

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. 14605

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

8:48 AM

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: Very good. At this time
2 we will call Case Number 14606, application of Mewbourne
3 Oil Company for a non-standard spacing and proration
4 unit unorthodox well location and compulsory pooling,
5 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 --

10 EXAMINER BROOKS: Oh, I'm sorry. Before you
11 say that, I got offline. I'm sorry. That shows my
12 antiquated vocabulary. I got on the wrong line of the
13 printed page. Okay. Backup. Call Case Number 14606,
14 application of Mewbourne Oil Company for approval of a
15 salt water disposal well, Eddy County --

16 MR. CARR: Mr. Examiner, I think you're
17 offline again. I think we're on 14605.

18 EXAMINER BROOKS: Well, maybe I called the
19 first one correctly. I don't remember. Let's start
20 over again. The third time is always a charm.

21 Case Number 14605, application of Mewbourne Oil
22 Company for a non-standard spacing and proration unit
23 unorthodox well location and compulsory pooling, Eddy
24 County, New Mexico.

25 Call for appearances.

1 MR. CARR: May it please the Examiner.

2 William F. Carr with the Santa Fe office of Holland &
3 Hart. We represent Mewbourne Oil Company in this
4 matter, and I have two witnesses.

5 EXAMINER BROOKS: I think I was offline. I
6 was in the unknown zone.

7 You may proceed. Will the witnesses state their
8 names, please.

9 MR. MITCHELL: My name is Corey Mitchell.

10 MR. LODGE: Jason Lodge.

11 [Whereupon the witnesses were duly sworn.]

12 EXAMINER BROOKS: You may proceed.

13 COREY MITCHELL

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

16 DIRECT EXAMINATION

17 BY MR. CARR:

18 Q. Would you state your name for the record, please?

19 A. Corey Mitchell.

20 Q. Mr. Mitchell, where do you reside?

21 A. Midland, Texas.

22 Q. And by whom are you employed?

23 A. Mewbourne Oil Company.

24 Q. And what's your position with Mewbourne?

25 A. Landman.

1 Q. Mr. Mitchell, have you previously testified
2 before Examiners Jones and Brooks?

3 A. Yes, sir.

4 Q. At the time of that testimony were your
5 credentials as an expert in petroleum land matters
6 accepted and made a matter of record?

7 A. Yes, sir.

8 Q. Are you familiar with the application filed in
9 this case on behalf of Mewbourne Oil Company?

10 A. Yes, sir.

11 Q. And you're familiar with the status of the lands
12 and the area that's involved in this case?

13 A. Yes, sir.

14 MR. CARR: We tender Mr. Mitchell as an
15 expert in petroleum land matters.

16 EXAMINER BROOKS: So qualified.

17 Q. (By Mr. Carr) Mr. Mitchell, would you initially
18 state what it is that Mewbourne seeks with this
19 application?

20 A. Mewbourne Oil Company seeks an unorthodox surface
21 location and a non-standard spacing and proration unit
22 composed of the west half southwest quarter of
23 Section 13, Township 19 South, Range 25 East, Eddy
24 County, New Mexico. And this will be dedicated to our
25 Wyatt Draw 13ML Number 1H well. And we also seek

1 compulsory pooling.

2 Q. And you're pooling just the Yeso formation in
3 this case?

4 A. Yes, sir.

5 Q. And what is the pool location?

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

7 Q. Initially could you provide the Examiners with
8 the surface location for the well?

9 A. The certification location is 250 from the north
10 line and 350 from the west line of Section 24.

11 Q. And the bottom hole terminus will be?

12 A. It will be 2310 from the south line and 350 from
13 the west line of Section 13.

14 EXAMINER BROOKS: Now, could you read that
15 again, the surface location?

16 MR. MITCHELL: It is 250 from the north line
17 and 350 from the west line of Section 24.

18 EXAMINER BROOKS: 24, and that's in 19
19 South, 25 East?

20 MR. MITCHELL: Yes, sir. And the bottom
21 hole location is 2310 from the south line and 350 from
22 the west line of Section 13, 19 South, 25 East.

