

**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. 14298
ORDER NO. R-13139**

**APPLICATION OF MEWBOURNE OIL
COMPANY FOR COMPULSORY
POOLING, EDDY COUNTY, NEW
MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came for hearing at 8:15 a.m. at Santa Fe, New Mexico on March 31, 2009 before Examiners William V. Jones and David K. Brooks.

NOW, on this 17th day of June, 2009, the Division Director, having considered the testimony, the record and the recommendations of the Examiners,

FINDS THAT:

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

(2) Mewbourne Oil Company ("applicant" or "Mewbourne"), seeks an order pooling all uncommitted interests from the surface to the base of the Morrow formation underlying the E/2 of Section 29, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, in the following manner:

- a. The E/2 forming a standard 320-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 320-acre spacing within that vertical extent, including but not limited to, the following gas pools:

Undesignated Southeast Carlsbad-Wolfcamp Gas Pool (96171)
Undesignated Northeast Sheep Draw-Strawn Gas Pool (85205)
Undesignated East McKittrick Hills-Atoka Gas Pool (96472)

Undesignated South Happy Valley-Atoka Gas Pool (96338)
Happy Valley-Morrow Gas Pool (78060)

- b. The NE/4, forming a standard 160-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- c. The NE/4 NE/4, forming a standard 40-acre, more or less, oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including but not limited to,
the Undesignated Happy Valley-Delaware Pool (29665), and the Undesignated Happy Valley-Wolfcamp Pool (96606).

(3) The above-described units ("the Units") are to be dedicated to the applicant's Huckleberry Draw 29 Fee Com Well No. 1 (API No. 30-015-36734) [the proposed well], to be drilled at a standard well location 990 feet from the North line and 770 feet from the East line, Unit A of Section 29 to an approximate depth of 11,800 feet with the Morrow formation gas as the primary target.

(4) The applicant appeared at the hearing and presented a Landman who testified that:

- a. The E/2 of Section 29 contains separate tracts of land. Some tracts are fee and some are federal acreage.
- b. There are five un-leased mineral owners who have not agreed to join in this well or in these Units.
- c. All five of these un-joined parties own an interest in the (NE/4 NE/4) 40-acre well site. Because there are separate tracts within the E/2 of Section 29, the parties being pooled own varying amounts of the differently sized spacing units.
- d. Applicant believes it has made a good faith effort to obtain the voluntary joinder of the interest owners in this well.
- e. There are no un-locatable interest owners.

(5) Applicant presented no evidence at the hearing as to how costs would be allocated to the bailout formations up-hole from the Morrow target formation. Absence this evidence, it should be considered as just and reasonable that all drilling costs should be charged to the owners in the Morrow in proportion to each owner's acreage contribution to that 320-acre Morrow gas spacing unit and only recompletion costs as they occur should be charged to the owners in the shallower spacing units. Alternately, the applicant should re-open this case to present evidence as to how drilling costs would be allocated if necessary between owners in differing sizes of spacing units.

(6) Mr. Bundy from the Bundy Family Trust sent a letter to the Division prior to the hearing, contesting the proposed Risk Penalty, but did not enter an appearance or file a pre-hearing statement as would be necessary to present evidence concerning this.

(7) No other party entered an appearance in this case or was present at the hearing.

(8) Applicant is an owner of an oil and gas working interest within the Units. Applicant has a right to propose and drill its Huckleberry Draw 29 Fee Com Well No. 1 (API No. 30-015-36734) to a common source of supply within the E/2 of Section 29.

(9) Two or more separately owned tracts are embraced within the Units, 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.

(10) There are interest owners who have not yet agreed to pool their interest(s).

(11) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to the owner of each interest in the Units 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 Units.

(12) Applicant should be designated the operator of the proposed well and of the Units.

(13) 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 well.

