

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

5 APPLICATION OF MEWBOURNE OIL  
6 COMPANY FOR A NONSTANDARD OIL  
7 SPACING AND PRORATION UNIT AND  
8 COMPULSORY POOLING, EDDY  
9 COUNTY, NEW MEXICO.

CASE NO. 14984

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 12, 2013

Santa Fe, New Mexico

14 BEFORE: RICHARD EZEANYIM, CHIEF EXAMINER  
15 DAVID K. BROOKS, LEGAL EXAMINER  
16 PHILLIP GOETZE, TECHNICAL EXAMINER

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18 This matter came on for hearing before the  
19 New Mexico Oil Conservation Division, Richard Ezeanyim,  
20 Chief Examiner, David K. Brooks, Legal Examiner, and  
21 Phillip Goetze, Technical Examiner, on Friday, July 12,  
22 2013, at the New Mexico Energy, Minerals and Natural  
Resources Department, 1220 South St. Francis Drive,  
Porter Hall, Room 102, Santa Fe, New Mexico.

23 REPORTED BY: Mary C. Hankins, CCR, RPR  
24 New Mexico CCR #20  
25 Paul Baca Professional Court Reporters  
500 4th Street, Northwest, Suite 105  
Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

3 JAMES G. BRUCE, ESQ.  
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6

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25

1 (9:52 a.m.)

2 EXAMINER EZEANYIM: At this point, I call  
3 Case Number 14984. This is application of Mewbourne Oil  
4 Company for a nonstandard oil spacing and proration unit  
5 and compulsory pooling, Eddy County, 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 EXAMINER EZEANYIM: Any other appearances,  
11 please?

12 May the witnesses stand up and state your  
13 names and be sworn?

14 MR. HADEN: Paul Haden.

15 MR. HILL: Tyler Hill.

16 (Mr. Haden and Mr. Hill 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. Mr. Haden, where do you reside?

23 A. I reside in Midland, Texas.

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

25 A. Mewbourne Oil Company, as a senior landman.

1 Q. Have you previously testified before the  
2 Division?

3 A. Yes, I have.

4 Q. And were your credentials as an expert landman  
5 accepted as a matter of record?

6 A. Yes, they were.

7 Q. And are you familiar with the geology and land  
8 matters involved in this case?

9 A. Yes, I am.

10 MR. BRUCE: Mr. Examiner, I tender  
11 Mr. Haden as an expert petroleum landman.

12 EXAMINER EZEANYIM: Mr. Haden is so  
13 qualified.

14 Q. (BY MR. BRUCE) Mr. Haden, could you identify  
15 Exhibit 1 and describe what Mewbourne seeks in this  
16 case?

17 A. Exhibit Number 1 is a land plat of the area  
18 taken from the Midland Map Company. It indicates our  
19 Section 4, which is in Township 17 South, Range 29 East.  
20 It also indicates our proposed project area, which is  
21 highlighted in yellow, which is in the north half of the  
22 south half of Section 4. It also illustrates our  
23 proposed surface and bottom-hole locations.

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

25 A. The proposed well is called the Burton 4 IL

1 Federal Com #1H well.

2 Q. Now, to address up front one of the questions  
3 about well-unit orientation, has Mewbourne drilled other  
4 horizontal wells in this section?

5 A. Yes, we have. We've drilled one in the north  
6 half of the north half called the Burton 4 Federal Com  
7 #3H well and also a Bone Spring well in the south half  
8 of the north half known as the Burton 4 Federal Com 4H  
9 well.

10 Q. So you're not deviating from the well-unit  
11 orientation in this section?

12 A. No, we are not.

13 Q. What is the working interest ownership that you  
14 refer to in Exhibit 2?

15 A. Exhibit 2 sets forth the contractual ownership  
16 in the well unit in which Mewbourne Oil Company has  
17 60.53492 percent, and then it lists the various other  
18 parties. And also you'll note that there is an asterisk  
19 by one of the owners. It's Mill Neck Associates. It  
20 has a percentage interest in the well unit.

21 Q. Is Mill Neck Associates -- have you been able  
22 to locate them?

23 A. No, we have not. The last known address was  
24 back from the late '70s in Chicago, Illinois. We've  
25 forced pooled this entity numerous times, as well as I'm

1     sure other companies have done the same thing.

2           Q.    Over the last few years, you have been looking  
3     for them and have been unable to locate them?

4           A.    That's correct, have not been able to.

5           Q.    And I can't remember now, but you have  
6     probably -- Mewbourne has probably forced pool Mill Neck  
7     five or six times in this area; has it not?

8           A.    Yes, sir, at least.

9           Q.    What is Exhibit 3?

10          A.    Exhibit Number 3 is a copy of our AFE for this  
11     proposed well. It indicates the estimated dry-hole  
12     cost, which is \$2,792,100, and a completed well cost of  
13     \$4,907,400. It also indicates the surface location and  
14     the bottom location in this proposed well.

