

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 COMPULSORY POOLING AND AN
UNORTHODOX GAS WELL LOCATION, EDDY
COUNTY, NEW MEXICO.

CASE NO. 15508

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 21, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER

RECEIVED OCT 16 2016

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, and William V. Jones, Technical
Examiner, on Thursday, July 21, 2016, 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

APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

JAMES G. BRUCE, ESQ.
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043
jamesbruc@aol.com

INDEX

	PAGE
Case Number 15508 Called	3
Mewbourne Oil Company's Case-in-Chief:	
Witnesses:	
Clayton Pearson:	
Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner McMillan	9
Cross-Examination by Examiner Jones	11
Nate Cless:	
Direct Examination by Mr. Bruce	11
Cross-Examination by Examiner McMillan	14
Cross-Examination by Examiner Jones	16
Proceedings Conclude	18
Certificate of Court Reporter	19

EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 7	9
Mewbourne Oil Company Exhibit Numbers 8 through 11	14

1 (9:16 a.m.)

2 EXAMINER McMILLAN: I'll now call Case
3 15508, application of Mewbourne Oil Company for
4 compulsory pooling and a nonorthodox gas well location,
5 Eddy County, New Mexico.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant.

9 EXAMINER McMILLAN: Any other appearances?
10 Okay.

11 MR. BRUCE: Mr. Examiner, I have two
12 witnesses. They are Mr. Pearson and Mr. Cless who
13 previously testified so if the record would reflect that
14 they have been so qualified.

15 EXAMINER McMILLAN: So accepted.

16 CLAYTON PEARSON,
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. Pearson, could you identify Exhibit 1 for
22 the Examiner?

23 A. Exhibit 1 is a land plat showing the proration
24 unit and wellbore of the Speedwagon 27 WDM Fee #1H well
25 located in the west half of Section 27, Township 23

1 South, Range 28 East, Eddy County, New Mexico. The
2 yellow box highlights the west half proration unit
3 containing 23 acres, and the red line indicates the
4 wellbore.

5 Q. And what formation is being force pooled?

6 A. The Wolfcamp Formation.

7 Q. And as to the location, will the next witness
8 have the original beginning and end of the producing
9 intervals?

10 A. Yes. Yes, he will. Yes, sir.

11 Q. And what type of land is involved in this
12 application?

13 A. This is all fee lands.

14 Q. Could you identify Exhibit 2 for the Examiner?

15 A. Yes. Exhibit 2 is the tract ownership that
16 makes up the west half of Section 27. There are
17 numerous lots, some with similar ownership, undivided
18 ownership across it. And out to the right, the
19 rightmost column, there is an asterisk. That is the
20 parties that are being pooled.

21 Q. And what is Exhibit 3?

22 A. Exhibit 3 is a summary of communications we've
23 had with the parties that we wish to pool today. It
24 also shows -- or it has copies of the letters, as well
25 as proof of delivery for each of those letters.

1 Q. And each of those letters, as you say here, the
2 proposals were delivered to and anticipated by the
3 addressees?

4 A. Correct.

5 Q. Have any of the parties expressed an interest
6 in joining the well or leasing?

7 A. Yes, several have, I believe the Qualls'
8 interest. I've spoken with him on the phone just
9 recently, and he was thinking about the terms we offered
10 for a lease. And one other party -- let me see here. I
11 believe Gwenda L. Taft recently called me and had a few
12 questions, so I summarized where we were in the process
13 and what the options were.

14 Q. Will you continue working with these parties if
15 they desire to lease?

16 A. Yes.

17 Q. And if you do come to terms with some of these
18 people, will you notify the Division so that the
19 Division knows they are not subject to the pooling
20 order?

21 A. We will.

22 Q. In your opinion, has there been a good-faith
23 effort to obtain the voluntary joinder of the parties?

24 A. Yes.

25 Q. What is Exhibit 4?

1 A. Exhibit 4 is a copy of the AFE associated with
2 the well. It shows the total well cost of \$8.3 million.

3 Q. And has this well been drilled?

4 A. It has been drilled and completed. We've had
5 some title issues. There were some questions about the
6 validity of some leases that weren't properly pooled
7 back in the early 2000s. We were working with another
8 operator of that well, and they were trying to do some
9 curative in the meantime, but they haven't had any
10 success.

