

STATE OF NEW MEXICO

ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT

OIL CONSERVATION DIVISION

CASE 10,636

EXAMINER HEARING

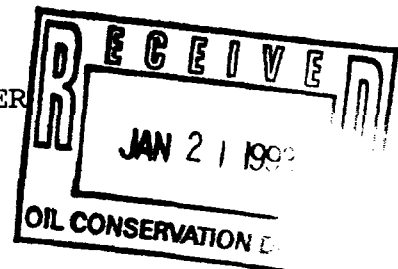
IN THE MATTER OF:

Application of Mewbourne Oil Company for  
compulsory pooling and an unorthodox gas well  
location, Eddy County, New Mexico

TRANSCRIPT OF PROCEEDINGS

**ORIGINAL**

BEFORE: DAVID R. CATANACH, EXAMINER



STATE LAND OFFICE BUILDING

SANTA FE, NEW MEXICO

January 7, 1993

## A P P E A R A N C E S

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\* \* \*

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## E X H I B I T S

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1           WHEREUPON, the following proceedings were had  
2           at 10:40 a.m.:

3           EXAMINER CATANACH: All right. At this time  
4           we'll call Case 10,636.

5           MR. STOVALL: Application of Mewbourne Oil  
6           Company for compulsory pooling and an unorthodox gas  
7           well location, Eddy County, New Mexico.

8           EXAMINER CATANACH: Are there appearances in  
9           this case?

10          MR. BRUCE: Mr. Examiner, Jim Bruce with the  
11          Hinkle law firm in Santa Fe for the Applicant.

12          I have two witnesses to be sworn -- I think  
13          they've already been sworn, Mr. Examiner.

14          EXAMINER CATANACH: Okay, let the record  
15          reflect that the witnesses have previously been sworn.

16          Any other appearances?

17          MR. KELLAHIN: Mr. Examiner, I'm Tom Kellahin  
18          of the Santa Fe law firm of Kellahin & Kellahin,  
19          appearing in association with Thomas C. Lowry, a member  
20          of the Texas Bar and house counsel for Marathon Oil  
21          Company, on behalf of Marathon Oil Company.

22          EXAMINER CATANACH: Are you in to observe  
23          this case, Mr. Kellahin, or what's the nature of  
24          your --

25          MR. KELLAHIN: We're a participant, but we

1 have no witnesses.

2 EXAMINER CATANACH: Okay. Mr. Bruce, you may  
3 proceed.

4 MR. BRUCE: And Mr. Examiner, could we have  
5 the record reflect that Mr. Haden was previously sworn  
6 as an expert landman?

7 EXAMINER CATANACH: Yes, sir.

8 PAUL HADEN,  
9 the witness herein, having been previously duly sworn  
10 upon his oath, was examined and testified as follows:

11 DIRECT EXAMINATION

12 BY MR. BRUCE::

13 Q. Mr. Haden what does Mewbourne seek in this  
14 case?

15 A. Mewbourne seeks an order pooling all mineral  
16 interests from the base of the Abo formation to the  
17 base of the Morrow formation, underlying the east half  
18 of Section 27 of Township 17 south, Range 28 East.  
19 This is for all pools or formations spaced on 40, 80,  
20 160 or 320 acres.

21 Mewbourne also requests approval of an  
22 unorthodox gas well location for topographical reasons.

23 Q. Okay. And referring to Exhibit 1, what is  
24 Mewbourne's proposed location?

25 A. Exhibit Number 1 is the land plat which

1 indicates Mewbourne's proposed location. This location  
2 is 660 feet from the east line and 1756 feet from the  
3 south line of Section 27.

4 Q. Okay, and referring to Exhibit 2, does that  
5 list the parties notified -- or the offset operators or  
6 lessees to be notified of the unorthodox location of  
7 this case?

8 A. Yes, that's correct.

9 Q. And Exhibit 2A is the tract numbers; it  
10 identifies the tract numbers referred to?

11 A. That's correct.

12 Q. Okay. And is Exhibit 3 your affidavit  
13 regarding notice concerning both the unorthodox  
14 location and the force-pooling portion of this  
15 Application?

