

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

6 APPLICATION OF MEWBOURNE OIL COMPANY
7 TO ABOLISH THE SPECIAL RULES AND
8 REGULATIONS FOR THE SOUTH CULEBRA
9 BLUFF-BONE SPRING POOL, EDDY
10 COUNTY, NEW MEXICO.

CASE NO. 14991

ORIGINAL

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REPORTER'S TRANSCRIPT OF PROCEEDINGS

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EXAMINER HEARING

11

July 12, 2013

12

Santa Fe, New Mexico

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

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

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1 (10:47 a.m.)

2 EXAMINER EZEANYIM: At this point, I call
3 Case Number 14991. This is the application of Mewbourne
4 Oil Company to abolish the special rules and regulations
5 for the South Culebra Bluff-Bone Spring pool, Eddy
6 County, New Mexico.

7 Call for appearances.

8 MR. BRUCE: Mr. Examiner, Jim Bruce of
9 Santa Fe representing the Applicant. I have three
10 witnesses. Mr. Haden and Mr. Hill have already been
11 sworn in and qualified, but I do have one additional
12 witness.

13 EXAMINER EZEANYIM: Any other appearances.

14 MR. RANKIN: Mr. Examiner, Adam Rankin,
15 Holland & Hart of Santa Fe, representing RKI
16 Exploration. I previously filed an entry of appearance
17 in this matter.

18 EXAMINER EZEANYIM: Any witnesses?

19 MR. RANKIN: No witnesses.

20 EXAMINER EZEANYIM: May the witness that
21 has not been sworn stand up, state your name and be
22 sworn, please.

23 MR. ROBISON: Drew Robison.

24 (Mr. Robison sworn; Mr. Haden and Mr. Hill
25 previously sworn.)

1 MR. BRUCE: Mr. Examiner, look at the
2 exhibits. Exhibit 1 is a copy of Order R-6139, which
3 established special pool rules for the South Culebra
4 Bluff-Bone Spring pool. The spacing is 80 acres with
5 wells located 150 feet from the center of each
6 quarter-quarter section. Mewbourne seeks to abolish
7 those rules, although the application also requests that
8 any existing well unit will be grandfathered in so that
9 the equities aren't affected in that well unit -- those
10 well units.

11 I'm going to have Mr. Haden testify just
12 very, very briefly, and then we do have a geologist and
13 an engineer to discuss the reasons for that.

14 But as you'll see, people are drilling a
15 lot of wells in this area, and the other pools in the
16 area are basically spaced on statewide rules. And,
17 basically, the net effect of the special pool rules at
18 this time is to generate more work for Mr. Brooks for
19 unorthodox locations.

20 D. PAUL HADEN,
21 after having been previously sworn under oath, was
22 questioned and testified as follows:

23 DIRECT EXAMINATION

24 BY MR. BRUCE:

25 Q. Mr. Haden, on behalf of Mewbourne, did you

1 examine the records to determine the identity of all
2 operators in the pool or within a mile of the pool and
3 not assigned to any other pool?

4 A. Yes, I did.

5 Q. And if you look at Exhibit 2, the Affidavit of
6 Notice, page 3, the notice list, are those all of the
7 companies you located to pool our operators in this
8 pool?

9 A. That is correct.

10 Q. And was written notice sent to those operators?

11 A. Yes, they were.

12 Q. And they all received actual notice of this
13 hearing; did they not?

14 A. Yes, sir, they did.

15 Q. And what is Exhibit 3?

16 A. Exhibit 3 is a copy of our letters of support
17 from several of these operators who were noticed, which
18 they support the abolishment of these special pool
19 rules.

20 Q. Did you receive any comments from any other
21 operators adverse or otherwise?

22 A. No. We had no adverse comments whatsoever
23 regarding our proposal.

24 Q. Were Exhibits 1 through 3 prepared by you or
25 compiled from company business records?

1 A. Yes, they were.

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

4 EXAMINER EZEANYIM: Exhibits 1 through 3
5 will be admitted.

6 Any objection?

7 MR. RANKIN: No objection.

8 EXAMINER EZEANYIM: No objection? Okay. I
9 thought so.

10 (Mewbourne Exhibit Numbers 1 through 3 were
11 offered and admitted into evidence.)

