

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

ORIGINAL

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

APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY POOLING  
AND AN UNORTHODOX WELL LOCATION,  
EDDY COUNTY, NEW MEXICO.

CASE NO. 15610

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

January 5, 2017

Santa Fe, New Mexico

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

2017 JAN 19 A 6:11  
RECEIVED

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,  
January 5, 2017, 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

Scanned

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 15610 Called	3
Mewbourne Oil Company's Case-in-Chief:	
Witnesses:	
Clayton Pearson:	
Direct Examination by Mr. Bruce	3
Cross-Examination by Examiner McMillan	10
Cross-Examination by Examiner Jones	11
Nate Cless:	
Direct Examination by Mr. Bruce	13
Cross-Examination by Examiner McMillan	17
Cross-Examination by Examiner Jones	18
Proceedings Conclude	20
Certificate of Court Reporter	21

EXHIBITS OFFERED AND ADMITTED

Mewbourne Oil Company Exhibit Numbers 1 through 9	10
Mewbourne Oil Company Exhibit Numbers 10 through 13	17

1 (9:01 a.m.)

2 EXAMINER McMILLAN: Let's proceed to the  
3 next case, Case Number 15610, application of Mewbourne  
4 Oil Company for compulsory pooling and an unorthodox  
5 well location, 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.

10 EXAMINER McMILLAN: Very good.

11 Any other appearances?

12 Would the two witnesses please stand up and  
13 be sworn in at this time?

14 (Mr. Cless and Mr. Pearson sworn.)

15 CLAYTON PEARSON,  
16 after having been first duly sworn under oath, was  
17 questioned and testified as follows:

18 DIRECT EXAMINATION

19 BY MR. BRUCE:

20 Q. Would you please state your name for the  
21 record?

22 A. My name is Clayton Pearson.

23 Q. And where do you reside?

24 A. I reside in Midland, Texas.

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

1           A.    I work for Mewbourne Oil Company as a petroleum  
2 landman.

3           Q.    Have you previously testified before the  
4 Division?

5           A.    I have.

6           Q.    And were your credentials as an expert  
7 petroleum landman accepted as a matter of record?

8           A.    They were.

9           Q.    And are you familiar with the land matters in  
10 this case?

11          A.    Yes.

12                   MR. BRUCE: Mr. Examiner, I tender  
13 Mr. Pearson as an expert petroleum landman.

14                   EXAMINER McMILLAN: He is so qualified.

15          Q.    (BY MR. BRUCE) Mr. Pearson, could you identify  
16 Exhibit 1 and describe the land and the well involved in  
17 this case?

18          A.    Exhibit 1 is a plat showing the area around our  
19 proposed well, which is the Boston 7 W2MP Fee #1H.  
20 Highlighted on the plat is the south half of Section 7,  
21 which is the proration unit. It shows the proposed well  
22 path with a surface location with the unit letter M and  
23 bottom hole location with a letter P.

24          Q.    At this point will the location be unorthodox?

25          A.    Yes.

1 Q. And you are testing the Wolfcamp Formation in  
2 this well?

3 A. That is correct.

4 Q. And that is the only formation you seek to pool  
5 in this well?

6 A. Correct.

7 Q. Would you identify Exhibit 2 for the Examiner?

8 A. Exhibit 2 is the tract ownership of the  
9 proposed well. It lists Mewbourne Oil Company as the  
10 operator, with several other nonoperators, and then it  
11 also lists out the uncommitted mineral interest owners,  
12 which are denoted with an asterisk, totaling 6.12505  
13 percent.

14 Q. Could you identify Exhibit 3 and discuss your  
15 efforts to either locate the mineral interest owners or  
16 to obtain their joinder in the well?

17 A. Sure. Exhibit 3 is a summary of communications  
18 we have had with various mineral owners or our attempt  
19 to communicate with them. It listed out by party and  
20 our different communications. There's been letters  
21 sent, phone calls, depending on the party and how far  
22 we've gotten. To this point, though, we have not been  
23 able to get their commitment in either leasing or  
24 joining in the -- in the well.

25 Q. And at this point, you've been dealing with

1 these parties, oh, for about a year and a half; have you  
2 not?