16 A. That's correct.

17 MR. BRUCE: And Mr. Examiner, I notice that  
18 there are some blocked-out letters on this. We'll --

19 MR. STOVALL: Mr. Bruce, if I -- the copy I'm  
20 looking at is -- If you look at the second letter to  
21 S.P. and Estelle Yates --

22 MR. BRUCE: Yes.

23 MR. STOVALL: -- that one appears to be  
24 readable. Are all the letters the same?

25 MR. BRUCE: Not all of them. I will -- All

1 the letters are the same, yes, they are identical.  
2 They reference the case number and give the hearing  
3 date and the place of hearing. They are all identical.

4 MR. STOVALL: The body of the letters is  
5 identical, so if we reference that letter to S.P. Yates  
6 and Estelle Yates -- Just for identification, I'll read  
7 the certified mail number: It's 690 034 916.

8 And all the other certified mail notices are  
9 the same in content?

10 THE WITNESS: They are all the same in  
11 content. the only difference is the --

12 MR. STOVALL: The address.

13 MR. BRUCE: -- the addressee.

14 MR. STOVALL: I think with that, as long as  
15 we can read one of them and you can state they're all  
16 the same, I don't think we need to get additional  
17 copies.

18 MR. BRUCE: Okay.

19 Q. (By Mr. Bruce) And who are the parties  
20 Mewbourne seeks to force-pool? And I refer you to  
21 Exhibit 4.

22 A. Exhibit Number 4 is a listing of the owners  
23 and the respective lands regarding force-pooling.

24 There are a number of parties listed who we  
25 have reached subsequent voluntary agreement with,



1     however we're still in the process of getting executed  
2     written agreements.

3             Those -- However, we must name several of  
4     these owners because we do not have executed agreements  
5     from them.

6             Those interest owners are: Samedan Oil  
7     Corporation; Conoco, Inc.; Petro Yates, Inc.; the  
8     entities where it says "the Estate of Martin Yates,  
9     III, Deceased"; and also "the Estate of Lillie M.  
10    Yates, Deceased"; also S.P. Yates and his wife, Estelle  
11    Yates; Harvey E. Yates; Marathon Oil Company; Louis  
12    Dreyfus Natural Gas Corporation.

13            And that's all the interest owners we wish to  
14    pool.

15            Q.    Have you come to terms with Buddy Walker?

16            A.    Yes, we have. We have an executed farmout  
17    letter agreement with him.

18            Also with Petro Yates, Inc. They say they  
19    will join with us. They base their decision as to what  
20    Harvey E. Yates will do.

21            I have an executed AFE from the estate of  
22    Martin Yates, III, deceased, also the estate of Lillie  
23    M. Yates, deceased, and also S.P. Yates and his wife,  
24    Estelle Yates. However, we still have not negotiated a  
25    joint operating agreement. They had just recently

1       executed this AFE.

2           Q.     Okay. And do Exhibits 5, 5A and 5B contain  
3       copies of correspondence, your telephone notes, et  
4       cetera, between Mewbourne and the various parties you  
5       seek to pool?

6           A.     That's correct.

7           Q.     In your opinion have you made a good-faith  
8       effort to obtain the voluntary joinder of these  
9       persons?

10          A.     Yes, I believe I have.

11          Q.     Does Mewbourne request that it be named  
12       operator of the well?

13          A.     Yes, Mewbourne requests it be named operator  
14       of the well.

15          Q.     And referring to Exhibit 6, what is the cost  
16       of the proposed well?

17          A.     Exhibit Number 6 is an estimated well cost  
18       for a cost to casing point, which is generally  
19       described as a dryhole cost. It's \$426,365. The  
20       completed well cost is \$771,095.

21          Q.     And are those costs in line with wells of  
22       this depth drilled in this area of Eddy County?

23          A.     To my knowledge, they are.

24          Q.     And what is your recommendation as to the  
25       amount Mewbourne should be paid for supervision and

1 administrative expenses?

2 A. Well costs plus a risk factor of 200 percent.

3 Q. I mean for the overhead rates, Mr. --

4 A. Overhead rates, excuse me. For drilling and  
5 producing well rates, we're requesting \$6167 for a  
6 drilling well rate and \$626.50 for a producing well  
7 rate.

