

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES  
DEPARTMENT OIL CONSERVATION DIVISION

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

ORIGINAL

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

CASE NO. 15142

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

May 29, 2014

Santa Fe, New Mexico

BEFORE: PHILLIP GOETZE, CHIEF EXAMINER  
GABRIEL WADE, LEGAL EXAMINER

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This matter came on for hearing before the  
New Mexico Oil Conservation Division, Phillip Goetze,  
Chief Examiner, and Gabriel Wade, Legal Examiner, on  
Thursday, May 29, 2014, at the New Mexico Energy,  
Minerals and Natural Resources Department, Wendell Chino  
Building, 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  
Albuquerque, New Mexico 87102  
(505) 843-9241

## 1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

3 JAMES G. BRUCE, ESQ.  
Post Office Box 1056  
4 Santa Fe, New Mexico 87504  
(505) 982-2043  
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## 21 EXHIBITS OFFERED AND ADMITTED

22 Mewbourne Oil Company Exhibit Numbers 1 through 7 8

23 Mewbourne Oil Company Exhibit Numbers 8 through 11 11

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1 (8:52 a.m.)

2 EXAMINER GOETZE: Let us proceed to Case  
3 15142, application of Mewbourne Oil Company for a  
4 nonstandard oil spacing and proration unit and  
5 compulsory pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of  
8 Santa Fe representing the Applicant. Mr. Mitchell will  
9 be the landman again. I do have one additional witness,  
10 a geologist.

11 EXAMINER GOETZE: Would you stand, state  
12 your name, and the court reporter will swear you in?

13 MR. TOWNSEND: I'm Roger Townsend.

14 (Mr. Townsend sworn.)

15 EXAMINER GOETZE: Proceed.

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

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Mr. Mitchell, could you identify Exhibit 1 and  
22 describe the well we're here for today?

23 A. Exhibit 1 is a Midland Map Company land plat of  
24 Township 20 South, Range 29 East. We have highlighted  
25 our proration unit and proposed well in Section 17. It

1 is our Glock 17 LI Federal #1H well.

2 Q. And do you have the surface and bottom-hole  
3 locations for this one?

4 A. Yes, sir. The surface location is 1,760 from  
5 the south line and 150 from the west line, and the  
6 bottom-hole location is 1,760 from the south line and  
7 330 from the east line.

8 Q. And will the entire producing interval of the  
9 wellbore be orthodox?

10 A. Yes, sir.

11 Q. And what is Exhibit 2?

12 A. Exhibit 2 is a list of the ownership in this  
13 particular well unit. It was our initially proposed --  
14 Exhibit A to the JOA. You can see there are quite a  
15 number of people involved here. All the individuals  
16 that have an asterisk next to their name are the parties  
17 we are seeking to pool.

18 Q. And are they unleased mineral owners?

19 A. No, sir. They are working interest owners.

20 Q. Okay. So they are lessees?

21 A. Yes, sir.

22 Q. And could you identify Exhibit 3 and discuss  
23 your efforts to obtain the voluntary joinder of the  
24 interest owners?

25 A. Exhibit 3 is a summary of our communications,

1 along with the respective copies of that communication  
2 with the individuals. We were unable to locate all of  
3 them, but the ones we were able to locate, we sent  
4 proposal and offer letters to. We tried to find these  
5 people through the records -- county records, Internet  
6 searches and trying to get leads with other individuals  
7 on this property.

8 Q. When did these people acquire their title,  
9 roughly; do you know?

10 A. I believe it was in 1986.

11 Q. So they've been AWOL for about 30 years?

12 A. Yes, sir.

13 Q. In your opinion, has Mewbourne made a  
14 good-faith effort to obtain the voluntary joinder in the  
15 well or to locate a valid address for them?

