

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, LEA COUNTY,
NEW MEXICO.

CASE NO. 15553

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

September 29, 2016

Santa Fe, New Mexico

BEFORE: MICHAEL McMILLAN, CHIEF EXAMINER
WILLIAM V. JONES, TECHNICAL EXAMINER
DAVID K. BROOKS, LEGAL EXAMINER

This matter came on for hearing before the
New Mexico Oil Conservation Division, Michael McMillan,
Chief Examiner, William V. Jones, Technical Examiner,
and David K. Brooks, Legal Examiner, on Thursday,
September 29, 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

FOR INTERESTED PARTY BLACK MOUNTAIN OPERATING, LLC:

J. SCOTT HALL, ESQ.
MONTGOMERY & ANDREWS LAW FIRM
325 Paseo de Peralta
Santa Fe, New Mexico 87501
(505) 982-3873
shall@montand.com

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1 (9:54 a.m.)

2 EXAMINER McMILLAN: I'd like to call Case
3 Number 15553, application of Mewbourne Oil Company for a
4 nonstandard oil spacing and proration unit and
5 compulsory pooling.

6 Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce of
8 Santa Fe representing the Applicant. I have two
9 witnesses.

10 EXAMINER McMILLAN: Any other appearances?

11 MR. HALL: Mr. Examiner, Scott Hall,
12 Montgomery & Andrews, all from Santa Fe, appearing on
13 behalf of Black Mountain Operating, LLC. I have no
14 witnesses. I have only brief examination.

15 EXAMINER McMILLAN: Thank you.

16 MR. BRUCE: Mr. Examiner, my witnesses are
17 the same as in the prior case.

18 COREY MITCHELL,

19 after having been previously sworn under oath, was
20 questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Would you please state your name for the
24 record?

25 A. Corey Mitchell.

1 Q. Are you a landman for Mewbourne?

2 A. I am.

3 Q. And were you previously sworn and qualified as
4 an expert petroleum landman today?

5 A. Yes, sir.

6 Q. Are you familiar with the land matters in this
7 case?

8 A. I am.

9 MR. BRUCE: Mr. Examiner, I tender
10 Mr. Mitchell as an expert petroleum landman.

11 MR. HALL: No objection.

12 EXAMINER McMILLAN: So qualified.

13 Q. (BY MR. BRUCE) Mr. Mitchell, can you identify
14 Exhibit 1 and discuss its contents for the Examiners?

15 A. Exhibit 1 is a Midland Map Company land plat
16 showing portions of Township 23 South, Range 34 East,
17 Lea County, New Mexico. On the map is highlighted our
18 proposed well and spacing unit in Section 15.

19 Q. And what is the name of the well?

20 A. The well is the Pronghorn 15 B3DM Fed Com #1H.

21 Q. What are the beginning and ends of the
22 producing interval for that well?

23 A. It is 185 foot from the north line and 450 feet
24 from the west line, and that's the surface location.
25 The bottom-hole location is 330 feet from the south line

1 and 450 foot from the west line.

2 Q. And the producing interval will be orthodox; is
3 that correct?

4 A. Yes, sir.

5 Q. What is Exhibit 2?

6 A. Exhibit 2 is our tract ownership which sets out
7 the owners in this project. The parties we are seeking
8 to force pool are noted with an asterisk next to their
9 names. I'd say a good portion of these -- three or four
10 of these have sent in their AFE, and we're just waiting
11 on the JOA. And then others we were either unable to
12 locate or unable to work a deal with.

13 Q. What is Exhibit 3?

14 A. Exhibit 3 is our summary of communications,
15 with copies of the respective correspondence.

16 Q. And have you had -- except for the unlocatable
17 parties, have you had substantial contact with most of
18 these parties?

19 A. I have.

20 Q. And what is Exhibit 4?

21 A. Exhibit 4 is our AFE which sets our estimated
22 cost.

23 Q. No. Exhibit 4. Sorry.

24 A. Oh. Is that the -- so Exhibit 4 is our copies
25 of our actual correspondence with the parties.

1 Q. And as to the unlocatable parties, what have
2 you done to try to locate a valid address for those
3 parties?

4 A. We've looked in the county, and we've done
5 Internet searches and kind of -- we followed up from
6 last known addresses and have been unable to locate
7 them.