8 Q. And are these normal operating charges in  
9 this area of Eddy County for wells of this type?

10 A. That's correct.

11 Q. And were these rates approved by the Division  
12 in Case Number 10,484, which involved, I believe, an  
13 offset well in Section 35 to the southeast?

14 A. Right, that was granted in Order Number  
15 R-9684.

16 Q. And getting back to the penalty, what penalty  
17 do you recommend against any nonconsenting interest  
18 owner?

19 A. Well costs plus 200 percent.

20 Q. And is that a figure used in operating  
21 agreements in this area of Eddy County?

22 A. That's correct.

23 Q. And will the geologist also discuss the risk  
24 penalty?

25 A. The geologist will expand upon the risk.

1 Q. And in your opinion is the granting of this  
2 Application in the interests of conservation and the  
3 prevention of waste?

4 A. Yes, it is.

5 Q. And were Exhibits 1 through 6 prepared by you  
6 or under your direction or compiled from company  
7 records?

8 A. That's correct.

9 MR. BRUCE: Mr. Examiner, at this time I move  
10 the admission of Mewbourne Exhibits 1 through 6.

11 EXAMINER CATANACH: Exhibits 1 through 6 will  
12 be admitted as evidence.

13 EXAMINATION

14 BY EXAMINER CATANACH:

15 Q. Mr. Haden, what is the status of your  
16 negotiations with various parties in this case?

17 A. Okay, let us just go down the list as to --  
18 I'm referring to Exhibit Number 4.

19 Q. Uh-huh.

20 A. Okay, Samedan Oil Corporation, who is still  
21 an uncommitted owner. They say that they would deliver  
22 us a farmout to us, however the terms are unacceptable,  
23 and that -- they had said that if those terms were not  
24 okay with us, that they would go on consent.

25 This -- The terms which I'm speaking about is

1 an abnormally high retained overriding royalty interest  
2 which they would like, and which isn't a normal-type  
3 trade.

4 Okay, also as I've said before, Buddy Walker,  
5 he's executed a farmout letter agreement with us. It's  
6 in our file.

7 Conoco, Inc., they will farm out to us.  
8 However, their interest and our interest is also  
9 subject to the status of determining a production  
10 payment that's currently in effect.

11 We are determining this through the efforts  
12 of Amoco Production Company. They were the operator  
13 involved in this production payment. They are  
14 determining the status. Once that status has been  
15 reached, Conoco will farm out to us.

16 Petro Yates, Inc., they have indicated that  
17 they will join. My last conversation with them, I  
18 believe it was January 6th, they said the executed AFE  
19 was on its way. The only thing we need to do with them  
20 is to, of course, make sure we receive the executed AFE  
21 and also have them execute a joint operating agreement.

22 As to the -- Again, as to the estate of  
23 Martin Yates, III, they again have executed the AFE  
24 along with the said Lillie M. Yates and S.P. Yates.

25 Harvey E. Yates, they are going to join us.

1     However, Harvey E. Yates, as set forth on Exhibit 5A,  
2     there's -- my note, handwritten note dated January 5th,  
3     1993, Carlyn Jarm with Spiral, Inc. -- that's Harvey E.  
4     Yates's Company -- Harvey E. Yates desires to convey  
5     his interests to Spiral, Inc., and eventually we will  
6     be dealing with Spiral, Inc. They will execute the AFE  
7     and the joint operating agreement once they have made  
8     this conveyance from Harvey E. Yates to Spiral, Inc.

9             As to Marathon Oil Company, we're still  
10    negotiating.

11            As to Louis Dreyfus Natural Gas Corporation,  
12    we've negotiated with them a considerable amount of  
13    time. In fact, they originally -- Actually De Kalb  
14    Energy Corporation was their predecessor-in-interest.  
15    We negotiated with them previously to get no decision  
16    from them.

17            As the -- I guess you would say the term oil  
18    involved in acquiring De Kalb Energy, they simply don't  
19    know what they own, and they don't have any knowledge  
20    of the geology of the area, apparently, and we're still  
21    negotiating terms with them, which I believe we can  
22    come to an agreement.

23            That's all of the parties. My various notes  
24    and letters, of course, are listed as Exhibit 5 and 5A.  
25    As to Marathon's interest, we have an Exhibit 5B.

1 Q. Okay, Mr. Haden, did you say the proposed  
2 overhead rates have already been used by the Division  
3 in a pooling case?

