

**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 TO CONSIDER:**

**CASE NO. 15886
ORDER NO. R-14604**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD
OIL SPACING AND PRORATION UNIT AND COMPULSORY POOLING, EDDY
COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on December 21, 2017, at Santa Fe, New Mexico, before Examiner Scott A. Dawson, and again on January 11, 2018 before Examiner Michael A. McMillan.

NOW, on this 8th day of March, 2018, the Division Director, having considered the testimony, the record and the recommendations of Examiner Dawson,

FINDS THAT:

(1) Due public notice has been given, and the Division has jurisdiction of this case and of the subject matter.

(2) Mewbourne Oil Company ("Applicant" or "Mewbourne"), seeks approval of a 312.51-acre, more or less, non-standard oil spacing and proration unit and project area ("the Unit") for oil and gas production from the Bone Spring formation, Palmillo; Bone Spring, East Pool (Pool code 49553), comprising Lot 1/Unit D, NE/4 NW/4, and N/2 NE/4 (N/2 N/2 equivalent) of Section 31, and the N/2 N/2 of Section 32, all in Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Bone Spring formation.

(3) The Unit will be dedicated to the Applicant's Pavo Macho 31 32 B2DA Federal Com Well No. 1H (the "proposed well"; API No. 30-015-43787), a horizontal well to be drilled from a surface location, 660 feet from the North line and 185 feet from the West line (Lot 1/Unit D) of Section 31, to a terminus or bottom hole location, 990 feet from the North line and 330 feet from the East line (Unit A) of Section 32, both in Township 18

South, Range 29 East, NMPM. The completed interval of the proposed well in the Bone Spring formation will be standard.

(4) The proposed well is within the Palmillo; Bone Spring, East Pool (Pool code 49553), and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section. The proposed Unit and project area consists of eight adjacent quarter-quarter sections oriented west to east.

(5) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) The Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal well west to east is appropriate for the proposed Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be substantially productive in the Bone Spring formation, so that formation of the Unit as requested will not impair correlative rights;
- (d) EOG Y Resources, Inc. ("EOG") is the only company that Mewbourne seeks to compulsory pool;
- (e) on August 16, 2007, Mewbourne offered to purchase a two-year term assignment with EOG of Operating Rights for \$2,500 per acre net providing Mewbourne a 75% net revenue interest in the N/2 of Section 31 and N/2 of Section 32. Mewbourne is currently waiting on EOG's reply on the proposed term assignment;
- (f) On November 28, 2017, Applicant also proposed a trade with EOG, covering 40 acres in the NE/4 NE/4 of Section 32, Township 18 South, Range 29 East (State Lease B-4918) for 40 acres of Mewbourne's acreage in the S/2 of Section 32, Township 23 South, Range 28 East, NMPM, both in Eddy County, New Mexico. Mewbourne is currently waiting on EOG's management approval for the proposed acreage trade;
- (g) Applicant stated they made a good faith effort to obtain voluntary joinder of EOG for the proposed well;
- (h) notice was provided for creation of the non-standard spacing unit to lessees or operators of surrounding tracts;

(6) No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) The proposed non-standard unit should be approved to enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(8) Two or more separately owned tracts are embraced within the Unit, and/or there are royalty interests and/or undivided interests in oil and gas minerals in one or more tracts included in the Unit that are separately owned.

(9) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the subject well to a common source of supply within the Unit at the proposed location.

(10) EOG is the only interest owner in the Unit that has not agreed to pool their interests and it was properly notified.

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Unit the opportunity to recover or receive without unnecessary expense its just and fair share of hydrocarbons, this application should be approved by pooling all uncommitted interests, whatever they may be, in the oil and gas within the Unit.

(12) Mewbourne should be designated the operator of the proposed well and the Unit.

(13) To ensure protection of correlative rights, any pooled working interest owner whose address is known should be notified and have an opportunity to protest before the Division grants any extension of the time provided herein for commencing drilling.

(14) Infill wells within the Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and to the terms and conditions of this order.

(15) Any pooled working interest owner who does not pay its share of estimated well costs should have withheld from production its share of reasonable well costs plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the subject well.

(16) Applicant should provide the pooled parties an estimated payout report ("Payout Report") by April 30 of the following year after the proposed well is completed. Further, Applicant should provide Payout Reports on a yearly basis, and within 90 days after payout occurs. Once in receipt of the required information, the pooled party may request a hearing if it believes the revenues reported are inaccurate or the expenses are

inaccurate or unreasonable.

