

NEW MEXICO OIL CONSERVATION DIVISION
STATE LAND OFFICE BUILDING
STATE OF NEW MEXICO
CASE NO. 10501

IN THE MATTER OF:

The Application of Mewbourne
Oil Company for compulsory pooling,
Eddy County, New Mexico.

BEFORE:

MICHAEL E. STOGNER
Hearing Examiner
State Land Office Building
July 9, 1992

REPORTED BY:

DEBBIE VESTAL
Certified Shorthand Reporter
for the State of New Mexico

ORIGINAL

A P P E A R A N C E S

FOR THE NEW MEXICO OIL CONSERVATION DIVISION:

ROBERT G. STOVALL, ESQ.

General Counsel

State Land Office Building

Santa Fe, New Mexico 87504

FOR THE APPLICANT:

HINKLE, COX, EATON, COFFIELD & HENSLEY

Post Office Box 2068

Santa Fe, New Mexico 87504-2068

BY: JAMES BRUCE, ESQ.

I N D E X

Page Number

Appearances

2

WITNESSES FOR THE APPLICANT:

1. D. PAUL HADEN

Examination by Mr. Bruce 5

Examination by Mr. Stovall 14

Examination by Mr. Stogner 15

Further Ex. by Mr. Stovall 18

2. DEXTER L. HARMON

Examination by Mr. Bruce 19

Examination by Examiner Stogner 22

Certificate of Reporter

25

E X H I B I T S

Page Identified

Exhibit No. 1	6
Exhibit No. 2	7
Exhibit No. 3	9
Exhibit No. 4	12
Exhibit No. 5	19
Exhibit No. 6	20

1 EXAMINER STOGNER: Call the next case,
2 No. 10501.

3 MR. STOVALL: Application of Mewbourne
4 Oil Company for compulsory pooling, Eddy County,
5 New Mexico.

6 EXAMINER STOGNER: Call for
7 appearances.

8 MR. BRUCE: Mr. Examiner, my name is
9 Jim Bruce from the Hinkle law firm representing
10 the applicant. I have two witnesses to be sworn.

11 EXAMINER STOGNER: Are there any other
12 appearances?

13 Will the two witnesses stand and be
14 sworn at this time.

15 [The witnesses were duly sworn.]

16 EXAMINER STOGNER: Mr. Bruce.

17 D. PAUL HADEN

18 Having been duly sworn upon his oath, was
19 examined and testified as follows:

20 EXAMINATION

21 BY MR. BRUCE:

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

24 A. My name is Paul Haden. I live in
25 Midland, Texas.

1 Q. And who are you employed by and in what
2 capacity?

3 A. By Mewbourne Oil Company in the
4 capacity of petroleum landman.

5 Q. And have you previously testified
6 before the Division as a landman?

7 A. Yes, I have.

8 Q. And are you familiar with the land
9 matters involved in this case?

10 A. Yes, I am.

11 MR. BRUCE: Are the witness'
12 credentials acceptable, Mr. Examiner?

13 EXAMINER STOGNER: They are.

14 Q. (BY MR. BRUCE) Mr. Haden, state
15 briefly what Mewbourne seeks in this case.

16 A. Mewbourne seeks an order pooling all
17 mineral interests from the surface to the base of
18 the Morrow Formation underlying the south half of
19 Section 23 of Township 19 South, Range 27 East
20 for all pools or formations spaced on 40s, 160s
21 and 320 acres.

22 Q. And what is the location of the
23 proposed well? And I refer you to Exhibit 1.

24 A. Our proposed test well is at a location
25 1980 feet from the south line and 1980 feet from

1 the east line of said Section 23.

2 Q. And what is the formation this will be
3 drilled to test?

4 A. This will be drilled to test the Morrow
5 Formation to approximately 10,850 feet. The
6 south half of Section 23 will be dedicated to the
7 well.

8 Q. Who are the parties which Mewbourne
9 seeks to force pool in this case?

10 A. We are seeking to force pool Kerr-McGee
11 Corporation, Fairway Oil & Gas Company, and
12 Southland Royalty Company.

13 Q. Referring to Exhibits 2-A and 2-B,
14 would you describe your efforts to obtain
15 voluntary joinder of these parties? And, first,
16 what does Exhibit 2-A contain?