15          Q.    Are these costs in line with the costs of the  
16     other wells that Mewbourne and other operators have  
17     drilled to this depth in this area of New Mexico?

18          A.    Yes. We have found it to be a good estimate.

19          Q.    Do you request that Mewbourne be appointed  
20     operator of the well?

21          A.    Yes, we do.

22          Q.    And do you have a recommendation for the  
23     amounts which Mewbourne should be paid for its  
24     supervision and administrative expenses?

25          A.    Yes. And that would be \$7,500 for a drilling

1 well rate and \$750 per month for a producing well rate  
2 under the COPAS accounting procedure.

3 Q. And are these amounts equivalent to those  
4 normally charged by Mewbourne and other operators for  
5 wells in this area?

6 A. Yes, that's correct.

7 Q. And do you request that the rates be adjusted  
8 periodically as provided by the COPAS accounting  
9 procedure?

10 A. Yes, we do.

11 Q. Do you request the maximum 200-percent risk  
12 charge against Mill Neck Associates?

13 A. Yes, we do.

14 Q. Was Mill Neck notified of this hearing by  
15 publication?

16 A. Yes, they were.

17 Q. And is that reflected in the Affidavit of  
18 Publication marked as Exhibit 4?

19 A. That's correct.

20 Q. Is Mewbourne the operator of all offset acreage  
21 to this well?

22 A. Yes, we are.

23 Q. And so no other operator was given notice of  
24 the nonstandard unit; is that correct?

25 A. That's correct. It was not necessary.

1 Q. Were Exhibits 1 through 4 prepared by you or  
2 compiled under your supervision?

3 A. Yes, they were.

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

7 A. Yes.

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

10 EXAMINER EZEANYIM: Exhibits 1 through 4  
11 will be admitted.

12 (Mewbourne Exhibit Numbers 1 through 4 were  
13 offered and admitted into evidence.)

14 MR. BRUCE: And I have no further questions  
15 of the witness.

16 EXAMINER EZEANYIM: Thank you, Counselor.  
17 Mr. Brooks?

18 EXAMINER BROOKS: I have no questions.

19 EXAMINER GOETZE: One question.

20 CROSS-EXAMINATION

21 BY EXAMINER GOETZE:

22 Q. We're pooling from the surface all the way down  
23 to the Bone Spring?

24 MR. BRUCE: Just the Bone Spring.

25 EXAMINER GOETZE: Just the Bone Spring.

1                   That's all.

2                   CROSS-EXAMINATION

3   BY EXAMINER EZEANYIM:

4           Q.   How did you determine your overhead rates?  
5   Yesterday I understand that you don't have all those  
6   rates now in effect. How do you determine overhead  
7   rates?

8           A.   Well, we've drilled many wells in this area,  
9   and we determine those well rates under the terms of an  
10   operating agreement, which our partners listed on this  
11   previous exhibit (indicating), they've agreed to those  
12   well rates. And this is a common rate that we use in  
13   this particular area; also because of the depth.

14          Q.   Okay. These rates, as you stated today, are in  
15   the JOA?

16          A.   Yeah. Yeah. It's in the JOA.

17          Q.   Of course, yesterday somebody was telling me  
18   they're trying to get the overhead rate by intuition.  
19   You can't do that, not by the rules of COPAS.

20          A.   Absolutely.

21          Q.   Are you also drilling that 40 acres or just the  
22   Bone Spring?

23          A.   Just the Bone Spring.

24          Q.   It appears that you wanted to -- so we can see  
25   how we can allocate costs.

1 A. This is in the Parkway Bone Spring pool, for  
2 your information.

3 Q. You didn't locate everybody?

4 A. Everybody else was located, and they're under  
5 an operating agreement.

6 Q. Except?

7 A. Mill Neck Associates. They're the only party  
8 that we are pooling, and they have a very, very small  
9 interest, as you can see on the exhibit, less than one  
10 percent.

11 Q. This is federal land, right?

12 A. This is federal land, yes.

13 Q. Okay. No further questions.

14 A. Thank you.

15 TYLER HILL,

16 after having been previously sworn under oath, was  
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Mr. Hill, where do you reside?

21 A. Midland, Texas.

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

23 A. Mewbourne Oil Company, as a petroleum  
24 geologist.

25 Q. Did you testify yesterday in one of Mewbourne's

1 cases?