3 A. That's correct.

4 Q. Now, what did you do to -- there are some  
5 unlocatable parties. What did you -- well, let's move  
6 on to Exhibit 4 first. What does -- what is Exhibit 4?

7 A. Exhibit 4 is a copy of our drilling title  
8 opinion dated March 16th, 2016. Really it highlights  
9 some of the title issues associated with one of the  
10 tracts and several of the mineral interest owners whom I  
11 claim to own the minerals here. I have provided this  
12 information here to the mineral owners in an effort to  
13 cure any title defects.

14 Q. So it appears from this portion of the title  
15 opinion that the last owners of the record died a number  
16 of decades ago?

17 A. That's correct, in the early 1900s.

18 Q. And that since then, the tract has been owned  
19 by adverse possession?

20 A. Correct.

21 Q. And there have been a number of estates  
22 involved in this?

23 A. That is correct.

24 Q. And so it has been difficult to track town the  
25 people?

1 A. Yes.

2 Q. What steps did you take to try to locate the  
3 interest owners?

4 A. Initially I sent an offer letter out to one of  
5 the parties who had previously leased or claimed to have  
6 leased on this mineral interest. I followed up with a  
7 phone call and was informed that there are numerous  
8 parties involved through his father's estate, and I was  
9 put in touch with an attorney who is representing that  
10 estate. There appear to be about a dozen parties who  
11 may claim an interest. And we've -- I've communicated  
12 several times with this attorney about the status of the  
13 minerals and our plans to drill this well.

14 Q. Where is the attorney located?

15 A. He is located in Kansas.

16 Q. And all of the people you have been able to  
17 determine might own an interest in this property live  
18 outside the state of New Mexico?

19 A. That is correct.

20 Q. In your opinion, has Mewbourne made a  
21 good-faith effort to either obtain the voluntary joinder  
22 of these interest owners in the well or to locate who  
23 and where they are?

24 A. Yes.

25 Q. Could you identify Exhibit 5 for the Examiner?

1 A. Exhibit 5 is a copy of our AFE that was sent to  
2 all of the parties. It lists the total cost of the  
3 well, which is \$5.573 million.

4 Q. And is this cost fair and reasonable and in  
5 line with the cost of other Wolfcamp wells drilled in  
6 this area of southeast New Mexico?

7 A. It is.

8 Q. And do you request a 200 percent risk charge in  
9 the event an interest owner goes nonconsent in the well?

10 A. We do.

11 Q. And what overhead rates do you request?

12 A. We are requesting \$7,500 for drilling months,  
13 \$750 for nondrilling months.

14 Q. And do you request that these rates be adjusted  
15 periodically as provided by the COPAS accounting  
16 procedures?

17 A. Yes.

18 Q. Looking at Exhibit 6, Mr. Pearson, the notice  
19 letter, Exhibit A attached to the notice letter, does  
20 that list all the addresses for persons you were able to  
21 locate?

22 A. It does.

23 MR. BRUCE: Mr. Examiner, everyone who had  
24 an address was sent notice by certified mail. Some  
25 letters came back undeliverable and some came back --



1 and some we did not get a green card or letter back.  
2 And all of those parties were notified by publication as  
3 reflected in Exhibit 7, the Affidavit of Publication.

4 Q. (BY MR. BRUCE) Mr. Pearson, does Exhibit 8  
5 reflect all of the offset operators or interest owners  
6 to the proposed well regarding the unorthodox location  
7 on the application?

8 A. It does.

9 Q. And was notice given to all of these interest  
10 owners?

11 A. Yes.

12 MR. BRUCE: And, Mr. Examiner, Exhibit 9 is  
13 the Affidavit of Notice to the offsets, and they all did  
14 receive notice.

15 Q. (BY MR. BRUCE) Mr. Pearson, in your opinion, is  
16 the granting of this application in the interest of  
17 conservation and the prevention of waste?

18 A. Yes.

19 Q. And were Exhibits 1 through 9 either prepared  
20 by you or under your supervision or compiled from  
21 company business records?

