

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

**APPLICATION OF EARTHSTONE OPERATING, LLC,  
FOR A HORIZONTAL SPACING UNIT AND  
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO**

**Case No.** \_\_\_\_\_

**APPLICATION**

Earthstone Operating, LLC, (“Earthstone”), OGRID No. 331165, through its undersigned attorneys, hereby files this Application with the Oil Conservation Division (“Division” or “OCD”) pursuant to the provisions of NMSA 1978, Section 70-2-17, for an order (1) establishing a standard 320.00-acre, more or less, spacing and proration unit comprised of the W/2 E/2 of Sections 7 and 18, all in Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, and (2) pooling all uncommitted mineral interests in the Bone Spring formation, designated as an oil pool, underlying said unit. Sections 7 and 18 are irregular sections with correction lots, but there are no such lots in the proposed unit.

In support of its Application, Earthstone states the following:

1. Earthstone is a working interest (“WI”) owner in the proposed horizontal spacing and proration unit (“HSU”) and has a right to drill a well thereon, subject to the Division’s discretion.
2. This application competes with the application filed in Case No. 23365 by Mewbourne Oil Company (“Mewbourne”). The W/2 E/2 of Section 7 is within the North Wilson Deep Unit (“State EU”) originally created in 1963 by OCD Order No. R-2621, and currently, Mewbourne is the designated operator for units contained wholly within the State EU; however,

in Case No. 23365, Mewbourne has overreached the boundaries of the State EU by proposing a unit involving lands both inside the State EU (i.e. the W/2 E/2 of Section 7) and lands outside the State EU (i.e. W/2 E/2 of Section 18). Furthermore, Mewbourne is proposing to drill its surface hole on, and develop, Section 18, which Mewbourne, during proceedings before the OCD in 2020, explicitly agreed to exclude from the State EU as an express condition for the OCD's expansion of the State EU. *See* Order No. R-21721, ¶ 4(d) (showing that Mewbourne agreed to exclude the E/2 of Section 18 from the expansion of the State EU to satisfy the objection of Earthstone's predecessor in interest, which was a condition for the Division's approval for the current lands included in the State EU).

3. Earthstone, who owns WI in the competing units covering the W/2 E/2 of Sections 18 and 7, respectfully submits that Mewbourne, by proposing a unit that includes the W/2 E/2 of Section 18, and the correlative rights and potential waste associated with the W/2 E/2 of Section 18 located outside the State EU, has invoked the necessity for the Division to exercise its authority to evaluate the competing applications for the purpose of selecting the best operator and development plan that would protect correlative rights, prevent waste, and maximize production of the proposed straddle unit covering the W/2 E/2 of Sections 7 and 18.

4. Earthstone has simultaneously filed applications in other cases for the development of the W/2 of Sections 7 and 18, which is not in the State EU but is a part of Earthstone's overall plan for the optimal development of all of Sections 7 and 18. Earthstone respectfully requests that the Division exercise its authority to adjudicate the competing applications, that being the straddle units proposed by both Earthstone and Mewbourne, within the larger context of the proposed development of Sections 7 and 18.

5. Accordingly, in this application, Earthstone proposes and dedicates to the HSU two initial wells: the **Outland 18-7 State Com 113H Well** and the **Outland 18-7 State Com 223H Well**, to be drilled to a sufficient depth to test the Bone Spring formation.

6. Earthstone proposes the **Outland 18-7 State Com 113H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NW/4 NE/4 (Unit B) of Section 7.

7. Earthstone proposes the **Outland 18-7 State Com 223H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NW/4 NE/4 (Unit B) of Section 7.

8. The proposed wells are orthodox in their locations, and the take points and completed intervals comply with setback requirements under the statewide rules.

9. Earthstone's review of the land records did not reveal any overlapping units; should an overlapping unit be discovered, Earthstone will satisfy notice as part of the permitting process. However, Earthstone is proposing a straddle unit that includes a section of land both inside and outside the North Deep Wilson Unit and therefore will be seeking approval of this overlap with the State EU during the adjudication process.

10. Earthstone has sought in good faith, but has been unable to obtain, voluntary agreement from all interest owners to participate in the drilling of the wells or in the commitment of their interests to the wells for their development within the proposed HSU.

11. The pooling of uncommitted interests in the Bone Spring formation within the proposed HSU, and creation of the spacing unit, will avoid the drilling of unnecessary wells, prevent waste, and protect correlative rights.

12. In order to provide for its just and fair share of the oil and gas underlying the subject lands, Earthstone requests that all uncommitted interests in this HSU be pooled and that Earthstone be designated the operator of the proposed horizontal wells and HSU.

WHEREFORE, Earthstone requests that this Application be set for hearing on May 4, 2023, before an Examiner of the Oil Conservation Division, and after notice and hearing as required by law, the Division enter an order:

A. Establishing a standard 320.00-acre, more or less, spacing and proration unit comprised of the W/2 E/2 of Sections 7 and 18, all in Township 21 South, Range 35 East, NMPM, Lea County, New Mexico;

B. Pooling all uncommitted mineral interests in the Bone Spring formation underlying the proposed HSU.

C. Approving the **Outland 18-7 State Com 113H Well** and the **Outland 18-7 State Com 223H Well** as the wells for the HSU.

D. Approving the overlap of the HSU with the W/2 E/2 of Section 7 located within the Wilson North Deep Unit.

E. Designating Earthstone as operator of this HSU and the horizontal wells to be drilled thereon;

F. Authorizing Earthstone to recover its costs of drilling, equipping, and completing the wells;

G. Approving actual operating charges and costs of supervision, to the maximum extent allowable, while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures; and

H. Setting a 200% charge for the risk assumed by Earthstone in drilling and completing the wells in the event a working interest owner elects not to participate in the wells.

Respectfully submitted,

ABADIE & SCHILL, PC

/s/ *Darin C. Savage*

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**Attorneys for Earthstone Operating LLC**

***Application of Earthstone Operating, LLC for a Horizontal Spacing and Proration Unit and Compulsory Pooling, Lea County, New Mexico.*** Applicant in the above-styled cause seeks an order from the Division: (1) establishing a standard 320.00-acre, more or less, spacing and proration unit comprised of the W/2 E/2 of Sections 7 and 18, all in Township 21 South, Range 35 East, NMPM, Lea County, New Mexico, and (2) pooling all mineral interests in the Bone Spring formation, designated as an oil pool, underlying the unit. Sections 7 and 18 are irregular with correction lots but there are no such lots in the proposed unit. The proposed wells to be dedicated to the horizontal spacing unit are the **Outland 18-7 State Com 113H Well** and the **Outland 18-7 State Com 223H Well**, both oil wells, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NW/4 NE/4 (Unit B) of Section 7. The proposed unit is a straddle unit that includes lands in the W/2 E/2 of Section 7 that are within the North Wilson Deep Unit. Applicant will seek approval for this overlap. The wells will be orthodox, and the take points and completed intervals will comply with the setback requirements under statewide Rules; also to be considered will be the cost of drilling and completing the wells and the allocation of the costs thereof; actual operating costs and charges for supervision; the designation of the Applicant as Operator of the wells and unit; and a 200% charge for the risk involved in drilling and completing the wells. The wells and lands are located approximately 15 miles northwest of Eunice, New Mexico.