8 Q. This is all federal land?

9 A. Correct.

10 Q. So everybody is a -- is a lessee rather than an
11 unleased mineral interest owner?

12 A. That is correct.

13 Q. Black Mountain is here today. Did you
14 eventually receive an AFE from Black Mountain?

15 A. Yes. I've been in talks with Black Mountain
16 earlier this week, and I did receive their executed AFE.

17 Q. And they own a substantial interest in the well
18 unit?

19 A. Yes, sir.

20 Q. And so you're pleased they want to join in the
21 well?

22 A. Yes, sir.

23 Q. Have you submitted a JOA to them?

24 A. I have.

25 Q. Were they -- were you guys -- have you guys

1 been discussing the JOA?

2 A. We have. I think they had a concern with the
3 JOA covering all depths and would like it limited to the
4 Bone Spring Formation, and we are agreeable with that.

5 Q. In your opinion, have you made a good-faith
6 effort either to locate valid addresses for the interest
7 owners in the well or to obtain a voluntary joinder of
8 interest owners in the well?

9 A. Yes, sir.

10 Q. What is Exhibit 5?

11 A. Exhibit 5 is our AFE. It sets out our
12 estimated cost for this well, for a completed cost of
13 \$4,973,905.

14 Q. And are these costs fair and reasonable and in
15 line with the cost of other wells for this depth in this
16 area of Lea County?

17 A. They are.

18 Q. And what do you propose as the overhead rates?

19 A. We are proposing 7,500 for drilling and 750 for
20 producing.

21 Q. And are those rates in line with the rates
22 charged by Mewbourne and other operators for wells of
23 this type in this area of New Mexico?

24 A. They are.

25 MR. BRUCE: Mr. Examiner, Exhibit 6 is my

1 Affidavit of Notice to the interest owners.

2 Q. (BY MR. BRUCE) Mr. Mitchell, in looking at this
3 affidavit and the addresses, could you identify the
4 parties that you had difficulty locating?

5 A. Landis Drilling Company, Bonnie Korbell,
6 Charles Albright III and Lillian Rutherford and ABC Oil
7 & Gas.

8 Q. There is one company called -- what is it --

9 A. Black & Gold Resources?

10 Q. Yes.

11 Have you had correspondence with that
12 party?

13 A. I have.

14 Q. And certified mail?

15 A. Yes, sir.

16 Q. And did they sign for certified mail at that
17 address?

18 A. They did.

19 MR. BRUCE: However, Mr. Examiner, if you
20 look at the affidavit, I do not have a green card back
21 from Black & Gold, so I will have to continue the case
22 for purposes of notice.

23 Mr. Examiner, Exhibit 7 the Affidavit of
24 Publication as to the unlocatable parties.

25 Unfortunately, I did not include Black & Gold in that

1 because we thought they were locatable. So, again,
2 we'll have to continue this matter for purposes of
3 notice.

4 Q. (BY MR. BRUCE) And what is Exhibit 8?

5 A. Exhibit 8 is a list of the offset ownership.

6 Q. And was notice given to all of those parties?

7 A. It was.

8 MR. BRUCE: And, Mr. Examiner, Exhibit 9 is
9 our Affidavit of Notice.

10 And, again, for purposes of continuing this
11 hearing, you'll notice on the last page, I did not
12 receive a green card back from EOG Resources. Somehow
13 it disappeared in the void of the Midland Post Office,
14 and I have not gotten it back. So, again, I will have
15 to continue this matter.

16 Q. (BY MR. BRUCE) Mr. Mitchell, were Exhibits 1
17 through 9 prepared by you or under your supervision or
18 compiled from company business records?

19 A. They were.

20 Q. One final question I forgot. Did I ask you the
21 overhead rates?

22 A. Yes, sir.

23 MR. BRUCE: Other than that, Mr. Examiner,
24 I would move the admission of Exhibits 1 through 9.

25 MR. HALL: No objection.

1 EXAMINER McMILLAN: No objection?

2 MR. HALL: (Indicating.)

3 EXAMINER McMILLAN: Okay. Exhibits 1
4 through 9 may now be accepted as part of the record.

5 (Mewbourne Oil Company Exhibit Numbers 1
6 through 9 are offered and admitted into
7 evidence.)