4 A. Yes, sir, in a number of cases. Would you  
5 like me to --

6 Q. I believe you cited R-9684. Is that one of  
7 them?

8 A. Right, that's a direct offset to this acreage  
9 under consideration right now.

10 Q. The AFEs submitted as evidence, are those  
11 costs, as far as you know, in line with other Morrow  
12 wells in this area?

13 A. To the best of my knowledge, those are costs  
14 which are normal for this type of well.

15 EXAMINER CATANACH: I have nothing further.

16 DEXTER L. HARMON,

17 the witness herein, having been previously duly sworn  
18 upon his oath, was examined and testified as follows:

19 DIRECT EXAMINATION

20 BY MR. BRUCE:

21 Q. Would you please state your name and city of  
22 residence for the record?

23 A. My name is Dexter Harmon. I live in Midland,  
24 Texas.

25 Q. And who are you employed by and in what

1 capacity?

2 A. I'm employed by Mewbourne Oil Company, and  
3 I'm a district geologist.

4 Q. And are you familiar with the geology of this  
5 proposed well?

6 A. Yes, I am.

7 Q. And have you previously testified before the  
8 Division as a geologist and had your credentials  
9 accepted as a matter of record?

10 A. Yes.

11 MR. BRUCE: Mr. Examiner, I tender Mr. Harmon  
12 as an expert petroleum geologist.

13 EXAMINER CATANACH: Mr. Harmon is so  
14 qualified.

15 Q. (By Mr. Bruce) Mr. Harmon, referring to  
16 Exhibit 7, would you describe the reason for the  
17 unorthodox location?

18 A. Exhibit Number 7 is a topo map of the area.  
19 We have outlined the east half of Section 27 of 17  
20 South, 28 East, in yellow, and have a well location,  
21 proposed location, spotted at 1756 from the south line  
22 and 660 from the east line.

23 We originally staked this well at 1980 from  
24 the south line and 660 from the east line, which would  
25 be a standard location, but the well fell in the bottom



1 of a deep ravine and so we had to move south to get up  
2 out of the ravine on the flat land.

3 The restaked location is drilled.

4 Q. Would you please refer to Mewbourne Exhibit  
5 8, discuss the target zone of your proposed well and  
6 describe what this exhibit contains?

7 A. Exhibit Number 8 is a production study of  
8 deep wells in this area. Mewbourne intends to drill a  
9 Morrow well, and that's our main objective in this  
10 area.

11 Exhibit 8 consists of twelve sections  
12 surrounding our proposed location that have Morrow  
13 potential. In these twelve sections there have been 19  
14 Morrow penetrations. Of the 19 penetrations, twelve of  
15 them were producers. Of the twelve producers, eight of  
16 them were economic wells. I might add that several of  
17 them are very good wells.

18 There are no Morrow producers in the five  
19 sections on the map in the northwest part of the map,  
20 being Sections 22, 23, 26, 27 and 34.

21 Our proration unit is indicated in the east  
22 half of Section 20 and is outlined in yellow, and our  
23 proposed location is stamped on this map as well. And  
24 you can also see a cross-section, G to G', going from  
25 the northwest to the southeast part of the map that

1 we'll get to in a minute.

2 Q. Mewbourne's proposed well is really a  
3 substantial stepout from any existing Morrow  
4 production; is that correct?

5 A. Yes, that's correct.

6 Q. Would you please then refer to the cross-  
7 section, Exhibit 9, and discuss it for the Examiner?

8 A. Exhibit 9 is a stratigraphic topo Morrow  
9 cross-section, goes from G to G'. It goes from the  
10 northwest to the southeast part of this area on the  
11 map.

12 We've constructed it along with what we feel  
13 is the depositional strike of most Morrow sand trends  
14 in this area. The individual Morrow sands are  
15 identified by color for mapping purposes.

16 Each well log has a scout ticket below it and  
17 production data, *Dwight's Production Data*, below it on  
18 the cross-section.

19 Perforated intervals are colored in yellow in  
20 the center depth column of each log, and drill stem  
21 test intervals are also marked there on each well.