23 EXAMINER BROOKS: Okay. Now, could you give
24 me the well name again?

25 MR. MITCHELL: It is the Wyatt Draw 13ML

1 Number 1H.

2 EXAMINER BROOKS: 13ML Number 1H.

3 MR. MITCHELL: Yes, sir.

4 EXAMINER BROOKS: And the project area of
5 the west half of the --

6 MR. MITCHELL: West half southwest quarter
7 of Section 13.

8 EXAMINER BROOKS: Okay. Go ahead.

9 Q. (By Mr. Carr) Mr. Mitchell, would you refer to
10 what has been marked as Mewbourne Exhibit 1 and review
11 that?

12 A. Exhibit 1 is a Midland map land plat, and it
13 identifies our proposed lateral along with the spacing
14 and proration unit outlined in yellow. Along with it
15 also shows ownership in the immediate area.

16 Q. Is Mewbourne a working interest in each of the
17 40s to be combined for this project area?

18 A. Yes, sir.

19 Q. Let's go to what has been marked as Mewbourne
20 Exhibit 2. And I'd ask you to identify this and review
21 it for the Examiners.

22 A. Exhibit Number 2 is the tract ownership for the
23 proration unit. It lists all the owners in the unit as
24 well as the party that we are seeking to pool, which is
25 marked by an asterisk.

1 Q. And who is that?

2 A. It is Mike Bullock.

3 Q. And what does Mr. Bullock own?

4 A. He owns a one-sixth mineral interest.

5 Q. Have all the mineral interests voluntarily
6 committed to the well?

7 A. Yes, sir.

8 EXAMINER BROOKS: Excuse me. Does
9 Mr. Bullock own one-sixth throughout the project area or
10 does he own --

11 MR. MITCHELL: Yes, one-sixth throughout the
12 project area.

13 EXAMINER BROOKS: So it's an undivided
14 interest?

15 MR. MITCHELL: Yes, sir.

16 Q. (By Mr. Mitchell) Could you summarize your
17 efforts to obtain the voluntary participation for this
18 well?

19 A. We started working on this in December of 2009.
20 And I've had communication with Mr. Bullock up until
21 present day, and he is willing to lease. We have just
22 not been able to come to terms on an oil and gas lease.

23 Q. Mr. Mitchell, would you identify Exhibit 3?

24 A. Exhibit Number 3 is a summary of communications
25 and includes copies of all my communications with

1 Mr. Bullock.

2 Q. And so this shows 31 contacts or efforts to reach
3 an agreement with Mr. Bullock?

4 A. Yes, sir.

5 Q. In your opinion, have you made a good faith
6 effort to obtain voluntary participation in this well?

7 A. Yes, sir.

8 Q. Could you identify for the Examiners Mewbourne
9 Exhibit 4?

10 A. Exhibit Number 4 is our AFE which shows the
11 estimated well cost for this well.

12 Q. And could you review the totals for the
13 Examiners, please?

14 A. Our total for dry hole cost is \$691,100. And the
15 completed well costs are \$1,623,500.

16 Q. And what have you established as the overhead and
17 administrative charges for this well while drilling and
18 producing?

19 A. 6,000 a month while drilling and 600 a month
20 while producing.

21 Q. Are these figures included in the JOA for the
22 well?

23 A. Yes, sir.

24 Q. And they're consistent with your charges for
25 similar wells in the area?

1 A. Yes, sir.

2 Q. Do you request that these administrative and
3 overhead charges be included in the order that results
4 from this case?

5 A. Yes, sir.

6 Q. Does the operating agreement provide for
7 adjustment in these charges based on the COPAS
8 procedures?

9 A. Yes, sir.

10 Q. And you request that the order entered here also
11 authorize the periodic adjustments in the overhead and
12 administrative costs?

13 A. Yes, sir.

14 Q. Does Mewbourne request a 200 percent risk charge
15 be assessed against this interest if Mr. Bullock does
16 not enter into a lease with you?

17 A. Yes, sir.

18 Q. And Mewbourne would like to be designated as the
19 operator of the well?

20 A. Yes, sir.

21 Q. Is Exhibit Number 5 an affidavit confirming the
22 notice of today's hearings in accordance with the rules
23 of the division?

