

STATE OF NEW MEXICO  
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT  
OIL CONSERVATION DIVISION

Application of Mewbourne Oil Company for a  
non-standard spacing and proration unit, unorthodox  
well location and compulsory pooling, Eddy County,  
New Mexico.

Case No. 14645

ORIGINAL

May 12, 2011  
9:15 a.m.  
Santa Fe, New Mexico

HEARING EXAMINERS: DAVID BROOKS AND WILLIAM JONES

For The Applicant:

HOLLAND & HART, LLP  
110 N. Guadalupe St. #1  
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BY: Adam Rankin  
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3 CORY MITCHELL

4 JASON LODGE

5

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1 (Note: In session at 9:15.)

2 HEARING EXAMINER JONES: We will call Case  
3 No. 14645, Application of Mewbourne Oil Company for  
4 non-standard unorthodox and compulsory pooling in  
5 Eddy County, New Mexico. Call for appearances.

6 MR. BRUCE: Adam Rankin appearing on  
7 behalf of Mewbourne Oil.

8 HEARING EXAMINER JONES: Any other  
9 appearances?

10 MR. RANKIN: Yes. Today with me are two  
11 witnesses, Cory Mitchell, landman; and Jason Lodge,  
12 petroleum geologist.

13 HEARING EXAMINER JONES: Let the record  
14 show that they have previously been sworn.

15 CORY MITCHELL  
16 after having been previously sworn under oath,  
17 was questioned and testified as follows:

18 EXAMINATION

19 BY MR. RANKIN

20 Q. State your name.

21 A. Cory Mitchell.

22 Q. Where do you reside?

23 A. Midland, Texas.

24 Q. By whom are you employed?

25 A. Mewbourne Oil company.

1 Q. And what is your current position with  
2 newborn oil company?

3 A. I am a landman.

4 Q. Have you previously testified before this  
5 division?

6 A. Yes, sir.

7 Q. At the time of your testimony were your  
8 credentials as an expert as a petroleum landman  
9 accepted and made a matter of record?

10 A. Yes.

11 Q. Are you familiar with the application  
12 filed in this case?

13 A. Yes, sir.

14 Q. And are you familiar with the status of  
15 the lands in the subject area?

16 A. Yes, sir.

17 Q. Would you briefly state what Mewbourne  
18 seeks with this application?

19 A. Okay. Mewbourne seeks to create a  
20 non-standard spacing and proration unit comprised of  
21 the southeast southwest quarter of Section 24 and  
22 the east half northwest quarter of Section 25 of  
23 Township 19 south, Range 25 east. This will be  
24 dedicated to our Wyatt Draw 24/25 NF Fed Com No. 1H  
25 well. We also seek to approve an unorthodox surface

1 location as well as pool all mineral interests in  
2 the Yeso formation being the North Seven Rivers  
3 Glorieta-Yeso pool.

4 Q. Mr. Mitchell, can you please identify for  
5 me what's marked as Mewbourne Exhibit No. 1?

6 A. Exhibit No. 1 is a Midland Map Company  
7 land plat. It shows our proposed non-standard  
8 spacing unit as well as our proposed well. It also  
9 shows the ownership in the immediate area.

10 Q. Thank you, Mr. Mitchell. What is the  
11 primary objective of this well?

12 A. Our primary objective is the Yeso  
13 formation being North Seven Rivers Glorieta-Yeso  
14 pool.

15 Q. Mr. Mitchell, can you please identify for  
16 me what's marked as Mewbourne Exhibit 2?

17 A. Exhibit 2 is the tract ownership. It  
18 shows all parties participating in this well along  
19 with their addresses and percent interest. We have  
20 noted who we are pooling with an asterisk and in  
21 this case we are just pooling Nearburg Exploration  
22 and they have 3.4375 percent.

23 Q. And are all other interests voluntarily  
24 committed to the well?

25 A. Yes, sir.

1           Q.     Would you please summarize for the hearing  
2     examiner the efforts you made to obtain voluntary  
3     participation working interest in the proposed well?

