

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:

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

CASE NO. 14297

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: WILLIAM B. JONES, Hearing Examiner
DAVID K. BROOKS, Legal Examiner
TERRY G. WARNELL, Technical Examiner

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March 31, 2009

Santa Fe, New Mexico

This matter came on for hearing before the New Mexico Oil Conservation Division, WILLIAM B. JONES, Hearing Examiner, DAVID K. BROOKS, Legal Examiner, and TERRY G. WARNELL, Technical Examiner, on Tuesday, March 31, 2009, at the New Mexico Energy, Minerals and Natural Resources Department, 1220 South Saint Francis Drive, Room 102, Santa Fe, New Mexico.

REPORTED BY: Jacqueline R. Lujan, CCR #91
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A P P E A R A N C E S

FOR THE APPLICANT:

James G. Bruce, Esq.
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1 MR. JONES: Let's call Case 14297, application
2 of Mewbourne for compulsory pooling, Eddy County, New
3 Mexico. Call for appearances.

4 MR. BRUCE: Mr. Examiner, Jim Bruce of
5 Santa Fe representing the applicant. I have one witness.

6 MR. JONES: Any other appearances? Will
7 the witness please stand to be sworn? State your name.

8 MR. HADEN: Paul Haden.

9 (The witness was sworn.)

10 PAUL HADEN

11 Having been first duly sworn, testified as follows:

12 EXAMINATION

13 BY MR. BRUCE:

14 Q. Mr. Haden, where do you reside?

15 A. In Midland, Texas.

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

17 A. Mewbourne Oil Company as a senior landman.

18 Q. Have you previously testified before the
19 Division?

20 A. Yes, I have.

21 Q. Were your credentials as an expert petroleum
22 landman accepted as a matter of record?

23 A. Yes, they were.

24 Q. Are you familiar with the land matters
25 involved in this case?

1 A. Yes, I am.

2 MR. BRUCE: Mr. Examiner, I tender Mr.
3 Haden as an expert petroleum landman.

4 MR. JONES: Mr. Haden is qualified as an
5 expert in petroleum land matters.

6 Q. (By Mr. Bruce) Could you identify Exhibit 1
7 for the Examiner and describe what Mewbourne seeks in
8 this case?

9 A. Exhibit Number 1 is a land plat that's taken
10 from the Midland Map Company. It shows our proposed
11 spacing unit, which is outlined in red. It also shows
12 the location of the well, which is 99 feet from the north
13 line and 1,980 feet from the west line.

14 Q. And this is the north half of Section 11.
15 What is the township and range?

16 A. Township and range is 17 south, range 29 east.
17 This is in Eddy County, New Mexico.

18 Q. What zones does Mewbourne seek to force pool?

19 A. We seek to force pool from the top of the
20 Wolfcamp Formation to the base of the Morrow Formation.

21 Q. Okay. So only 320-acre zones; is that
22 correct?

23 A. Correct.

24 Q. What is the name of the well?

25 A. The name of the well is the Orca "11" Federal

1 Com #1 well.

2 Q. Referring to Exhibit 2, what is the interest
3 ownership in the proposed well unit?

4 A. In the northwest quarter a 50 percent interest
5 is owned by BP American Production Company, and 50
6 percent interest is owned by ConocoPhillips company. In
7 the northeast quarter, that is owned 100 percent by
8 Mewbourne Oil Company.

9 Q. And which parties do you seek to pool?

10 A. We seek to pool BP American Production
11 Company, also ConocoPhillips company.

12 Q. And what is Exhibit 3?

13 A. Exhibit Number 3 is a copy of the
14 correspondence sent to the poolees, being ConocoPhillips
15 company and BP American Production Company. This letter
16 is dated February 3rd, 2009, whereby we propose the
17 drilling of the Orca "11" Federal Com #1 well to each of
18 those companies.

19 Q. Have there been discussions between Mewbourne
20 and both of the other companies?

21 A. Yes. Throughout the period from February 3rd
22 to present, we've had several phone calls and emails
23 between the companies.

24 Q. And are there some -- has there been
25 discussion of farmouts or term assignments from BP and

1 Conoco?

2 A. From both of them -- they agreed to give us a
3 term assignment. The term assignment in which they've
4 both submitted are currently being evaluated. We've
5 determined thus far that the contents of those term
6 assignments are not acceptable to Mewbourne Oil Company
7 but we're still doing some ongoing negotiations regarding
8 the terms of the term assignments.

9 Q. And is this well upcoming on Mewbourne's
10 drilling schedule?

11 A. Correct.

12 Q. So you need to push forward with the
13 compulsory pooling?

14 A. Correct. We'll be drilling this within 90
15 days, possibly 60, depending on rig schedules.

16 Q. Now, BP and Conoco are the only interest
17 owners? There aren't any unlocateables in this matter?

18 A. No, sir.

19 Q. What is Exhibit 4?

20 A. Exhibit 4 is a copy of our AFE, whereby we
21 have submitted this AFE to both ConocoPhillips company
22 and BP American Production Company. It lists the
23 location of the well, the proposed depth of the well,
24 which is 11,000 feet. It also indicates the cost of the
25 well.

1 Q. What is the completed well cost?

2 A. The completed well cost is estimated at
3 2,266,500.

4 Q. And is this cost in line with the cost of
5 other wells drilled at this depth in this area of New
6 Mexico?

7 A. Yes, sir, it is. We've drilled many wells
8 within this area.

9 Q. And what overhead rates does Mewbourne request
10 for this well?

11 A. We are requesting overhead rates of \$7,000 per
12 month for drilling and \$700 a month for a producing well,
13 should it be completed as a producer.

