

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

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

ORIGINAL

APPLICATION OF MEWBOURNE OIL FOR                   CASE NO. 15516  
COMPULSORY POOLING AND AN  
UNORTHODOX WELL LOCATION, EDDY  
COUNTY, NEW MEXICO.

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  
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1 APPEARANCES  
 2 FOR APPLICANT MEWBOURNE OIL COMPANY:

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(9:03 a.m.)

EXAMINER McMILLAN: Case Number 15516,  
application of Mewbourne Oil for compulsory pooling and  
an unorthodox well location, Eddy County, New Mexico.

Call for appearances.

MR. BRUCE: Mr. Examiner, Jim Bruce of  
Santa Fe representing the Applicant. I have the same  
two witnesses I've had previously.

EXAMINER McMILLAN: Any other appearance?

Please proceed.

CLAYTON PEARSON,

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

DIRECT EXAMINATION

BY MR. BRUCE:

Q. Could you state your name for the record?

A. My name is Clayton Pearson.

Q. Were you previously sworn and qualified today  
as an expert petroleum landman?

A. Yes.

Q. Are you familiar with the geology -- the land  
matters involved in this application?

A. Yes.

MR. BRUCE: Mr. Examiner, I'd tender  
Mr. Pearson as an expert petroleum landman.

1 EXAMINER McMILLAN: So qualified.

2 Q. (BY MR. BRUCE) What is Exhibit 1, Mr. Pearson?

3 A. Exhibit 1 is a plat showing the location of the  
4 Yardbirds 34 W2OB #1H well located in the east half of  
5 Section 34, Township 23 South, Range 28 East Eddy  
6 County, New Mexico. It shows the east half of Section  
7 34 and the proration unit for the well, and it was  
8 drilled from the south to the north.

9 Q. And is the unorthodox -- is the location  
10 unorthodox?

11 A. Yes.

12 Q. And will the next witness testify about that?

13 A. Yes.

14 Q. Now, before getting into the land exhibits,  
15 other than some different ownership in this well unit,  
16 is your land testimony virtually identical to the prior  
17 case?

18 A. Yes.

19 Q. What is Exhibit 2?

20 A. Exhibit 2 is tract ownership which shows the  
21 ownership in the east half of Section 34. It shows that  
22 Mewbourne Oil Company, et al. under a joint operating  
23 agreement, and it lists out the uncommitted interest  
24 owners.

25 Below that -- each of the parties listed

1 below have an asterisk, and we are requesting them to be  
2 pooled. It also includes, you'll see at the bottom, the  
3 convoluted Beeman interest we discussed during the last  
4 case.

5 Q. And is Exhibit 3, again, a copy of the title  
6 opinion regarding the Beeman interest?

7 A. That is correct.

8 Q. What is Exhibit 4?

9 A. Exhibit 4 is a list of parties that have either  
10 joined in the well or we have acquired an assignment of  
11 their interest.

12 Q. What is Exhibit 5?

13 A. Exhibit 5 is a summary of communications we've  
14 had with each of the parties regarding this well.

15 Q. And what is Exhibit 6?

16 A. Exhibit 6 is a copy of the actual communication  
17 we have had with these parties.

18 Q. And, again, you've had numerous conversations  
19 with a lot of these parties?

20 A. That's correct.

21 Q. And, again, there are some unlocatable interest  
22 owners, as in the prior case. Did you check county  
23 records, probate records, check with relatives and check  
24 Internet records regarding the location of these  
25 parties?

1 A. That's correct.

2 Q. In your opinion, has Mewbourne made a  
3 good-faith effort either to locate the parties or to  
4 obtain their voluntary joinder in the well unit?

5 A. Yes.

6 Q. What is Exhibit 7?

7 A. Exhibit 7 is a copy of our AFE for the well.

8 Q. And what are the final well costs?

9 A. The final well costs are \$5.164 million.

10 Q. Is the cost fair and reasonable?

11 A. Yes.

12 Q. Is the cost of this well comparable to other  
13 wells of this type drilled in this area of New Mexico?

14 A. Correct.

15 Q. What overhead rates do you request?

16 A. We are requesting 7,500 for drilling months and  
17 750 for nondrilling months.

18 Q. And are those rates comparable to the rates  
19 charged by Mewbourne and other operators in this area  
20 for wells of this depth?

21 A. Yes.

22 Q. Do you request that the maximum cost plus 200  
23 percent risk charge be assessed against any  
24 nonconsenting interest owner?

25 A. Yes.

1 MR. BRUCE: Mr. Examiner, Exhibit 8 is my  
2 Affidavit of Notice to the various parties who were  
3 notified. Again, if you compare this to Exhibit -- I  
4 believe Exhibit 4, the list of interest owners who have  
5 since joined in the well, a lot of those parties that  
6 have joined in the well did not receive notice of this  
7 hearing for some reason. But, you know, obviously the  
8 addresses are right, and they just weren't delivered.