11 Q. Okay.

12 MR. BRUCE: So, Mr. Examiner, there was a
13 prior order in this case being -- well, it's Case 15384.

14 EXAMINER JONES: We can find it.

15 Q. (BY MR. BRUCE) Let's go into that a little bit,
16 Mr. Pearson. At the time of the original pooling order,
17 the other operator, I believe, did they inform Mewbourne
18 that they thought the leases were valid and they were
19 going to take action to the cure title issues?

20 A. Correct.

21 Q. But subsequently --

22 A. They haven't had any success in curing any of
23 the title defects associated with the lack of pooling on
24 the previous well -- vertical well, so we've then
25 offered to lease these interests that are outstanding

1 that we thought were going to get wrapped up.

2 Q. And since it wasn't wrapped up, you filed the
3 subsequent pooling?

4 A. Correct.

5 Q. Now, the cost of the well at that time, was
6 that well cost fair and reasonable?

7 A. Yes.

8 Q. For a Wolfcamp well of that depth?

9 A. Correct.

10 Q. And as to the -- what is Exhibit 5?

11 A. Exhibit 5 shows the offset ownership associated
12 with this acreage. It lists the parties that were
13 identified in our application.

14 MR. BRUCE: And, Mr. Examiner, the prior
15 case, which was heard in late 2015, an unorthodox well
16 location was granted for that, but we notified offsets
17 again.

18 And, Mr. Examiner, Exhibit 6 is my
19 Affidavit of Notice to the affected offsets, and they
20 all received actual notice.

21 Q. (BY MR. BRUCE) Mr. Pearson, what overhead rates
22 do you request?

23 A. 7,500 for drilling months and 750 for
24 nondrilling months.

25 Q. Are those fair and reasonable rates charged by

1 other operators in this area?

2 A. Yes.

3 Q. And do you request a maximum cost plus 200
4 percent penalty in the event one of the unleased mineral
5 interest owners does not join in the well?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, Exhibit 7 is my
8 Affidavit of Notice to the parties being pooled. Even
9 though Mewbourne sent letters that were all delivered, I
10 do not have green cards back from Glenda -- Gwenda Taft
11 and Reba Robertson. So, unfortunately, once again, I'd
12 like a two-week continuance to hopefully get the green
13 cards.

14 EXAMINER JONES: You've been talking to her
15 to sign it?

16 THE WITNESS: There is some confusion as to
17 their lease and if they'll still get paid on the well.
18 We're working with multiple parties to try to get this
19 corrected as soon as possible. But I think we'll come
20 to an agreement where we can lease and not cloud the
21 title on the other operator.

22 MR. BRUCE: It'll get worse today before it
23 gets better, Mr. Examiner (laughter).

24 Q. (BY MR. BRUCE) Were Exhibits 1 through 7
25 prepared by you or under your supervision?

1 A. They were.

2 Q. In your opinion, is the granting of this
3 application in the interest of conservation and the
4 prevention of waste?

5 A. Yes.

6 MR. BRUCE: Mr. Examiner, move the
7 admissions of Exhibits 1 through 7.

8 EXAMINER McMILLAN: Exhibits 1 through 7
9 may now be accepted as part of the record.

10 (Mewbourne Oil Co. Exhibit Numbers 1
11 through 7 are offered and admitted into
12 evidence.)

13 CROSS-EXAMINATION

14 BY EXAMINER McMILLAN:

15 Q. Okay. First question: Is the API number 46?

16 A. 95.

17 Q. 95.

18 Now, this Case Number 15384, did it pertain
19 to this well?

20 MR. BRUCE: Yes, Mr. Examiner, it did, but
21 other parties were pooled.

22 Q. (BY EXAMINER McMILLAN) In essence, you created
23 the spacing unit right from 15384, but you found there
24 is a question -- there is a title question. That's all
25 you're saying?

1 A. Correct.

2 MR. BRUCE: Actually, in that first case,
3 only one party pooled because the other operator
4 informed -- and this is on the record. The other
5 operator informed Mewbourne that they were taking care
6 of these title issues, and that didn't happen.

7 EXAMINER McMILLAN: But the spacing unit
8 was created?

9 MR. BRUCE: That is correct.

10 EXAMINER McMILLAN: Okay.

11 MR. BRUCE: Yeah.

12 Q. (BY EXAMINER McMILLAN) And so there were no
13 unlocatable interests, correct?

14 A. I believe that's correct. I think we were able
15 to find an address for each of the parties.

16 Q. Any depth severances?

17 A. There is one depth severance, the base of the
18 Bone Spring.

19 Q. Okay. But no -- I guess my question wasn't
20 clear. Within the Wolfcamp, within the spacing unit,
21 are there depth severances?