4           A.     We have been in talks with Nearburg. We  
5     have drilled several wells in this immediate area  
6     and we have kind of got a system down with them to  
7     where they kind of take their time. We have done  
8     three things with them on the previous wells. They  
9     have either participated under the order, signed a  
10    wellbore-specific JOA, or they have given us a  
11    trade. And so that's where we are at with this. We  
12    usually pool them and then they have 30 days under  
13    the order that they use to make an election. So  
14    they are aware of what we are doing and I guess it's  
15    part of our ongoing communications with them.

16          Q.     And in your opinion you made a good faith  
17    effort to obtain their voluntary participation?

18          A.     Yes, sir.

19          Q.     Can you please identify for me and explain  
20    the contents of what's been marked as Mewbourne  
21    Exhibit No. 3?

22          A.     Exhibit 3 is a summary of my  
23    communications with Nearburg. Again, the first page  
24    is a quick run-through of what I have attached and  
25    then the attachment is the actual documents that

1 have corresponded with Nearburg.

2 Q. So this represents the sum of your  
3 communications with Nearburg?

4 A. Correct.

5 Q. Please identify for me what's marked as  
6 Mewbourne Exhibit No. 4.

7 A. Exhibit No. 4 is our AFE for this well,  
8 which shows our estimated cost.

9 Q. What are the costs for dry hole in this  
10 case?

11 A. For a dry hole on this well we have  
12 \$867,000 and for a completed well cost we have  
13 \$2,048,200.

14 Q. Are these costs in line with what have  
15 been charged for similar wells in the area?

16 A. Yes, sir.

17 Q. Have you made an estimate of overhead  
18 costs of drilling this well and producing costs?

19 A. Yes, sir. We are requesting 6,000 a month  
20 while drilling and 600 a month while producing.

21 Q. In do you recommend that these figures be  
22 incorporated in any order that results from the  
23 hearing?

24 A. Yes.

25 Q. Has a Joint Operating Agreement been

1 entered into?

2 A. With the other parties, yes, sir. Not  
3 with Nearburg.

4 Q. Does it provide for the periodic  
5 adjustment of overhead and administrative charges  
6 pursuant to COPAS accounting procedures and joint  
7 operations?

8 A. Yes, sir.

9 Q. Does Mewbourne request that the overhead  
10 and administrative costs set by the order that  
11 results from this hearing be adjusted in accordance  
12 with these COPAS procedures?

13 A. Yes, sir.

14 Q. Does Mewbourne request that the 200  
15 percent charge for risk authorized by statute be  
16 imposed on each cost-bearing interest not  
17 voluntarily committed to the well?

18 A. Yes, sir.

19 Q. Does Mewbourne Oil Company seek to be  
20 designated operator of the proposed well?

21 A. Yes, sir.

22 Q. Can you please identify for me what's  
23 marked as Mewbourne Exhibit 5?

24 A. Exhibit No. 5 is our affidavit of  
25 publication as well as letters giving notice of the



1 hearing.

2 Q. And that's, to note, Exhibit No. 10 is the  
3 Notice of The application. It was out of order  
4 there. Were Exhibits 1 through 5 prepared by you or  
5 compiled under your direction and supervision?

6 A. Yes, sir.

7 MR. RANKIN: Thank you. Mr. Examiner, I  
8 move to have Exhibits 1 through 5 tendered.

9 HEARING EXAMINER JONES: Exhibits 1  
10 through 5 will be admitted in this case.

11 HEARING EXAMINER BROOKS: This is a  
12 horizontal well for a 120 acre --

13 THE WITNESS: Yes, sir.

14 HEARING EXAMINER BROOKS: -- unit. It's  
15 not going to be perforated in the northeast quarter  
16 of the southwest quarter of 24, correct?