2 A. Yes.

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

5 A. Yes, sir.

6 Q. Are you familiar with the geology involved in  
7 this case?

8 A. Yes, sir.

9 MR. BRUCE: Mr. Examiner, I'd tender  
10 Mr. Hill as an expert petroleum geologist.

11 EXAMINER EZEANYIM: So qualified.

12 Q. (BY MR. BRUCE) Mr. Hill, could you identify  
13 Exhibit 5 for the Examiner?

14 A. Yes, sir. This is a structure on the base of  
15 the 2nd Bone Spring Sand. I also have production  
16 highlighted. You'll notice in the lower, left-hand  
17 corner, I've color-coded them. Pink is Avalon Sand.  
18 Orange is 1st Bone Spring Sand. Yellow is 2nd Bone  
19 Spring Sand.

20 The structure is dipping to the west. The  
21 Burton 4 IL Fed Com #1H is in the north half of the  
22 south half of Section 4, and that is highlighted by the  
23 red arrow going to the west.

24 You'll notice on the structure map that we  
25 have 2nd Bone Spring production downdip of us, as well

1 as updip of us, and the production is on the right side  
2 of the wellbore. And the gas is in red. Oil is in  
3 black. Water is in blue.

4 Q. What is Exhibit 6?

5 A. Exhibit 6 is an isopach of the 2nd Bone Spring  
6 sea sand. This is a gross sand. The amount of sand  
7 that we expect to encounter that is in each wellbore is  
8 to the lower left wellbore. And within this well, we  
9 expect to encounter between 50 and 60 feet of gross  
10 sand.

11 Q. In each quarter-quarter section?

12 A. In each quarter-quarter section, which will  
13 contribute equally.

14 Q. And what is Exhibit 7?

15 A. Exhibit 7 is a cross section of the three  
16 closest wells. The orange, at the top marker, is the  
17 top of the 2nd Bone Spring Sand. The red is the 2nd  
18 Bone Spring Sea Sand, and then the green is the 2nd Bone  
19 Spring Sea Sand. That's two intervals up. And the blue  
20 is where we get into the 3rd Bone Spring Carbonate. You  
21 can see the horizontal target is denoted by the red  
22 arrow on the side.

23 Q. And is the target zone continuous across the  
24 proposed well unit?

25 A. Yes, sir. You can see it on each one of the

1 wellbores on this cross section.

2 Q. And what is Exhibit 8?

3 A. Exhibit 8 is an Excel spreadsheet of all of the  
4 wells in the nonsection area. The first column is the  
5 well name, the operator, API, location, whether it's a  
6 vertical or a horizontal well, Bone Spring completion  
7 date, the interval it was completed in, cum oil, gas and  
8 water.

9 If you'll notice, the orange well, it's the  
10 Meridian Federal #1, drilled by Chesapeake, completed on  
11 June 2nd of 1990, 2nd Bone Spring Sand. It's in Section  
12 3D, 20 South, 29. It was completed in 1990. It  
13 produced 45,000 barrels of oil, four-tenths of bcf gas,  
14 6,900 barrels of water.

15 The yellow well that I have highlighted,  
16 the Burton 4 #4H, is in Section 4, drilled from HE, 20  
17 South, 29 East. This was completed last year, July, in  
18 the 2nd Bone Spring Sand. It produced 57,000 barrels of  
19 oil, two-tenths of bcf gas and 47 barrels of water. So  
20 already in one year that well has produced more than the  
21 vertical well. And the Burton was drilled as a lay-down  
22 from east to west.

23 And then the green well, Colt Federal 3H,  
24 Mewbourne Oil Company drilled that in Section 5, PA --  
25 from P to A, south to north, 20 South, 29, 2nd Bone

1 Spring Sand horizontal, completed November 8th of 2010  
2 within the 2nd Bone Spring Sand. It produced 51,000  
3 barrels of oil, one-tenth of bcf gas and 45,000 barrels  
4 of water.

5 Q. And that was a stand-up well?

6 A. Yes, sir.

7 EXAMINER EZEANYIM: Which one is a  
8 stand-up? I thought they were all lay-down. Which one  
9 is the stand-up?

10 THE WITNESS: The one highlighted green.

11 EXAMINER EZEANYIM: Is that in the same  
12 section?

13 THE WITNESS: No, sir. That's in Section  
14 5, from P to A. That's in the east half of the east  
15 half.

16 EXAMINER EZEANYIM: But the other one is  
17 the lay-down.

18 THE WITNESS: Yes, sir, in yellow.

19 Q. (BY MR. BRUCE) So based on just the Burton 4,  
20 the one well immediately to the north in Section 4, and  
21 then the Colt Federal -- Colt 5 Federal 3H to the west,  
22 the stand-up, you see demonstrably better results in the  
23 lay-down in this area?

24 A. Yes, sir.

25 Q. What is Exhibit 9?

1           A.   Exhibit 9 is the Well Planning Report. Our  
2 surface location will be in 1,855 from south line and  
3 150 from east line. Our bottom hole will be 1,855 from  
4 south line and 330 from west line, Section 4 of 20  
5 South, 29 East.

