ability.

12 I FURTHER CERTIFY that the Reporter's
13 Record of the proceedings truly and accurately reflects
14 the exhibits, if any, offered by the respective parties.

15 I FURTHER CERTIFY that I am neither
16 employed by nor related to any of the parties or
17 attorneys in this case and that I have no interest in
18 the final disposition of this case.

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MARY C. HANKINS, CCR, RPR
Paul Baca Professional Court Reporters
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2012