8 Q. (BY MR. BRUCE) And in your opinion, is the
9 granting of this application in the interest of
10 conservation and the prevention of waste?

11 A. It is.

12 MR. BRUCE: Pass the witness.

13 CROSS-EXAMINATION

14 BY MR. HALL:

15 Q. Mr. Mitchell, for clarification, please,
16 your -- Mewbourne's well proposal to Black Mountain was
17 for a 640-acre unit surface to the base of the Wolfcamp;
18 is that correct?

19 A. Correct.

20 Q. The pooling here today is limited only to the
21 Bone Spring Formation now; is that correct?

22 A. That is correct.

23 Q. And it's for a 160 proration unit; is that
24 correct?

25 A. Correct.

1 Q. You contemplate issuing a new JOA to Black
2 Mountain to correspond with the application you filed
3 with the Division?

4 A. I plan on sending them a new JOA based on what
5 we negotiate and agree upon. I'm not sure what that is
6 yet. I proposed last to them to do a JOA covering the
7 full section of the Bone Spring, and they said they were
8 seeing if they could get approval for that or talking to
9 their management and will get back with us.

10 Q. All right. That's all I have. Thank you.

11 EXAMINER McMILLAN: Thank you.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. What's the status?

15 A. It's proposed.

16 Q. Are there any depth severances?

17 A. We had surface to the base of the Wolfcamp, and
18 so we're looking at the Bone Spring. But as to the Bone
19 Spring, there will not be depth severances.

20 CROSS-EXAMINATION

21 BY EXAMINER BROOKS:

22 Q. And is this the Antelope Ridge; Bone Spring,
23 West Pool?

24 A. It is.

25 Q. And unlocatable interests, correct?

1 A. Yes, sir.

2 Q. When you said status was proposed, that's the
3 status of the well?

4 A. Yes, sir.

5 Q. It hasn't been drilled?

6 A. Correct.

7 Q. That's unlike most of the ones we've talked
8 about, so I just -- all right. Okay. Very good. Thank
9 you.

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

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Please state your full name for the record.

16 A. Jason Lodge.

17 Q. And who do you work for and in what capacity?

18 A. Mewbourne Oil Company as a petroleum geologist.

19 Q. You were sworn and qualified as a petroleum
20 geologist today?

21 A. Yes.

22 Q. Are you familiar with the geology involved in
23 this case?

24 A. Yes, I am.

25 MR. BRUCE: Mr. Examiner, I tender

1 Mr. Lodge as an expert petroleum geologist.

2 MR. HALL: No objection.

3 EXAMINER McMILLAN: So qualified.

4 Q. (BY MR. BRUCE) What is Exhibit 10, Mr. Lodge?

5 A. Exhibit 10 is my base map here.

6 Just a couple of descriptions on the
7 colors: The green color on the horizontal wells are 2nd
8 Bone Spring Sand horizontals. The red color are 3rd
9 Bone Spring Sand horizontals, and then the dashed
10 line -- the red-dashed lines are 3rd Bone Spring Sand
11 approved permits. The brown color, this is a gross 3rd
12 Sand isopach just showing the thickness -- overall
13 thickness of the sand in the area.

14 In Section 15, our proposed well is notated
15 with the surface location in the north half-north half.
16 And it will be drilled to the south, so the arrow is
17 pointing either direction in the horizontal well.

18 Q. There are some -- mostly north-south wells,
19 maybe a couple of them are east-west wells, either
20 drilled or permitted. Is there a preferable fracture
21 orientation?

22 A. Yes. We prefer north-south.

23 Q. What is Exhibit 11?

24 A. Exhibit 11 is a cross section of the 3rd Bone
25 Spring Sand in this area. You can see on the map, on

1 the right side of the cross section, it's an A to A
2 prime, going from north in Section 9 to Section 15 and
3 down to the south in Section 22.

4 The top of the 3rd Bone Spring Sand is a
5 red color. That's where we picked the top of our 3rd
6 Bone Spring Sand. And then we have interval
7 correlations that we pick in there for the middle 3rd
8 Bone Spring Sand and the Lower 3rd Bone Spring Sand.
9 The very bottom, which the cross section is hung on, is
10 the top of the Wolfcamp.