6                   And if you flip to the last page, it's a  
7 wellbore diagram.

8           Q.   How many completion stages in the well?

9           A.   I believe, 20.

10          Q.   And the bottom-hole location will be slightly  
11 updip from the beginning of the producing interval?

12          A.   Yes, sir.

13          Q.   Were Exhibits 5 through 8 prepared by you?

14          A.   Yes, sir.

15          Q.   And was Exhibit 9 compiled from company  
16 business records?

17          A.   Yes, sir.

18                   MR. BRUCE: Mr. Examiner, I'd move the  
19 admission of Exhibits 5 through 9.

20                   EXAMINER EZEANYIM: Exhibits 5 through 9  
21 will be admitted.

22                   (Mewbourne Exhibit Numbers 5 through 9 were  
23 offered and admitted into evidence.)

24          Q.   (BY MR. BRUCE )In your opinion, is the granting  
25 of this application in the interest of conservation and

1 the prevention of waste?

2 A. Yes.

3 MR. BRUCE: Mr. Examiner, no further  
4 questions of the witness.

5 EXAMINER EZEANYIM: Thank you, Counselor.  
6 David?

7 EXAMINER BROOKS: No questions.

8 EXAMINER EZEANYIM: (Indicating.)

9 EXAMINER GOETZE: No questions.

10 CROSS-EXAMINATION

11 BY EXAMINER EZEANYIM:

12 Q. Why don't we go back to Exhibit 6. Let's look  
13 at that isopach map where you are drilling. I mean, the  
14 arrow is -- the arrow, right?

15 A. That's the well that we're trying to drill, the  
16 vertical.

17 Q. Yes. The arrow is?

18 A. Yes, sir. We're drilling --

19 Q. You're going east to west?

20 A. Yes, sir.

21 Q. See, if I look at that, you know -- can you  
22 technically say that each of the quarter-quarter  
23 sections is going to contribute equally to the  
24 production of that well?

25 A. I believe so, yes, sir.

1 Q. How so?

2 A. Because the sand is continuous through this  
3 area.

4 Q. There is nothing like continuous. I mean, we  
5 just assume it's continuous. No reason it's continuous.  
6 It's just an assumption. But if I look at this isopach  
7 map, it looks like this three or two 40 units will get  
8 more than -- you can look at the isopach map. See how  
9 the -- it's thicker going toward the production area  
10 than the other two. But the way we're going to ask:  
11 Are those four sections going to produce equally? And  
12 your answer was yes.

13 A. Uh-huh.

14 Q. Those are things we say, but we don't know  
15 whether they are true. And then when we say that -- for  
16 me, they are all heterogeneous [sic], but we assume that  
17 without calculations. That's an assumption. But I  
18 wanted you to see what I'm trying to see on the isopach  
19 map. I mean, as a geologist, you see that. If I have  
20 interest in those 80 acres at the end, I would begin to  
21 argue, although you are doing the right thing. The  
22 stand-up is -- but I just want to say that normally when  
23 we put in the order that each of the four sections will  
24 contribute equally, that's not really right, because  
25 it's an assumption. Where does it say that on this map?

1 A. To the best of my knowledge, I believe --

2 Q. Oh, yeah. That's what you said. I just wanted  
3 to make sure I point that out.

4 A. Okay.

5 Q. And you think it's east-west or west-east  
6 orientation. I see some of them north-south in the  
7 area.

8 A. Yes, sir.

9 Q. We described the most productive zones in the  
10 area?

11 A. Were they the same?

12 Q. Yeah. I see some of them were stand-up.

13 A. Yes, sir. We drilled the one --

14 Q. Do you drill those stand-up wells?

15 A. Yes, sir, and they're not as good as the  
16 lay-downs.

17 Q. Oh, they are not?

18 A. The two that I had on the Excel sheet. The one  
19 in Section 5 has been producing for two years.

20 Q. Makes sense. I can see.

21 I think this is 2nd Bone Spring Sand?

22 A. Yes, sir.

23 Q. 2nd Bone Spring Sand?

24 A. Yes, sir, 2nd Bone Spring Sand.

25 Q. Okay. Thank you. You may step down.

1 A. Thank you.

2 EXAMINER EZEANYIM: Anything further,  
3 Counselor?

4 MR. BRUCE: Nothing further.

5 EXAMINER EZEANYIM: At this point, Case  
6 Number 14984 will be taken under advisement.

7 Can we take a ten-minute break and then  
8 continue?

9 (Case 14984 concludes, 10:12 a.m.)

10 (Break taken, 10:12 a.m. to 10:25 a.m.)

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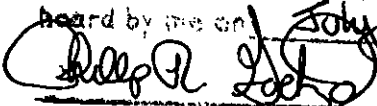
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 14984  
heard by me on July 12, 2013  
  
Paul Baca, Examiner  
Oil Conservation Division

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  
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