

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 CASE NO. 15158
FOR A NONSTANDARD OIL SPACING AND
PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO.

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 10, 2014

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER

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This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, on Thursday, July 10, 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
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1 APPEARANCES

2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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1 (10:21 a.m.)

2 EXAMINER McMILLAN: I will call Case Number
3 15158, 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. I have two
9 witnesses, Mr. Haden and Mr. Cless, who were previously
10 sworn and qualified as an expert landman and geologist.

11 EXAMINER McMILLAN: Any other appearances?

12 PAUL HADEN,

13 after having been previously sworn under oath, was
14 questioned and testified as follows:

15 DIRECT EXAMINATION

16 BY MR. BRUCE:

17 Q. Mr. Haden, are you familiar with the land
18 matters involved in this application?

19 A. Yes, I am.

20 Q. What is Exhibit 1?

21 A. Exhibit Number 1 is a land plat of the area.
22 It shows our proposed nonstandard proration unit, which
23 is in the west half of the west half of Section 11.
24 This is in Township 18 South, Range 31 East, Eddy
25 County, New Mexico. It also indicates two tracts.

1 Tract Number 1 being the west half of the northwest
2 quarter and Tract Number 2 being the west half of the
3 southwest quarter in Section 11.

4 Q. And what formation is being pooled in this
5 well?

6 A. This is the Wolfcamp Formation.

7 Q. And who is the only interest owner being force
8 pooled?

9 A. This is Ard Oil, Limited.

10 Q. And what is Exhibit 2?

11 A. Exhibit 2 is tract ownership for the west half
12 of Section 11 -- actually for the west half-west half of
13 Section 11.

14 Q. Or the west half-west half?

15 A. Yes. The west half-west half of Section 11.

16 Q. And on this list, it says "Ard Oil" -- it also
17 mentions Javelina Partners, but I believe they have
18 joined in the well; is that correct?

19 A. They have joined in the well, yes.

20 Q. So the only interest owner is Ard Oil?

21 A. Ard Oil, Limited, correct.

22 Q. And have we -- just as background for the
23 Examiner, has Mewbourne been in wells -- a number of
24 wells with Ard Oil over the last several years?

25 A. Yes. In fact, very recently in the east half

1 of the west half of Section 11, they also were pooled,
2 and this was the subject to Order Number R-13771.

3 Q. Is the problem that they never respond?

4 A. They never respond.

5 Q. And they haven't -- have they responded in this
6 case?

7 A. They have not responded in this case at all.

8 Q. And have they not responded in the prior cases
9 in which you have force pooled?

10 A. They have never responded to any of our
11 proposals in the past several years.

12 Q. And what is Exhibit 3?

13 A. Exhibit 3 is a letter sent to -- to Ard Oil,
14 Limited proposing our well and/or offering to purchase a
15 term assignment from them, and they did not want to
16 participate in this well. We have sent via overnight
17 mail, and we have evidence that they did receive a
18 package. The reason why we sent it overnight mail is
19 that they never respond to certified mail at all. They
20 just never pick it up. But for overnight FedEx mail,
21 they do get the package from us.

22 Q. And in response to one of the Examiner's
23 questions on the other hearings, what type of land is
24 involved in this application?

25 A. This is federal land.

1 Q. All federal land?

2 A. All federal, yes, sir.

3 Q. And, again, Ard Oil did not respond to the
4 overnighted proposal?

5 A. They did not.

6 Q. And this is a valid address for Ard Oil?

7 A. This is a valid address.

8 Q. So there was no need to notify any unlocatable
9 interest owners?

10 A. No, sir.

11 Q. And in your opinion, has Mewbourne made a
12 good-faith effort to obtain the voluntary joinder of Ard
13 Oil, Limited in this well?

14 A. Yes, we have.

15 Q. Could you move to the last page of Exhibit 3
16 and identify that and describe the cost of the proposed
17 well?

18 A. Yes. This is a copy of our AFE for the Tamano
19 11 MD Fed #1H well. It sets forth the surface and
20 bottom-hole location of this well. This also sets forth
21 the estimated cost to casing point, which is \$2,226,200,
22 with an estimated completed well cost of \$4,168,900.

23 Q. And are these costs equivalent to the costs of
24 other wells drilled to the Bone Spring Formation in this
25 area of southeast New Mexico?

1 A. That's correct.

2 Q. Do you believe these costs are fair and
3 reasonable?

4 A. They are fair and reasonable, yes.

5 Q. And was notice of this application mailed to
6 Ard Oil?

7 A. Yes, they were.

8 MR. BRUCE: And, actually, Mr. Examiner,
9 someone did sign for my green card, but it was probably
10 because it wasn't coming from Mewbourne Oil Company.

