

ORIGINAL

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

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

CASE NO. 15053

9 REPORTER'S TRANSCRIPT OF PROCEEDINGS

10 EXAMINER HEARING

11 October 17, 2013

12 Santa Fe, New Mexico

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14 BEFORE: DAVID K. BROOKS, CHIEF EXAMINER

18 This matter came on for hearing before the
19 New Mexico Oil Conservation Division, David K. Brooks,
Chief Examiner, on Thursday, October 17, 2013, at the
20 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
New Mexico CCR #20
24 Paul Baca Professional Court Reporters
500 4th Street, Northwest, Suite 105
25 Albuquerque, New Mexico 87102

1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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EXHIBITS OFFERED AND ADMITTED

21

22 Mewbourne Oil Company Exhibit Numbers 1 through 10 9

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24 Mewbourne Oil Company Exhibit Numbers 11 through 14 13

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1 (8:35 a.m.)

2 EXAMINER BROOKS: Call Case Number 15053,
3 application of Mewbourne Oil Company for a nonstandard
4 oil spacing and proration unit and compulsory pooling,
5 Eddy County, New Mexico.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of
7 Santa Fe representing the Applicant. If the record
8 could reflect I have the same two witnesses, Paul Haden
9 and Nate Cless, who have previously been sworn and
10 qualified as experts.

11 EXAMINER BROOKS: Okay. The record will so
12 reflect.

13 D. PAUL HADEN,
14 after having been previously sworn under oath, was
15 questioned and testified as follows:

16 DIRECT EXAMINATION

17 BY MR. BRUCE:

18 Q. Mr. Haden, could you identify Exhibit 1 for the
19 Examiner?

20 A. Exhibit 1 is a land plat of the area. It shows
21 our proposed project area in the south half-south half
22 of Section 17, Township 20 South, Range 29 East, Eddy
23 County. It also shows the bottom-hole location and the
24 surface location of this proposed well. The location of
25 which is 400 feet from the south line and 200 feet from

1 the west line in Section 17. And the bottom-hole
2 location is 400 feet from the south line and 330 feet
3 from the east line of said Section 17.

4 Q. What is the name of the well?

5 A. This is the proposed Glock 17 MP Federal No. 1H
6 well.

7 Q. And is the formation being pooled the Bone
8 Spring Formation?

9 A. That's correct.

10 Q. What is Exhibit 2?

11 A. Exhibit 2 shows the ownership in the proposed
12 well. This comes from our operating agreement. It
13 shows the pooled -- pooled parties, of which are shown
14 with asterisks beside the names. The total number of
15 these pooled parties represents a 0.9726265 percent
16 working interest.

17 Q. What is Exhibit 3?

18 A. Exhibit 3 is a partial copy of our opinion of
19 title dated July 31st, 2013. It has page 1 of this
20 title opinion, and it also has an exhibit attached to
21 it, which is Exhibit A, which shows the ownership in the
22 well unit.

23 On page 2, it shows who the working
24 interest owners are, as to the Bone Spring Formation,
25 being Mewbourne Oil Company, with a seven-and-a-quarter-

1 percent working interest; Great Western Drilling,
2 Limited with an 8.0595-percent working interest; Davoill,
3 Inc., 4.4405-percent interest; and Brooks Oil & Gas,
4 Interests, Limited, .25 percent.

5 On page 4, five, six, seven, eight and
6 nine, it shows the ownership in the east half of Section
7 17. As you can see, there are numerous owners. These
8 owners came about chain of title through Coquina Oil
9 Corporation. They were limited partners of Coquina Oil
10 Corporation. And, of course, Coquina Oil Corporation is
11 now a defunct company. I believe it merged into either
12 Conoco or Phillips Oil Company.

13 Q. Since it's Coquina, these parties probably
14 acquired their interest about 40 years ago?

15 A. Yes, sir, they did.

16 Q. So I assume there is probably very little in
17 the county or federal records regarding these interest
18 owners?

19 A. That's right.

20 Q. Could you identify Exhibit 4 for the Examiner?

21 A. Exhibit 4 is a summary of the communications
22 with the pooled or proposed pool parties. It indicates
23 the dates in which our well proposals were sent to them.
24 It also indicates the follow-up letters and/or calls to
25 them. It also -- in some of these, it indicates that

1 the letter was sent, but the letter was returned due to
2 a bad address, because these addresses are so old, and
3 some of these people are probably deceased. We used the
4 Internet to try to find these people, and this is the
5 result of that search here.