11 Q. In your opinion, is the 3rd Bone Spring Sand
12 continuous across the proposed well unit?

13 A. Yes, it is.

14 Q. And is the thickness of the Bone Spring
15 relatively equal across the proposed well unit?

16 A. Yes. It varies a little bit, but the target
17 interval is fairly consistent across the unit.

18 Q. In your opinion, will each quarter-quarter
19 section in the well unit contribute more or less equally
20 to production?

21 A. Yes.

22 Q. What is Exhibit 12?

23 A. Exhibit 12 is a production table of the 3rd
24 Bone Spring Sand production area. A couple things to
25 note. We mentioned an east-west versus north-south

1 orientation earlier. The third well down, which is a
2 well that Mewbourne operated, called the Wildcat 21 LI
3 Com 1H is the well drilled in the south half of Section
4 21, which is an east-west well. You'll note that well
5 was completed in 2013, and since then, it's cumed 62,000
6 barrels of oil, 88 -- excuse me -- and then .07 bcf of
7 gas.

8 In comparison, a north-south well that was
9 completed, the CAZA Ridge 14 State #4H, drilled by CAZA,
10 was drilled in relatively the same time, a couple months
11 earlier, so production time is usually about the same.
12 It's cumed a considerable amount more, 114,000 barrels
13 of oil and .1 bcf of gas.

14 Q. And that's why you prefer at this time to be
15 north-south well units?

16 A. Yes, that's correct.

17 Q. What is Exhibit 13?

18 A. Exhibit 13 is, again, our preplanned
19 directional survey. The first page shows our plat on
20 the very top. It shows our surface location of 185 from
21 the north and 450 from the west, with a first take point
22 of 330 from the north, 450 from the west, and then our
23 planned bottom hole at 330 from the south and 450 from
24 the west.

25 Q. Were Exhibits 10 through 13 prepared by you or

1 compiled from company business records?

2 A. Yes, they were.

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

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I tender Exhibits
8 10 through 13 into the record.

9 MR. HALL: No objection.

10 EXAMINER McMILLAN: Exhibits 10 through 13
11 may now be accepted as part of the record.

12 (Mewbourne Oil Company Exhibit Numbers 10
13 through 13 are offered and admitted into
14 evidence.)

15 MR. HALL: I have no questions.

16 CROSS-EXAMINATION

17 BY EXAMINER McMILLAN:

18 Q. The first question I got is Exhibit 10.

19 A. Uh-huh.

20 Q. It looks like in the east half of the east half
21 of 16 and the east half of northeast quarter of 21,
22 those are 2nd Bone Spring wells, right?

23 A. That's correct.

24 Q. So why are you drilling a 3rd Bone Spring
25 there? Where is your proposed location for the 3rd Bone

1 Spring well?

2 A. We plan to develop the 3rd Bone Spring Sand in
3 this area as well as the 2nd Bone Spring Sand.

4 Q. Oh, okay.

5 A. Uh-huh.

6 Q. And -- okay. So it's just down the road.

7 A. Uh-huh. Yes, sir.

8 Q. My question is Exhibit 11. You're fracing
9 right on top -- your charted interval is on top of the
10 Wolfcamp, correct, just about?

11 A. Yes. Uh-huh.

12 Q. So are you -- are you saying that -- are there
13 depth severances anywhere between -- through the
14 Wolfcamp?

15 MR. BRUCE: Mr. Mitchell testified that
16 they have rights down through the Wolfcamp.

17 Q. (BY EXAMINER McMILLAN) Okay. So, I mean, it
18 would appear to me there is a realistic chance you could
19 frac into the Wolfcamp, right?

20 A. Possibly. We would expect it to frac up more
21 than down, would be what we would think here.

22 CROSS-EXAMINATION

23 BY EXAMINER JONES:

24 Q. This is Lea County. So you're not calling it
25 the Wolfbone?

1 A. We're not. We consider this 3rd Bone Spring
2 Sand just because of where we picked the Wolfcamp. And
3 then the Wolfbone is just below that.

4 Q. Oh, the Wolfbone Sand? In other words, the
5 target -- if it was a Wolfbone, it would be --
6 Mr. Brooks said he had Wolf. It would be where at?

