

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. 11,160
)
APPLICATION OF MEWBOURNE OIL)
COMPANY)
_____)

ORIGINAL

REPORTER'S TRANSCRIPT OF PROCEEDINGS

EXAMINER HEARING

BEFORE: MICHAEL E. STOGNER, Hearing Examiner

December 15th, 1994

Santa Fe, New Mexico

FILE

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This matter came on for hearing before the Oil Conservation Division on Thursday, December 15th, 1994, at the New Mexico Energy, Minerals and Natural Resources Department, Porter Hall, 2040 South Pacheco, Santa Fe, New Mexico, before Steven T. Brenner, Certified Court Reporter No. 7 for the State of New Mexico.

* * *

I N D E X

December 15th, 1994
 Examiner Hearing
 CASE NO. 11,160

	PAGE
APPEARANCES	3
APPLICANT'S WITNESSES:	
<u>D. PAUL HADEN</u>	
Direct Examination by Mr. Carr	4
Examination by Examiner Stogner	12
<u>RALPH MOORE</u>	
Direct Examination by Mr. Carr	14
Examination by Examiner Stogner	20
REPORTER'S CERTIFICATE	22

* * *

E X H I B I T S

	Identified	Admitted
Exhibit 1	6	12
Exhibit 2	7	12
Exhibit 3	8	12
Exhibit 4	9	12
Exhibit 5	10	12
Exhibit 6	15	20
Exhibit 7	17	20
Exhibit 8	18	20

* * *

A P P E A R A N C E S

FOR THE DIVISION:

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Legal Counsel to the Division
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FOR THE APPLICANT:

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By: WILLIAM F. CARR

* * *

1 WHEREUPON, the following proceedings were had at
2 10:00 a.m.:

3 EXAMINER STOGNER: Call next case, Number 11,160.

4 MR. CARROLL: Application of Mewbourne Oil
5 Company for compulsory pooling, Chaves County, New Mexico.

6 EXAMINER STOGNER: Call for appearances.

7 MR. CARR: May it please the Examiner, my name is
8 William F. Carr with the Santa Fe law firm Campbell, Carr,
9 Berge and Sheridan.

10 I represent Mewbourne Oil Company, and I have two
11 witnesses.

12 EXAMINER STOGNER: Are there any other
13 appearances?

14 Will the witnesses please stand to be sworn?

15 (Thereupon, the witnesses were sworn.)

16 MR. CARR: At this time we call Mr. Paul Haden.

17 EXAMINER STOGNER: Mr. Carr?

18 D. PAUL HADEN,

19 the witness herein, after having been first duly sworn upon
20 his oath, was examined and testified as follows:

21 DIRECT EXAMINATION

22 BY MR. CARR:

23 Q. Will you state your name for the record, please?

24 A. My name is Paul Haden.

25 Q. Where do you reside?

1 A. Midland, Texas.

2 Q. By whom are you employed?

3 A. Mewbourne Oil Company.

4 Q. And what is your current position with Mewbourne?

5 A. Petroleum landman.

6 Q. Mr. Haden, have you previously testified before
7 this Division?

8 A. Yes, I have.

9 Q. At the time of that testimony, were your
10 credentials as a petroleum landman accepted and made a
11 matter of record?

12 A. Yes, sir, they were.

13 Q. Are you familiar with the Application filed in
14 this case on behalf of Mewbourne?

15 A. Yes, sir, I am.

16 Q. And are you familiar with the subject area and
17 the status of the lands therein?

18 A. Yes, I am.

19 MR. CARR: Are the witness's qualifications
20 acceptable?

21 EXAMINER STOGNER: They are.

22 Q. (By Mr. Carr) Mr. Haden, would you briefly state
23 what Mewbourne seeks with this Application?

24 A. Mewbourne Oil Company seeks to pool all minerals
25 from the surface to the base of the Abo formation

1 underlying the northwest quarter of Section 34 in Township
2 5 South, Range 25 East, in Chaves County, New Mexico, to be
3 dedicated to a well to be drilled at a standard location in
4 the Pecos Slope-Abo Gas Pool.

5 Q. Have you prepared certain exhibits for
6 presentation here today?

7 A. Yes, sir, I have.

8 Q. Would you refer to what has been marked as
9 Mewbourne Exhibit Number 1 in the exhibit folder and
10 identify and review that for Mr. Stogner?

