

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 COMPANY
FOR APPROVAL OF A NON-STANDARD OIL SPACING
AND PRORATION UNIT AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO

CASE NO. 14523

ORIGINAL

TRANSCRIPT OF PROCEEDINGS

Examiner Hearing

August 5, 2010

9:02 a.m.

1220 South St. Francis Drive
Santa Fe, New Mexico 87504

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BEFORE: RICHARD EZEANYIM, HEARING EXAMINER
MARK FESMIRE, LEGAL EXAMINER

REPORTED BY: CONNIE JURADO, RPR, NM CCR #254
Paul Baca Professional Court Reporters
500 Fourth Street NW, Suite 105
Albuquerque, New Mexico 87102

1 A P P E A R A N C E S

2 For the Applicant:

3 JAMES BRUCE
 4 Attorney at Law
 5 Post Office Box 1056
 6 Santa Fe, New Mexico 87504

7 COURT REPORTER'S CERTIFICATE 18

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12 EXHIBITS ADMITTED

13

14 1. Verified Statement of Corey Mitchell, Attachment
 15 A, Attachment B, Attachment C, Attachment D 9

16 2. Affidavit of Jason Lodge, Attachment A,
 17 Attachment B, Attachment C 9

18 3. Affidavit of Notice, Attachment A 9

19 4. Affidavit of Publication 9

20 5. Affidavit of Notice, Attachment A 9

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1 MR. EZEANYIM: Well, then if there is
2 none, we start on page 2 with Case Number 14523.
3 This is the Application of Mewbourne Company for
4 approval of a non-standard oil spacing and proration
5 unit and for compulsory pooling, Eddy County, New
6 Mexico. Call for appearances.

7 MR. BRUCE: Mr. Examiner, Jim Bruce
8 of Santa Fe representing the applicant. I am
9 submitting this case by affidavit.

10 MR. EZEANYIM: Any other appearances?
11 Okay. Mr. Bruce, please continue.

12 MR. BRUCE: Mr. Examiner, I've handed
13 you a packet of exhibits. Exhibit 1 is the verified
14 statement of Corey Mitchell, the landman for
15 Mewbourne. If you go back about five, four or five
16 pages to a land plat, you will see what Mewbourne is
17 proposing is to form a non-standard unit comprised of
18 the east half west half of Section 21, 20 South, 25
19 East, and they plan on drilling a horizontal Yeso
20 well.

21 For your information, I will get into
22 this in a minute, but the northwest quarter of that
23 section is fee land, and the southwest quarter of
24 that section is federal land. The well is located in
25 the northeast quarter, northwest quarter, and a

1 terminus will be in the southeast of the southwest.
2 Somewhere sitting on an e-mail, Mr. Examiner, are the
3 exact footages, but I just got back in from out of
4 town. I will get you the exact footages of that
5 well.

6 MR. EZEANYIM: Okay.

7 MR. FESMIRE: And they are drilling
8 north to south, right?

9 MR. BRUCE: North to south, correct.
10 They do seek to force pool the northeast, northwest,
11 the fee tract -- the northeast quarter of the
12 northwest quarter from the surface to the top of the
13 Yeso, and then force pool the Yeso in the
14 non-standard well unit or project area.

15 The landman's affidavit identifies
16 the parties being pooled. You can see there are a
17 number of them. All of these parties collectively
18 own about 6 1/2 percent total roughly of the working
19 interests in the well unit, and that would be about
20 12, 12 1/2 percent in the northwest quarter. Besides
21 these people who are all unleased mineral interest
22 owners, Mewbourne has leased dozens of others. It is
23 a fee tract that is massively cut up. So it's just a
24 common problem. You will see none of these interest
25 owners own more than 1 1/2 percent individually, and

1 a lot of them as you will see are unlocateable.

2 Exhibit A, Attachment A to the
3 affidavit is simply the land plat. Attachment B to
4 the affidavit are those for whom there were at least
5 a current address or at least an address they could
6 take down. A lot of these people have disappeared
7 off the face of the planet quite some time ago. And
8 Attachment C --

9 MR. EZEANYIM: Could you repeat
10 Attachment B, please? Attachment B, what is that?

11 MR. BRUCE: This is a list of people
12 who they could actually determine addresses for.

13 MR. EZEANYIM: Okay.

14 MR. BRUCE: Many of the other parties
15 who don't have addresses are completely unlocateable.

16 MR. EZEANYIM: Okay.

17 MR. BRUCE: Attachment C is a summary
18 of the contacts with the interest owners. As I said,
19 they spent quite a bit of time -- the contacts start
20 in June. That does not include the title work meant
21 to track all of these people down and to get them to
22 lease. As I said, a number of people are leased.
23 And proposal letters were sent. And with respect to
24 the unlocateables or really everyone as usual in
25 today's world, they checked the county records, they

1 checked telephone directories. If they have a last
2 known county of residence, they check the telephone
3 records, et cetera, Internet records in those
4 counties to try to track down these people.