17 A. Exhibit 2-A contains a copy of all my
18 correspondence regarding Kerr-McGee Corporation.

19 Q. Just Kerr-McGee?

20 A. Just Kerr-McGee.

21 Q. Okay.

22 A. This is since November 18 of 1991 to
23 current.

24 Q. And what is the current status of your
25 negotiations with Kerr-McGee?

1 A. Kerr-McGee has agreed to farmout to us
2 on the terms proposed by my March 20, 1992,
3 letter; however, we have not seen a formal
4 proposed farmout agreement from them.

5 Q. And that's been several months now?

6 A. That has been a good while.

7 Q. Okay. And Exhibit 2-B?

8 A. Exhibit 2-B is a copy of my
9 correspondence, written and oral, regarding
10 Southland Royalty Company. They have agreed to
11 sell us a term assignment of their interest;
12 however, we have not seen their formal assignment
13 to date.

14 Q. And --

15 A. This was very recent on both of these
16 instances.

17 Q. And are these -- is this well budgeted
18 and Mewbourne wishes to get on with drilling the
19 well?

20 A. Yes. We would like to drill it just as
21 soon as we could get our agreements made and the
22 order issued.

23 Q. And for both Kerr-McGee and Southland
24 Royalty, you've been negotiating with them since
25 last fall, have you not?

1 A. That's correct.

2 Q. What about Fairway Oil & Gas?

3 A. Fairway Oil & Gas has a beneficial
4 interest associated with Kerr-McGee Corporation.
5 The Kerr-McGee Corporation interests were
6 originally Flag at Redfern Oil Company. Of
7 course, Kerr-McGee later took over Flag-Redfern.

8 Q. And --

9 A. We'd formally proposed the farmout
10 agreement to Fairway Oil & Gas Company back in
11 May 92.

12 Q. Okay. Now, is Kerr-McGee the owner of
13 record in the county of this interest?

14 A. Yes, that's correct.

15 Q. And you have not come to terms with
16 Fairway?

17 A. Have not.

18 Q. In your opinion have you made a good
19 faith effort to obtain the voluntary joinder of
20 these three parties?

21 A. Yes, I have.

22 Q. And does Mewbourne request that it be
23 named operator of the well?

24 A. That's correct.

25 Q. Referring to Exhibit 3, could you state

1 the estimated costs of the proposed well?

2 A. Our estimated well cost is \$437,893 for
3 a dry hole and \$798,698 for a completed well to
4 the approximate depth of 10,850 feet.

5 Q. And is this estimated cost in line with
6 those normally encountered in drilling wells to
7 this depth in this area of Eddy County?

8 A. That's correct.

9 Q. And do you have a recommendation as to
10 the charges, as to the amounts which Mewbourne
11 should be allowed for administrative and overhead
12 expenses?

13 A. These well costs would be \$6,167 for a
14 drilling well, \$626.50 for a producing well.

15 Q. And are these amounts in line with
16 those normally charged by Mewbourne and other
17 operators in this area of Eddy County?

18 A. That's correct.

19 Q. And are these amounts the same as those
20 approved in order No. R-9684 regarding your
21 Diamond A-35 No. 1 well?

22 A. That's correct. It was heard as Order
23 No. R-9684, which was heard before the Commission
24 as Case No. 10484. These rates were approved
25 under that order.

1 MR. BRUCE: And, Mr. Examiner, I
2 believe you were the Hearing Examiner for that
3 hearing. And rather than going into that in
4 excruciating detail, I would just refer the
5 Examiner, if necessary, to incorporate the record
6 or just refer you to that case for the testimony
7 that was given on the overhead rates.

8 EXAMINER STOGNER: What portion of the
9 overhead rates are you referring to that I take
10 into consideration other than the -- what is it?
11 \$6,167.

12 MR. BRUCE: Yes.

13 EXAMINER STOGNER: And \$626.50?

14 MR. BRUCE: Yes.

15 EXAMINER STOGNER: I believe those
16 orders also contained provisions about --

17 MR. BRUCE: About escalation. And
18 Mewbourne is also requesting escalation under the
19 same terms.

20 EXAMINER STOGNER: Okay. I wanted to
21 make sure that that was clear.

22 Q. (BY MR. BRUCE) Mr. Haden, what penalty
23 does Mewbourne recommend against any
24 nonconsenting interest owners?

25 A. Mewbourne recommends well costs plus

1 200 percent. Our geologist will discuss the
2 reasonableness of this proposed penalty.