12 MR. BRUCE: No further questions of the
13 witness.

14 EXAMINER EZEANYIM: Mr. Rankin?

15 MR. RANKIN: No questions, Mr. Examiner.

16 EXAMINER EZEANYIM: Do you have any
17 questions?

18 EXAMINER GOETZE: No questions.

19 EXAMINER EZEANYIM: No questions.

20 THE WITNESS: Thank you.

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

24

25

1 DIRECT EXAMINATION

2 BY MR. BRUCE:

3 Q. And, Mr. Hill, are you familiar with the
4 geology involved in this application?

5 A. Yes, sir.

6 Q. And, Mr. Hill, I've marked Exhibit 4. Does
7 that simply outline the current boundaries of the South
8 Culebra Bluff pool?

9 A. Yes, sir.

10 Q. Does it also have a number of wells located
11 horizontal and vertical in that pool?

12 A. Yes, sir.

13 Q. Let's talk about the geology itself. Could you
14 identify Exhibit 5 for the Examiner and discuss its
15 contents?

16 A. This is the area that shows Culebra Bluff
17 South, as well as the surrounding pools that are on
18 statewide rules. We've got Forehand Ranch, Cass Draw to
19 the west. To the east is Laguna Salado and Cedar
20 Canyon, and to the south is Malagra North.

21 EXAMINER EZEANYIM: Just let me get what
22 you said. The surrounding pools around this unit is on
23 statewide land, right?

24 THE WITNESS: Yes, sir.

25 EXAMINER EZEANYIM: Then the pools are on

1 80 acres, right? The pools are spaced on 80 acres.

2 THE WITNESS: Yes, sir.

3 EXAMINER EZEANYIM: Okay. Go ahead.

4 A. The structure here is on top of the 2nd Bone
5 Spring Sand. I've highlighted all of the production --
6 the Bone Spring production. You'll see that on the
7 bottom right: Avalon Sand, Avalon Shale, 1st Bone
8 Spring Sand, 2nd Bone Spring Sand, Harkey Sand and the
9 3rd Bone Spring Sand.

10 And to the lower left, you'll be able to
11 see Avalon, the horizontal wells. The wellbores are
12 highlighted. If they've been drilled, they're solid.
13 If they're permitted, they are dashed. So you can see
14 that in all of these, except for the Malaga North, there
15 are horizontal wells.

16 Q. Anything further on this exhibit, Mr. Hill?

17 A. No, except I do have one cross section which
18 will be one of the next exhibits.

19 EXAMINER EZEANYIM: Okay. On that unit,
20 let's look at the Laguna Salado. Is that -- is that
21 pool near this -- the one in green -- is that blue or
22 green? Are there two units there, in this one
23 (indicating).

24 THE WITNESS: Yes.

25 EXAMINER EZEANYIM: Are there two pools?

1 THE WITNESS: Two different pools, yes,
2 sir.

3 EXAMINER EZEANYIM: Oh, okay. And those
4 are, again, horizontal wells, right?

5 THE WITNESS: Yes. They're in the 1st Sand
6 and 2nd Sand.

7 EXAMINER EZEANYIM: Have you guys,
8 Mewbourne, drilled any wells in those units -- those
9 pools.

10 THE WITNESS: No, sir. No, sir.

11 EXAMINER EZEANYIM: Okay. Go ahead.

12 Q. (BY MR. BRUCE) If you will move on to Exhibit 6
13 here, your cross section, and discuss the reservoir a
14 little further.

15 A. Yes, sir. This cross section picks up one well
16 in all of the pools. It picks up the Malaga North. And
17 if you'll start from the third one from the left, the
18 4 J Culebra Bluff South, and I've included the 1st Sand
19 and the 2nd Bone Spring Sand, because that's where most
20 people are drilling in this area, and then move to the
21 right. That's the top of the 1st Sand going into the
22 2nd Bone Spring carbonate. Then we've got the 2nd Bone
23 Spring Upper Sand and 2nd Bone Spring Lower Sand.

24 If you move to the right three, the Culebra
25 Bluff South, the Laguna Salado Field and Cedar Canyon

1 Field, you'll see that all of the sands through this
2 area are continuous.

3 As you move back to the west, Forehand
4 Ranch Field and Cass Draw Field, some of the intervals
5 start shrinking, but you still do have continuous sand
6 and 1st Bone Spring Sand and 2nd Bone Spring Sand.