5 In this instance, they were
6 successful with about, oh, maybe two-thirds of
7 these -- maybe half -- maybe two-thirds to a half of
8 these people in locating addresses. And they -- as a
9 result, we had to take additional notice steps.

10 MR. EZEANYIM: Comment?

11 MR. FESMIRE: Yes, sir. Mr. Bruce,
12 what is the total percentage that you're seeking to
13 force pool?

14 MR. BRUCE: I didn't total it up, but
15 it is -- in the non-standard unit, it is about 6 1/2
16 percent of the well unit.

17 MR. FESMIRE: Of the well or half --

18 MR. BRUCE: Of the 160 acre
19 non-standard unit.

20 MR. FESMIRE: Okay.

21 MR. BRUCE: Attachment D, the final
22 page of the landman's statement is the AFE for the
23 well, and it is a \$1.7 million test mainly due to the
24 horizontal nature. If this was a vertical well, the
25 cost would probably be about \$650,000 to \$700,000.

1 The overhead charges requested by the applicant are
2 \$7,000 a month for a drilling well and \$700 a month
3 for a producing well.

4 And then finally on page 4 of the
5 landman's affidavit, the offset operators are
6 identified. In many of these cases, the applicants
7 have been required to identify outside operators, and
8 this identifies them for the examiners.

9 Exhibit 2 is the affidavit of Jason
10 Lodge, who is a geologist with Mewbourne, and he
11 attaches certain geologic exhibits. Basically, as
12 with all of these horizontal wellbores, they are
13 trying to test a greater reservoir length which would
14 increase the chances for an economic completion. It
15 further states that all four quarter-quarter sections
16 in the well unit are anticipated to be productive
17 from the Yeso.

18 If you will look at the structure
19 map, which is Exhibit A to the geologist's affidavit,
20 I think you will see that there are a number of Yeso
21 wells to the northeast of this proposed well. Those
22 are all vertical -- except for one, they are all
23 vertical tests at this point. And I believe
24 virtually all of those have been drilled by
25 Mewbourne.

1 They are seeking to step out from
2 that production and establish production in Section
3 21, but they have -- if you will look over the last
4 year, they have forced pooled -- there is a lot of
5 fee land in this area, and they have forced pooled a
6 number of well units in the Yeso where normal spacing
7 is 40 acres. You will see up in Section 15 in the
8 northeast, they have drilled one horizontal and they
9 have another one planned in the northwest quarter.

10 There is also a cross-section
11 attached to show the productive zone. Then
12 Attachment C is a directional drilling plan. And
13 Mr. Examiner, if you will look at the directional
14 drilling plan, it does give footages for the well,
15 400 feet from the north line, and 1800 feet from the
16 west line for the surface location, and 330 feet from
17 the south line, and 2310 feet from the west line for
18 the terminus.

19 MR. EZEANYIM: Where is the entry
20 point?

21 MR. BRUCE: The entry point, in the
22 -- from looking at other well files, the top of the
23 Yeso is a little bit more than 2400 feet. So if you
24 will look at the directional drilling plan, the entry
25 point is approximately 500 feet from the north line

1 of Section 21.

2 MR. EZEANYIM: So that is from the
3 surface?

4 MR. BRUCE: Yes. And finally,
5 Mr. Examiner, the notice affidavits attachment or
6 Exhibit 3 is my Affidavit of Notice. I gave notice
7 to all of these persons who had a physical address.
8 Three of those came back, and those are the final
9 three pages of Exhibit 3.

10 Exhibit 4 is the Affidavit of
11 Publication in the Carlsbad newspaper, and all of the
12 people who either did not have an address or whose
13 certified letters were returned were notified by
14 publication of this application.

15 And then finally Exhibit 5 is just
16 the Affidavit of Notice to the offset operators, and
17 they did receive actual notice. And with that, I
18 would move the admission of Exhibits 1 through 5.

19 MR. EZEANYIM: Exhibits 1 through 5
20 will be admitted.

21 (Exhibits 1 through 5 admitted.)

22 MR. BRUCE: I don't have anything
23 further, Mr. Examiner.

24 MR. FESMIRE: Mr. Bruce, after the
25 costs, these 200 percent are achieved, what does the

1 law provide for the disposition of the funds
2 attributable to the forced pool interests?