17 THE WITNESS: That's correct, yes, sir.

18 HEARING EXAMINER BROOKS: Are you asking  
19 for the non-standard location in this proceeding?

20 THE WITNESS: Yes, sir.

21 HEARING EXAMINER BROOKS: The Nearburg is  
22 the only person you're pooling, right?

23 THE WITNESS: Yes, sir.

24 HEARING EXAMINER BROOKS: They are a  
25 lessee?

1 THE WITNESS: Yes, sir. Actually, they  
2 are a mineral owner.

3 HEARING EXAMINER BROOKS: They are an  
4 unleased mineral owner?

5 THE WITNESS: Yes, sir. Sorry about that.

6 HEARING EXAMINER BROOKS: That's worth  
7 pointing out. Okay. Need to get organized here.  
8 Let's see. You gave notice to offsets.

9 THE WITNESS: Yes, sir. Mewbourne is, I  
10 guess -- all the Section 24 with the exception of  
11 the west half northwest quarter and the north half  
12 of Section 25 is all under one operating agreement  
13 or the same operating agreement with all parties.

14 HEARING EXAMINER BROOKS: All the same  
15 parties?

16 THE WITNESS: That are part of the well  
17 with the exception of Nearburg.

18 HEARING EXAMINER BROOKS: What were your  
19 overhead rates?

20 THE WITNESS: 6,000 a month for drilling  
21 and 600 for producing.

22 HEARING EXAMINER BROOKS: Okay. I think  
23 that's all I have.

24 HEARING EXAMINER JONES: Okay. Does it  
25 have an API number yet?

1 THE WITNESS: I believe so, but I do not  
2 have it.

3 HEARING EXAMINER JONES: The main thing is  
4 the feds have approved the well?

5 THE WITNESS: I believe so. Again, the  
6 geologist may be able to answer that with more  
7 certainty.

8 HEARING EXAMINER JONES: I will have to  
9 check that anyway. So Nearburg is aware of the  
10 location of the well?

11 THE WITNESS: Yes, sir.

12 HEARING EXAMINER JONES: And they are an  
13 unleased mineral owner, which means that they, in  
14 non-landman terms here, they actually bought some  
15 minerals?

16 THE WITNESS: Actually, I want to go back  
17 to my original answer. In here they are a lessee,  
18 yes, sir.

19 HEARING EXAMINER BROOKS: So what you said  
20 a minute ago is not correct?

21 THE WITNESS: Yes, sir. Yes. They are  
22 lessee in the south half of 24.

23 HEARING EXAMINER JONES: From the feds or  
24 whoever?

25 THE WITNESS: From private -- they took a

1 private lease, yes, sir.

2 HEARING EXAMINER JONES: Will all tracts  
3 contribute to this well?

4 THE WITNESS: Yes, sir.

5 HEARING EXAMINER BROOKS: Which part of it  
6 is federal?

7 THE WITNESS: Down in the Section 25, it's  
8 the southeast northwest quarter. The federal tract.

9 HEARING EXAMINER JONES: Are all these  
10 tracts standard 40-acre tracts?

11 THE WITNESS: No, sir. In 24 in that  
12 south, southeast northwest of 25 are. What we are  
13 going to call the northeast northwest is actually  
14 made up of those five-acre Fairchild farm tracts so  
15 there's several different tracts that make up the 40  
16 in the northeast northwest there.

17 HEARING EXAMINER JONES: So it's  
18 approximately 40 acres?

19 THE WITNESS: Yes, sir. They total 40  
20 acres. It's just not one solid 40-acre tract.

21 HEARING EXAMINER JONES: I see. Okay.  
22 That's all the questions we have. Thank you very  
23 much.

24 THE WITNESS: Sorry for the confusion with  
25 the Nearburg tract.

1 HEARING EXAMINER JONES: It confused me  
2 because I am not a landman.

3 MR. RANKIN: I call the next witness,  
4 Mr. Lodge.

5 JASON LODGE  
6 after having been previously sworn under oath,  
7 was questioned and testified as follows:

8 EXAMINATION

9 BY MR. RANKIN

10 Q. Mr. Lodge, can you please state your name  
11 for the record?

12 A. Jason John lodge.

13 Q. Where do you reside?

14 A. In Tyler, Texas.

15 Q. By whom are you employed?

16 A. Mewbourne Oil Company.

17 Q. What is your current position?

18 A. Petroleum geologist.

19 Q. Have you previously testified before the  
20 division?

21 A. Yes, I have.

22 Q. At the time of that testimony, were your  
23 credentials in petroleum geology matters accepted  
24 and made a matter of record?

