

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:

COPY

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

CASE NO. 15513

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

July 21, 2016

Santa Fe, New Mexico

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

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
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APPEARANCES

FOR APPLICANT MEWBOURNE OIL COMPANY:

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EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 8	7
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(Exhibits 9 through 11 and Exhibit 12 were not supplied to the court reporter and do not accompany this record.)	

1 (10:57 a.m.)

2 EXAMINER McMILLAN: Call the hearing back
3 to order.

4 Call Case 15513, application of Mewbourne
5 for approval of a nonstandard spacing and proration unit
6 and compulsory pooling, Eddy County, New Mexico.

7 Call for appearances.

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

11 EXAMINER McMILLAN: Any other appearances?
12 Please, proceed.

13 MR. BRUCE: My witnesses are Mr. Cless and
14 Mr. Pearson, who have been previously sworn and
15 qualified.

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 Examiners?

23 A. All right. Exhibit 1 is the land plat showing
24 the proration unit associated with the Yardbirds 34 PA
25 Fee Number 1H well, which is located in the east

1 half-east half of Section 34, Township 23 South, Range
2 28 East, Eddy County, New Mexico. The proration unit is
3 highlighted in yellow, and the wellbore is depicted in
4 red. We seek to pool the Bone Spring Formation in this
5 acreage, and there are no depth severances.

6 Q. What type of land is in the well unit?

7 A. It is all fee acreage in this proration unit.

8 Q. What is Exhibit 2?

9 A. Exhibit 2 is the tract ownership associated
10 with this proration unit. It's quite lengthy. There
11 are quite a few owners associated with this proration
12 unit. Numerous parties are requesting to be pooled, and
13 we have heard from -- actually, a large percentage of
14 these, we're in the process of doing deals. A lot of
15 them are working interest owners who wish to term assign
16 to Mewbourne. There are also -- you'll see at the
17 bottom, the Beeman convoluted interest that we've seen
18 in previous wells today.

19 Q. And if you come to terms with any of these
20 interest owners, will you so notify the Division?

21 A. Yes.

22 Q. What is Exhibit 3?

23 A. Exhibit 3 is a summary of communications we've
24 had with these parties. A lot of these were sent kind
25 of in batches, and so we just listed them out based on

1 the date. We have had some recent communications with
2 several of the parties, as I just mentioned, and we plan
3 on completing some deals with them soon.

4 Q. And are there some unlocatable interests?

5 A. There are several unlocatable interests in this
6 acreage.

7 Q. And let's move forward. You checked the county
8 records, telephone records, Internet records?

9 A. Yes.

10 Q. What is Exhibit 4?

11 A. Exhibit 4 is a copy of the letters sent out to
12 all of the parties involved with this acreage.

13 Q. And what is Exhibit 5?

14 A. Exhibit 5 is proof of delivery associated with
15 the communication of these parties.

16 Q. In your opinion, has Mewbourne made a
17 good-faith effort to either obtain the voluntary joinder
18 of parties in the well unit or to locate the locatable
19 interests?

20 A. Yes.

21 Q. What is Exhibit 6.

22 A. Exhibit 6 is a copy of the AFE associated with
23 the well. It shows the estimated completed well cost to
24 be just over \$4.5 million.

25 Q. And is this cost fair and reasonable and in

1 line with the cost of other Bone Spring wells drilled in
2 this area of New Mexico?

3 A. Yes.

4 Q. And what overhead rates do you request?

5 A. 7,500 for drilling months, 750 for nondrilling.

6 Q. And do you request a maximum cost plus 200
7 percent risk charge be assessed against a nonconsenting
8 interest owner?

9 A. Yes.

10 Q. Is Exhibit 7 another title opinion showing the
11 convoluted title with regard to the Beeman interests?

12 A. Yes. It is a portion of our title opinion
13 showing Beeman's convoluted interests.

14 Q. And in the prior cases, 15510 and 15511, you
15 did discuss that ownership, didn't you?

16 A. Correct.

17 Q. And it's the same problem here?

18 A. It's a very similar chain of title.

19 Q. And what is Exhibit 8?

20 A. Exhibit 8 lists the offset ownership associated
21 with this proration unit, a list of parties that we sent
22 notice to regarding this application.

23 Q. And were Exhibits 1 through 8 prepared by you
24 or under your supervision?

25 A. Yes, they were.

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

4 A. Yes.

5 MR. BRUCE: Mr. Examiner, I think this is
6 my favorite one. I think I sent out about 90 notices.
7 So, again, I'm requesting it to be continued because I
8 have not come anywhere near receiving all the green
9 cards back.

10 EXAMINER McMILLAN: So when?

11 MR. BRUCE: Two weeks, please.

12 I have no further questions of this
13 witness.

14 EXAMINER McMILLAN: Okay. Exhibits 1
15 through 8 may now be accepted as part of the record.

16 (Mewbourne Oil Co. Exhibit Numbers 1
17 through 8 are offered and admitted into
18 evidence.)