(17) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7500 per month per well while drilling and \$750 per month per well while producing, provided that these rates should be adjusted annually pursuant to the overhead adjustment provision of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company, a 312.51-acre, more or less, non-standard oil spacing and proration unit (the "Unit") is hereby established for oil and gas production from the Bone Spring formation, Palmillo; Bone Spring, East Pool (Pool code 49553), comprising Lot 1/Unit D, NE/4 NW/4, and N/2 NE/4 (N/2 N/2 equivalent) of Section 31, and the N/2 N/2 of Section 32, both in Township 18 South, Range 29 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, including royalty interests, in the oil and gas in the Bone Spring formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to the Applicant's Pavo Macho 31 32 B2DA Federal Com Well No. 1H (the "proposed well"; API No. 30-015-43787), a horizontal well to be drilled from a surface location, 660 feet from the North line and 185 feet from the West line (Lot 1/ Unit D) of Section 31, to a terminus or bottom hole location, 990 feet from the North line and 330 feet from the East line (Unit A) of Section 32, both in Township 18 South, Range 29 East, NMPM. The completed interval of the proposed well will be at an orthodox location.

(4) The operator of the Unit shall commence drilling the proposed well on or before March 31, 2019, and shall thereafter continue drilling the proposed well with due diligence to test the Bone Spring formation.

(5) In the event the operator does not commence drilling the proposed well on or before March 31, 2019, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(6) The operator shall notify each pooled working interest owner for whom it has a valid address before it files with the Division any request for extension of the time to commence drilling and shall certify its compliance with this requirement in its request for extension. The Division may grant an extension at its discretion after 20 days from receipt of the request if no objection is received. Otherwise, the Division shall not grant the extension without a hearing.

(7) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect,

and the unit and project area created by this order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all quarter-quarter sections included in the Unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which at least one well is completed.

(8) Upon final plugging and abandonment of the proposed well and any other well drilled on that Unit pursuant to Division Rule 19.15.13.9 NMAC, the Unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(9) Infill wells within the Unit shall be subject to the terms and conditions of this order.

(10) Mewbourne Oil Company (OGRID 14744) is hereby designated the operator of the proposed well and the Unit.

(11) Mewbourne will notify the division when an agreement is made with EOG.

(12) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interests in the Unit, including unleased mineral interests, who are not parties to an operating agreement governing the Unit.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Unit a separate itemized schedule of actual costs of drilling, completing and equipping the proposed well ("well costs").

(13) Within 30 days from the date the schedule of actual well costs is furnished, any pooled working interest owner shall have the right to pay its share of actual well costs to the operator in lieu of paying its share of reasonable well costs out of production as hereinafter provided, and any such owner who pays its share of actual well costs as provided above shall remain liable for operating costs but shall not be liable for risk charges. Pooled working interest owners who elect not to pay their share of actual well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(14) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 90 days following completion of the proposed well. If no objection to the actual well costs is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule, the actual well costs shall be deemed to be the reasonable well costs. If there is an objection to actual well costs within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(15) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, within 90 days approval of this order, and within 90 days after payout occurs, a schedule of all revenues attributable to the subject wells, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs incurred for the maintenance and operation of the wells, except for "well costs" reported as required above, that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable well costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable well costs after public notice and hearing.

(16) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs in advance as provided above shall pay to the operator its share of the amount that reasonable well costs exceed estimated well costs and shall receive from the operator the amount, if any, that the actual well costs it has paid exceed its share of reasonable well costs.

(17) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from the well:

- (a) the proportionate share of reasonable well costs attributable to each such owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(18) The operator shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(19) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7,500 per month while drilling and \$750 per month while producing, provided that these rates may be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production the proportionate share of both the supervision charges and the actual expenditures required for operating the well, not more than what are reasonable, attributable to pooled working interest owners.

(20) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to the proposed well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs actually incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to Ordering Paragraph (14), that are

properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

(21) Except as provided above, all proceeds from production from the proposed well that are not disbursed for any reason shall be held for the account of the person or persons entitled thereto pursuant to the Oil and Gas Proceeds Payment Act (NMSA 1978 Sections 70-10-1 through 70-10-6, as amended). If not disbursed, such proceeds shall be turned over to the appropriate authority as and when required by the Uniform Unclaimed Property Act (NMSA 1978 Sections 7-8A-1 through 7-8A-31, as amended).

(22) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working interests' share of production, and no costs or charges shall be withheld from production attributable to royalty interests.

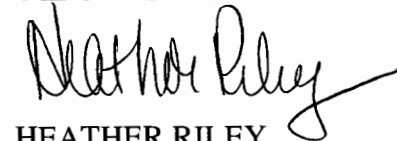
(23) Should all the parties to this compulsory pooling order reach voluntary agreement after entry of this Order, this Order shall thereafter be of no further effect.

(24) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this Order.

(25) Jurisdiction of this case is retained for the entry of such further orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



HEATHER RILEY
Director

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