9 Exhibit 9 is the Affidavit of Publication  
10 in the newspaper.

11 Q. (BY MR. BRUCE) And what is Exhibit 10,  
12 Mr. Pearson?

13 A. Exhibit 10 is a list of the offset ownership  
14 associated with this proration unit.

15 MR. BRUCE: And, again, Mr. Examiner, if  
16 you care to compare this list to the beginning and end  
17 points of the first take point and the bottom take  
18 point, the unorthodox locations, the only effect of  
19 offset is Mewbourne Oil Company, and, therefore, no  
20 offsets were notified.

21 Q. (BY MR. BRUCE) Were Exhibits 1 through 10  
22 prepared by you or under your supervision or compiled  
23 from company business records, Mr. Pearson?

24 A. Yes.

25 Q. And in your opinion, is the granting of this

1 application in the interest of conservation and the  
2 prevention of waste?

3 A. Yes.

4 MR. BRUCE: Mr. Examiner, I move the  
5 admission of Mewbourne Exhibits 1 through 10.

6 EXAMINER McMILLAN: Exhibits 1 through 10  
7 may now be accepted as part of the record.

8 (Mewbourne Oil Company Exhibit Numbers 1  
9 through 10 are offered and admitted into  
10 evidence.)

11 MR. BRUCE: I have no other questions.

12 CROSS-EXAMINATION

13 BY EXAMINER McMILLAN:

14 Q. Are there any depth severances within the  
15 Wolfcamp?

16 A. No, sir.

17 Q. And who is Trabajo Del Spear?

18 A. They're a working interest owner. They're  
19 located in Midland, Texas.

20 Q. Because I have a friend in Roswell. I didn't  
21 know if it's the same one.

22 And same pool?

23 A. Yes.

24 EXAMINER McMILLAN: Go ahead.

25

## CROSS-EXAMINATION

1  
2 BY EXAMINER JONES:

3 Q. The drilling COPAS, is that assessed -- is that  
4 prorated if you only drill through part of the month, or  
5 is that drilled -- assessed against the whole month? If  
6 you drill like a couple of days into that month --

7 A. I believe it's prorated on a drilling basis.  
8 The way to -- if it's not a full month.

9 Q. Okay. And Mewbourne being the only offset  
10 party on the NSL, does that mean that they were the  
11 operator of the offset --

12 A. That's correct.

13 Q. -- and they were the only working interest  
14 owner, also?

15 A. Not that they were the only working interest  
16 owner, but we were the operator of that unit.

17 Q. So you've got Mewbourne operator this and  
18 Mewbourne operator that, but then you need to drill down  
19 to the working-interest-owner level for your notice --

20 A. If they were uncommitted? Is that correct? Or  
21 what -- I'm not sure what the next step would be on if  
22 they're not -- if they're uncommitted.

23 EXAMINER JONES: I'll leave that to  
24 Mr. Brooks.

25 EXAMINER BROOKS: Oh. Are you talking

1 about offset notification, or are you talking about  
2 interest notification?

3 EXAMINER JONES: For NSL.

4 EXAMINER BROOKS: Oh, for NSLs? Yeah. You  
5 would notify the operator unless the operator was --  
6 unless you're the operator or if there is -- but, of  
7 course, it says "Division-designated operator." So  
8 there is only a Division-designated operator if there is  
9 a well on that unit.

10 REDIRECT EXAMINATION

11 BY MR. BRUCE:

12 Q. Mr. Pearson, in the offsetting acreage,  
13 Mewbourne either has wells or is planning wells with  
14 similar unorthodox locations?

15 A. That is correct. We do have development plans  
16 of a very similar nature on the offset acreage in the  
17 future.

18 CROSS-EXAMINATION

19 BY EXAMINER BROOKS:

20 Q. And did you not -- since Mewbourne is the  
21 operator, did you notify the other working interest  
22 owners in those offset units?

23 A. We did not.

24 Q. I think that's -- it's my understanding  
25 that's -- that is the requirement where the Applicant is

1 the operator.

2 A. Okay.

3 Q. So I believe that you should notify those other  
4 working interest owners, unless they own -- the  
5 ownership is identical between that unit and the subject  
6 unit. If the ownership is identical between the subject  
7 unit and the offsetting unit, then you don't have to  
8 notify the other -- other people because there's no  
9 conflict of interest between the operator and them.

10 A. Okay. It would not be the same ownership,  
11 similar but not identical.

12 Q. Okay. So you would need to notify the  
13 working -- the other working interest owners.

14 A. Okay.

15 MR. BRUCE: We would prefer to do that  
16 administratively.

17 EXAMINER BROOKS: That's fine. I mean, I  
18 see no reason why not. We'd have to note that.  
19 Sometimes we forget about it when we go to write an  
20 order.

21 EXAMINER McMILLAN: So if I'm  
22 understanding, you're going to drop the request for the  
23 NSL?

24 MR. BRUCE: If that's the Division's  
25 requirement. I've always understood -- especially if

1 the wells are being drilled offsetting, there's really  
2 no effect on the offsets.