3 MR. BRUCE: They will have to be
4 placed in a bank account in Eddy County.

5 MR. FESMIRE: And your client is
6 aware of that responsibility?

7 MR. BRUCE: That is correct. I
8 think -- generally, I think the division has been
9 placing that requirement in the orders, in the
10 pooling orders --

11 MR. FESMIRE: Yeah.

12 MR. BRUCE: -- unless everybody was
13 at -- had a current address.

14 MR. FESMIRE: Right. Okay. I just
15 wanted to make sure that -- I've heard some rumblings
16 lately that that's not being done in some cases. I'm
17 sure they are not your clients.

18 MR. BRUCE: Mine are perfect. It's
19 Mr. Hall's clients that are problems.

20 MR. FESMIRE: I just wanted to bring
21 that out on the record. I have no further questions,
22 Mr. Ezeanyim.

23 MR. EZEANYIM: Okay. Thank you.

24 Yes, Mr. Bruce, I have questions. I can see if you
25 go to that -- I think it would be B.

1 MR. BRUCE: Exhibit A.

2 MR. EZEANYIM: Yeah. It would be
3 number 2. I can see some wells you drilled there.
4 This Section 21, really nothing has happened there.
5 I can see there is no order to drill there. So my
6 question, that's why I was asking for, you know, an
7 engineer or a landman to come here is why do you
8 think it is north south orientation with access to
9 most hydrocarbon production than east west or west
10 east in this section?

11 I have no other person to ask. I
12 have to ask you this question because this is really
13 what we do is to prevent waste because once we
14 approve north south, every horizontal will be north
15 south.

16 MR. BRUCE: Right.

17 MR. EZEANYIM: So we can't go north
18 south, east west. So we want to make sure we tie it,
19 the most productive hydrocarbon system. So if it is
20 east west, then it is no good for us to do the north
21 south, too. I am going to look at the geology and
22 everything. That's why I wanted some witnesses to
23 tell me exactly why they want to do north south
24 instead of east west.

25 MR. BRUCE: And Mr. Examiner, if you

1 do require it, I can get the geologist up to discuss
2 that, or I could get a supplemental writeup from the
3 geologist discussing why they are going north south.
4 Obviously, as I pointed out, to the northeast in
5 Section 15, they do have two lay-down wells. They
6 are 80 acre horizontals, but they are lay-down wells,
7 and it's -- but I cannot answer that question
8 obviously.

9 MR. EZEANYIM: Okay.

10 MR. FESMIRE: Why don't we leave the
11 record open for a supplemental affidavit --

12 MR. EZEANYIM: Yes.

13 MR. FESMIRE: -- if you can get that,
14 if it's possible.

15 MR. EZEANYIM: Okay. Unless we leave
16 it open because I really need that to make a
17 recommendation here. I want to make sure we are
18 making the correct recommendation by either approving
19 the north south or east west. As you know, all this
20 come up every time, and then we decide, well, since
21 you don't have your witness, we leave the record open
22 as he said, and then get the information and then
23 continue from there.

24 MR. BRUCE: Okay.

25 MR. EZEANYIM: That's one of my

1 concerns, and there is one other concern. You have
2 your pooling application. You want to pool from the
3 surface to the top of the Yeso, and now that's only
4 40 acres. Now, you also want to pool in this
5 non-standard 160. How would production and the cost
6 be shared among -- or is the ownership in the -- in
7 that 40 acres determine ownership in the 160 so that
8 there is no difference in dividing the cost -- see
9 what I mean?

10 MR. BRUCE: Yeah.

11 MR. EZEANYIM: If you do that,
12 because you're going to put it at the top of the
13 Yeso, not including the Yeso, however, you're going
14 to put the Yeso under 160 so I want to make sure how
15 you are going to divide cost production on that 40 as
16 compare it with the 160.

17 MR. BRUCE: First, Mr. Examiner, all
18 of these people being pooled own undivided interests
19 in the northeast northwest.

20 MR. EZEANYIM: All of them in the
21 160, too?

22 MR. BRUCE: All of these people
23 identified on the landman's affidavit --

24 MR. EZEANYIM: Okay.

25 MR. BRUCE: -- own undivided

1 interests in the northeast quarter of the northwest
2 quarter.

3 MR. EZEANYIM: Okay.

4 MR. BRUCE: And obviously, generally,
5 what has been occurring in these wells is if somebody
6 completes uphold, they all bear their proportionate
7 share of costs to drill the horizontal well. If they
8 come uphold, they only bear their proportionate share
9 of the completion costs.