11 A. Yes sir, Exhibit Number 1 is a land plat of the
12 area. It indicates our proposed proration unit for this
13 well. The proration unit is indicated in -- it's shaded in
14 yellow. Our well location is indicated by a pink dot.

15 This map also shows the offset ownership in the
16 area.

17 Q. What is the name and footage location of the
18 proposed well?

19 A. Our well name is the Pecos Slope A "34" Federal
20 Com Number 1 well, which is located at distance 1980 feet
21 from the north line and 660 feet from the west line of the
22 subject Section 34.

23 Q. And that is a standard location?

24 A. Yes, sir, that is.

25 Q. The primary objective in the well is the Abo

1 formation?

2 A. Yes, sir, that's correct.

3 Q. All right. Let's go to the next page in this
4 exhibit. Could you identify and review that?

5 A. Exhibit Number 2 is a plat indicating the
6 ownership in the proposed proration unit. It covers all of
7 -- The square is all of Section 34, however you'll note the
8 unit ownership in the northwest quarter. It gives the
9 ownership as to the respective 40-acre tracts in the unit
10 and also the respective unit ownership in the unit.

11 Q. What percentage of the working interest in the
12 subject spacing unit has voluntarily been committed to this
13 well?

14 A. 94.375 percent.

15 Q. And what interests are you not including in that
16 figure?

17 A. We are not including the Bechtel Energy interests
18 nor the Texaco interest.

19 Q. What is the status of the Bechtel interest?

20 A. The Bechtel interest, we're currently negotiating
21 a trade. However, that agreement has not been executed to
22 date. We will come to an agreement with Bechtel Energy.

23 Q. And when you reach an agreement with Bechtel, you
24 will advise the Division that that agreement has been
25 reached?

1 A. Yes, sir, we will.

2 Q. And they would then no longer be subject to the
3 provisions of any pooling order?

4 A. They will not.

5 Q. All right. Let's go to Exhibit 3 in the exhibit
6 folder. Would you first review the summary behind that tab
7 and then, using this exhibit, summarize the efforts you've
8 made to obtain voluntary joinder of the other interest
9 owners in the spacing unit?

10 A. Yes sir. What's listed on the left-hand side of
11 the folder is a summary of the communications with the
12 different companies who were subject to this pooling.

13 First of all, it is Bechtel Energy Partners,
14 Limited, then Texaco Exploration and Production, and also
15 at the bottom it has Yates Petroleum Corporation, Abo
16 Petroleum Corporation, Myco Industries, Inc., and Yates
17 Drilling Company.

18 We have reached a voluntary agreement with
19 Yates -- well, the Yates group.

20 It also describes the very first date in which we
21 proposed our well with AFE, which is October 21st, 1994,
22 and then the subsequent communications thereafter.

23 Q. Now, there are copies of the communications with
24 Texaco on the right-hand side of this portion of the
25 exhibit book?

1 A. Yes, sir, that's correct.

2 Q. And they're actually the only interests that
3 we're now going to be pooling?

4 A. That's right.

5 Q. How recently have you visited with Texaco
6 concerning this matter?

7 A. The last communication was in December, 7th of
8 December.

9 Q. And what was Texaco's response at that time?

10 A. They indicated that this interest was too small
11 for them to reach any type of deal with, that they were not
12 concerned with the pooling and that they probably would be
13 pooled.

14 Q. And they -- you advised them at that time that a
15 pooling application was pending?

16 A. Yes, sir, I did.

17 Q. In your opinion, has Mewbourne made a good-faith
18 effort to reach a voluntary agreement with each of the
19 working interest owners in the northwest quarter of Section
20 34?

21 A. Yes, sir, we believe we have.

22 Q. Let's go to the portion of the exhibit folder
23 behind Tab -- the tab marked Exhibit Number 4. Would you
24 identify and review that for Mr. Stogner, please?

25 A. Exhibit Number 4 is Mewbourne Oil Company's

1 proposed AFE for this well. It indicates the total well
2 cost, which is \$267,184 for a completed well, and a dryhole
3 cost of \$140,542 for a dry hole.

4 This is for our well to be drilled to
5 approximately 4400 feet. It's the same AFE in which the
6 Yates Group has signed.

7 Q. And has Bechtel also agreed -- or you're
8 anticipating they will agree to go forward based on this
9 AFE?

10 A. Bechtel -- We will reach a trade with Bechtel
11 Energy.

12 Q. Let's go to what has been marked Exhibit Number
13 5. Can you just identify that?

14 A. Exhibit Number 5 are the letters indicating that
15 notice of the hearing was given.

16 Q. These were sent by certified mail and advised
17 each of the interest owners that were outstanding on that
18 date of today's compulsory pooling hearing?

