

**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. 15508
ORDER NO. R-14074-A**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY
POOLING AND AN UNORTHODOX GAS 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 July 21, 2016, at Santa Fe, New Mexico, and again on August 4, 2016 before Examiner Michael A. McMillan, and again on September 15, 2016, before Examiner Phillip R. Goetze.

NOW, on this 3rd day of October, 2016, 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) Mewbourne Oil Company ("Applicant" or "Mewbourne"), seeks an order pooling all uncommitted interests in the Wolfcamp formation, Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code: 75750), underlying the W/2 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to form a standard 320-acre gas spacing unit (the "Unit") in said pool.

(3) The Unit will be dedicated to the Applicant's Speedwagon 27 W2DM Fee Well No. 1H (the "subject well"; API No. 30-015-42695), a horizontal well that has been drilled from a surface location 190 feet from the North line and 660 feet from the West line (Unit D) of Section 27 to an "as-drilled" terminus or bottom hole location 335 feet from the South line and 693 feet from the West line (Unit M) of Section 27. The completed interval of the subject well in the Wolfcamp formation is unorthodox.

(4) The subject well is within the Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code 75750), which is governed by statewide Rule 19.15.15.10B. NMAC, and provides for 320-acre gas spacing units with wells to be located no closer than 660 feet from a unit outer boundary.

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

- (a) The Wolfcamp formation in this area is suitable for development by horizontal drilling.
- (b) The subject well has been drilled and completed.
- (c) The Unit was compulsory pooled in Case No. 15384 by Division Order No. R-14074, issued on November 9, 2015. The present pooling proceeding was filed to join additional interests that were believed to be voluntarily committed to the well at the time of the previous order.
- (d) Division Order No. R-14074 approved a non-standard location for the subject well; however, that location has changed.
- (e) Applicant seeks a non-standard location approval for the subject well. The penetration point is 590 feet from the North line and 698 feet from the West line (Unit D), and the final perforation is stated in the application to be 330 feet from the South line and 660 feet from the West line (Unit M).
- (f) Notice was provided for formation of the non-standard spacing unit and non-standard location to lessees or operators of surrounding tracts.
- (g) Notice was also provided to all owners of uncommitted interests in the Unit whose ownership was evidenced by a recorded instrument known to Applicant.

(6) RSC Resources Limited Partnership entered an appearance in this case, but did not appear at the hearing. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(7) The testimony presented at the hearing for the final perforation and terminus does not match the Form C-102 and the Form C-105 that were provided to the Division. The bottom hole location as shown on Form C-102 and Form C-105 was listed as 335 feet from the South line and 693 feet from the West line (Unit M) of Section 27.

As a result, the terminus should be 335 feet from the South line and 693 feet from the West line (Unit M) of Section 27. The terminus specified in the notices of this case and of the hearing was 330 feet from the South line and 660 feet from the West line. However, the actual location shown in Division records encroaches toward offsetting units to a lesser extent than the location specified in the notices. Accordingly, no further notice is required, and the actual (as drilled) unorthodox location of the well as reflected in Division records, with the terminus at 335 feet from the South line and 693 feet from the West line, should be approved.

(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 has drilled the subject well to a common source of supply within the Unit.

(10) Applicant notified the Division after the hearing in this case that the only party Applicant asked to be pooled in Case No. 15384 has voluntarily committed its interest. As a result, no interest is now pooled under the previous order, and this new compulsory pooling Order should supersede Division Order No. R-14074, issued on November 9, 2015, in its entirety.

(11) Subsequent to the hearing, the Applicant stated the non-standard location was requested to maximize the productive interval of the wellbore. Further, the Wolfcamp formation is a tight reservoir; therefore, the offset parties will not be affected.

(12) There are interest owners in the Unit that have not agreed to pool their interests.

(13) 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.

(14) Mewbourne should be designated the operator of the subject well and the Unit.

(15) Any pooled working interest owner who does not pay its share of actual 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) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling and \$750 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, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation, Culebra Bluff; Wolfcamp, South (Gas) pool (Pool code 75750), underlying the W/2 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico (the "Unit"), are hereby pooled.

(2) The Unit shall be dedicated to the Applicant's Speedwagon 27 W2DM Fee Well No. 1H (the "subject well"; API No. 30-015-42695), a horizontal well drilled from a surface location 190 feet from the North line and 660 feet from the West line (Unit D) of Section 27 to a terminus or bottom hole location 335 feet from the South line and 693 feet from the West line (Unit M) of Section 27. The completed interval of the subject well is authorized to be located at an unorthodox location, the penetration point being 590 feet from the North line and 698 feet from the West line (Unit D) of Section 27, and the bottom hole location being 335 feet from the South line and 693 feet from the West line (Unit M) of Section 27. This unorthodox location is hereby approved.

(3) This Order shall supersede Division Order No. R-14074, issued on November 9, 2015.

(4) Upon final plugging and abandonment of the subject well and any other well drilled on the 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.

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

(6) 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 an itemized schedule of actual costs of drilling, completing and equipping the subject well ("well costs").

(7) 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 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

actual well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(8) 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 60 days after issuance of this Order. 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.

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

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

- (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.

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

(12) 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 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.

(13) Except as provided in Paragraphs (10) and (12) above, all proceeds from production from the subject 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 70-8A-31, as amended).

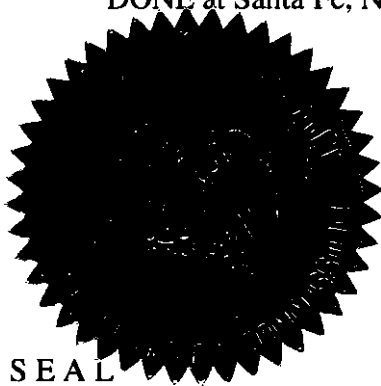
(14) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

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

(17) 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

David R. Catanach

DAVID R. CATANACH
Director