22 A. They were.

23 MR. BRUCE: Mr. Examiner, I tender the  
24 admission of Exhibits 1 through 9.

25 EXAMINER McMILLAN: Exhibits 1 through 9

1 may now be accepted as part of the record.

2 (Mewbourne Oil Company Exhibit Number 1  
3 through 9 are offered and admitted into  
4 evidence.)

5 MR. BRUCE: I have no questions of the  
6 witness.

7 CROSS-EXAMINATION

8 BY EXAMINER McMILLAN:

9 Q. Are there any depth severances?

10 A. There are not.

11 Q. Now, here's the question I have. You said it's  
12 the Culebra Bluff Wolfcamp South?

13 A. Correct.

14 Q. But if you go and look at R-14185, this should  
15 have been dedicated to the Black River Wolfcamp Gas  
16 Pool.

17 MR. BRUCE: Okay. They will change the  
18 C-102 as necessary.

19 EXAMINER McMILLAN: So, therefore, the NSL  
20 would not -- you'd have to dismiss the NSL. No? Do  
21 they have to re-advertise?

22 EXAMINER BROOKS: No, not to dismiss as  
23 part of the --

24 EXAMINER McMILLAN: So the NSL would be  
25 dismissed.

1 MR. BRUCE: Okay. That's fine.

2 EXAMINER McMILLAN: Because it has 330  
3 setbacks.

4 EXAMINER BROOKS: Yes.

5 MR. BRUCE: Is that part of the Cimarex  
6 case?

7 EXAMINER McMILLAN: Yes. It's 14 -- yeah.  
8 It's part of the first one that was done.

9 MR. BRUCE: Yeah. I blame --

10 EXAMINER BROOKS: We can dismiss -- we can  
11 dismiss the NSL in the order. It's not necessary for  
12 the Applicant to file an amended application to do that.  
13 That can be done in the order.

14 EXAMINER JONES: Yeah.

15 EXAMINER McMILLAN: Go ahead.

16 CROSS-EXAMINATION

17 BY EXAMINER JONES:

18 Q. I might be the only one in the room -- adverse  
19 possession, what does that mean?

20 A. That's a claim of ownership not necessarily  
21 reflected in the records in the county. It's just by --  
22 there are multiple requirements, but maybe paying taxes  
23 throughout time, over a certain period of time or just  
24 claiming ownership. There might be a deed that was  
25 executed but unrecorded. So they've actually filed --

1 the family has filed an affidavit stating that they  
2 claim ownership and they have claimed ownership for the  
3 past 60 years. I believe that was filed in the '80s,  
4 but there is no instrument reflecting the transfer of  
5 ownership from the previous owner.

6 Q. Wow. So these people blew away during the Dust  
7 Bowl.

8 A. Yeah. The chain of title basically runs out  
9 back in the 1920s, and then this family has claimed  
10 ownership ever since.

11 Q. A lot of people changed ownerships during the  
12 '30s.

13 MR. BRUCE: Another term is squatter.

14 EXAMINER BROOKS: Sometimes derogatorily  
15 referred to as squatter sovereignty.

16 EXAMINER JONES: No one could pay the  
17 taxes.

18 Thank you.

19 THE WITNESS: You're welcome.

20 EXAMINER BROOKS: I don't have anything.

21 EXAMINER McMILLAN: Thank you very much.

22 THE WITNESS: Thank you.

23 NATE CLESS,

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

DIRECT EXAMINATION

1  
2 BY MR. BRUCE:

3 Q. Would you please state your name and city of  
4 residence?

5 A. Nate Cless. I live in Midland, Texas.

6 Q. Who do you work for and in what capacity?

7 A. I'm a geologist for Mewbourne Oil Company.

8 Q. Have you previously testified before the  
9 Division?

10 A. Yes, I have.

11 Q. Were your credentials as an expert petroleum  
12 geologist accepted as a matter of record?

13 A. Yes, they were.

14 Q. And are you familiar with the geologic matters  
15 involved with this application?

16 A. Yes.

17 MR. BRUCE: Mr. Examiner, I tender  
18 Mr. Cless as an expert petroleum engineer.

19 THE WITNESS: Geologist.

20 EXAMINER McMILLAN: Geologist.

21 MR. BRUCE: Geologist. I didn't mean to --  
22 (Laughter.)

23 EXAMINER JONES: Don't insult him.

24 EXAMINER BROOKS: Or Mr. Jones either.

25 EXAMINER JONES: Doesn't insult me.

1 Q. (BY MR. BRUCE) Mr. Cless, would you identify  
2 Exhibit 10 for the Examiners?

3 A. Yeah. Exhibit 10 is a structure map and a  
4 horizontal activity map of this area. I've highlighted  
5 the Wolfcamp horizontals, which are -- looks like  
6 they're active in this area. There are two colors.  
7 There is a dark blue color which represents the Wolfcamp  
8 shale horizontals and then kind of a lighter pink color  
9 which represents the Wolfcamp sand horizontals.

10 I've also indicated the location of this  
11 proposed well, which is the south half-south half of  
12 Section 7. And the structure map on here is a structure  
13 on the top of the Wolfcamp Formation.

14 Next to the bottom hole of each horizontal  
15 well, there are three numbers indicating the current  
16 production -- or the cumulative production of the  
17 Wolfcamp Formation for those particular wells. The red  
18 number represents the cumulative gas. The black number  
19 represents the cumulative amount of oil, and the blue  
20 number is the cumulative amount of water that's been  
21 produced.

22 Also on here I've identified the location  
23 of my next exhibit, which is a two-well cross section  
24 covering the Wolfcamp Formation.

25 Q. Is the location of the well -- is the well

1 situated to allow potential future infilling of the  
2 unit?

3 A. Yes. Yes, it is.

4 Q. Could you move on to your cross section and  
5 discuss the target of interest?

6 A. Exhibit 11, again, is a two-well cross section.  
7 It's just the two -- two closest wells surrounding our  
8 proposed -- proposed area. The first well is up to the  
9 northwest, and the second well is just to the south of  
10 our bottom hole in Section 18. You can see I've labeled  
11 the different -- different -- I guess I've labeled the  
12 top of the Wolfcamp Formation and then just different  
13 intervals which we correlate in through here. And I've  
14 also drawn in the location of our proposed wellbore,  
15 which is what we're calling the Wolfbone C Shale, and  
16 it's just Middle Wolfcamp Shale. You can see that based  
17 off of these two -- these two wells that that particular  
18 interval is consistent across this area, as well as just  
19 the entire Wolfcamp Formation is very uniform and  
20 consistent throughout this area.

21 Q. In your opinion, will each quarter section  
22 contribute to production within the well?

23 A. Yes.

24 Q. What is Exhibit 12?

25 A. Exhibit 12 is a production data table of the --

1 of all the horizontal Wolfcamp wells in this area. I've  
2 identified the names and the operators and the  
3 locations, as well as the cumulative amount of oil, gas  
4 and water that's been produced, as well as what part of  
5 the Wolfcamp Formation that's been -- that's been  
6 produced -- or that's been drilled.

7 As I've said on my first exhibit, a number  
8 of these wells have been drilled in the upper part of  
9 the Wolfcamp Formation and then a few of the wells have  
10 been drilled in the middle part of the Wolfcamp  
11 Formation, down in the shales. This particular well,  
12 we're targeting the Middle Wolfcamp Shale.

13 Q. And finally, what is Exhibit 13?

14 A. Exhibit 13 is just a horizontal -- our  
15 horizontal well plan for this particular well. If you  
16 flip through, you can see our -- our landing point is  
17 roughly 10,000 TVD. Our bottom hole -- we'll be  
18 drilling down depth to 10,130 TVD, and a total depth of  
19 14,568 feet.

20 Q. At this time how many completion stages does  
21 Mewbourne usually have?

22 A. We do a plug-and-perf completion, and we run  
23 anywhere from probably 30 to 40 completion phases per  
24 mile. And we'll probably pump -- I think we plan on  
25 pumping about 8,000 -- 8 million gallons of water, 8



1 million pounds of sand. And it's kind of pretty  
2 standard of what we're doing in this area.

3 Q. Were Exhibits 10 through 13 prepared by you or  
4 under your supervision or compiled from company business  
5 records?