19 A. That's correct.

20 Q. Have you made an estimate of the overhead and
21 administrative costs that will be incurred while drilling
22 the well and also charged if, in fact, the well is
23 completed as a producer?

24 A. Yes, sir, we have.

25 Q. What are those figures?

1 A. For drilling it's \$4500 per month, and if the
2 well is successful we're asking that it be \$450 per month
3 for a producing well.

4 Q. Have you reviewed these figures with other
5 operators in the area?

6 A. Yes, I have.

7 Q. And generally what is the range of the costs
8 being charged by other operators for wells of this nature?

9 A. For drilling it's \$4000 per month, all the way to
10 \$5500. For producing it's in the range of \$400 per month
11 to \$550 per month.

12 Q. And what other operators have you conferred?

13 A. Yates Petroleum Corporation; Maralo, Inc.; and
14 McKay Oil Corporation.

15 Q. And these cost figures reflect the actual cost
16 that you anticipate you will incur in the actual drilling
17 and operation of this prospect?

18 A. Yes, sir, they are.

19 Q. Do you recommend these figures be incorporated in
20 any order which results from today's hearing?

21 A. Yes, sir, we do.

22 Q. Do you also request that any overhead
23 administrative costs be escalated in accordance with COPAS
24 accounting procedures?

25 A. Yes, sir, we do.

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

3 A. We do so seek.

4 Q. Will you be also calling a geological witness to
5 review the risk associated with this prospect?

6 A. Yes, I will.

7 Q. Were Exhibits 1 through 5 either prepared by you
8 or compiled at your direction?

9 A. Yes, sir, they were.

10 Q. And can you testify as to the accuracy of the
11 exhibits?

12 A. They are accurate, as far as I know.

13 MR. CARR: At this time, Mr. Stogner, we would
14 move the admission of Mewbourne Oil Company Exhibits 1
15 through 5.

16 EXAMINER STOGNER: Exhibits 1 through 5 will be
17 admitted into evidence at this time.

18 MR. CARR: And that concludes my direct
19 examination of Mr. Haden.

20 EXAMINATION

21 BY EXAMINER STOGNER:

22 Q. Mr. Haden, did the Yates agreement provide for
23 the overhead charges, \$4500 and \$450?

24 A. Yes, sir, that's what we proposed. We will be
25 reaching some kind of agreement with them within that

1 range.

2 Q. Well, within what range?

3 A. From \$4000 to \$4500, somewhere in there.

4 Q. Okay. And the first contact with Bechtel and
5 Texaco was in October; is that correct?

6 A. Yes, sir, October 21st, 1994.

7 Q. And then you filed with the Division here on
8 November the 21st for a compulsory pooling; is that
9 correct?

10 A. As far as I know, I believe that's correct.

11 Q. I'm referring to your Exhibit Number 5.

12 A. Yes, sir.

13 Q. The date on those letters.

14 A. Yes, sir.

15 Q. Does Mewbourne have any other Abo -- just
16 strictly Abo wells in this area?

17 A. No, sir, we do not, to date. We will in the
18 future, starting --

19 Q. Most of your compulsory pooling proceedings, if I
20 remember right, it's been down in the Morrow and the
21 Strawn?

22 A. Yes, sir, and mostly in Eddy County.

23 Q. But you testified that Mewbourne has entered into
24 agreements with properties with other people as operator in
25 this area?

1 A. Not in this area, no, we have not. However,
2 Yates Petroleum, et al., they are joining in this well with
3 us. This will be the first of a number of wells.

4 EXAMINER STOGNER: I have no other questions of
5 Mr. Haden at this time, Mr. Carr. He may be excused.

6 MR. CARR: Thank you, Mr. Stogner.

7 At this time we call Ralph Moore.

8 RALPH MOORE,
9 the witness herein, after having been first duly sworn upon
10 his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. CARR:

13 Q. Will you state your name for the record, please?

14 A. My name is Ralph Moore.

15 Q. Where do you reside?

16 A. I reside in Midland, Texas.

17 Q. By whom are you employed?

18 A. I'm employed by Mewbourne Oil Company.

19 Q. And what is your current position with Mewbourne?

20 A. Petroleum geologist.

21 Q. Have you previously testified before the New
22 Mexico Oil Conservation Division?

23 A. Yes, I have.

24 Q. At the time of that testimony, were your
25 credentials as a petroleum geologist accepted and made a

1 matter of record?