24 A. Yes, sir.

25 Q. Were Exhibits 1 through 5 prepared by you or

1 compiled under your direction and supervision?

2 A. Yes, sir.

3 MR. CARR: May it please the Examiner, at
4 this time we move the admission into evidence of
5 Mewbourne Exhibits 1 through 5.

6 EXAMINER BROOKS: 1 through 5 are admitted.

7 [Exhibits 1 through 5 admitted.]

8 MR. CARR: Thank you. That concludes my
9 direct examination of Mr. Mitchell.

10 EXAMINER BROOKS: Okay. Thank you. I'm
11 going to assume that the encroachment of the bottom hole
12 will be at the point of penetration and that it will
13 encroach towards the south of Section 13. I suppose
14 that, again, is something I should ask the next witness.

15 But if that be true, then the unit encroached
16 toward is the west half of the northwest of Section 24.
17 Now, who is the operator of that unit?

18 MR. MITCHELL: That is Nearburg Exploration.

19 EXAMINER BROOKS: And you have given notice
20 to them?

21 MR. MITCHELL: Yes, sir.

22 EXAMINER BROOKS: Do you have a separate
23 notice of affidavit? I see this Exhibit 5, that is only
24 for Mr. Bullock.

25 MR. CARR: Mr. Examiner, Nearburg is

1 participating, is one of the parties who is committed to
2 the well.

3 EXAMINER BROOKS: Oh, okay. And Nearburg is
4 also the operator over in section 23?

5 MR. CARR: Yes, sir.

6 EXAMINER BROOKS: Which would also be
7 implicated.

8 MR. CARR: But I believe we're a standard
9 setback from 23. We're just encroaching towards the
10 Nearburg tract.

11 EXAMINER BROOKS: Yeah. I wouldn't know if
12 you have a diagonal encroachment until I hear what the
13 exact location of the point penetration is. But
14 according to this Midland map company, Nearburg would be
15 the party interest in 23 also.

16 MR. CARR: And if there's a diagonal it
17 would be towards 14, which is Nearburg and Yates and
18 they're both in the well and have committed to this.

19 EXAMINER BROOKS: Yeah. And this is because
20 there's two quarter sections involved, you're doing your
21 own non-standard proration unit and compulsory pooling.
22 And so you would have to notice all of the offsets. Who
23 are the other parties involved in the offsetting units?

24 MR. MITCHELL: To the north is Yates and
25 Concho. To the west is Featherstone and Yates. To the

1 east is Mewbourne and Yates. To the south is Nearburg.
2 And then to, I guess, southwest is Nearburg and Marshall
3 and Winston.

4 EXAMINER BROOKS: Okay. Now, what notice
5 has been given to these parties?

6 MR. MITCHELL: We have not. We read the
7 rule that they were not being excluded from the
8 non-standard unit and, therefore, not required to
9 receive notice under the rule.

10 EXAMINER BROOKS: Well, that is correct.
11 However, that rule also says you notice any person that
12 the division determines should be noticed. And I
13 believe our policy is in this horizontal well rules to
14 notice all offsets. Now that was policy that was set
15 with the approval of the former director. And, of
16 course, the former director is no longer the director
17 and I have not discussed this issue with the acting
18 director. So I will be happy to approach the acting
19 director and ask if he believes the change in the policy
20 is desirable. However, as of now I believe that I will
21 continue the case to allow you to give notice to the
22 offsetting operators.

23 I believe that's all I have. You may call your
24 next witness.

25 MR. CARR: At this time we call Mr. Lodge.

1 JASON LODGE

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

4 DIRECT EXAMINATION

5 BY MR. CARR:

6 Q. Would you state your name for the record, please?

7 A. Jason Lodge.

8 Q. Mr. Lodge, by whom are you employed?

9 A. Mewbourne Oil Company.

10 Q. And where do you reside?

11 A. Tyler, Texas.

12 Q. What is your position?

13 A. Petroleum geologist.

14 Q. Have you previously testified before the Oil
15 Conservation Division?

16 A. I have.

17 Q. Have you testified before Examiners Jones and
18 Brooks?

19 A. I have.

20 Q. At the time of that testimony were your
21 credentials as an expert in petroleum geology accepted
22 and made a matter of record?