22 A. There are no depth severances.

23 EXAMINER McMILLAN: Go ahead.

24

25

1 CROSS-EXAMINATION

2 BY EXAMINER JONES:

3 Q. Are we sure this is Wolfcamp gas, or is there a
4 Wolfcamp oil? Is it within a Wolfcamp pool?

5 A. Yes. I believe it's a Culebra -- pool code
6 75750 -- Bluff-Wolfcamp-South.

7 Q. South, gas. Okay. Okay.

8 EXAMINER McMILLAN: I don't have any
9 questions.

10 Thank you very much.

11 MR. BRUCE: Again, Nate Cless will be the
12 geologist.

13 NATE CLESS,
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. Cless, first of all, this well is at 23
19 South, 28 East, correct?

20 A. Correct.

21 Q. And the next two wells in the next two cases
22 Mewbourne has, they're just immediately to the south of
23 this, correct?

24 A. That's correct.

25 Q. So your testimony in this case will be

1 generally applicable to all three cases?

2 A. Yes. All the Wolfcamp wells that we've talked
3 about today are all right in this immediate area.

4 Q. Could you identify Exhibit 8 for the Examiner?

5 A. Yeah. Exhibit 8 is a structure map on the top
6 of the Wolfcamp Formation. I've also identified the --
7 the -- the other horizontal Wolfcamp wells, as well as
8 the -- there is one vertical Wolfcamp producer in this
9 area. The vertical producer is, again, in Section 34,
10 and the two Wolfcamp horizontals are in Section 35.
11 Both of those were drilled by Mewbourne. The proposed
12 wellbore is in the west half of 27, and it's outlined
13 with the red wellbore on here.

14 Q. And the next two Wolfcamp cases apply to wells
15 that are in the south half of 33 and then the adjoining
16 Section 4 to the south, correct?

17 A. That's correct.

18 Q. Could you identify Exhibit 9 for the Examiner?

19 A. Yeah. Exhibit 9 is a three-well cross section
20 going around all these -- all these wells around our
21 Speedwagon horizontal. Again, it's in the Wolfcamp
22 Formation, with the top of the Wolfcamp being the top of
23 the cross section. Similar to the last case, the
24 landing of this well is in the same -- same part of
25 Wolfcamp B, so the Lower Wolfcamp Shale. And you can

1 just see in this -- on this three-well cross section,
2 you can see the consistency of the Wolfcamp Formation,
3 as well as the porosity of this interval. So we believe
4 that all four -- all of this entire west half will more
5 or less contribute equally and be productive.

6 Q. What is Exhibit 10?

7 A. Exhibit 10 is a production data table of the
8 Wolfcamp producers in this area. The first well on
9 there is the vertical Wolfcamp well located in Section
10 34. Again, that well was drilled in 1986. And then the
11 other two wells are the two -- two Wolfcamp horizontals
12 that Mewbourne has drilled, one in 2014, one in 2015.

13 The well in 2015 -- these exhibits that I'm
14 presenting today are the same exhibits that were
15 presented when this case was originally heard. And so
16 at the time, that second well had just been drilled.
17 That's why it's only showing one, basically 1,000
18 barrels of oil produced to date. But currently, these
19 wells are very productive, and both -- and as I
20 previously said, we -- we've had great success down here
21 in the Wolfcamp Formation with these horizontals.

22 Q. And what is Exhibit 11?

23 A. Exhibit 11 is the -- is the -- the -- the
24 horizontal well plan of our -- of our proposed wellbore.

25 Q. And what is the first take point, and what is

1 the last take point for the well?

2 A. Our first take point will be 590 from the
3 north, 698 from west, and our last take point will be
4 330 from the south, 660 from the west.

5 Q. And were Exhibits 8 through 11 prepared by you
6 or under your direction and supervision?

7 A. Yes, they were.

8 Q. And in your opinion, is the granting of the
9 application in the interest of conservation and the
10 prevention of waste?

11 A. Yes.

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

14 EXAMINER McMILLAN: Exhibits 8 through 11
15 may now be accepted as part of the record.

16 (Mewbourne Oil Co. Exhibit Numbers 8
17 through 11 are offered and admitted into
18 evidence.)

19 MR. BRUCE: I have no further questions.

20 CROSS-EXAMINATION

21 BY EXAMINER McMILLAN:

22 Q. Okay. The question I've got, in Case Number
23 15384, you said that this unorthodox location was proved
24 then?

25 MR. BRUCE: Yes. But I think, again, we

1 only got approval for the last take point.

