

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. 14596

APPLICATION OF MEWBOURNE OIL COMPANY FOR
A NON-STANDARD SPACING AND PRORATION UNIT
UNORTHODOX WELL LOCATION AND COMPULSORY POOLING,
EDDY COUNTY, NEW MEXICO,

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

DOCKET NO. 6-11

BEFORE: DAVID K. BROOKS, Hearing Examiner
WILLIAM V. JONES, Technical Examiner

MARCH 3, 2011

1:36 PM

Santa Fe, New Mexico

This matter came on for hearing before the
New Mexico Oil Conservation Division, DAVID K. BROOKS,
Hearing Examiner, and WILLIAM V. JONES, Technical
Examiner, on THURSDAY, MARCH 3, 2011, at the New Mexico
Energy, Minerals and Natural Resources Department, 1220
South Street Francis Drive, Room 102, Santa Fe,
New Mexico.

REPORTED BY: Lisa Reinicke
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A P P E A R A N C E S

For the Applicant Mewbourne Oil Company:

HOLLAND & HART
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 By: William F. Carr

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1 EXAMINER BROOKS: Okay. Back on the record.
 2 We'll call Case Number 14596, the application of
 3 Mewbourne Oil Company for a non-standard spacing and
 4 proration unit unorthodox well location and compulsory
 5 pooling, Eddy County, New Mexico.

6 Call for appearances.

7 MR. CARR: May it please the Examiner, my
 8 name is William F. Carr with the Santa Fe office of
 9 Holland & Hart. We represent Mewbourne Oil Company in
 10 this matter, and I have two witnesses. I would also
 11 like the record to reflect that the witnesses have both
 12 previously testified today, their qualifications have
 13 been accepted and they remain under oath.

14 EXAMINER BROOKS: Very good. The record so
 15 reflects. You may proceed.

16 MR. CARR: Our first witness is Corey
 17 Mitchell.

18 COREY MITCHELL
 19 after having been first duly sworn under oath,
 20 was questioned and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Mr. Mitchell, would you briefly summarize for the
 24 Examiners what Mewbourne seeks in this case?

25 A. Mewbourne Oil Company is seeking approval of an

1 unorthodox surface location, non-standard spacing and
2 proration unit which makes up the east half northwest
3 quarter in the northeast southwest quarter of
4 Section 24, Township 19 South, Range 25 East, and also
5 approval of compulsory pooling.

6 Q. What is the surface location for the well?

7 A. The surface location is 990 from the south line
8 and 1650 from the west line. Bottom hole location is
9 330 from the north line and 1650 from the west line.
10 And both of those are of section 24.

11 Q. Let's go to Exhibit Number 1. And using this
12 exhibit, would you review for the Examiners the location
13 and how the surface location relates to the horizontal
14 well project area?

15 A. This land plat here is a Midland Map land plat.
16 It shows our proposed lateral, and our spacing unit is
17 outlined in yellow. It also shows the ownership in the
18 immediate area.

19 Q. What is the primary objective in the well?

20 A. It is the Yeso formation.

21 Q. And was this in the defined pool?

22 A. It is the North Seven Rivers-Glorieta Yeso Pool.

23 Q. Let's refer to what has been marked as Exhibit 2.

24 Would you explain to the Examiners what this shows?

25 A. Exhibit 2 is the tract ownership for this

1 proration unit. We have Nearburg Exploration, which is
2 marked by an asterisk as to whom we are pooling today.

3 Q. Have all the interests, other than Nearburg,
4 voluntarily committed to the drilling of this well?

5 A. Yes, sir.

6 Q. And what is the status of your negotiations with
7 Nearburg?

8 A. Nearburg has verbally, and in my Exhibit 3
9 they've written us a letter stating that they would like
10 to participate but not necessarily under a JOA. And I
11 would like to note that we have other wells in this
12 section where Nearburg has participated under an order
13 as opposed to a JOA.