25 A. Yes.

1 Q. Are you familiar with the application  
2 filed in this case?

3 A. Yes.

4 Q. Have you made a geological study of the  
5 area that is the subject of this case?

6 A. I have.

7 Q. Are you prepared to share the results of  
8 that work with the examiners?

9 A. Yes.

10 MR. RANKIN: I tender Mr. Lodge as an  
11 expert witness and a petroleum geologist.

12 HEARING EXAMINER JONES: Mr. Lodge is so  
13 qualified.

14 Q. Have you prepared exhibits for our  
15 presentation in this case?

16 A. I have.

17 Q. Can you please identify for the examiners  
18 Mewbourne Exhibit 6 and explain the contents?

19 A. Yes. Exhibit No. 6 is, again, similar to  
20 the last case that I testified on. In my structure  
21 map, I call it a base map, the top of the Yeso  
22 structure, again, same colors here as far as pink is  
23 the Yeso producers in the area. It dips on the east  
24 and southeast again.

25 Again, I have laid out the proposed

1 wellbore path in red. The surface location is the  
2 square. The bottom hole location is the circle and  
3 I have the names of a few wells there. Also the  
4 next exhibit I have got the cross-section traced  
5 there.

6 Q. Would you please identify for the  
7 examiners Mewbourne Exhibit 7 and explain its  
8 contents?

9 A. Yes, Exhibit No. 7 includes two wells in  
10 Section 24 which covers the producing interval.  
11 There are two wells, one in 24L No. 1. One in 24E,  
12 the Fairchild 24 No. 1. This is A to A prime. The  
13 same thing. I picked the top of the Glorieta in  
14 pink; the top of the Yeso in green. This is going  
15 to be a paddock completion horizontal. The target  
16 is identical to the previous case as well.

17 Again, we have the red box as the  
18 perforated interval in these wells. Here there is  
19 more water production so we try to stay as high as  
20 possible, so we don't go as deep here as we did to  
21 the southwest. So again, the target is indicated by  
22 a red arrow.

23 Q. Thank you, Mr. Lodge. Can you identify  
24 Exhibit No. 8 and explain the contents?

25 A. Yes, Exhibit No. 8 is a production table

1 of Yeso wells in the area. A couple things to note,  
2 on the fourth row down is the Wyatt Draw KC No. 1H.  
3 That's a well that has been producing for about a  
4 month and has produced 5,000 barrels of oil, 26,000  
5 barrels of water.

6 The 24L is a vertical well that has been  
7 producing for about a year which has produced almost  
8 identical the amount, 5,000 barrels of oil, 22,000  
9 barrels of water. The 24/25 LE No. 1H is a  
10 horizontal well that's been on for about six months.  
11 It's produced 30,000 barrels of oil, 105,000 barrels  
12 of water. So again, we are producing more water  
13 here, but you can see that the horizontal production  
14 is much better than the vertical production.

15 Q. And do you anticipate producing reserves  
16 from all of the quarter sections?

17 A. Yes, I do.

18 Q. Thank you, Mr. Lodge. Can you please  
19 identify and explain the contents of Exhibit No. 9?

20 A. Yes. Exhibit No. 9 is the horizontal  
21 drilling plan. Here this is going to be 120-acre  
22 horizontal, so it's about a measured depth of 6480.  
23 It will be at a TBD of 2765. We will not -- we will  
24 be penetrating the top of the Glorieta at 1525 from  
25 the south line and 2290 from the west line in



1 Section 24.

2 MR. RANKIN: This is the second to last  
3 page on the exhibit.

4 Q. Is that correct, Mr. Lodge?

5 A. Yes. Again, we will not be producing  
6 until we are within the setbacks. Completion-wise,  
7 this will be the same as we previously discussed on  
8 the other case. It's a little bit longer here, so  
9 we will be running about 15 ports roughly.