16 A. Yes, sir.

17 Q. What is Exhibit 4?

18 A. Exhibit 4 is a copy of our AFE which sets out  
19 our estimated well costs in this particular well.

20 Q. And what are the dry hole and total well costs?

21 A. We have estimated dry-hole costs of 2,365,500  
22 and estimated completed costs of 4,856,600.

23 Q. And are these well costs reasonable and in line  
24 with the costs of other wells drilled to this depth in  
25 this area of Eddy County?

1 A. Yes, sir.

2 Q. And do you have a recommendation as to the  
3 overhead rates?

4 A. We would recommend \$7,500 a month for drilling  
5 and \$750 a month for producing.

6 Q. And are these rates fair and reasonable?

7 A. Yes, sir.

8 Q. Do you request that they be adjusted  
9 periodically under the COPAS accounting procedure?

10 A. Yes, sir.

11 Q. Do you request that Mewbourne Oil Company be  
12 appointed operator?

13 A. Yes, sir.

14 Q. And do you request the maximum cost plus 200  
15 percent risk charge as against nonconsent interest  
16 owners?

17 A. Yes, sir.

18 Q. And was notice given to the people who you had  
19 valid addresses for?

20 A. Yes, sir.

21 Q. And is that reflected in Exhibit 5?

22 A. Yes, sir.

23 MR. BRUCE: And, Mr. Examiner, Exhibit 6 is  
24 the affidavit of -- it's the notice that was published  
25 in the Carlsbad newspaper. I have not received the

1 Affidavit of Publication. I will submit that when I  
2 receive it.

3 EXAMINER GOETZE: So are we going to take  
4 this --

5 MR. BRUCE: I guess it's up to you whether  
6 you want me to submit the affidavit at the time next  
7 hearing. It doesn't matter.

8 EXAMINER GOETZE: Let's stay within  
9 protocol. So let's go ahead and let's have you submit  
10 it. We'll continue it to the 12th, and you can get an  
11 affidavit in, and it'll be fair and square then.

12 MR. BRUCE: Okay.

13 Q. (BY MR. BRUCE) And what is Exhibit 7,  
14 Mr. Mitchell?

15 A. Exhibit 7 is a list of the offset operators.

16 Q. And since it was Mewbourne, no one else was  
17 notified, correct?

18 A. Correct.

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

22 A. Yes, sir.

23 Q. And were Exhibits 1 through 7 either prepared  
24 by you or under your supervision or compiled from  
25 company business records?

1 A. Yes, sir.

2 MR. BRUCE: Mr. Examiner, I move the  
3 admission of Exhibits 1 through 7.

4 EXAMINER GOETZE: Exhibits 1 through 7 are  
5 so accepted.

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

9 MR. BRUCE: I have no further questions for  
10 this witness.

11 EXAMINER GOETZE: I have no questions for  
12 this witness either. Thank you.

13 ROGER N. TOWNSEND,  
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. Townsend, where do you reside?

19 A. In Midland, Texas.

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

21 A. For Mewbourne Oil Company as a geologist.

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

24 A. Yes sir.

25 Q. And were your credentials as an expert

1 geologist accepted as a matter of record?

2 A. Yes, sir.

3 Q. Are you familiar with the geology involved in  
4 this application?

5 A. Yes, sir.

6 MR. BRUCE: Mr. Examiner, I tender  
7 Mr. Townsend as an expert petroleum geologist.

8 EXAMINER GOETZE: So qualified.

9 Q. (BY MR. BRUCE) Mr. Townsend, could you identify  
10 Exhibit 8 for the Examiner?

11 A. Yes, sir. Exhibit 8 is a geologic map that has  
12 the proposed location. It also has structural contours  
13 on it and black dipping to the east gently. And it  
14 has -- in the colored contours is a net isopach of this  
15 2nd Bone Spring Sand, and those sands are trending from  
16 the northeast to the -- I mean northwest to the  
17 southeast.

18 There's also identified on there a cross  
19 section, A to A prime, just south of the location in 17,  
20 and also the yellow circles are 2nd Bone Spring Sand  
21 producers in the area.