14 Q. You anticipate that is what they will do here?

15 A. Yes, sir.

16 Q. Would you go to Mewbourne Exhibit 3, identify
17 this and review it for Mr. Brooks and Mr. Jones.

18 A. Exhibit 3 is my summary of communications with
19 Nearburg. I guess we proposed the well to them in
20 December of 2010, and I've had several correspondences
21 with Mr. Ken Dixon with Nearburg until the present day.

22 Q. And are your negotiations with Nearburg at this
23 point virtually at a close?

24 A. Yes, sir.

25 Q. Would you refer to Exhibit Number 4, the AFE, and

1 review the totals on that exhibit?

2 A. Exhibit 4 is an AFE with the estimated well cost
3 for this well. We have dry hole costs of 752,700, and
4 completed costs of 1,792,300.

5 Q. Are these costs in line with what Mewbourne has
6 charged for other wells in the area?

7 A. Yes, sir.

8 Q. Have you made an estimate of overhead and
9 administrative costs incurred while drilling the well
10 and also while producing it if it is successful?

11 A. Yes, sir. We have \$6,000 a month while drilling
12 and \$600 a month while producing.

13 Q. Are these the figures that the other interest
14 owners will agree to in the JOA?

15 A. Yes, sir.

16 Q. And you recommend that these figures be
17 incorporated into the order that results from today's
18 hearing?

19 A. Yes, sir.

20 EXAMINER BROOKS: What were the figures
21 again?

22 MR. MITCHELL: 6,000 a month for drilling
23 and 600 a month for producing.

24 EXAMINER BROOKS: Thank you.

25 Q. (By Mr. Carr) The joint operating agreement for

1 this well, does it provide that these overhead
2 administrative costs be adjusted pursuant to COPAS
3 procedures?

4 A. Yes, sir.

5 Q. And do you request that the order entered into in
6 this case will likewise provide that these costs will be
7 adjusted against the Nearburg interest in accordance
8 with the COPAS procedures?

9 A. Yes, sir.

10 Q. Does Mewbourne request a 200 percent charge be
11 assessed against the Nearburg interest?

12 A. Yes.

13 Q. And that's if they don't participate?

14 A. Correct.

15 Q. Does Mewbourne seek to be operator of the well?

16 A. Yes, sir.

17 Q. Is Exhibit Number 5 an affidavit confirming that
18 notice of this application has been provided to
19 Nearburg?

20 A. Yes, sir.

21 Q. Mr. Mitchell, would you go back to Exhibit 1,
22 please?

23 A. Okay.

24 Q. And Exhibit 1 shows the horizontal well project
25 area for this well.

1 A. Correct.

2 Q. What is the status of the ownership in
3 Section 24?

4 A. All of Section 24, with the exception of the west
5 half northwest quarter, is committed to the same JOA
6 with all parties, all working interest owners in that
7 section being signed up on the same JOA with the
8 exception of Nearburg who is also the owner of the west
9 half northwest quarter.

10 Q. And who owns the south half of Section 13?

11 A. Mewbourne Oil Company.

12 Q. And so in this situation you actually either own
13 or have notified Nearburg so all offsetting owners have
14 been notified?

15 A. Yes, sir.

16 Q. Were Exhibits 1 through 5 prepared by you or
17 compiled under your direction and supervision?

18 A. Yes, sir.

19 MR. CARR: May it please the Examiners, at
20 this time we move the Exhibits 1 through 5.

21 EXAMINER BROOKS: 1 through 5 are admitted.

22 [Exhibits 1 through 5 admitted.]

23 Q. (By Mr. Carr) Mr. Mitchell, does Mewbourne also
24 request that if possible this order be expedited to
25 accommodate your drilling schedule?

1 A. Yes, sir.

2 MR. CARR: That concludes my direct
3 examination of Mr. Mitchell.

4 EXAMINER BROOKS: Okay. What was the well
5 name?

6 MR. MITCHELL: It will be the Wyatt Draw 24
7 KC, Number 1H.

8 EXAMINER BROOKS: And the surface location
9 is 990 from the south and 1650 from the west?

10 MR. MITCHELL: Yes, sir.

11 EXAMINER BROOKS: And the bottom hole I got
12 down here is 330 from the north and 1650 from the west.

13 MR. MITCHELL: Yes, sir.

14 EXAMINER BROOKS: 990 from the south. So
15 you're doing -- oh, yeah, you're doing three spacing
16 units in instead of four?