10 Q. Will approval of the application avoid the  
11 drilling of unnecessary wells, prevent waste,  
12 protect correlative rights and allow Mewbourne and  
13 other interest owners in this non-standard unit  
14 horizontal well area the opportunity to obtain their  
15 just and fair share of the oil and gas?

16 A. Yes, it will.

17 MR. RANKIN: I move to tender Exhibits 6  
18 through 9.

19 HEARING EXAMINER JONES: Exhibits 6  
20 through 9 admitted.

21 (Note: Exhibits 6 through 9 admitted.)

22 MR. RANKIN: Pass the witness.

23 HEARING EXAMINER JONES: The second to  
24 last page, you say, shows the entry into the pool?

25 THE WITNESS: Yes. It's the map view of

1 what our plan is, how we are surfaced off lease, but  
2 we will not be completing until we are within that  
3 330 project area.

4 HEARING EXAMINER JONES: Okay. Looks like  
5 your well goes down and then kind of comes back up a  
6 little bit? You do that to let the water drain down  
7 the bottom?

8 THE WITNESS: That, and because of  
9 structure in the area.

10 HEARING EXAMINER JONES: Okay.

11 THE WITNESS: So just following the  
12 structure of the Yeso.

13 HEARING EXAMINER JONES: Even though you  
14 kind of go -- strike is north/south almost.

15 THE WITNESS: Yes. You are going a little  
16 bit up-dip. Just a little bit so it's not very  
17 drastic.

18 HEARING EXAMINER JONES: Does this go into  
19 Chaves County or Northern Eddy County.

20 THE WITNESS: Mainly Northern Eddy County.  
21 It's a shelf.

22 HEARING EXAMINER JONES: Does it go around  
23 down Hobbs?

24 THE WITNESS: Yes, hopefully. Concho,  
25 same thing Concho was just talking about. They just

1 do it vertically and we are doing it horizontally.

2 HEARING EXAMINER JONES: Can you see the  
3 water on this log? On the cross-section somewhere?

4 THE WITNESS: No, unfortunately.

5 HEARING EXAMINER JONES: Does it come in  
6 with the oil?

7 THE WITNESS: It does.

8 HEARING EXAMINER JONES: You say you try  
9 to stay a little high?

10 THE WITNESS: Because we think it's coming  
11 from below. We have gone down -- we have produced  
12 the wells down-dip that have made considerably more  
13 water than where we are now, so we are walking our  
14 way down-dip trying to find the down-dip limit.

15 HEARING EXAMINER JONES: These are above  
16 sea level so down-dip would be to the east?

17 THE WITNESS: Yes, that's correct.

18 HEARING EXAMINER JONES: So it's kind of a  
19 sweet spot area that you are going in?

20 THE WITNESS: Yes, it is.

21 HEARING EXAMINER JONES: And 5,000 barrels  
22 in one month is pretty good.

23 THE WITNESS: It is. It's a good well, as  
24 long as you can move the water.

25 HEARING EXAMINER JONES: So you put big

1 pumps out?

2 THE WITNESS: We do progressive cavity  
3 pumps, try to get it all out of there. 1200 barrels  
4 a day is roughly the capacity.

5 HEARING EXAMINER JONES: So you will move  
6 sand with that pretty good?

7 THE WITNESS: Yes. It's been successful  
8 so far.

9 HEARING EXAMINER JONES: They are good  
10 unless they twist off and then they are dangerous on  
11 the surface.

12 THE WITNESS: True.

13 HEARING EXAMINER JONES: I'm sure they are  
14 better than they were a long time ago, but that  
15 Glorieta is just a little bit sandier than the  
16 paddock? Is that the deal?

17 THE WITNESS: Yes, there's silt.

18 HEARING EXAMINER JONES: The sand is not  
19 good?

20 THE WITNESS: In my opinion, no. Other  
21 people think differently. But there's been  
22 horizontal wells drilled just a couple sections  
23 up-dip from here that are no good in the Glorieta.

24 HEARING EXAMINER JONES: So I can imagine  
25 this is a play where you have to really get involved

1 with the engineer as far as -- reserves engineer as  
2 far as trying to do your net thickness or your  
3 volumetrics.