14 Q. Are these amounts equivalent to those normally
15 charged by Mewbourne and other operators in this area for
16 wells of this depth?

17 A. That's correct.

18 Q. Do you request that the overhead rates be
19 adjusted pursuant to the COPAS accounting procedure?

20 A. Yes, we do.

21 Q. Does Mewbourne request a maximum cost plus 200
22 percent risk charge if one or more of the parties does
23 not consent to the drilling of the well?

24 A. Yes, we do.

25 Q. Were the parties being pooled notified of this

1 hearing?

2 A. Yes.

3 Q. Is that reflected in Exhibit 5?

4 A. That's correct. That's the Affidavit of
5 Notice.

6 Q. And were Exhibits 1 through 5 prepared by you
7 or under your supervision or compiled from company
8 business records?

9 A. Yes, they were.

10 Q. And one other question. In your opinion has
11 Mewbourne made a good-faith effort to obtain the
12 voluntary joinder of BP and ConocoPhillips?

13 A. Yes, we have.

14 Q. And in your opinion, is the granting of the
15 application in the interest of conservation and the
16 prevention of waste?

17 A. Yes.

18 MR. BRUCE: Mr. Examiner, I move the
19 admission of Exhibits 1 through 5.

20 MR. JONES: Exhibits 1 through 5 will be
21 admitted.

22 (Exhibits 1 through 5 were admitted.)

23 MR. BRUCE: No further questions.

24 MR. JONES: Mr. Haden, the terms that you
25 propose to BP and ConocoPhillips, you think they're fair

1 and reasonable?

2 THE WITNESS: The terms we offer in this,
3 these are the terms we normally offer to everybody.

4 MR. JONES: Okay. So they were offered to
5 others, also, and others took those terms?

6 THE WITNESS: Yes. We acquired an
7 interest in the northeast quarter.

8 MR. JONES: But BP and ConocoPhillips,
9 they don't oppose drilling? I guess you can't testify
10 for them. But from your correspondence with them, do
11 they oppose drilling of the well?

12 THE WITNESS: No, sir, they don't.

13 MR. JONES: They don't oppose drilling the
14 well, so all we have here is a failure to reach an
15 agreement. But you want to drill the well within 90
16 days, so you're saying that would be a waste if we don't
17 go ahead and force pool them before you guys can reach an
18 agreement? Do you think there's a possibility that you
19 would reach an agreement if it lasted longer than --

20 THE WITNESS: Eventually we will reach an
21 agreement. We thought we would have done that right
22 before this hearing, but it fell through. I mean,
23 negotiations are still ongoing. We will make a trade
24 with these people, but we have a rig schedule that we
25 have to drill this well in a timely fashion.

1 MR. JONES: Okay. This is for the 320
2 spacing?

3 THE WITNESS: Yes, sir.

4 MR. JONES: So the Morrow is the target, I
5 take it?

6 THE WITNESS: Target formation, yes, is
7 the Morrow.

8 MR. JONES: And it looks like the drilling
9 costs have come down.

10 THE WITNESS: They are coming down
11 somewhat, including the completion costs. Since January
12 we've noticed that they've come down about 30 to 33
13 percent, so it's starting to make some of these prospects
14 more economic.

15 MR. JONES: 30 percent reduction, that
16 means this well would have cost a million dollars more a
17 year or so ago.

18 THE WITNESS: Yeah. Of course the product
19 price isn't great right now, either. We hope that goes
20 up.

21 MR. JONES: Well, the product cost for
22 natural gas, could that be part of the issue here as the
23 economics that BP and ConocoPhillips are looking at, even
24 with the lower drilling cost, the product prices being so
25 low?

1 THE WITNESS: Yes, absolutely. And
2 normally they do not participate anyway in Morrow wells.

3 MR. JONES: Okay.

4 THE WITNESS: So this is just their MO.
5 "We'll give you a term assignment. We don't want to
6 participate."

7 MR. JONES: They must have got a new
8 landman or something for ConocoPhillips. The term
9 assignments they offered is not acceptable?

10 THE WITNESS: Right. It has some onerous
11 provisions to it which we're working out, but their
12 landman, Tom Scarborough, indicates, "Well, this has to
13 go through corporate. If you're going to change some of
14 these terms, we have to get it approved on a corporate
15 level." That's the snag.

16 MR. JONES: Oh, okay. Questions?

17 MR. WARNELL: No.

18 MR. JONES: Dave?

19 MR. BROOKS: No questions.

20 MR. JONES: I think that's it for this
21 case. Thank you very much. We'll take Case 14297 under
22 advisement.

23 * * *
24 I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. _____
25 heard by me on _____.

_____, Examiner

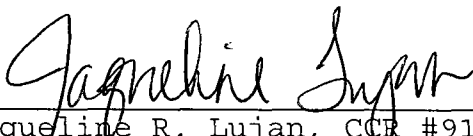
REPORTER'S CERTIFICATE

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I, JACQUELINE R. LUJAN, New Mexico CCR #91, DO
HEREBY CERTIFY that on March 31, 2009, proceedings in the
above captioned case were taken before me and that I did
report in stenographic shorthand the proceedings set
forth herein, and the foregoing pages are a true and
correct transcription to the best of my ability.

I FURTHER CERTIFY that I am neither employed by
nor related to nor contracted with any of the parties or
attorneys in this case and that I have no interest
whatsoever in the final disposition of this case in any
court.

WITNESS MY HAND this 13th day of April, 2009.


Jacqueline R. Lujan, CCR #91
Expires: 12/31/2009

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