6 Q. So a number of these people were unlocatable?

7 A. Unlocatable, that's correct.

8 Q. Is Exhibit 5 merely copies of the
9 correspondence backing up Exhibit 4?

10 A. That's correct.

11 Q. In your opinion, has Mewbourne made a
12 good-faith effort either to obtain the voluntary joinder
13 of the interest owners in the well or to locate the
14 whereabouts of the interest owners?

15 A. Yes, we believe we have.

16 Q. What is Exhibit 6?

17 A. Exhibit 6 is a copy of our AFE for this well,
18 which is, again, the Glock 17 MP Federal No. 1H well.
19 It indicates the surface location and bottom-hole
20 location, and also the estimated costs of \$2,395,300,
21 cost to case and point, with a completed well cost of
22 \$5,314,100. This AFE is dated May 3rd, 2013.

23 Q. Is this cost fair and reasonable and in line
24 with the costs of other wells drilled to this depth in
25 Eddy County?

1 A. We find that it is.

2 Q. If parties go nonconsent in this well, do you
3 request that a risk charge of cost plus 200 percent be
4 assessed against them?

5 A. Yes, we do.

6 Q. What overhead rates do you request in this
7 well?

8 A. We are requesting 7,000 for a drilling well
9 rate and \$700 for producing well rate.

10 Q. And are those costs reasonable and in line with
11 the costs of those charged by Mewbourne and other
12 operators in this area?

13 A. In this particular area, correct.

14 Q. Are these also in the JOA with the other
15 locatable working interest owners?

16 A. Yes, they are.

17 Q. And was notice sent to the parties for whom you
18 could locate current addresses?

19 A. Yes. This is Exhibit Number 7.

20 MR. BRUCE: And, Mr. Examiner, if you look
21 at Exhibit 7, the final two pages, I never got anything
22 back from Henry Landers and Grover Swift. As a result,
23 I published another notice in the newspaper, and I'm
24 going to have to ask that this case be continued for two
25 weeks so that the publication can be made and submitted

1 to the Division.

2 EXAMINER BROOKS: Okay.

3 MR. BRUCE: And Exhibit 8, Mr. Examiner, is
4 an Affidavit of Publication for the unlocatable interest
5 owners that was published several weeks ago in the
6 Carlsbad Current-Argus.

7 Q. (BY MR. BRUCE) Mr. Haden, what is Exhibit 9?

8 A. Exhibit 9 is a listing of the offset operators
9 who were notified of our well unit.

10 Q. And other than Mewbourne, the only other
11 operator is Yates Petroleum, correct?

12 A. That's correct.

13 Q. And was notice given to Yates?

14 A. They were.

15 Q. Is that reflected in Exhibit 10?

16 A. That is correct.

17 Q. In your opinion, is the granting of this
18 application in the interest of conservation and the
19 prevention of waste?

20 A. Yes, it is.

21 Q. And were Exhibits 1 through 10 prepared by you
22 or compiled from company business records?

23 A. Yes, they were.

24 MR. BRUCE: Mr. Examiner, I'd move the
25 admission of Exhibits 1 through 10.

1 EXAMINER BROOKS: 1 through 10 will be
2 admitted.

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

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

7 CROSS-EXAMINATION

8 BY EXAMINER BROOKS:

9 Q. Well, I guess everything I really need to know
10 is on the C-102, except that I did not make a notation
11 of their requested overhead rates.

12 A. 7,000 and 700.

13 Q. How come this one is less than the other?

14 A. Well, this is a deeper well. It takes longer
15 to --

16 Q. The other one was 8,000.

17 A. Pardon?

18 Q. The last one was 8,000.

19 A. Yeah, 8,000 and 800.

20 Q. Yeah. And this is 7,000 and 700?

21 A. Yes. Those rates are in our operating
22 agreements.

23 Q. Is that the only reason they're different,
24 because of different operating agreements or --

25 A. Well, these are two different areas.

1 Q. Okay. Have you figured the point where you
2 intend to place the first perforation?

3 A. I'll have to defer to our geologist.

4 Q. Very good. Nothing further.

5 NATE CLESS,

6 after having been previously sworn under oath, was
7 questioned and testified as follows:

8 DIRECT EXAMINATION

9 BY MR. BRUCE:

10 Q. Mr. Cless, what is Exhibit 11?

11 A. Exhibit 11 is an isopach map of the 2nd Bone
12 Spring Sand -- of the lower 2nd Bone Spring Sand
13 interval with a net isopach map. To the bottom left of
14 each vertical wellbore is a number, and that number
15 represents the total net feet in each particular
16 wellbore.