(14) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company ("applicant"), all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Morrow formation underlying the E/2 of Section 29, Township 22 South, Range 26 East, NMPM, Eddy County, New Mexico, are hereby pooled, as follows:

- a. The E/2 forming a standard 320-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 320-acre

spacing within that vertical extent, including but not limited to, the following gas pools:

Undesignated Southeast Carlsbad-Wolfcamp Gas Pool (96171)
Undesignated Northeast Sheep Draw-Strawn Gas Pool (85205)
Undesignated East McKittrick Hills-Atoka Gas Pool (96472)
Undesignated South Happy Valley-Atoka Gas Pool (96338)
Happy Valley-Morrow Gas Pool (78060)

- b. The NE/4, forming a standard 160-acre, more or less, gas spacing unit for any and all formations and/or pools developed on 160-acre spacing within that vertical extent; and
- c. The NE/4 NE/4, forming a standard 40-acre, more or less, oil spacing and proration unit for any and all formations and/or pools developed on 40-acre spacing within that vertical extent, including but not limited to, the Undesignated Happy Valley-Delaware Pool (29665), and Undesignated Happy Valley-Wolfcamp Pool (96606).

(2) The above-described units ("the Units") shall be dedicated to the applicant's "proposed well", the Huckleberry Draw 29 Fee Com Well No. 1 (API No. 30-015-36734), to be drilled vertically from a standard well location within Unit A of Section 29 to approximately 11,800 feet to test the Morrow formation.

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

(4) The operator of the Units shall commence drilling the proposed well on or before June 30, 2010, and shall thereafter continue drilling and completing the well with due diligence to test the productivity of the Morrow formation. In the event the operator does not commence drilling the proposed well on or before June 30, 2010, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(5) Should the proposed well not be completed within 120 days after commencement thereof, Ordering Paragraph (1) shall be of no further effect, and the Units created by this Order shall terminate unless the operator, prior to the expiration of such 120-day period, files an application with the Division for extension of the time for completion of the proposed well. Such application shall include an affidavit or affidavits setting forth good cause for an extension, supported by satisfactory evidence. The Division Director may grant such application without hearing.

(6) Upon final plugging and abandonment of the Huckleberry Draw 29 Fee Com Well No. 1 (API No. 30-015-36734) and any other well drilled on the Unit pursuant to Division Rules 13.9 through 13.11, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(7) All drilling costs shall be charged to the owners in the Morrow spacing unit in proportion to each owner's acreage contribution to that 320-acre Morrow gas spacing unit and only recompletion costs as they occur shall be charged to the owners in the shallower spacing units. Alternately, the applicant shall re-open this case to present evidence as to how drilling costs should be allocated if necessary between owners in differing sizes of spacing units.

(8) 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 Units, including unleased mineral interests, who are not parties to an operating agreement governing the Units.) The operator shall furnish the Division and each known pooled working interest owner an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(9) Within 30 days from the date the schedule of estimated well costs is furnished, any pooled working interest owner shall have the right to pay its share of estimated 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 estimated 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 estimated well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(10) 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.

(11) 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 estimated well costs it has paid exceed its share of reasonable well costs.

(12) The operator is hereby authorized to withhold the following costs and charges from production:

(a) the proportionate share of reasonable well costs attributable to each non-consenting working interest owner; and

(b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,000 per month while drilling and \$700 per month while producing, provided that these rates shall 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 in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in Ordering Paragraphs (12) and (14), all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (Attn: Records Clerk) of the name and address of the escrow agent within one (1) year from the date of issuance of this order.

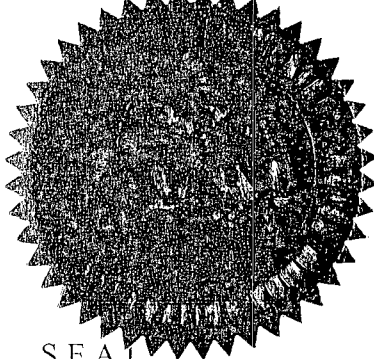
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

(18) The operator of the well and Units shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(19) 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.



SEAL

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

MARK E. FESMIRE, P.E.
Director