3 Q. And were all interested parties given
4 notice of this hearing by certified mail?

5 A. Yes, they were.

6 Q. And is Exhibit 4 a copy of your
7 affidavit regarding notice?

8 A. That's correct.

9 Q. And in your opinion is the granting of
10 this application in the interests of conservation
11 and the prevention of waste?

12 A. We believe so.

13 Q. And were Exhibits 1 through 4 prepared
14 by you or under your direction?

15 A. They were prepared by me or under my
16 direction.

17 MR. BRUCE: Mr. Examiner, at this time
18 I move the admission of Mewbourne Exhibits 1
19 through 4.

20 EXAMINER STOGNER: Exhibits 1 through 4
21 will be admitted into evidence.

22 MR. STOVALL: Mr. Bruce, you forgot to
23 ask about correlative rights.

24 MR. BRUCE: That's part of prevention
25 of waste.

1 MR. STOVALL: I've got a question real
2 quick on Exhibits -- I have in my file the COPAS
3 Accounting Procedure Wage Index Adjustment and
4 the agreement. Are you not submitting that as an
5 exhibit?

6 MR. BRUCE: We were debating. I think
7 we are including that for information only.

8 THE WITNESS: Not as an exhibit.

9 MR. BRUCE: I mean, unless you need
10 that as an exhibit, rather than referring you to
11 the previous case where we did submit that as an
12 exhibit.

13 MR. STOVALL: Was that Wage Adjustment
14 Index the one that was used?

15 MR. BRUCE: Yes, sir.

16 EXAMINER STOGNER: Of course, this
17 comes out every year; correct?

18 MR. BRUCE: Yes.

19 EXAMINER STOGNER: And then whatever
20 came out for the appropriate year would be the
21 consideration for the escalation or the opposite
22 of escalation for that year, whatever the case
23 may be; is that correct?

24 MR. BRUCE: Yes.

25 THE WITNESS: That's right.

1 MR. STOVALL: Just for the sake of
2 thinking about if we looked at this record ten
3 years from now, why don't we just go ahead and
4 mark it and call it an exhibit so people don't
5 have to go look for another file to see the
6 methodology that's used.

7 FURTHER EXAMINATION

8 BY MR. BRUCE:

9 Q. Mr. Haden, is Exhibit 4-A the
10 accounting procedure for joint operations, which
11 also includes the wage index adjustments for
12 years 1963 to 1992?

13 A. Yes, it is submitted as such.

14 MR. BRUCE: We'll just mark that
15 Exhibit 4-A, Mr. Examiner.

16 EXAMINATION

17 BY MR. STOVALL:

18 Q. Mr. Haden, your purpose in submitting
19 that exhibit, along with the attached COPAS
20 Accounting Procedure which is part of that
21 exhibit, it's an uncompleted COPAS Accounting
22 Procedure, is simply to document the overhead
23 adjustment costs, escalation method which you are
24 requesting be adopted; is that correct?

25 A. That's correct for overhead rates.

1 MR. STOVALL: Okay.

2 EXAMINER STOGNER: Exhibit No. 4-A will
3 be admitted into evidence at this time.

4 EXAMINATION

5 BY EXAMINER STOGNER:

6 Q. In looking at Exhibit No. 1, which is
7 your map --

8 A. Right.

9 Q. -- I want to make sure I'm clear on
10 what acreage Kerr-McGee and Southland Royalty
11 own. Let's take Southland Royalty. I look down
12 in the southeast quarter-southeast quarter. I
13 show a little lease there marked Southland
14 Royalty. Is that the Southland Royalty interest
15 in the south half?

16 A. No, sir. Southland Royalty does have
17 the southeast-southeast quarter, as you say.
18 They also have the southwest quarter along with
19 the northwest-southeast. They own an interest.

20 Q. Okay. An undivided interest in the
21 southwest and what? the northwest of the
22 southeast?

23 A. That's correct.

24 Q. Okay. Do they own anything in that
25 Flag-Redfern 40 acres down in the

1 southwest-southeast?

2 A. No, they don't. The Flag-Redfern
3 acreage you refer to, that's the Kerr-McGee and
4 Fairway Oil & Gas.

5 Q. We'll stay on Southland Royalty right
6 now. Now, when I go up to the northeast quarter
7 of the southeast quarter, that appears to be what
8 -- what lease is that?

9 A. Those are shallow rights. Apparently
10 this is -- the well located there in the
11 northeast-southeast quarter is apparently a Queen
12 gas well. That well is operated apparently by
13 Synergy.