11 And, Mr. Examiner, Exhibit 5 is my
12 Affidavit of Notice to offsets.

13 Q. (BY MR. BRUCE) Mr. Haden, does the notice
14 letter correctly list all of the offset operators to the
15 proposed nonstandard unit?

16 A. Yes, it does.

17 MR. BRUCE: And, Mr. Examiner, everybody
18 received notice, for a change.

19 Q. (BY MR. BRUCE) Does Mewbourne request that it
20 be appointed operator of the well?

21 A. We so request.

22 Q. Do you have a recommendation for the overhead
23 rates?

24 A. 7,000 for a drilling well rate and \$700 per
25 month for a producing well rate.

1 Q. And are those the amounts that are set forth in
2 the JOA which other working interest owners have signed?

3 A. That's correct.

4 Q. And are these amounts fair and reasonable for
5 wells of this depth in this area?

6 A. They are.

7 Q. Does Mewbourne request the maximum cost plus
8 200 percent risk charge if Ard Oil goes nonconsent in
9 this well?

10 A. We do.

11 Q. And were Exhibits 1 through 5 either prepared
12 by you or compiled from company business records?

13 A. Yes, they were.

14 Q. And is the granting of this application in the
15 interest of conservation and the prevention of waste?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move the
18 admission of Exhibits 1 through 5?

19 EXAMINER McMILLAN: So accepted.

20 (Mewbourne Oil Company Exhibit Numbers 1
21 through 5 were offered and admitted into
22 evidence.)

23 MR. BRUCE: No further questions.

24 CROSS-EXAMINATION

25 BY EXAMINER McMILLAN:

1 Q. For clarification, what pool is this?

2 A. This is the Tamano-Bone Spring. Let's see.

3 Yeah, Tamano-Bone Spring.

4 MR. BRUCE: Yeah. I believe that's right.

5 THE WITNESS: The code is 58040.

6 Q. (BY EXAMINER McMILLAN) And do you have an API
7 number?

8 A. Yes. It's 30-01541349.

9 MR. BRUCE: Mr. Examiner, there is one
10 thing in this case that is a little unusual. And
11 Mr. Haden can confirm this. Due to depth severances,
12 the pooling is only from the base of the 2nd Bone Spring
13 carbonate to the base of the Bone Spring Formation.

14 EXAMINER McMILLAN: Excuse me. Please
15 repeat that.

16 MR. BRUCE: From the base of the 2nd Bone
17 Spring carbonate to the base of the Bone Spring
18 Formation.

19 EXAMINER McMILLAN: So you're only
20 interested in that small interval? That's what you're
21 pooling?

22 THE WITNESS: Correct.

23 MR. BRUCE: Correct. And I don't have the
24 case number, Mr. Examiner, but you'll see with the
25 geologist's testimony, there is an offsetting well. And

1 that -- I believe that well -- the pooling order in that
2 case also had the same depth restriction.

3 Q. (BY EXAMINER McMILLAN) And the proration unit
4 is in the west half-west half?

5 A. Correct.

6 Q. And is the Tamano-Bone Spring statewide?

7 MR. BRUCE: Yes, I believe it is. I will
8 verify that.

9 EXAMINER McMILLAN: So 330 from 40?

10 MR. BRUCE: That is correct.

11 EXAMINER McMILLAN: West half of the west
12 half; 11, 18 South, 31 East?

13 THE WITNESS: That's correct.

14 EXAMINER McMILLAN: I have no further
15 questions at this time. Thank you.

16 THE WITNESS: Thank you, Mr. Examiner.

17 NATE CLESS,
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. Cless, are you familiar with the geology
23 involved in this application?

24 A. Yes, sir, I am.

25 Q. Could you identify Exhibit 6 for the Examiner?

1 A. Exhibit 6 is an isopach and structure map. The
2 isopach is of the lower 2nd Bone Spring sand. It's a
3 gross isopach map, and the structure is on the base of
4 the lower 2nd Bone Spring sand interval. You can see
5 all the green laterals are all the horizontals that have
6 been drilled in this area. Mewbourne has drilled in
7 Section 10, as well as in Section 15 and Section 11.

8 I've also identified other Bone Spring
9 producers in this area. All the yellow circles are the
10 2nd Bone Spring sand producers, and the blue circles are
11 the 2nd Bone Spring carbonate producers.

12 So as Mr. Bruce was talking about the
13 severance, the severance is basically -- because we
14 don't have the rights to -- the rights to those 2nd Bone
15 Spring carbonate producers, and I'll show you on my
16 cross section where that severance line is.

17 Q. So there are -- a number of these Bone Spring
18 carbonate wells are still producing?

19 A. Yes, they are.

20 Q. And it looks like the thickness of the Bone
21 Spring is pretty consistent across all of Section 11?

22 A. Yeah. I'll show you on my cross section, but
23 it's roughly 100 feet. The gross interval of the -- of
24 the smaller interval is roughly 100 feet.