10 MR. EZEANYIM: Okay.

11 MR. BRUCE: So I mean, obviously,
12 everybody has to share in the drilling of the initial
13 well, but for instance, if there is an uphold
14 recompletion at some point in the future, it is --
15 they would be bearing their roughly 12 or 12 1/2
16 percent proportionate share of recompletion costs in
17 the shallower zone.

18 MR. EZEANYIM: Let me put the
19 question on that. What is your primary target here?
20 The Yeso or --

21 MR. BRUCE: The Yeso.

22 MR. EZEANYIM: Yeso. So what happens
23 top of the Yeso and to the surface, what happens
24 there? Are you having a prospect there or not?

25 MR. BRUCE: You know, Mr. Examiner, I

1 will ask. I know there are some shallower zones. I
2 don't know how productive they are in this area. If
3 you will recall, this area was one of the big areas
4 for -- there were Morrow wells drilled, and this is
5 pretty close to the area of the Dagger Draw Upper
6 Penn. And there was really no shallow activity until
7 just a year and a half ago in this area.

8 MR. EZEANYIM: Okay.

9 MR. BRUCE: I always include that if
10 people are going to be pooled just in case.

11 MR. EZEANYIM: Yeah.

12 MR. BRUCE: I couldn't tell you, but
13 better to be safe than come back here another two
14 years and pool a shallower zone.

15 MR. EZEANYIM: Because the top of the
16 Yeso is --

17 MR. BRUCE: It is about 2400, 2500
18 feet in this area.

19 MR. EZEANYIM: Yeah. Okay. You see
20 why I'm posing this question is in order to make a
21 recommendation, I have to make sure, you know, you
22 have a method of sharing costs and production, and
23 there is no issues regarding correlative rights. We
24 are going to address the waste issue. We are going
25 to address the correlative rights issue. So he

1 suggested that we keep the record open for that,
2 because I am going to be asking you for further
3 information to be able to make that recommendation.

4 MR. BRUCE: I will.

5 MR. EZEANYIM: Okay. So Yeso is your
6 primary target, right?

7 MR. BRUCE: Yes. Mr. Examiner, in
8 looking at well files, even the vertical Yeso wells
9 in this area have been coming in anywhere from 50 to
10 300 barrels a day.

11 MR. EZEANYIM: What did you say?

12 MR. BRUCE: Fifty to 300 barrels a
13 day for a vertical.

14 MR. EZEANYIM: Vertical wells, okay.
15 This well is not yet drilled?

16 MR. BRUCE: It is not drilled.

17 MR. EZEANYIM: Do you have any API
18 numbers?

19 MR. BRUCE: Not at this point. I
20 have checked last Friday or Saturday, and it does not
21 have an API number.

22 MR. EZEANYIM: Okay. Thank you.
23 Anything further?

24 MR. FESMIRE: I have nothing.

25 MR. EZEANYIM: At this point, Case

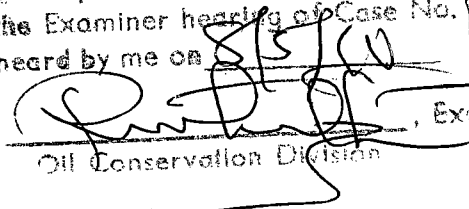
1 Number 14523 will be taken under advisement.

2 MR. FESMIRE: And the record will
3 remain open pending the affidavit concerning the
4 geology we requested and discussed.

5 MR. BRUCE: That is correct.

6 MR. EZEANYIM: Thank you.

7 (Hearing recessed at 9:22 a.m.)
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15 I do hereby certify that the foregoing is
16 a complete record of the proceedings in
17 the Examiner hearing of Case No. 14523
18 heard by me on 8/5/60
19  , Examiner
20 Oil Conservation Division
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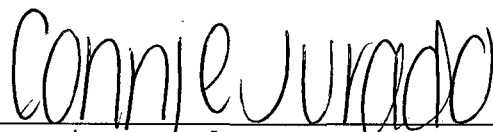
REPORTER'S CERTIFICATE

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I, CONNIE JURADO, do hereby certify that I reported the foregoing case in stenographic shorthand and transcribed, or had the same transcribed under my supervision and direction, the foregoing matter and that the same is a true and correct record of the proceedings had at the time and place.

I FURTHER CERTIFY that I am neither employed by nor related to 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 5th day of August,
2010.



Connie Jurado, CCR, RPR
New Mexico CCR No. 254
Expires: December 31, 2010