2 EXAMINER McMILLAN: Oh, okay.

3 MR. BRUCE: Because I think the -- the
4 original beginning of the producing interval was going
5 to be about 6- or 880 --

6 THE WITNESS: Yeah. Correct.

7 MR. BRUCE: -- from the north.

8 EXAMINER McMILLAN: So I assume everybody
9 in the -- all the affected parties in 21, 22, 28, 33 and
10 34 were notified?

11 MR. BRUCE: Yes, sir.

12 Q. (BY EXAMINER McMILLAN) What's the oil gravity?

13 A. 58.

14 Q. GOR?

15 A. 21,000.

16 Q. You don't know the characteristics?

17 A. No, sir.

18 Q. And are there other objectives in the same
19 spacing unit in the Wolfcamp?

20 A. Yes, we believe so. I mean, we believe coming
21 up, there are a couple of other shale benches, and then
22 also at the very top of the Wolfcamp, there is what we
23 call the Wolfcamp sand. And other operators have
24 drilled and completed wells in this area, and they've
25 been proven successful. So we have plans to drill that

1 as well.

2 Q. So you're going to have multiple wells in the
3 Wolfcamp in the spacing unit?

4 A. Correct.

5 EXAMINER McMILLAN: Okay. Go ahead.

6 CROSS-EXAMINATION

7 BY EXAMINER JONES:

8 Q. Okay. So you'll have multiple wells in the
9 spacing unit, but you're primarily drilling it for the
10 liquids; is that correct?

11 A. As you go -- I mean, right now, actually --
12 as you go vertically deeper into the formation, you're
13 getting more gas. The GOR's higher. As you go up into
14 these Wolfcamp sands, the GOR is getting more, 4,000,
15 3-, 4,000, and so you're getting more liquid as you go
16 up north.

17 A lot of these, we're kind of drilling our
18 deepest formation right now not only because it's very
19 productive but also for lease purposes. And some of our
20 leases have -- you have to drill to the deepest depth.
21 You earn [sic] down to your deepest depth.

22 Q. Oh.

23 A. And so some of these wells -- we're drilling
24 basically in the formation and working our way up.

25 Q. Be a good time for you to drill a pilot hole

1 and test it all the way up.

2 A. Yeah.

3 Q. Is this -- you're -- in the last case, we did
4 ask about the COPAS, didn't we? Did we not, in the last
5 case?

6 MR. BRUCE: Both of them, yes.

7 EXAMINER JONES: Yeah. Okay.

8 Q. (BY EXAMINER JONES) And this take point you're
9 talking about, is that somewhere in this -- in this --

10 A. Yes. It's in the last exhibit.

11 Q. Okay.

12 A. I guess it'll show our landing point and
13 then -- so --

14 Q. Okay. I don't have to remember those. He
15 (indicating) remembers them, but I don't.

16 So did you pick the well name, or did
17 Mr. Pearson get to pick all the well names?

18 A. No. We've -- combined, we've got a group that
19 picks a lot of the names in here.

20 Q. Okay.

21 EXAMINER McMILLAN: No more questions.

22 EXAMINER JONES: No?

23 EXAMINER McMILLAN: Thank you very much.

24 And Case Number 15508 will be continued to
25 August the 4th.

(Break taken 9:37 a.m.)

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, Certified Court
6 Reporter, New Mexico Certified Court Reporter No. 20,
7 and Registered Professional Reporter, do hereby certify
8 that I reported the foregoing proceedings in
9 stenographic shorthand and that the foregoing pages are
10 a true and correct transcript of those proceedings that
11 were reduced to printed form by me to the best of my
12 ability.

13 I FURTHER CERTIFY that the Reporter's
14 Record of the proceedings truly and accurately reflects
15 the exhibits, if any, offered by the respective parties.

16 I FURTHER CERTIFY that I am neither
17 employed by nor related to any of the parties or
18 attorneys in this case and that I have no interest in
19 the final disposition of this case.

20

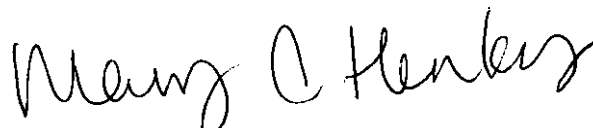
21

22

23

24

25



MARY C. HANKINS, CCR, RPR
Certified Court Reporter
New Mexico CCR No. 20
Date of CCR Expiration: 12/31/2016
Paul Baca Professional Court Reporters