7 A. Below the top of the Wolfcamp.

8 Q. Okay. Because it would be at the top of the
9 Wolfcamp?

10 A. Correct.

11 Q. What data gathering are you going to do on this
12 well versus -- I mean, what -- what are you going to log
13 it with? Are you just going to mud log the open hole --
14 I mean the lateral? Is that all you're doing?

15 A. We'll run gamma ray in the lateral, as well as
16 mud log. This is a federal well, so we're required to
17 log the vertical portion of the hole. So we will log
18 that. We usually do a cased hole log there. We log it
19 from kick-off to surface.

20 Q. Okay. After it's drilled, you just log it and
21 get your --

22 A. Get our -- yeah. Yes, sir.

23 Q. So your kick-off point will be 500 feet up or
24 so?

25 A. Yes, sir, roughly. We'll kick off just above

1 the 3rd Bone Spring Sand.

2 Q. Just above it.

3 Okay. So your log will get a look at your
4 2nd and 1st and Avalon and all those?

5 A. That's correct. Yes, sir.

6 Q. And are you just -- on your completion, do you
7 just stage it out by distance? You don't do any
8 adjustment based on your results from your mud log or
9 your gamma ray?

10 A. Every now and then, depending on the results of
11 the mud log, if we get into a different lithology that
12 we did not expect, sometimes we will space around that.
13 But the vast majority of what we'll do is we'll just
14 evenly space our completions.

15 Q. Your target bottom-hole location, how close can
16 you come to that? Your directional people, do they give
17 you a percentage error that you work with in your
18 business model? How much is that? I mean, do they tell
19 you they can get within 50 feet or --

20 A. Uh-huh. You're asking what's the error as far
21 as what we are?

22 Q. Yeah.

23 A. I don't have an exact number there. In
24 general, in all the wells that Mewbourne drills, we're
25 on the conservative side as far as pushing it to the

1 bottom hole. We'll make sure we stop just a little bit
2 early just to make sure we're not crossing any hard
3 lines or anything like that.

4 Q. But if you projected to be 330 from the line --

5 A. Uh-huh.

6 Q. -- do you intentionally drill your well back
7 away from that so that you will -- you won't exceed that
8 330?

9 A. That's correct. Yes. We do not want to drill
10 past that 330 hard line, so we try to get as close as we
11 can, like you were saying, but we make sure that we
12 don't cross that hard line.

13 Q. Okay. And your post-drill survey is done --

14 A. Real time, you know, as soon as we TD.

15 Q. Oh, it's real time?

16 A. It's real time. And then we TD the well, and
17 we have that.

18 Q. Okay. So they give you that data almost
19 immediately?

20 A. That's right. While we're drilling, we get
21 emails updating us every time we take a survey.

22 Q. Did you get it digitally, or do you just get
23 the report that you guys give to us, or do you get both?

24 A. I get both, yeah. We do get it digitally so
25 that we can steer while drilling, in multiple files,

1 Excel or PDF, just kind of depends.

2 Q. Does the BLM require a digital submittal to
3 them, or do you just give them the same thing you give
4 to the OCD?

5 A. My understanding is we give to them what we
6 give to the OCD, but I'm not positive on that.

7 Q. Okay. Thanks.

8 EXAMINER BROOKS: No questions.

9 EXAMINER McMILLAN: Thank you.

10 THE WITNESS: Thank you.

11 When will this case be continued to?

12 MR. BRUCE: I think we ought to continue it
13 for four weeks, just because of the uncertainty of the
14 notice publication.

15 EXAMINER BROOKS: So that would be October
16 27th.

17 MR. BRUCE: October 27th?

18 EXAMINER McMILLAN: Yes.

19 15553 shall be continued October the 27th.

20 (Case Number 15553 concludes, 10:18 a.m.)

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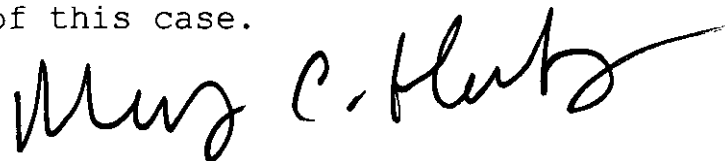
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2 COUNTY OF BERNALILLO
3

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 MARY C. HANKINS, CCR, RPR
23 Certified Court Reporter
24 New Mexico CCR No. 20
25 Date of CCR Expiration: 12/31/2016
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