6 A. Yes, they were.

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

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I'd move the  
12 admission of Exhibits 10 through 13.

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

15 (Mewbourne Oil Co. Exhibit Numbers 10  
16 through 13 are offered and admitted into  
17 evidence.)

18 MR. BRUCE: I have no further questions.

19 CROSS-EXAMINATION

20 BY EXAMINER McMILLAN:

21 Q. Do you expect the project area to be orthodox?

22 A. Yes.

23 Q. So it will be. Okay.

24 And, essentially, going back to Exhibit 10,  
25 why are you going east-west versus north-south?

1           A.    We've drilled -- we've got a big block of  
2   acreage just to the northeast of this area where we've  
3   actually drilled a lot of north-south wells.  You can  
4   see on this map that a number of operators have drilled  
5   east-west, and we've drilled a number of wells  
6   north-south.  We believe the frac orientation is going  
7   kind of northeast-southwest, and so we haven't seen --  
8   we haven't seen really any difference east-west versus  
9   north-south.  I know other operators have even gone --  
10  they've drilled both directions as well.  And so we just  
11  do not see any -- any detrimental effect drilling  
12  east-west versus north-south.

13                   EXAMINER McMILLAN:  Go ahead.

14                   CROSS-EXAMINATION

15  BY EXAMINER JONES:

16           Q.    Mr. Cless, did you pick the target depth?

17           A.    Yes, we did.  And this one was based off of an  
18  offset well in Section 12.  We're basically targeting  
19  the same interval that we targeted.

20           Q.    So you have enough control --

21           A.    Yes, we do.

22           Q.    And are you going to have a gamma ray on the --

23           A.    We'll run --

24           Q.    -- behind the bit?

25           A.    Yeah.  We'll -- we have a mudlogger out there,

1 but we'll also have a real-time MWD tool that will give  
2 us real-time gamma ray as we're drilling.

3 Q. Okay. And your team that you work on, do you  
4 pick -- do you prioritize these targets based on your --  
5 your engineer does the economics or your planner or  
6 whoever does it?

7 A. Yeah. And we'll go through them, and we'll  
8 just evaluate what we think looks potential. And we  
9 keep track of what we're drilling, what other people are  
10 drilling and where they're landing. This area, it's  
11 relatively young, I guess, as far as the amount of  
12 activity that's been out here, and there are a number of  
13 different zones that can be tested. And so we're  
14 just -- like I said, for this particular well, we're  
15 basically targeting what an offset did. But we  
16 certainly think there are other prospective zones out  
17 there.

18 Q. Those -- there are some carbonates in places?

19 A. Uh-huh.

20 Q. Do you stay away -- you want to stay away from  
21 those?

22 A. We typically try to. You can see where I've  
23 placed this lateral. It's just above some of those  
24 carbonate fingers, but we typically try to stay out of  
25 these.

1 Q. Okay. Thank you.

2 A. Uh-huh.

3 EXAMINER BROOKS: Nothing. Thank you.

4 MR. BRUCE: Nothing more, Mr. Examiner.

5 EXAMINER McMILLAN: Thank you.

6 So Case Number 15610 shall be taken under

7 advisement.

8 (Case Number 15610 concludes, 9:21 a.m.)

9 (Recess 9:21 a.m. to 9:31 a.m.)

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25

I do hereby certify that the foregoing is  
a complete and correct report of the proceedings in  
the trial and 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

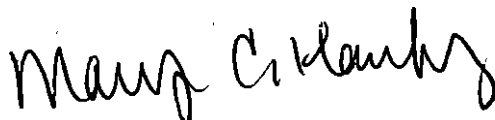
5 I, MARY C. HANKINS, Certified Court  
6 Reporter, New Mexico Certified Court Reporter No. 20,  
7 and Registered Professional Reporter, do hereby certify  
8 that I reported the foregoing proceedings in  
9 stenographic shorthand and that the foregoing pages are  
10 a true and correct transcript of 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  
Certified Court Reporter  
New Mexico CCR No. 20

23

Date of CCR Expiration: 12/31/2017

24

Paul Baca Professional Court Reporters

25