19 EXAMINER McMILLAN: Generally doesn't the
20 attorney send out an affidavit of --

21 MR. BRUCE: Well, I mean, I've got the
22 notice materials, but since they were incomplete, I
23 didn't feel like putting them -- I would like to --

24 EXAMINER McMILLAN: All right. That's
25 fine.

1 MR. BRUCE: -- congregate as much notice
2 material at one time.

3 CROSS-EXAMINATION

4 BY EXAMINER McMILLAN:

5 Q. What's the well status?

6 A. It is producing. It's drilled, completed and
7 producing.

8 Q. 160 acres, right?

9 A. That is correct, yes.

10 Q. Okay. What's the pool code?

11 A. It is --

12 Q. 15011?

13 A. Yes, that's correct.

14 EXAMINER McMILLAN: Go ahead.

15 CROSS-EXAMINATION

16 BY EXAMINER JONES:

17 Q. You'll just hold the money in escrow for the --
18 or do you just carry the interests that are clouded, and
19 they're going to have to work their title out, then,
20 before they start receiving the money?

21 A. That's correct. The funds, credited with this
22 interest, will be placed in suspense until they either
23 have a quiet title suit or a stipulation of interest,
24 and it can be determined who to pay what proportion.

25 Q. Okay. So it'll be an incentive for them to

1 get --

2 A. Yes.

3 Q. This well, is it a well going from south to
4 north in this case?

5 A. It is drilling -- or it was drilled from, yes,
6 the south to the north.

7 Q. I don't have any more questions.

8 EXAMINER McMILLAN: Thank you.

9 THE WITNESS: Thank you.

10 NATE CLESS,

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

13 DIRECT EXAMINATION

14 BY MR. BRUCE:

15 Q. Mr. Cless, what is Exhibit 9?

16 A. Exhibit 9 is a net isopach map of the Lower 2nd
17 Bone Spring interval. It's also a structure map, and
18 the structure is on the base of the 2nd Bone Spring
19 interval.

20 On this map, I've identified all the Bone
21 Spring producers in this immediate area. You can see
22 there is a -- there is a production code on the bottom
23 left of this map, which identifies what each circle
24 corresponds with. So there are wells that have a pink
25 circle around them that are producing out of the Avalon

1 Sand Formation. Gray circles are Avalon Shale. Orange
2 circles are 1st Bone Spring Sand producers, and yellow
3 circles are the 2nd Bone Spring Sand producers.

4 Q. Now, on this map, the, more or less, vertical
5 red lines are the structure --

6 A. That's -- that's correct. The -- the green
7 horizontals are the -- the 2nd Bone Spring Sand
8 horizontals, which have been drilled in this area,
9 they're all located in Section 35, and they were all
10 drilled by Mewbourne. The proposed well we drilled in
11 the east half-east half of Section 34, which is
12 indicated by the red arrow.

13 And you can also see the location of my
14 next exhibit, which is a three-well cross section
15 covering this area.

16 Q. Now, on Exhibit 9, it looks like there's about,
17 say, 55 to 65 feet of net sand in the well?

18 A. Yes. Correct. So to bottom left of each
19 wellbore deep enough, I indicated the amount of net sand
20 that is present -- that is present in that particular
21 wellbore. So yeah, across this -- across this east
22 half-east half, I'd say, on average, there is about 60
23 to -- probably an average of 60 -- 60 to 70 feet net
24 sand across there.

25 My next exhibit will show the gross

1 interval across that -- across that proration, and
2 they're very consistent.

3 Q. Let's move on to Exhibit 10.

4 A. So Exhibit 10 is the three-well cross section.
5 I've identified the 1st Bone Spring Sand Formation, as
6 well as the 2nd Bone Spring Sand Formation. Internally,
7 we just divide the 2nd Bone Spring Formation and then
8 the Upper Bone Spring and a lower 2nd Bone Spring Sand.

9 The second well on this cross section,
10 there is a red arrow on it indicating the location of
11 our wellbore. In this area, we landed all wellbores in
12 the 2nd Bone Spring Sand. You can see looking at the
13 top of the 2nd Bone Spring Sand interval down to the
14 base of the 2nd Bone Spring interval the gross interval
15 is very consistent across that area. There are numerous
16 individual sands in there which you can correlate across
17 the area so it's consistent and present across this
18 acreage.

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

22 A. Yes.

23 Q. Since I'm guessing one of the Examiners will
24 ask this: Is there a potential in the Upper 2nd Bone
25 Spring Sand?

1 A. We do believe so. In other parts of the Basin,
2 we've drilled Upper 2nd Bone Spring Sand wells. There
3 have been no tests in this immediate area, but it's
4 certainly something that we think has potential down the
5 road.