22 Q. And that is the target of this well; is it not?

23 A. Yes, sir, it is.

24 Q. What is Exhibit 9?

25 A. Exhibit 9 is that cross section, A to A prime.

1 The cross section is hung stratigraphically on the 2nd  
2 Bone Spring Upper Sand, which is the top of the  
3 horizontal target. That's the top red line. And the  
4 horizontal target would be that interval between the two  
5 red lines on the cross section. And the purpose of this  
6 cross section is to give a demonstration that that  
7 interval is very constant across that area.

8 Q. So the target, 2nd Bone Spring, is continuous,  
9 in your opinion, across the proposed well unit?

10 A. Yes, sir.

11 Q. And looking at your Exhibits 8 and 9, from a  
12 geologic standpoint, would each quarter-quarter section  
13 in the well unit contribute more or less equally to the  
14 production?

15 A. Yes, sir, they will.

16 Q. Would you identify Exhibit 10 for the Examiner  
17 and discuss why you're drilling -- Mewbourne is drilling  
18 the wells in this area as lay-downs rather than  
19 stand-ups?

20 A. Yes, sir. Exhibit 10 is a list of the second  
21 sand producers in the area. And all of those wells have  
22 been drilled in the east-west direction, and all of  
23 those wells appear to be having good results. And we  
24 expect to make economic reserves from this proposed well  
25 in the east-west direction.

1 Q. And finally, what is Exhibit 11?

2 A. Yes, sir. Exhibit 11 is a survey from the  
3 Directional Drilling Company, and it is there to  
4 indicate the true vertical depth we intend to be at and  
5 also to indicate where the landing point and terminus of  
6 the lateral will be. And it will be legal for this  
7 zone.

8 Q. The landing point looks to be 400 feet-plus  
9 from the surface location or --

10 A. Yes, sir.

11 Q. And were Exhibits 8, 9, 10 and 11 prepared by  
12 you or compiled from company business records?

13 A. Yes, sir.

14 Q. And in your opinion, is the granting of this  
15 application in the interest of conservation and  
16 preservation of waste?

17 A. Yes, sir.

18 MR. BRUCE: Mr. Examiner, I'd move the  
19 admission of Exhibits 8 through 11.

20 EXAMINER GOETZE: Exhibits 8 through 11 are  
21 accepted.

22 (Mewbourne Oil Company Exhibit Number 8  
23 through 11 were offered and admitted into  
24 evidence.)

25 MR. BRUCE: And I have no further questions

1 of the witness.

2 CROSS-EXAMINATION

3 BY EXAMINER GOETZE:

4 Q. With regards to your evidence presented in  
5 Exhibit Number 10, we have primarily east-west wells.  
6 Do we have any north-south in the area regarding  
7 production?

8 A. Not in this nine-section area. And in general,  
9 in the area, outside of this nine-section area, we found  
10 that east-west is the best direction to go.

11 Q. So pretty much everyone has decided this is the  
12 best way to go?

13 A. Yes, sir.

14 Q. Very good. At this point, I don't see any  
15 other questions regarding this case.

16 EXAMINER GOETZE: And since we still have  
17 an affidavit out there, Case Number 15142 will be  
18 continued to June 12th for submittal of the affidavit.

19 (Case Number 15142 concludes, 9:04 a.m.)

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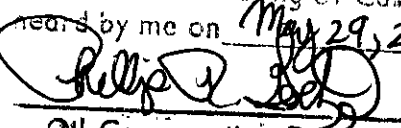
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I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 15142  
heard by me on May 29, 2014  
  
Phillip J. Goetz, Examiner  
Oil Conservation Division

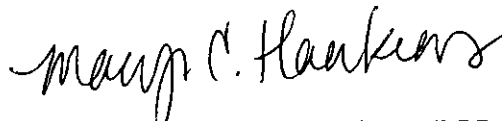
1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO  
3

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.

19   
20

21 MARY C. HANKINS, CCR, RPR  
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