7 Q. Geologically, is there any reason to
8 differentiate between all of the Bone Spring pools in
9 this area?

10 A. No, sir.

11 Q. Next, what is Exhibit 7?

12 A. Exhibit 7 is just one type log cross section
13 through the Culebra South Hills, and it's got the top of
14 the Delaware and everything that encompasses the Bone
15 Spring. So you've got Avalon Sand, Avalon Shale, 1st
16 Bone Spring Sand, 2nd Bone Spring Sand, Harkey Sand, 3rd
17 Bone Spring Sand, and you hit the top of Wolfcamp. And
18 all of these intervals produce within these fields.

19 Q. Is there any one, at this point, predominant
20 producing zone?

21 A. It's going to be the 1st and 2nd Bone Spring
22 Sand.

23 Q. But they are all productive?

24 A. Yes, sir.

25 Q. Were Exhibits 4, 5, 6 and 7 prepared by you or

1 compiled from company business records?

2 A. Yes, sir.

3 MR. BRUCE: Mr. Examiner, I'd move the
4 admission of Exhibits 4 through 7.

5 EXAMINER EZEANYIM: Exhibits 4 though 7
6 will be admitted.

7 (Mewbourne Exhibit Numbers 4 through 7
8 were offered and admitted into evidence.)

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

11 EXAMINER EZEANYIM: Thank you.

12 Any questions?

13 MR. BROOKS: No questions.

14 EXAMINER EZEANYIM: Mr. Goetze, any
15 questions?

16 EXAMINER GOETZE: No questions for this
17 witness right now.

18 EXAMINER EZEANYIM: You may step down.

19 Oh, okay. I'm sorry. I forgot to ask
20 about cross-examination of the witness.

21 EXAMINER BROOKS: I do that all the time,
22 Richard. I'm surprised for you to do it. You remember
23 those things.

24 EXAMINER EZEANYIM: Well, yeah. I'm tired.

25 EXAMINER BROOKS: Aren't we all.

1 MR. RANKIN: Long day.

2 I have no questions for the witness.

3 EXAMINER EZEANYIM: I'm sorry about that.

4 I meant nothing by it.

5 Okay. You have no questions?

6 MR. RANKIN: No questions.

7 EXAMINER EZEANYIM: You may step down.

8 Call your next witness.

9 DREW ROBISON,

10 after having been previously sworn under oath, was
11 questioned and testified as follows:

12 DIRECT EXAMINATION

13 BY MR. BRUCE:

14 Q. Could you state your name for the record?

15 A. Drew Robison.

16 Q. Where do you reside?

17 A. Midland, Texas.

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

19 A. I'm a reservoir engineer for Mewbourne Oil
20 Company.

21 Q. Have you previously testified before the
22 Division?

23 A. Yes, I have.

24 Q. And were your credentials as an expert
25 reservoir engineer accepted as a matter of record?

1 A. Yes, they were.

2 Q. And are you familiar with the reservoir matters
3 involved in this application?

4 A. Yes.

5 Q. And does your area of responsibility at
6 Mewbourne include this part of southeastern New Mexico?

7 A. Yes, it does.

8 MR. BRUCE: Mr. Examiner, I'd tender
9 Mr. Robison as an expert reservoir engineer.

10 EXAMINER EZEANYIM: So qualified.

11 Q. (BY MR. BRUCE) Mr. Robison, you've got two
12 exhibits, 8 and 9. Let me introduce them, and please
13 discuss for the Examiner the reservoir qualities and
14 production from these pools, and give your opinion on
15 abolishing the pools.

16 A. Okay. Exhibit 8 is a volumetric estimate of
17 oil in place. And for this, I focused on the 2nd Bone
18 Spring Sand, because that's what most people are
19 drilling, including us, in this area now.

20 What I'm trying to show here is that it's
21 already -- it's a very tight formation and the recovery
22 are very low already, and so with the pool rules in
23 place and the setbacks of 660 -- actually, the setbacks
24 are 150 from the center of the quarter-quarter. We
25 can't maximize our lateral length, and so we need to

1 maximize our lateral length in order to get the recovery
2 factors higher.

3 So all I did was took, from the type log
4 that he (indicating) presented, the reservoir thickness
5 and some estimated reservoir properties and from log
6 calculations and came up with the original oil in place
7 for each proration unit for each 160 acres.

8 As you can see down at the bottom, I have
9 the OOIP, which is the original oil in place in
10 thousands of barrels, so that number is almost 4 million
11 barrels of oil in place per 160. And that's with
12 approximately 80 feet of reservoir.

