

**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. 12987
ORDER NO. R-11914**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY
POOLING AND AN UNORTHODOX OIL WELL LOCATION, EDDY COUNTY,
NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on January 9, 2003, at Santa Fe, New Mexico, before Examiner David R. Catanach.

NOW, on this 26th day of February, 2003, the Division Director, having considered the testimony, the record and the recommendations of the Examiner,

FINDS THAT:

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

(2) The applicant, Mewbourne Oil Company ("Mewbourne"), seeks an order pooling all uncommitted mineral interests from the surface to the base of the Atoka formation underlying the S/2 of Section 35, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, in the following manner:

the S/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the South Culebra Bluff-Atoka, Undesignated Culebra Bluff-Strawn, Undesignated South Culebra Bluff-Wolfcamp and Undesignated Malaga-Atoka Gas Pools;

the SE/4 forming a standard 160-acre spacing and proration

unit for all formations or pools spaced on 160 acres within this vertical extent;

the N/2 SE/4 forming a standard 80-acre spacing and proration unit for all formations or pools spaced on 80 acres within this vertical extent, which presently include the Undesignated South Culebra Bluff-Bone Spring Pool; and

the NE/4 SE/4 forming a standard 40-acre spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent.

The Units are to be dedicated to the applicant's proposed Layla "35" Fee Com Well No. 1 to be drilled at a standard gas well and unorthodox oil well location 1650 feet from the South line and 1241 feet from the East line (Unit I) of Section 35.

(3) This case was styled such that "*In the absence of objection, this matter will be taken under advisement.*"

(4) Neither the applicant nor any other party entered an appearance in this case at the hearing.

(5) 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 Units that are separately owned.

(6) Mewbourne is an owner of an oil and gas working interest within the Units, and has the right to drill the proposed Layla "35" Fee Com Well No. 1.

(7) There are interest owners in the proposed Units that have not agreed to pool their interests.

(8) 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.

(9) Mewbourne should be designated the operator of the well and of the Units.

(10) With regards to the proposed well location, Mewbourne's application sets

forth evidence that demonstrates that:

- (a) the proposed location for the Layla "35" Fee Com Well No. 1 is standard for a 320 or 160-acre well completion; however, the proposed location is unorthodox for a 40 or 80-acre well completion pursuant to Division Rule No. 104.B.(1) and Division Order No. R-6139, as amended, which order established special pool rules for the South Culebra Bluff-Bone Spring Pool;
- (b) the proposed location for the Layla "35" Fee Com Well No. 1 was selected on the basis of geologic considerations within the Atoka formation, being the primary target in the well; and
- (c) secondary targets within the Layla "35" Fee Com Well No. 1 include the Delaware and Bone Spring formations.

(11) Mewbourne's evidence in this case is not sufficient to demonstrate that correlative rights will be protected in the event that the Layla "35" Fee Com Well No. 1 is completed within a formation or pool spaced on 40 or 80 acres.

(12) In the event that the Layla "35" Fee Com Well No. 1 is ultimately completed in a formation or pool spaced on 40 or 80 acres, Mewbourne should be required to file an additional administrative application to obtain Division approval for the proposed unorthodox oil well location pursuant to the requirements set forth in Rule No. 104.F.

(13) The proposed unorthodox oil well location for the Layla "35" Fee Com Well No. 1 should be denied at this time.

(14) 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 percent thereof as a reasonable charge for the risk involved in drilling the well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 per month while producing. The operator should be 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 each pooled working interest.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, in the oil and gas from the surface to the base of the Atoka formation underlying the S/2 of Section 35, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, are hereby pooled in the following manner:

the S/2 forming a standard 320-acre gas spacing and proration unit for all formations or pools spaced on 320 acres within this vertical extent, which presently include but are not necessarily limited to the South Culebra Bluff-Atoka, Undesignated Culebra Bluff-Strawn, Undesignated South Culebra Bluff-Wolfcamp and Undesignated Malaga-Atoka Gas Pools;

the SE/4 forming a standard 160-acre spacing and proration unit for all formations or pools spaced on 160 acres within this vertical extent

the N/2 SE/4 forming a standard 80-acre spacing and proration unit for all formations or pools spaced on 80 acres within this vertical extent, which presently include the South Culebra Bluff-Bone Spring Pool; and

the NE/4 SE/4 forming a standard 40-acre spacing and proration unit for all formations or pools spaced on 40 acres within this vertical extent.

The Units shall be dedicated to the applicant's Layla "35" Fee Com Well No. 1 to be drilled at a standard gas well and unorthodox oil well location 1650 feet from the South line and 1241 feet from the East line (Unit I) of Section 35; provided however that in the event that the Layla "35" Fee Com Well No. 1 is completed in a formation or pool spaced on 40 or 80 acres, Mewbourne Oil Company shall, prior to producing the well, obtain Division approval of the unorthodox well location pursuant to the requirements set forth in Division Rule No. 104.F.

(2) The operator of the Units shall commence drilling operations on or before June 1, 2003, and shall thereafter continue drilling the well with due diligence to test the Atoka formation.

(3) In the event the operator does not commence drilling operations on or before June 1, 2003, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause.

(4) Should the well not be drilled to completion, or be abandoned, within 120 days after commencement thereof, the operator shall appear before the Division Director and show cause why Ordering Paragraph (1) should not be rescinded.

(5) Upon final plugging and abandonment of the proposed well, the pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(6) Mewbourne Oil Company is hereby designated the operator of the subject well and of the Units.

(7) 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.) After the effective date of this order, the operator shall furnish the Division and each known pooled working interest owner in the Units an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(8) 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."

(9) The operator shall furnish the Division and each known pooled working interest owner (including each non-consenting working interest owner) 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.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated well 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 its share of the amount that paid, estimated well costs exceed reasonable well costs.

(11) 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 percent of the above costs.

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

(13) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 per month while producing. 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 each pooled working interest (including each non-consenting working interest).

(14) Except as provided in Ordering Paragraphs (10) and (12) above, 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 of the name and address of the escrow agent within 30 days from the date of first deposit with the escrow agent.

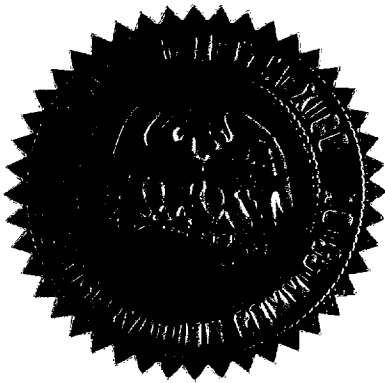
(15) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(16) 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.

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

(18) 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

Lori Wrotenbery
LORI WROTENBERY
Director