14 Southland Royalty and Mewbourne jointly
15 own the operating rights below the base of the
16 Queen Formation in the northeast of the southeast
17 quarter.

18 Q. Okay. Kerr-McGee-Fairway, do they own
19 interests other than that southeast -- I'm sorry,
20 the southwest of the southeast quarter, do they
21 also own some undivided interest in the southeast
22 quarter in that north half?

23 A. No, sir, they don't. They only own an
24 interest in the southwest-southeast. They do own
25 some interests in the north half of that section,

1 but we're not concerned with that at this point.

2 Q. Okay. So just in the south half, your
3 interest is in the southwest of the southeast
4 quarter?

5 A. That is correct.

6 Q. So they would really not be a party to
7 the 40-acre forced pooling portion?

8 A. Your line of questioning is correct,
9 no. They would not.

10 Q. However --

11 A. They would be an offset to a shallow
12 oil well if we did make one.

13 Q. But Southland Royalty, however, has an
14 undivided interest, and they would be a party to
15 all spacing units?

16 A. That's right.

17 Q. Okay. I wanted to make sure I --

18 A. Right.

19 Q. -- had that.

20 MR. STOVALL: We'll just make you into
21 a landman.

22 A. As I said before, we are still
23 negotiating with the parties to be pooled, and we
24 hope to come to some sort of agreement with
25 them.

1 EXAMINER STOGNER: Okay. Thank you. I
2 have no other questions of this witness.

3 Do you have any other questions?

4 Mr. Stovall?

5 MR. STOVALL: No. Well, let me just
6 make sure of one.

7 FURTHER EXAMINATION

8 BY MR. STOVALL:

9 Q. Mewbourne does own some working
10 interest in there right now; is that correct?

11 A. That's correct.

12 MR. STOVALL: Oh, good. I have nothing
13 further in this case. No further questions.

14 EXAMINER STOGNER: Thank you, Mr.
15 Stovall.

16 I mistakenly assumed that they did, and
17 I'm glad you clarified that for me.

18 Mr. Bruce, do you have any other
19 questions?

20 MR. BRUCE: No, sir.

21 EXAMINER STOGNER: You may be excused.

22 DEXTER L. HARMON

23 Having been duly sworn upon his oath, was
24 examined and testified as follows:

25 EXAMINATION

1 BY MR. BRUCE:

2 Q. Would you, please, state your name and
3 city of residence for the record?

4 A. My name is Dexter Harmon. I live in
5 Midland, Texas.

6 Q. And who are you employed by and in what
7 capacity?

8 A. I'm employed by Mewbourne Oil Company.
9 I'm district geologist.

10 Q. Have you previously testified before
11 the Division as a geologist?

12 A. Yes, I have.

13 Q. And are you familiar with the
14 geological matters affecting this application?

15 A. Yes, I am.

16 MR. BRUCE: Mr. Examiner, I tender the
17 witness as an expert geologist.

18 EXAMINER STOGNER: Mr. Harmon is so
19 qualified.

20 Q. (BY MR. BRUCE) Mr. Harmon, referring
21 to Mewbourne Exhibit 5, could you discuss the
22 exhibit's contents and the primary zone which
23 Mewbourne is seeking in this well?

24 A. Exhibit 5 is Mewbourne Oil Company's
25 production map in the Angell Ranch Prospect

1 area. It shows all the wells that have been
2 drilled in this area, what zones they produced
3 from. Mewbourne in this prospect is interested
4 in the Morrow Formation.

5 This map has twelve sections on it. In
6 the twelve sections there are eleven Morrow
7 penetrations. None of them are in Section 23.
8 And of the eleven penetrations, three are
9 commercial producers.

10 Q. Where is the nearest commercial
11 producer from the proposed location?

12 A. Well, it would be in the west half of
13 Section 25, over a mile from our proposed
14 location, to the southeast.

15 Q. Would you, please, then move on to
16 Exhibit 6 and discuss in more detail the geology
17 in this area?

18 A. Exhibit 6 is a Morrow cross-section,
19 A-to-A prime. It has three well logs on it
20 starting in Section 14 north of our proposed
21 location. You can see a Morrow dry hole. We
22 divide the Morrow into two sections. The Middle
23 Morrow has sands in it that we color purple and
24 green for designation purposes. And the Lower
25 Morrow has also two sand developments in it that

1 we designate orange and brown sands.

