

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:)

CASE NO. 14,029

APPLICATION OF MEWBOURNE OIL COMPANY)
FOR COMPULSORY POOLING, LEA COUNTY,)
NEW MEXICO)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: DAVID K. BROOKS, Jr., Hearing Examiner

November 29th, 2007

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, DAVID K. BROOKS, Jr., Hearing Examiner, on Thursday, November 29th, 2007, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Secretary's Conference Room, Santa Fe, New Mexico, Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

STEVEN T. BRENNER, CCR
(505) 989-9317

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I N D E X

November 29th, 2007
 Examiner Hearing
 CASE NO. 14,029

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APPLICANT'S WITNESS:	
<u>STEVEN J. SMITH</u> (Landman)	
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* * *

E X H I B I T S

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A P P E A R A N C E S

FOR THE APPLICANT:

JAMES G. BRUCE
Attorney at Law
P.O. Box 1056
Santa Fe, New Mexico 87504

* * *

1 WHEREUPON, the following proceedings were had at
2 11:38 a.m.:

3 EXAMINER BROOKS: Okay, we will call Case 14,029,
4 Application of Mewbourne Oil Company for compulsory
5 pooling, Lea County, New Mexico.

6 MR. BRUCE: Mr. Examiner, Jim Bruce of Santa Fe,
7 representing the Applicant. I have one witnesses.

8 EXAMINER BROOKS: Witness state his name for the
9 record, please.

10 MR. SMITH: Steven Smith.

11 EXAMINER BROOKS: Be sworn.

12 (Thereupon, the witness was sworn.)

13 EXAMINER BROOKS: You may proceed, Mr. Bruce.

14 STEVEN J. SMITH,
15 the witness herein, after having been first duly sworn upon
16 his oath, was examined and testified as follows:

17 DIRECT EXAMINATION

18 BY MR. BRUCE:

19 Q. Would you please state your name and city of
20 residence?

21 A. Steven Smith, Midland, Texas.

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

23 A. Mewbourne Oil Company, I'm a senior landman.

24 Q. Have you previously testified before the
25 Division?

1 A. Yes, I have.

2 Q. And were your credentials as an expert landman
3 accepted as a matter of record?

4 A. Yes, they were.

5 Q. And are you familiar with the land matters
6 involved in this Application?

7 A. I am.

8 MR. BRUCE: Mr. Examiner, I tender Mr. Smith as
9 an expert petroleum landman.

10 EXAMINER BROOKS: So qualified.

11 Q. (By Mr. Bruce) Mr. Smith, could you identify
12 Exhibit 1 and describe briefly what Mewbourne seeks in this
13 case?

14 A. Exhibit 1 is a plat, Midland Map. It has an
15 outline around the west half of Section 28, Township 20
16 South, Range 36 East, Lea County. I've identified two
17 tracts in there, 1 and 2, representing the lands that are
18 at issue here.

19 What we seek is to pool the west half of Section
20 28 from depths starting at 7000 feet down to the base of
21 the Morrow.

22 Q. And you are seeking to force pool only 320-acre
23 units?

24 A. Correct.

25 Q. What is the name of the proposed well?

1 A. The Paloma 28 Fed Com Number 1 well.

2 Q. And in which quarter quarter section will it be
3 located?

4 A. It will be located in the southwest of the
5 northwest quarter.

6 Q. What is the working interest ownership in the
7 well unit? And I refer you to Exhibit 2.

8 A. Record ownership, LeaCo Explor- -- or LeaCo New
9 Mexico Exploration and Production owns the northwest
10 quarter, being the federal lease, but they have granted a
11 farmout to Mewbourne Oil Company.

12 The southwest quarter, being a state lease, is
13 owned by EOG Resources.

14 Q. A hundred percent?

15 A. A hundred percent each.

16 Q. Okay. What is Exhibit -- And of course, you --
17 the only party you seek to pool is EOG Resources?

18 A. Correct.

19 Q. What is Exhibit 3?

20 A. Exhibit 3 is my proposal letter to EOG Resources
21 for the well. It was sent certified mail and had an AFE
22 attached.

23 Q. Have you also had phone conferences with EOG?

24 A. Numerous, five or six, with Doug Hurlbut and Pat
25 Tower.

1 Q. And they are landmen for EOG?

2 A. Correct.

3 Q. In your opinion, has Mewbourne made a good-faith
4 effort to obtain the voluntary joinder of the interest
5 owners in the well?

6 A. I do.

7 Q. Would you identify Exhibit 4 and discuss the cost
8 of the proposed well?

9 A. Exhibit 4 is the Mewbourne's AFE for the proposed
10 well. It is for an 11,600-foot Morrow test. The dryhole
11 costs as shown are \$1,762,500, with a completed well cost
12 of \$2,630,000 -- or \$2,630,800.

13 Q. And in today's market is this cost in line with
14 the cost of other wells drilled to this depth in this area
15 of Lea County?