4 THE WITNESS: Yes, it's tough because of  
5 the log analysis. It's difficult here with -- RW in  
6 the area is variable, changes pretty quickly so it  
7 makes log analysis pretty tough.

8 HEARING EXAMINER JONES: So the engineer  
9 does probably decline analysis and they also do the  
10 volumetric that --

11 THE WITNESS: I give them a net. Yes, I  
12 do.

13 HEARING EXAMINER JONES: Well, you must  
14 think it will pay out wells or you wouldn't be  
15 drilling them.

16 THE WITNESS: Yes, so far, they are very  
17 economic. One of the most economic things we are  
18 doing.

19 HEARING EXAMINER JONES: Is it gassier in  
20 spots?

21 THE WITNESS: Vertically it is. Here not  
22 so much. In some of the areas we have seen with our  
23 vertical wells we make more gas. Also we tested  
24 some wells in the San Andres that are gassier. For  
25 the most part, we don't make much gas here at all.

1 This is all H2S, sour gas, sour oil.

2 HEARING EXAMINER JONES: Permian sour,  
3 seems like.

4 THE WITNESS: Yes.

5 HEARING EXAMINER JONES: Thank you very  
6 much.

7 HEARING EXAMINER BROOKS: I have a couple  
8 questions. I know that they are drilling horizontal  
9 in the Yeso a lot of places. Some places it's  
10 mostly vertical and other places mostly horizontal,  
11 but is this an area in which horizontal development  
12 is a reasonable way to develop the Yeso?

13 THE WITNESS: In my opinion, yes.

14 HEARING EXAMINER BROOKS: You included  
15 three spacing units, three 40-acre units here.

16 THE WITNESS: Yes.

17 HEARING EXAMINER BROOKS: Any difference  
18 in the units in terms of the geology that would  
19 indicate they would be different in the productive  
20 characteristics or are they all more or less the  
21 same?

22 THE WITNESS: All more or less the same,  
23 in my opinion.

24 HEARING EXAMINER BROOKS: Would you expect  
25 them to all contribute to the production from this

1 the well more or less equally?

2 THE WITNESS: Yes, sir.

3 MR. RANKIN: Mr. Examiner, to be clear,  
4 I'm not sure that I moved to admit Exhibit No. 10,  
5 which is Notice of the Application as provided. So  
6 I would like to do that.

7 HEARING EXAMINER JONES: Notice to  
8 Nearburg and Marshal and Winston?

9 MR. RANKIN: That's correct.

10 HEARING EXAMINER JONES: Were they a party  
11 to the pooling or already joined in.

12 MR. MITCHELL: They were actually an  
13 offset owner.

14 THE WITNESS: They are in the south half  
15 of 25.

16 HEARING EXAMINER JONES: Okay. We will  
17 admit Exhibit No. 10.

18 (Note: Exhibit No. 10 admitted.)

19 MR. RANKIN: Mr. Examiners, I move -- ask  
20 for the case be taken under advisement and  
21 respectfully ask you might expedite the case, if  
22 possible. Thank you.

23 HEARING EXAMINER JONES: We understand.  
24 Case 14645 will be taken under advisement. Thank  
25 you.

1 (Note: The hearing was concluded at  
2 9:25) .  
3  
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5  
6  
7  
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9

10 I do hereby certify that the foregoing is  
11 a complete record of the proceedings in  
12 the Examiner hearing of Case No. \_\_\_\_\_  
13 heard by me on \_\_\_\_\_


14 \_\_\_\_\_, Examiner  
15 Oil Conservation Division  
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## REPORTER'S CERTIFICATE

I, JAN GIBSON, Certified Court Reporter for the State of New Mexico, do hereby certify that I reported the foregoing proceedings in stenographic shorthand and that the foregoing pages are a true and correct transcript of those proceedings and was reduced to printed form under my direct supervision.

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 in the final disposition of this case.

  
\_\_\_\_\_  
JAN GIBSON, CCR-RPR-CRR  
New Mexico CCR No. 194  
License Expires: 12/31/11