2 On the first well on the cross-section,
3 you'll note that each one of these sands is
4 present in a remnant form or an edge form of what
5 we interpret as channel sands in this area that
6 are deposited from a northwest to southeast
7 direction. And that's also the line of
8 cross-section. We see some hedge sands up there
9 which encourage us to drill in that direction.

10 The second well in the cross-section is
11 the well in the west half of Section 25. It had
12 perforations in the Middle Morrow green sand, the
13 Lower Morrow orange, and the Lower Morrow brown
14 sand. So it produced from three different sands
15 in the Morrow, each one of them less than ten
16 feet thick on the perforated interval.

17 And the third log on the cross-section
18 is located in the south half of Section 36. It
19 shows a very thick Lower Morrow orange sand, has
20 a blocky characteristic. And this is the type
21 sand that we hope to encounter in our proposed
22 location.

23 Q. What penalty do you recommend against
24 nonconsenting interest owners in this well?

25 A. Because of the high risk in stepping

1 out such a long distance from the nearest
2 producers, we recommend cost plus 200 percent.

3 Q. And in your opinion is the granting of
4 this application in the interests of conservation
5 and the prevention of waste and the protection of
6 correlative rights?

7 A. Yes, it is.

8 Q. Were Exhibits 5 and 6 prepared by you
9 or under your direction?

10 A. Yes, they were.

11 MR. BRUCE: Mr. Examiner, at this time
12 I'd move the admission of Mewbourne Exhibits 5
13 and 6.

14 EXAMINER STOGNER: Exhibits 5 and 6
15 will be admitted into evidence.

16 Mr. Carr, do you have any questions?

17 MR. CARR: I don't believe I appeared
18 in this case.

19 EXAMINER STOGNER: Thank you, Mr. Carr.

20 MR. CARR: I'd be happy to if you want
21 me to.

22 EXAMINER STOGNER: No, thank you, Mr.
23 Carr.

24 EXAMINATION

25 BY EXAMINER STOGNER:

1 Q. Has there been Atoka production within
2 -- not within this 12-section area or maybe even
3 more, but isn't there some Atoka production
4 somewhat near here?

5 A. Off the map, yes.

6 Q. What? About a mile or so?

7 A. To the southeast.

8 Q. Now, something kind of comes out and
9 hits me here when I look at the well in the south
10 half of 23 at this point. It's indicated to be a
11 gas well. Is that true? Or what formation is
12 that producing from? What pool?

13 A. That is a Queen gas well.

14 Q. So it is a gas well?

15 A. Yes. It's made 70 million cubic feet
16 of gas in nine years, and it produces 10 Mcf a
17 day.

18 Q. Now, at the same time I look at the
19 wells that are also marked in pink in the north
20 half of 23 and one over there in 22 and several
21 in 13 and 14. Are those producing from the same
22 interval but are oil? Is this an associated pool
23 or --

24 A. They're classified as oil wells. None
25 of them are good producers. None of them are

1 economic.

2 Q. But for your map, you put the Queen
3 Grayburg and San Andres together, not necessarily
4 meaning that that's one common pool out there?

5 A. Right.

6 EXAMINER STOGNER: Are there any other
7 questions of this witness?

8 MR. STOVALL: No.

9 EXAMINER STOGNER: You may be excused.
10 Mr. Bruce?

11 MR. BRUCE: Nothing further.

12 EXAMINER STOGNER: Does anybody else
13 have anything further in Case No. 10501?

14 If not, this case will be taken under
15 advisement.

16 [And the proceedings were concluded.]

17

18

19

20

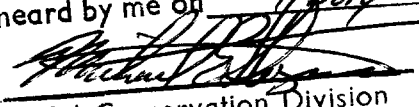
21

22

23

24

25

I do hereby certify that the foregoing is
a complete record of the proceedings in
the Examiner hearing of Case No. 10501
heard by me on 9 July 1992.
 Examiner
Oil Conservation Division

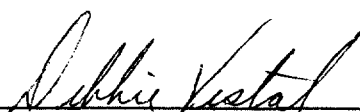
CERTIFICATE OF REPORTER

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

I, Debbie Vestal, Certified Shorthand Reporter and Notary Public, HEREBY CERTIFY that the foregoing transcript of proceedings before the Oil Conservation Division was reported by me; that I caused my notes to be transcribed under my personal supervision; 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 JULY 20, 1992.



DEBBIE VESTAL, RPR
NEW MEXICO CSR NO. 3