16 A. We believe so.

17 Q. Do you request that Mewbourne be appointed
18 operator of the well?

19 A. We do.

20 Q. And do you have a recommendation for the amounts
21 which Mewbourne should be paid for supervision and
22 administrative expenses?

23 A. We do, we recommend a daily drilling cost of
24 \$6500 and a producing cost of \$650.

25 Q. And are these amounts equivalent to those

1 normally charged by Mewbourne and other operators in this
2 area for wells of this depth?

3 A. They are.

4 Q. Do you request that this rate be adjusted
5 periodically as provided by the COPAS accounting procedure?

6 A. Yes, we do.

7 Q. Does Mewbourne request that the maximum cost-
8 plus-200-percent risk charge be assessed if EOG nonconsents
9 the well?

10 A. Yes.

11 Q. And was EOG notified of this hearing?

12 A. They were.

13 Q. And is that reflected in the affidavit of notice
14 marked Exhibit 5?

15 A. It is.

16 Q. Were Exhibits 1 through 5 prepared by you or
17 under your supervision or compiled from company business
18 records?

19 A. Yes, they were.

20 Q. And in your opinion is the granting of this
21 Application in the interests of conservation and the
22 prevention of waste?

23 A. Yes.

24 MR. BRUCE: Mr. Examiner, I'd move the admission
25 of Mewbourne Exhibits 1 through 5.

1 EXAMINER BROOKS: 1 through 5 are admitted.

2 MR. BRUCE: And I have no further questions of
3 the witness.

4 EXAMINATION

5 BY EXAMINER BROOKS:

6 Q. This is west half of Section 28 --

7 A. Right.

8 Q. -- 20 South, 36 East?

9 A. Correct, Lea County, New Mexico.

10 Q. The -- there is a -- there are footages for the
11 well given on the AFE. Are that -- Is that where you plan
12 to drill the well?

13 A. Well, we proposed the well at that depth, and
14 after proposing it and seeking an APD from the BLM, they
15 forced us to move it -- or would only approve it if we
16 moved the location to the north, so we'll actually be at
17 1880 from the north, 660 from the --

18 Q. 1880 from the north line and 660 from the west
19 line?

20 A. Correct, and we've provided EOG with a copy of
21 that APD, and they're aware of the location.

22 Q. Now, I must have failed to note something here.
23 Did you request that your overhead allowances be --

24 A. \$6500 --

25 Q. -- escalated and -- yeah --

1 A. Yes.

2 Q. -- \$6500 and six thou- -- \$650?

3 A. -- -50, and escalated --

4 Q. Do you request --

5 A. -- correct.

6 Q. -- that it be escalated in accordance with COPAS?

7 A. Correct.

8 EXAMINER BROOKS: I think that's everything I
9 need to know.

10 Because of the pit rule hearing we may run behind
11 on the transcript, so hopefully I'll be able to write these
12 little ones without the transcripts.

13 MR. BRUCE: One thing on this, Mr. Examiner, just
14 so you're aware in case anybody asks about pools.

15 The entire area to the west, north and east is in
16 the North Osudo-Morrow Gas Pool, which is spaced on 640
17 acres, but as a result of a hearing, actually, which I did
18 a couple years ago for Unit Petroleum, the pool rules have
19 been limited to its current horizontal extent.

20 And so even though it adjoins -- immediately
21 adjoins the North Osudo-Morrow, it is spaced on 320 acres.

22 EXAMINER BROOKS: Yeah, it's probably in the
23 Application, but is there a -- is this a pool -- is this a
24 designated Morrow Pool?

25 MR. BRUCE: It's not --

1 THE WITNESS: It won't be, there's --

2 MR. BRUCE: -- the closest would be probably the
3 Osudo.

4 THE WITNESS: Correct, which is to the south.

5 EXAMINER BROOKS: Okay, thank you very much.

6 THE WITNESS: You bet.

7 EXAMINER BROOKS: If there's nothing further,
8 Case Number 14,029 is taken under advisement.

9 (Thereupon, these proceedings were concluded at
10 11:45 am.)

11 * * *

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I hereby certify that the foregoing is
a true and correct copy of the proceedings in
the Examiners' hearing of Case No. 14029,
heard by me on 11-29-07.
David K. Burkh Examiner
Oil Conservation Division

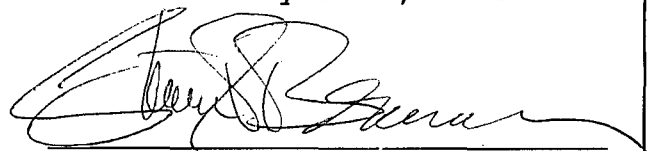
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

WITNESS MY HAND AND SEAL February 27th, 2008.


STEVEN T. BRENNER
CCR No. 7

My commission expires: October 16th, 2010