17 MR. MITCHELL: Yes, sir.

18 EXAMINER BROOKS: And your surface location
19 is outside the spacing units down in the southeast
20 southwest; is that correct?

21 MR. MITCHELL: Yes, sir.

22 EXAMINER BROOKS: Okay. And Nearburg is the
23 only party you're pooling?

24 MR. MITCHELL: Yes, sir.

25 EXAMINER BROOKS: And you're pooling only

1 the Yeso?

2 MR. MITCHELL: Yes, sir.

3 EXAMINER BROOKS: Okay. Mr. Jones?

4 EXAMINER JONES: That's south half south
5 half of 24, you said that's under JOA. But let's say
6 the southeast of the southwest, who would be the
7 operator of that one?

8 MR. MITCHELL: Mewbourne Oil Company.

9 EXAMINER JONES: So there's no land reason
10 not to include that. So there must be a geologic
11 reason?

12 MR. MITCHELL: Yes, sir. I think it's -- I
13 believe it's going to be used in a well going south if
14 this well works out. The north half of Section 25 is
15 also included in this JOA.

16 EXAMINER JONES: Okay.

17 EXAMINER BROOKS: I forgot to ask. I forgot
18 to ask, and I'm glad you asked about the south half. If
19 Mewbourne is the operator, is the working interest
20 ownership identical to that in the proposed unit?

21 MR. MITCHELL: Yes, sir.

22 EXAMINER BROOKS: Very good. That's all I
23 have.

24 MR. CARR: All right. At this time we call
25 Jason Lodge.

JASON LODGE

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

DIRECT EXAMINATION

BY MR. CARR:

Q. Mr. Lodge, have you prepared geologic exhibits
for presentation here today?

A. Yes, I have.

Q. Would you refer to what has been marked for
identification as Mewbourne Oil Company Exhibit 6 and
review this for the Examiners?

A. Yes. This is, again, a structure map, the top of
the Yeso formation. This includes production bubbles.
Yeso production is the pink bubbles. And it includes
their production right next to them. The proposed
wellbore path is highlighted in red.

Q. And this has a trace for the subsequent cross
section?

A. Yes.

Q. Let's go to that cross section in Exhibit 7.
Would you review that?

A. These are offset vertical wells, one of which is
the Fairchild 24 we talked about pretty extensively
today. Same thing with Wyatt Draw 24L, Number 1 has
been completed in the Yeso vertically. And then, again,

1 it shows my target interval there targeting the best
2 porosity in that zone.

3 Q. Are you ready to go to the production data?

4 A. Yes.

5 Q. That is marked Mewbourne Exhibit 8. Would you
6 review that, please?

7 A. Yes. This is very similar to the production data
8 on the Wyatt Draw 13ML that we talked about earlier.
9 But, again, we're going north/south. We drilled an 18,
10 Section 18, we drilled a horizontal line and we
11 encountered quite a bit of water. So another reason to
12 go north/south here.

13 But the 24L vertically was not that great, high
14 water cut after 10 months. And then, again, the
15 horizontal well we drilled just offsetting it to the
16 south was after three and a half months, 22,000 barrels
17 of oil, although the water was pretty high, 84,000 as
18 well.

19 Q. But this really confirms the benefit of
20 horizontal development in the area, doesn't it?

21 A. Yes, sir.

22 Q. Are all three quarter sections in this horizontal
23 well project area based on just this production
24 information? Would you presume them to be productive?

25 A. Yes, I would.

1 Q. And Mewbourne anticipates producing reserves from
2 each of these 40-acre tracts?

3 A. Yes, sir.

4 Q. Let's go to Exhibit 9, the last exhibit. Would
5 you identify and review that?

6 A. Yes. This is a drilling plan, proposed drilling
7 plan, that we got from the directional company for what
8 we plan on doing as far as TBD landing point and all
9 that stuff. We can search location 990 from the south,
10 1650 from the west. We will enter the top of the Yeso
11 formation at 1290 from the south, 1650 from the west.
12 So we will not be legal and then we will not put a port
13 until we are legal. This will be at lateral length of
14 3400 feet and an estimated total depth of about 6500
15 feet. TBD's landing is at 2750 roughly.