2 A. Yes.

3 Q. Are you familiar with the Application filed in
4 this case on behalf of Mewbourne Oil Company?

5 A. I am.

6 Q. And are you familiar with the geology in the area
7 surrounding the proposed well location?

8 A. I am.

9 MR. CARR: Mr. Stogner, are Mr. Moore's
10 qualifications acceptable?

11 EXAMINER STOGNER: Mr. Moore is so qualified.

12 Q. (By Mr. Carr) Have you prepared certain exhibits
13 for presentation here today?

14 A. Yes.

15 Q. Could you refer to what has been marked for
16 identification as Mewbourne Exhibit Number 6, your cross-
17 section J-J', and review that for the Examiner?

18 But first, if you will also look at Exhibit
19 Number 7, I believe it is --

20 A. Okay.

21 Q. -- and use that as an index map to review the
22 trace for the line of cross-section.

23 A. Certainly. On Exhibit Number 6, the line of the
24 cross-section is also indicated in the lower right-hand
25 corner of that particular exhibit, but we can talk from

1 both exhibits.

2 The cross-section was prepared to show
3 significant wells in the area of the proposed location that
4 we'd like to drill, and the cross-section runs northwest
5 from southeast -- northwest to southeast. It is a
6 structural cross-section, and it is hung on sea level.

7 We have subdivided the Abo sand into four
8 members, the "A" sand -- we can look at the well all the
9 way on the left for initial discussions -- the "A" sand,
10 the Savage sand, the Dee sand and the McConkey sand. The
11 Abo is marked in red, so we can see how it gently has
12 northwest-to-southeast dip.

13 In the first well on the cross-section that
14 produces from the "A" sand, it's located in Section 28,
15 unit M.

16 The second well is a dry hole, which is in 27,
17 unit L.

18 The third well is an Abo producer located in
19 Section 33, Unit G, and it's an Abo producer, as I said.

20 The proposed location is located in Section 34,
21 Unit E.

22 The next well in 34 on the cross-section, Unit N,
23 is an Abo producer.

24 And the final well is an Abo dry hole.

25 The purpose of this cross-section is to show the

1 variability of sands and productive intervals within the
2 Abo section.

3 Q. The primary objective is which interval?

4 A. The primary objective is the Savage sand.

5 Q. Are there any secondary objectives?

6 A. There's a -- no.

7 Q. All right. Let's move to Mewbourne Exhibit
8 Number 7. Would you identify and review that for the
9 Examiner?

10 A. Exhibit 7 is a production study. The Abo
11 producers are colored in blue.

12 Let's take, for example, Section 34, location N.
13 The top number of 760 million cubic feet is its cumulative
14 production through December, 1993. It also has produced
15 370 barrels of oil through December, 1993, and 106 MCF gas
16 per day was the rate as of December. Each of that -- Each
17 of those numbers are reflected for each well.

18 The purpose of this exhibit is to show the cross-
19 section first of all, we're going back to the cross-
20 section, showed significant risk of particular sandstones
21 and reservoir-quality rock.

22 You can notice that we're offset on the
23 production study by a well -- a dry hole, the last well in
24 the cross-section, a significant well that I just mentioned
25 about in 34 N.

1 There's quite a range in production, even when we
2 find the sands, and that's the primary purpose of this
3 exhibit.

4 Q. All right. Let's move on now to Exhibit 8, your
5 structure map. Would you identify and review that?

6 A. The structure map is on top of the Abo formation,
7 which was colored red on the cross-section. It reflects
8 the general northwest-to-southeast dip. The contour
9 interval is 25 feet, and the scale on this map and the
10 production study is one inch equals 2000 feet.

11 Q. Basically, what does your geological study show
12 about the proposed location?

13 A. The proposed location has a reasonable chance of
14 finding the Abo objective as we have mapped it and
15 identified it, but it's also -- the exhibits reflect
16 significant risk in the presence and absence of particular
17 Abo sands and their variability in terms of thickness and
18 porosity, and the structure -- and the production map shows
19 not only when we find those sands, the production is quite
20 variable.