23 A. Yes.

24 Q. Have you made a geological study of the area
25 that's involved in this case?

1 A. Yes.

2 Q. Are you prepared to share the results of that
3 study with the Examiners?

4 A. Yes, sir.

5 MR. CARR: I ask the witness's
6 qualifications be accepted.

7 EXAMINER BROOKS: So accepted.

8 Q. (By Mr. Carr) Have you prepared the exhibits for
9 the presentation here today?

10 A. I have.

11 Q. Would you refer to what has been marked as
12 Mewbourne Exhibit Number 6 and identify that and review
13 it for the Examiners, please?

14 A. Yes. Exhibit 6 is a structure map. This is on
15 the top of the Yeso formation. It shows that the --
16 it's dipping gently to the south, southeast. This also
17 includes production bubbles. It includes what zone
18 these wells produced in. The important color here is
19 pink. Those are all the Yeso completions. Next to
20 those pink wells are their productions, their cumulative
21 productions.

22 Q. Does this also contain subsequent cross sections?

23 A. Yes, it does.

24 Q. Would you go through that cross section Exhibit
25 Number 7 and review that, please?

1 A. This is A to A prime, going from the north to the
2 south right next to proposed wellbore path. This is
3 hung stratigraphically on the top of the Glorieta
4 formation. It shows, if you look at 24E, this is the
5 Fairchild 24, Number 1, this is a producing well in the
6 Yeso. The red shows where they perfed it. And then I
7 have the target where we plan to go horizontally.

8 Q. Could you identify and review Mewbourne Exhibit
9 Number 8?

10 A. Yes. Exhibit 8 is a production table. This
11 includes producing Yeso wells in that area as sort of by
12 well name, well ID, surface location, bottom hole
13 location, if it's horizontal. It shows the operator and
14 whether or not it's horizontal and cumulative oil,
15 water, and gas and then also the first production.

16 Just a couple things to note here, if you look at
17 the Fairchild 24, Number 1 and the Wyatt Draw 24L,
18 Number 1, those are both vertical wells, both of which
19 have been producing for roughly a year. And you can see
20 the cumulative oil, 7,000 and 4,000 barrels. And then
21 just below that, the Wyatt Draw 24/25LE, Number 1H, is a
22 horizontal well. It has only been on for three and a
23 half months and has produced 23,000 barrels of oil.

24 You can also note that these do, for the most
25 part, make more water than oil.

1 Q. Based on this production data do you have an
2 opinion on whether or not each of the 40-acre tracts
3 committed to the well is productive?

4 A. Yes. To the best of my knowledge, yes.

5 Q. Do you believe that you will produce reserves
6 from each of these tracts?

7 A. Yes.

8 Q. Can you review for the Examiners how it is that
9 Mewbourne plans to actually drill this well?

10 A. Yes. If you look back to my structure map you
11 can see the red traces, the proposed wellbore path.
12 Like the landman was saying, we will be surfaced off
13 lease on Section 24 and then we will make our curve
14 going from the south to the north. And our landing
15 point will be about 330 feet from the south line and 350
16 from the west line in Section 13 at a TDD of about 2770.
17 And then it will be about a 1980 foot lateral length and
18 a total depth of 5,080 feet.

19 The first port will be within 330 from the south
20 line, so we won't put a port until we are legal.

21 Q. So even though the surface location is unorthodox
22 the producing portion of the horizontal wellbore will be
23 within the producing area for that well?

24 A. That is correct.

25 Q. In your opinion, will approval of this

1 application and the drilling of this well be in the best
2 interest of conservation, prevention of waste, and the
3 protection of correlative rights?

4 A. Yes, sir.

5 Q. Were Exhibits 6 through 8 prepared by you or
6 compiled under your direction?

7 A. Yes.

8 MR. CARR: May it please the Examiners, at
9 this time we move the admission of Exhibits 6 through 8.

10 EXAMINER BROOKS: Exhibits 6 through 8 are
11 admitted.

12 [Exhibits 6 through 8 admitted.]