25 Q. Let's move on to your Exhibit 7.

1 A. Exhibit 7 is a four-well cross section going
2 through all four 40s that we will be going through in
3 our proposed well. You can see on the right-hand side
4 of the cross section I've listed the upper 2nd Bone
5 Spring sand and the lower 2nd Bone Spring sand.
6 Basically, that top purple line is where the rights are
7 severed, basically above that purple line in the 2nd
8 Bone Spring and even below that purple line in the 2nd
9 Bone Spring sand.

10 Where we're targeting is the lower 2nd Bone
11 Spring. So, again, as you can see across all four of
12 these wells, there is a uniform gross thickness across
13 there, and the porosity throughout each of these wells
14 is roughly 10 or 12 percent.

15 Q. In your opinion, will each quarter-quarter
16 section of the well unit contribute more or less equally
17 to the production of the well?

18 A. Yes.

19 Q. And is there any type of faulting or other
20 geologic impediment that would prevent the proper
21 drilling of this well?

22 A. No, sir.

23 Q. What is Exhibit 8?

24 A. Exhibit 8 is just a production table of the
25 horizontal Bone Spring wells that Mewbourne has drilled.

1 And so, again, we've drilled three wells in Section 10.
2 Those are the first three wells on here. Those are all
3 east-west wells. I've listed everything from the
4 locations of them to the oil, gas and water. And then
5 the last column is the peak month oil. And then I've
6 also listed the well in Section 15, as well as the
7 north-south well in Section 11.

8 So if you look at that last column, the
9 Peak Month Oil column, you can see that the first two
10 wells we drilled came on at about 10,000 barrels the
11 first month. And then as we went south, the wells came
12 on at 7- and 8,000 barrels for the first month. And
13 then when we drilled the east-west -- or the north-south
14 well, it also came on at just over 8,000 barrels the
15 first month.

16 So weren't seeing a whole lot of difference
17 between north-south and east-west. Also, the fact that
18 we've established -- we've already established stand-ups
19 in Section 11, we've kind of forced ourselves in
20 drilling another stand-up well in the west half-west
21 half of Section 11.

22 Q. So at this point, you don't see much difference
23 in stand-ups or lay-downs in this area?

24 A. Not a whole lot.

25 Q. Finally, what is Exhibit 9?

1 A. Exhibit 9 is just the horizontal well plan of
2 our proposed well. Again, it shows our surface location
3 of 188 -- 188 feet from the south line, 903 from the
4 west, a landing point of 680 from the south, 898 from
5 the west, so we will get a legal landing location; and
6 our bottom hole of 330 from the north, 850 from the
7 west. So, again, we will be at legal locations.

8 Q. Were Exhibits 6, 7 and 8 prepared by you?

9 A. Yes, they were.

10 Q. And was Exhibit 9 compiled from company
11 business records?

12 A. Yes, it was.

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

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I'd move the
18 admission of Exhibits 6, 7, 8 and 9.

19 EXAMINER McMILLAN: So accepted.

20 (Mewbourne Oil Company Exhibit Numbers 6
21 through 9 were offered and admitted into
22 evidence.)

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

25

1 CROSS-EXAMINATION

2 BY EXAMINER McMILLAN:

3 Q. Once again, do you think there will be any
4 difference in ultimate cums from north-south to
5 east-west?

6 A. I don't believe so. I mean, you can see on
7 that production data table the initial months are -- the
8 initial peak months are fairly similar. And I guess
9 just looking at the -- see, that north-south well we
10 drilled was -- we only have a couple months of
11 production on it. It was completed in February of this
12 year, and it's made 19,000 barrels. And then -- let's
13 see. If you look at the well that's above that, the
14 well in Section 15, it was completed about a year
15 earlier, and it's making 42,000 barrels of oil. So I
16 think it's -- the well in Section 11 versus the well in
17 Section 15 is kind of on track. We'll probably have the
18 same ultimate recovery, so I don't believe there is a
19 whole lot of difference in it.

20 Q. So why did they drill the northwest well in
21 Section 2? Do you have any idea? I've just never quite
22 seen that.

23 A. It was a -- it was a reentry, and I'm not sure
24 why they did that. But it was -- it was a 2nd Bone
25 Spring vertical producer, and then they went and

1 re-entered that. So I'm not sure what they were
2 thinking, but --

3 MR. BRUCE: That's not a Mewbourne well.

4 THE WITNESS: It's not a Mewbourne.

5 EXAMINER McMILLAN: I hadn't seen that
6 before. I didn't know if you knew.

7 I have no further questions.

8 And Case Number 15158 will be taken under
9 advisement.

10 (Case Number 15158 concludes, 10:38 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. _____
heard by me on _____.

_____, 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 

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