13 And we are estimating from decline curves
14 and wells in the area that the recoverable oil is around
15 250,000 barrels, which calculates to only a recovery
16 factor of 6.4 percent, which is pretty low.

17 EXAMINER EZEANYIM: Is this in the South
18 Culebra Bluff?

19 THE WITNESS: Yes.

20 Q. (BY MR. BRUCE) Mr. Robison, with the tight
21 reservoir and the low recovery factor, assuming the pool
22 rules are abolished, do you see any adverse effect on
23 offsets by drilling 330 feet out of the quarter-quarter
24 section?

25 A. No.

1 Q. What does Exhibit 9 show?

2 A. Exhibit 9 is a list of all the active wells,
3 along with the operators in the pool, at Culebra Bluff
4 South-Bone Spring pool. And I've ordered these by spud
5 date.

6 And then I've highlighted in red the
7 horizontal wells. So what I was trying to show here is
8 how the field has changed through time. And initially
9 the field was developed with vertical wells, and now
10 everybody, over the last three years, has been drilling
11 horizontal wells in this field and surrounding fields.

12 Q. And do the directional or the horizontal
13 drilling results seem to benefit production from this
14 reservoir?

15 A. Yes.

16 Q. In your opinion, should the pool rules be
17 abolished?

18 A. Yes, they should.

19 Another limiting factor, also, is the
20 allowable. Since most of the early wells, as you can
21 see from the perforations, were around 6,000 feet, this
22 pool was put in a 6,000-depth allowable, which allowed
23 for 220 barrels of oil a day per 80 acres. So for these
24 wells that we're drilling horizontals now, with the
25 existing rules, we would only be allowed to produce 444

1 [sic] barrels of oil per day. And most of our wells are
 2 TVD'd over 8,000 feet. So that will increase our
 3 allowable to what's necessary, because many of these
 4 wells come on 500 or 1,000 barrels a day in the area.

5 Q. Do you have anything further in this case,
 6 Mr. Robison?

7 A. No, I do not.

8 Q. Were Exhibits 8 and 9 prepared by you?

9 A. Yes, they were.

10 Q. And in your opinion, will the granting of this
 11 application be in the interest of conservation and the
 12 prevention of waste?

13 A. Yes.

14 MR. BRUCE: And with that, Mr. Examiner, I
 15 move the admission of Exhibits 8 and 9.

16 EXAMINER EZEANYIM: Thank you, Mr. Bruce.

17 Mr. Rankin?

18 MR. RANKIN: No objections.

19 EXAMINER EZEANYIM: Exhibits 8 and 9 will
 20 be admitted.

21 (Mewbourne Exhibit Numbers 8 and 9 were
 22 offered and admitted into evidence.)

23 EXAMINER EZEANYIM: Anything, Mr. Rankin?

24 MR. RANKIN: No questions, Mr. Examiner.

25 EXAMINER BROOKS: No questions.

1 EXAMINER GOETZE: No questions.

2 CROSS-EXAMINATION

3 BY EXAMINER EZEANYIM:

4 Q. Okay. Let's look at your two exhibits. Very
5 interesting. How did you get all that data?

6 A. Some of it's from data we have in-house, and
7 some of it is just from my best estimate from different
8 correlations. But the majority of the data, we do have
9 factual data on.

10 Q. The porosity here, is that the average porosity
11 or the net porosity?

12 A. That is the average porosity over the sand
13 we're targeting, which is the lower-most sand of the 2nd
14 Bone Spring Sand.

15 Q. And the outer reef [sic] is calculated?

16 A. No. That is a measured --

17 Q. You measured that?

18 A. Yes. We've done multiple tests in the area, so
19 that's a real number.

20 Q. And this is from all the wells. Is it from all
21 the wells or a sample of the wells in that South Bluff?

22 A. Yes, it is. It's kind of a generalized --
23 because the field covers almost the whole township, so
24 there are some variations here and there, but, in
25 general, this is kind of an average of the whole field.

1 Q. Okay. Let's go to Exhibit Number 9. We should
2 be able to -- any time you do this, put oil first, gas
3 second. If you put -- when I looked at it, I was
4 looking at the gas. I thought, oh, no. I thought that
5 was oil. I didn't know it was gas. You see what I
6 mean?

7 A. Yes.

8 Q. Oil is 104 today; gas is 2.5. Don't get me
9 wrong. It's good, but, you know, I like oil more than
10 gas because of the prices.