13 MR. CARR: That concludes my direct of
14 Mr. Lodge.

15 EXAMINER BROOKS: Mr. Jones?

16 EXAMINER JONES: Well, I don't see how you
17 guys can afford to do this. It doesn't look like the
18 recovery is that good vertically. But were you the one
19 having to justify the economics?

20 MR. LODGE: Well, we've drilled a lot of
21 horizontals in the area and offset marginal and vertical
22 wells and had success.

23 EXAMINER JONES: Is there a lot of
24 askewness to the results or is it pretty consistent or
25 does your one out of ten best wells pay for the other

1 nine?

2 MR. LODGE: We've had good success
3 horizontally. So we've drilled about 13 horizontal
4 wells now and we've only had one or two that are not
5 economic.

6 EXAMINER JONES: So as far as being like
7 payout within your time, what kind of payout do you look
8 at?

9 MR. LODGE: A lot of them payout very
10 quickly, within six months.

11 EXAMINER JONES: Six months?

12 MR. LODGE: Yeah. We drill these fairly
13 quickly. So we keep our costs down. So that's the key,
14 they're so shallow and we drill them quickly.

15 EXAMINER JONES: \$14,000 a day cost or
16 something. And it looks like your target zone here is
17 not your cleanest zone on your gamma ray. But you're
18 shooting for your highest density porosity?

19 MR. LODGE: Right. That's kind of what our
20 philosophy is, so just putting in the best porosity.

21 EXAMINER JONES: And is this paddock? Is
22 that considered paddock?

23 MR. LODGE: Correct. It's the same.

24 EXAMINER JONES: So it's the upper Yeso?

25 MR. LODGE: Yes, sir.

1 EXAMINER JONES: And this is the best show
2 on your mud log or is it the target zone or is it just
3 based off your electric logs?

4 MR. LODGE: It's based off electric logs.
5 And also we've drilled quite a few in this same zone to
6 the south. So we've had quite a bit of success in that
7 zone.

8 EXAMINER JONES: Okay. And why north/south?

9 MR. LODGE: We don't have a specific
10 orientation that we like as far as north/south versus
11 east/west. We've drilled both. We've had success with
12 both. We've done microseismic in the area that doesn't
13 show north/south or east/west is more preferred.

14 EXAMINER JONES: Do you pick the well names?

15 MR. LODGE: Yes. For the most part, yes.

16 EXAMINER JONES: The other one was in the
17 Winchester pool but it was named Ruger something, so I
18 thought that was a little bit interesting.

19 As to the Wyatt well here, it looks good to me.
20 It's unfortunate the Seven Rivers pool when Seven Rivers
21 is also a common producing interval. But I guess it's a
22 Seven Rivers area of Carlsbad/Artesia.

23 MR. LODGE: Uh-huh.

24 EXAMINER JONES: But the upper part of the
25 pool, I guess, or the top of Glorieta, you do have the

1 entry point for the top of the pool in here somewhere?

2 MR. LODGE: Yeah, we should enter the top of
3 the Glorieta in the vertical or just close to the
4 vertical.

5 EXAMINER JONES: So it's non-standard?

6 MR. LODGE: Correct. It will not be legal.

7 EXAMINER JONES: Good luck with your well.
8 Nice exhibits too, by the way.

9 MR. LODGE: Thank you.

10 EXAMINER BROOKS: Okay. Anything further?

11 MR. CARR: Nothing further.

12 EXAMINER BROOKS: Then Case Number 14605
13 will be continued until March 31st for purposes of
14 notice. I'm going to take a break at this point.

15 [Case 14605 was continued at 9:13 AM.]

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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. 14605
heard by me on 3-3-11
David K. Burt 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
7 District Court, District of New Mexico, do hereby
8 certify 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 and
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.

16

17

18

19

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Lisa R. Reinicke,
Provisional License P-405
License expires: 8/21/2011

21

22 Ex count:

23

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25