22 This cross-section shows that the porosity  
23 and the thickness in these various Morrow sands vary  
24 from well to well, and this presents a geologic risk to  
25 drilling a Morrow well out here. It depicts the Morrow

1 as being channelized deposits that meander through this  
2 area. They come and go from location to location, as  
3 does the porosity development in the sands.

4 That's about it.

5 Q. Finally, just very briefly, what is Exhibit  
6 10?

7 A. Exhibit 10 is a structure map on top of the  
8 lower Morrow, which is also the stratigraphic datum we  
9 hung the cross-section on. It shows dip in the  
10 southeast direction at a rate of 100 to 300 foot per  
11 mile.

12 Q. In your opinion, as to any parties who may be  
13 force-pooled, what penalties should be assessed against  
14 nonconsenting interest owners?

15 A. We recommend cost plus 200 percent.

16 Q. And in your opinion, is that justified on the  
17 geological risk?

18 A. Yes, it is.

19 Q. And in your opinion, is the granting of this  
20 application in the interests of conservation and the  
21 prevention of waste?

22 A. Yes, it is.

23 Q. And were Exhibits 7 through 10 prepared by  
24 you or under your direction?

25 A. Yes, they were.

1 MR. BRUCE: Mr. Examiner, I move the  
2 admission of Exhibits 7 through 10.

3 EXAMINER CATANACH: Exhibits 7 through 10  
4 will be admitted as evidence.

5 EXAMINATION

6 BY EXAMINER CATANACH:

7 Q. Mr. Harmon, the well in Section -- in the  
8 west half of Section 27 did penetrate the Morrow?

9 A. Yes, it did.

10 Q. And was that tested?

11 A. It was tested in the Morrow, in the middle  
12 Morrow green sand that we have colored and noted on the  
13 cross-section. It was also tested in the lower Morrow  
14 orange sand. And it was tested in the Atoka, which we  
15 have colored purple at the top of the cross-section.

16 All these zones were found to be  
17 noncommercial, and that well is currently a saltwater-  
18 disposal well.

19 You can see the perforated interval colored  
20 in red on the first well in the cross-section here.

21 Q. Is your objective the middle Morrow zone in  
22 your proposed well?

23 A. Main objective are these lower Morrow sands,  
24 but we certainly hope to get the middle Morrow also.

25 Q. What about the potential in the upper zones?

1 Is that pretty good in this wellbore?

2 A. Upper zones as to -- Above the Atoka?

3 Q. Above the Morrow.

4 A. No, the potential is not very great.

5 Q. Was the well in Section 26 also tested in the  
6 Morrow?

7 A. Yes, that's the second well on the cross-  
8 section. You can see they perforated in the orange,  
9 brown and yellow zones. It was found noncommercial.

10 They came up and it's currently producing in  
11 the Atoka, but that is not a very good well. It's made  
12 491 million, according to my production plat, with 655  
13 barrels of oil in five years. That makes 40 MCF a day  
14 currently. It's a very poor well.

15 Q. It's your hope that the proposed well will  
16 fall into the fairway of the channel sand?

17 A. Yes. We'd like to get something like the  
18 production we see in Section 25.

19 EXAMINER CATANACH: I have nothing further.

20 There being nothing further, Case 10,636 will  
21 be taken under advisement.

22 (Thereupon, these proceedings were concluded  
23 at 11:09 a.m.)

I do hereby certify that the foregoing is  
a complete record of the proceedings in  
the Examiner hearing of Case No. 10636  
\* \* \* heard by me on January 7 1993.

24  
25 David L. Catanch, Examiner  
Oil Conservation Division

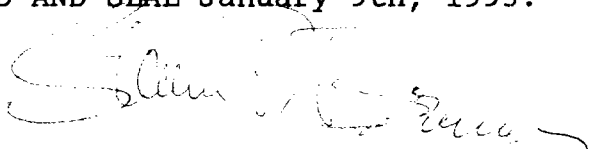
## 1 CERTIFICATE OF REPORTER

2  
3 STATE OF NEW MEXICO )  
4 ) ss.  
5 COUNTY OF SANTA FE )

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

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

16 WITNESS MY HAND AND SEAL January 9th, 1993.

17   
18 STEVEN T. BRENNER  
19 CCR No. 7

20 My commission expires: October 14, 1994  
21  
22  
23  
24  
25