21 Q. In your opinion, Mr. Moore, could the proposed
22 well in fact turn out to not be a commercial well?

23 A. Yes.

24 Q. And you're in essence moving away from no
25 production in the Abo with this proposed location?

1 A. That's correct. If we go back to my cross-
2 section, J-J', the first well is the noncommercial well of
3 77 million cubic feet of gas. The second well is a dry
4 hole. The third well is a fairly good well. The proposed
5 location is indicated. There's a very good well in 34 N
6 and another dry hole at the end of the cross-section.

7 So three out of the five wells on the cross-
8 section would be noncommercial or dry.

9 Q. Are you prepared to make a recommendation to the
10 Examiner as to the risk penalty that should be assessed
11 against those interests who do not participate in the
12 drilling of this well?

13 A. I feel a maximum penalty would be appropriate.

14 Q. And your recommendation is that 200 percent would
15 be an appropriate penalty to compensate you for the risks
16 you're taking for these other owners?

17 A. Yes.

18 Q. In your opinion, will development of this
19 acreage with the proposed well be in the best interests of
20 conservation, the prevention of waste and the protection of
21 correlative rights?

22 A. Yes.

23 Q. Were Exhibits 6, 7 and 8 prepared by you?

24 A. They were.

25 MR. CARR: At this time, Mr. Stogner, we move the

1 admission of Mewbourne Oil Company Exhibits 6, 7 and 8.

2 EXAMINER STOGNER: Exhibits 6, 7 and 8 will be
3 admitted into evidence at this time.

4 MR. CARR: And that concludes my direct
5 examination of Mr. Moore.

6 EXAMINATION

7 BY EXAMINER STOGNER:

8 Q. Mr. Moore, has the location been staked out
9 there, do you know?

10 A. Yes.

11 Q. And it's gone through the federal procedure, and
12 you're all ready to drill it?

13 A. Yes, we're ready to go.

14 Q. Maybe I should have asked Mr. Haden this
15 question. Is there a deadline on the lease?

16 MR. HADEN: No, there is no deadline.

17 EXAMINER STOGNER: Okay.

18 MR. HADEN: We have to drill it at least before
19 April 1st, 1995, however, due to a trade made with one of
20 the interest owners in the area.

21 EXAMINER STOGNER: Okay, thank you.

22 Q. (By Examiner Stogner) Mr. Moore, I know these
23 maps are somewhat limited, but is there any production back
24 to the east that's off this map?

25 A. No, this really is located on the extreme eastern

1 side of the Pecos Slope-Abo field in this particular area.
2 Most of the production is located back to the west. The
3 core of the field is back to the west.

4 Q. And as far as the wells that are surrounding your
5 proposed location, were they recent drills or were they
6 drilled back --

7 A. Most of them were drilled in the 1980s.

8 Q. In the 1980s.

9 A. The cross-section that I prepared has the
10 specific dates of completion.

11 Q. So there really hasn't been that much recent
12 drilling activity in this particular area?

13 A. No, not in the contiguous sections.

14 EXAMINER STOGNER: I have no other questions of
15 Mr. Moore.

16 MR. CARR: We have nothing further in this case,
17 Mr. Stogner.

18 EXAMINER STOGNER: You may be excused.

19 In that case, Case 11,160 will be taken under
20 advisement.

21 MR. CARR: Thank you.

22 (Thereupon, these proceedings were concluded at
23 10:21 a.m.)

24 * * *

25

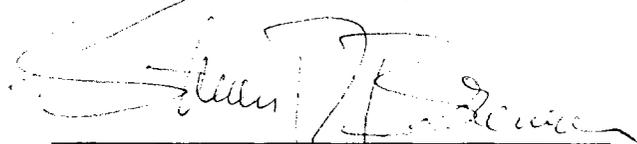
CERTIFICATE OF REPORTER

STATE OF NEW MEXICO)
) ss.
 COUNTY OF SANTA FE)

I, Steven T. Brenner, Certified Court Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I transcribed my notes; and that the foregoing is a true and accurate record of the proceedings.

I FURTHER CERTIFY that I am not a relative or employee of any of the parties or attorneys involved in this matter and that I have no personal interest in the final disposition of this matter.

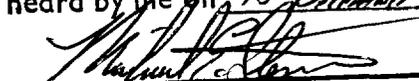
WITNESS MY HAND AND SEAL December 18th, 1994.



STEVEN T. BRENNER
 CCR No. 7

My commission expires: October 14, 1998

I do hereby certify that the foregoing is a complete record of the proceedings in the Examiner hearing of Case No. 11160, heard by me on 15 December 1994.

 , Examiner
 Oil Conservation Division