3 EXAMINER BROOKS: Well, the rule doesn't  
4 make that qualification. Let's see. It's 4-12  
5 (reading).

6 Oh. No. NSLs. No. NSLS are not covered.  
7 "Affected persons are all persons owning interests in  
8 the joining spacing units, the Division-designated  
9 operator in the absence of an operator or lessee who is  
10 interest is evidenced by a document absence of an  
11 operator or lessee. In the event the proposed  
12 unorthodox well's operator is also the operator of an  
13 existing unit, adjoining spacing unit and ownership is  
14 not common between the joining spacing unit and the  
15 spacing unit containing the proposed well, then affected  
16 persons include working interest owners in the spacing  
17 unit." That's Rule 4.12.2(A).

18 MR. BRUCE: What if there is already an  
19 existing well in the offset well unit with an orthodox  
20 location?

21 EXAMINER BROOKS: Well, if there is a well  
22 and it's operated by somebody else, you only have to  
23 notify the operator.

24 You're saying if you have an existing well?

25 MR. BRUCE: (Indicating.)

1 EXAMINER BROOKS: Well, I think you -- I  
2 don't read there to be any exception there to that rule.  
3 The only exception to the rule that you notify the other  
4 working interest owners is if the ownership is  
5 identical.

6 MR. BRUCE: Because there are existing  
7 wells in the offsetting sections with unorthodox  
8 locations.

9 EXAMINER BROOKS: Yeah. Well, I believe  
10 you still are required to notify them under this rule.  
11 I don't see an exception.

12 MR. BRUCE: Then to answer your question,  
13 Mr. Examiner, we'll drop the unorthodox location and  
14 simply apply for that administratively.

15 EXAMINER McMILLAN: Okay.

16 MR. BRUCE: I have no further questions.

17 EXAMINER McMILLAN: Thank you.

18 JASON LODGE,

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

21 DIRECT EXAMINATION

22 BY MR. BRUCE:

23 Q. Again, would you please state your name for the  
24 record?

25 A. Jason Lodge.

1 Q. Mr. Lodge, have you previously been sworn and  
2 qualified as an expert in prior cases today?

3 A. Yes.

4 Q. And are you familiar with the geology involved  
5 in this application?

6 A. Yes.

7 MR. BRUCE: Mr. Examiner, I tender  
8 Mr. Lodge as an expert petroleum geologist.

9 EXAMINER McMILLAN: He is so qualified.

10 Q. (BY MR. BRUCE) Mr. Lodge, you have Exhibits 11  
11 through 14 in front of you. Are Exhibits 11, 12 and 13  
12 identical to the -- identical to the exhibits in the  
13 prior case?

14 A. Yes, they are.

15 Q. And is your testimony the same regarding the  
16 productivity of the well from each quarter section and  
17 the need for the continuity of the reservoir across the  
18 well unit and the need for the unorthodox location?

19 A. Yes.

20 Q. And what is Exhibit 14?

21 A. Exhibit 14 is the preplanned -- predrilling  
22 plan. So if you flip to the last page, on this one, it  
23 shows predrill surface 150 from the south, 2,310 from  
24 the east in Section 34, with a bottom hole 330 from the  
25 north, 2,160 from the east. The as-drilled bottom hole

1 is 338 from the north line and 2,100 from the east line.

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, it is.

6 Q. And were Exhibits 11 through 14 prepared by  
7 you, under your supervision or compiled from company  
8 business records?

9 A. Yes.

10 MR. BRUCE: Mr. Examiner, I tender -- two  
11 things. I would tender Exhibits 11 through 14 into the  
12 record, and I would request that his testimony from the  
13 prior case be incorporated into the record of this case.

14 EXAMINER McMILLAN: Okay. Exhibits 11  
15 through 14 may now be accepted as part of the record,  
16 and the expert witness in the previous case is  
17 applicable to this case.

18 (Mewbourne Oil Company Exhibit Numbers 11  
19 through 14 are offered and admitted into  
20 evidence.)

21 MR. BRUCE: And I have no further questions  
22 of the witness.

23 CROSS-EXAMINATION

24 BY EXAMINER McMILLAN:

25 Q. Okay. And you expect all quarter sections to

1 contribute equally?

2 A. Yes, sir.

3 Q. Do you know the status of this well?

4 A. It's drilled and completed.

5 Q. And producing?

6 A. And producing, correct.

7 EXAMINER BROOKS: Nothing.

8 EXAMINER McMILLAN: I think all the  
9 geologic questions and engineering questions were asked  
10 in the previous case.

11 Case 15516 shall be taken under advisement.

12 Let's come back at 9:30.

13 (Case Number 15516 concludes, 9:19 a.m.)

14 (Recess 9:19 a.m.)

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1 STATE OF NEW MEXICO  
2 COUNTY OF BERNALILLO

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

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