17 This also -- there is also a structure map
18 on here. The structure in this area pretty much runs
19 north-south. I've also identified the location of our
20 proposed horizontal in the south half-south half of
21 Section 17. There is also a location of my next
22 exhibit, which is a cross section A to A prime. There
23 is a two-well cross section going through -- they're
24 going through the two wells that will be passing with
25 this horizontal well.

1 Q. Mr. Cless, there are two horizontals in Section
2 8 and two in Section 18. Are those Mewbourne wells?

3 A. Yes, sir, they are.

4 Q. Would you move on to your Exhibit 12?

5 A. Exhibit 12 is the two-well cross section going
6 through the south half-south half of Section 17. It
7 goes through the wells in 17N, as well as the wells in
8 17O. Again, this is a -- we're targeting the 2nd Bone
9 Spring Sand interval. In this interval, the entire
10 gross thickness of the 2nd Bone Spring Sand is about
11 300-foot thick. We tend to target the lower part of the
12 2nd Bone Spring Sand, and that's what we tend to make
13 our isopach maps on.

14 The porosity in this particular area is
15 about 10 to 12 percent. There are a few vertical
16 producers a little farther to the north. As previously
17 mentioned, we drilled the wells in Section 8, as well as
18 the wells in Section 18. Both of those are east-west
19 horizontals. We've done some microseismic work in the
20 area indicating that east-west is the most efficient way
21 to drill these wells.

22 Q. Looking at your Exhibits 11 and 12, is the 2nd
23 Bone Spring Sand continuous across the proposed well
24 unit?

25 A. Yes, sir, it is.

1 Q. And you would anticipate each quarter-quarter
2 section contributing more or less equally to the
3 production?

4 A. Yes, sir.

5 Q. What is Exhibit 13?

6 A. Exhibit 13 is the production -- production data
7 table of all the Bone Spring horizontals in this
8 particular area. Once again, Mewbourne has drilled all
9 of these wells. We've drilled all of these wells really
10 in the last year to year and a half, and all of these --
11 all of these seem to be good economic wells.

12 I've identified the location of all these
13 particular wells, as well as when they were completed.
14 All of these were completed in the 2nd Bone Spring Sand,
15 as well as the cum oil, gas and water of each particular
16 well.

17 Q. And finally, what is Exhibit 14?

18 A. Exhibit 14 is the -- is our directional
19 drilling plan for this particular well. On the front
20 page of it, I've listed the surface location, as well as
21 our landing point, which will be point -- our point of
22 first completion. That landing point is 400 from the
23 south, 680 from the west. So we will be at a legal
24 location, as well as the bottom hole, 400 from the
25 south, 330 from the east.

1 And then you can just flip through the rest
2 of that, and it just shows the wellbore diagram, as well
3 as the exact location of this other horizontal.

4 Q. And you will use approximately the same number
5 of completions stages as in the prior well?

6 A. Yes, sir.

7 Also, just in regards to that, the overhead
8 rates -- this area is a little bit shallower, so that's
9 also the reason why -- it's shallower than the previous
10 well. That's why the overhead rates are a little bit
11 cheaper.

12 Q. In your opinion, is the granting of this
13 application in the interest of conservation and the
14 prevention of waste?

15 A. Yes, sir.

16 Q. And were Exhibits 11 through 14 prepared by you
17 or compiled from company business records?

18 A. Yes, sir.

19 MR. BRUCE: Mr. Examiner, I'd move the
20 admission of Exhibits 11 through 14.

21 EXAMINER BROOKS: 11 through 14 are
22 admitted.

23 (Mewbourne Exhibit Numbers 11 through 14
24 were offered and admitted into evidence.)

25 MR. BRUCE: I have no further questions of

1 this witness.

2 EXAMINER BROOKS: I don't think I do
3 either.

4 I own an interest in the Derringer well, so
5 I assume Mewbourne will waive the conflict of interest?

6 MR. BRUCE: Yes, we do.

7 EXAMINER BROOKS: In order to complete
8 notice, Case Number 15053 will be continued until
9 October 31st for purposes of notice.

10 And thank you very much, gentlemen.

11 (Case Number 15053 concludes, 8:50 a.m.)

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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. 15053
heard by me on 10-17-13

David K. Brooks, Examiner
Oil Conservation Division

1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO

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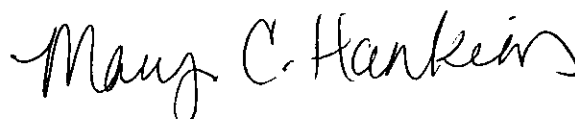
4 CERTIFICATE OF COURT REPORTER

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



20

21 MARY C. HANKINS, CCR, RPR
22 Paul Baca Court Reporters, Inc.
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2013

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