16 Q. Mr. Lodge, in your opinion will approval of this
17 application be in the best interest of conservation, the
18 prevention of waste, and the protection of correlative
19 rights?

20 A. Yes, sir.

21 Q. Were Exhibits 6 through 9 prepared by you?

22 A. Yes.

23 MR. CARR: We move the admission into
24 evidence of Mewbourne Exhibits 6 through 9.

25 EXAMINER BROOKS: 6 through 9 are admitted.

1 [Exhibits 6 through 9 admitted.]

2 MR. CARR: And that concludes my direct
3 examination of Mr. Lodge.

4 EXAMINER BROOKS: And you said the point of
5 penetration of the Yeso is 1290 from the south?

6 MR. LODGE: Yes, sir.

7 EXAMINER BROOKS: And 1650 from the west?

8 MR. LODGE: That is correct.

9 EXAMINER BROOKS: Okay. That's all I have.
10 Mr. Jones?

11 EXAMINER JONES: Is this paddock again?

12 MR. LODGE: It is the same zone.

13 EXAMINER JONES: But it doesn't -- I'm not
14 seeing it real clearly why you're excludeing that
15 directly to the south of your surface location, that
16 spacing unit. Why wouldn't you drill the thing, the
17 whole section?

18 MR. LODGE: The full mile?

19 EXAMINER JONES: Yeah.

20 MR. LODGE: The reason we're doing that is
21 for land reasons that we talked about earlier. We're
22 going to drill two 120s because that's all that we have
23 lease holding. We ideally would just drill really long,
24 but we worry about being able to steer at the toe like
25 we had mentioned earlier. As far as we know, going a

1 mile, we're okay with that. But anything over a mile we
2 start to worry about.

3 EXAMINER JONES: Okay. So in other words,
4 the risk does increase as you go further?

5 MR. LODGE: Yes. I'll agree with that.

6 EXAMINER JONES: And you're drilling the
7 sweetest spot you can find here?

8 MR. LODGE: Uh-huh.

9 EXAMINER JONES: But drilling this surface
10 hole where you're at, and you're paying the money to
11 drill your hole but you're putting your port just so it
12 satisfies this 330 setback; is that correct?

13 MR. LODGE: That's correct.

14 EXAMINER JONES: And you didn't -- huh.
15 Well, it seems like that could be talked about a little
16 bit. But is there any plan, you say, to drill in the
17 south half south half?

18 MR. LODGE: Yes. If we have --

19 EXAMINER JONES: I guess you just told me.
20 But say it again, please.

21 MR. LODGE: Sure. If we have good results
22 on this 24KC, the next well we're going to stagger it.

23 EXAMINER JONES: Okay.

24 MR. LODGE: Just the surface location will
25 be north of this proposed surface location.

1 EXAMINER JONES: Oh, okay.

2 MR. LODGE: So we will curve again and then
3 we will not put a port until we are legal. That way we
4 can drain as much as possible in each 40.

5 EXAMINER JONES: Okay. Because it takes
6 11 degrees per 100 and about 300 feet or so to make your
7 curve?

8 MR. LODGE: It's about 580 feet laterally.

9 EXAMINER JONES: Okay. Thanks.

10 EXAMINER BROOKS: Okay. I think that's all
11 we have. 14596 will be taken under advisement.

12 [Case 14596 taken under advisement at 1:52 PM.]

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I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. ~~14596~~ 14596
heard by me on 3-3-11

David K. Bishop, Examiner
Oil Conservation Division

REPORTER'S CERTIFICATE

1
2
3 I, Lisa Reinicke, New Mexico Provisional
4 Reporter, License #P-405, working under the direction
5 and direct supervision of Paul Baca, New Mexico CCR
6 License #112, Official Court Reporter for the US
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11 was reduced to printed form under my direct supervision.

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

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