6 Q. And what is Exhibit 11?

7 A. Exhibit 11 is the production data table for the
8 2nd Bone Spring Sand horizontal wells in this area.
9 Again, all these wells were drilled by Mewbourne within
10 the last two years, and -- and we -- I mean, we've
11 identified them all as economic wells. We've drilled
12 all these wells north-south. And there have been -- a
13 little further south, there have been a few wells that
14 have been drilled east-west, but the majority of all
15 wells going south are all north-south wells. And so we
16 believe the stress direction in this -- in this area is
17 similar throughout the Bone Spring and the Wolfcamp
18 Formation, kind of a northeast-southwest orientation.
19 But it is a productive formation for us. So --

20 Q. What is Exhibit 12?

21 A. Exhibit 12 is just the horizontal drilling plan
22 that we have for this particular well. Our surface
23 location is 150 from the south, 610 from the east. Our
24 first take point will be 681 from the south, 610 from
25 the east. And our bottom-hole location and last take

1 point will be 350 from the north, 500 from the east
2 line.

3 Q. And the well location is orthodox?

4 A. That's correct.

5 And I also have the -- the offset, the GOR
6 data. The API is 45, and the GOR is 750 in this area.

7 Q. Were Exhibits 9 through 11 prepared by you or
8 under your supervision?

9 A. Yes, they were.

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

12 A. Yes, it is.

13 MR. BRUCE: Mr. Examiner, I'd move
14 admission of Exhibits 9 through 11.

15 EXAMINER McMILLAN: Exhibits 9 through 11
16 may now be accepted as part of the record.

17 (Mewbourne Oil Co. Exhibit Numbers 9
18 through 11 are offered and admitted into
19 evidence.)

20 EXAMINER McMILLAN: Go ahead.

21 CROSS-EXAMINATION

22 BY EXAMINER JONES:

23 Q. Why did you target the 2nd Bone Spring versus
24 the 1st or the --

25 A. I guess in regards to the 1st Bone Spring

1 Sand -- I didn't highlight the wells on here, but in
2 Section 33 and Section 28, there is -- there is an
3 east-west 1st Bone Spring Sand horizontal in each of
4 those sections, in the north half of Section 28 and then
5 the south half of Section 33. And there are production
6 numbers just to the right of each of those wells. And
7 they just aren't -- they've made quite a bit of water,
8 and they just aren't economic, in our -- in our
9 standpoint right now.

10 But if I were to expand this map farther to
11 the south, as well as to the north, there's -- there's a
12 couple of 2nd Bone Spring Sand horizontals a few miles
13 to the north. And then as you go south, there's a
14 number of them. And so when we came up here and started
15 drilling in this area, we were just simply extending the
16 play up there. It looked prospective, the wells north
17 and south of us, so that's why we came in here and did
18 that.

19 Q. So the water -- can you see that water on the
20 logs, or does it show up and it's hard to tell where it
21 came from?

22 A. Yeah. Typically going south, we have about a
23 25 to 30 percent oil cut in this area, and that's just
24 pretty typical for the 2nd Bone Spring Sand. It's
25 pretty much the same a few miles north and, like I said,

1 in wells to get south.

2 Q. Okay.

3 A. So that's what we expect in this area.

4 Q. Okay.

5 A. So --

6 Q. I've heard other people talk about their oil
7 cut. So that is kind of low, it seems like to me, but I
8 guess if you can make economics work.

9 A. Uh-huh.

10 Q. Well, you're going to produce the well -- I
11 mean pump it or just --

12 A. These wells flow for a little bit, and then we
13 typically put them on gas lifts. And that's -- we
14 typically produce them for a while until the volumes get
15 low, and then we put it on pump.

16 Q. Okay.

17 A. So --

18 Q. Well, it looks like that 2nd Bone Spring is
19 perfect for designing a frac job because you've got
20 stress barriers above it and below it.

21 A. Yeah. And we've just -- as we've -- as we've
22 drilled more and more wells in through here, we've kind
23 of tweaked our frac and done a few different things.
24 And each time we're seeing better and better results.

25 Q. Yeah. Looks like you can really crank it up

1 and not worry about --

2 A. Uh-huh.

3 Q. I don't have any more questions.

4 EXAMINER McMILLAN: Thank you very much.

5 EXAMINER JONES: Thank you.

6 MR. BRUCE: I'm done, Mr. Examiner.

7 EXAMINER JONES: (Laughter.)

8 EXAMINER McMILLAN: Case 15513 will be

9 continued to August 4th.

10 (Case Number 15513 concludes, 11:11 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

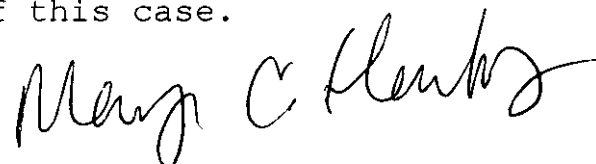
1 STATE OF NEW MEXICO
2 COUNTY OF BERNALILLO
3

4 CERTIFICATE OF COURT REPORTER

5 I, MARY C. HANKINS, 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
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