11 A. I agree.

12 Q. So when I looked at these -- when I was looking
13 at that, I thought that was oil, and I was confused.
14 But when I look at it, then I would say, Gosh.

15 Anyway, these numbers are -- they're in
16 thousands? Is this in thousands, because it's not
17 stated?

18 A. No, they're not. These are in Mcf. I should
19 have put that on there, but that is Mcf barrels of oil
20 and barrels of water.

21 Q. Gas is Mcf?

22 A. Yes.

23 Q. Yeah. When you write gas in Mcf, I do need
24 that, but oil, you have to -- so you're doing that in
25 raw numbers?

1 A. Yes, that's correct.

2 Q. Do you know the nature of the -- of this Bluff?

3 Is that the --

4 A. Yes, it is. It's solution gas.

5 Q. It's solution gas.

6 A. Right. And that's -- that's why I was showing
7 this exhibit. I should have mentioned that. For a
8 solution gas reservoir, the recovery factors are low
9 anyway, but they're even lower than you would expect, I
10 would say. And that's why it lends itself to horizontal
11 drilling.

12 Q. Oh, yeah, because even -- I always give a
13 solution gas starting from ten percent, but this is 6.4
14 [sic].

15 A. That's correct.

16 Q. You should have repaired [sic] this a long time
17 ago, if this is what it's doing, so that you can drill
18 this and -- you know, with horizontal wells and maybe
19 get up to ten percent. Who knows? But we can get up to
20 ten percent on this rate, because most of them are
21 completed, and then they are producing below the bubble
22 point. You know, maybe wells that came in -- maybe the
23 bubble point -- but I can see that -- you have an idea
24 about those pressures?

25 A. I don't know what the bubble point pressure is.

1 Q. You don't know what the bubble point pressure
2 is? No idea?

3 A. It's normally pressured.

4 Q. To the depth?

5 A. Yes.

6 Q. Okay. Good. I think that's all I have.

7 Okay. Now, one thing I wanted to point out
8 is, I want to know why you want to grandfather 80-acre
9 unit. Can't you abolish all of them? Why do you want
10 to grandfather the 80-acre?

11 MR. BRUCE: Mr. Examiner, I think I can
12 answer that. If there are 80-acre well units -- and I'm
13 sure there are out there -- producing, if you down space
14 those to 40 acres, people would have been receiving
15 revenues for quite some time and then be excluded from
16 production. And I don't think they'd be happy, and I
17 don't think we'd be happy locating everyone and
18 notifying them either. But that's the general reason.

19 EXAMINER EZEANYIM: I can see why you want
20 to grandfather them in. Of course, if you don't
21 grandfather them in, I would not allow you to --

22 MR. BRUCE: I mean, I think that allows --
23 if an operator, on an individual basis, wants to down
24 space his well unit, he can try to do that, but at this
25 point, I think that would be unfair to the interest

1 owners.

2 EXAMINER EZEANYIM: So you want to abolish
3 those special pool rules -- the statewide rule, except
4 grandfather 80-acre unit? Anyone that isn't producing
5 on the 80-acre unit, grandfather them?

6 MR. BRUCE: That's correct.

7 EXAMINER EZEANYIM: So in other words --

8 MR. BRUCE: And I think the ones that are
9 grandfathered in are probably, without looking at a map,
10 pretty much all vertical wells. There might be one or
11 two short horizontal wells.

12 EXAMINER EZEANYIM: Okay. I think that's
13 it.

14 Anything further, Mr. Rankin?

15 MR. RANKIN: Nothing from me.

16 EXAMINER EZEANYIM: You entered your
17 appearance to be on the record?

18 MR. RANKIN: That's correct.

19 EXAMINER EZEANYIM: Okay. Thank you.

20 At this point, Case Number 14991 will be
21 taken under advisement.

22 (Case Number 14991 concludes, 11:09 a.m.)

23 (Break taken, 11:09 a.m. to 11:18 a.m.)

24 I do hereby certify that the foregoing is
25 a complete record of the proceedings in
the Examiner hearing of Case No. 14991
heard by me on 12/13/13.
[Signature]
Oil Conservation Division, Examiner

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.

19

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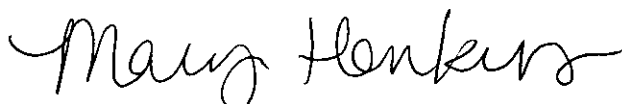
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