

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

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

Case No. 23176

PRIDE'S REPLY IN SUPPORT OF AMENDED MOTION TO DISMISS

Pride Energy Company ("Pride") submits this reply in support of its Amended Motion to Dismiss ("Motion"). In short, Applicant Mewbourne Oil Company ("Applicant" or "Mewbourne") fails to establish that it has an interest in minerals within the proposed spacing unit as required by NMSA 1978, Section 70-2-17 (1977). The application should therefore be dismissed.

Further, Applicant conflates the merits of its application with the issue before the Division at this time, that is, whether Applicant has an interest in minerals as required by Section 70-2-17. The merits of the applications are not before the Division. Hearing on these matters is currently set for March 16, 2023. *See* Amended Pre-Hearing Order (Dec. 2, 2022). Nonetheless, Pride takes this opportunity to address misstatements by Applicant regarding the merits. As explained below, even if Applicant's proposals were superior to Pride's competing proposals, which Pride denies, Applicant's proposal in this case cannot be approved because Applicant has no interest in the minerals in the proposed spacing unit.

I. APPLICANT HAS NO INTEREST IN THE MINERALS TO BE DEVELOPED IN THE PROPOSED SPACING UNIT.

As explained in the Motion, review of title in the county records reveals that Applicant has no interest in the pertinent minerals. *See* Motion ¶ 3. Applicant argues that it has an interest sufficient to satisfy Section 70-2-17 because it "has written support from Marathon Oil Permian

LLC and others that designates Mewbourne as the operator of the acreage in Section 16 and the N2 of Section 21.” Mewbourne Oil Company’s Response in Opposition to Pride Energy Company’s Amended Motions to Dismiss at 2. Mewbourne offers no evidence of such “written support” other than the self-serving statement of its landman and a letter from Marathon Oil Company that simply states the parties are *negotiating* an operating agreement. *See id.*; *see also* Exhibit A at 2, ¶ 10, and Exhibit B, attached thereto. *See generally* Response and exhibits thereto. Applicant does not reference or attach an executed operating agreement. Indeed, the letter from Marathon shows that no operating agreement existed at the time the application was filed and that no operating agreement exists today. Exhibit B to Response (stating that Marathon and Mewbourne “are negotiating in good faith a mutually beneficial Operating Agreement”). The hope of an operating agreement in the future cannot be the basis for the ownership in minerals required by Section 70-2-17.

Moreover, even if Mewbourne had an operating right in a contractual area that included the proposed spacing unit, which Pride denies, Mewbourne fails to establish that such a right constitutes an interest in the minerals sufficient to satisfy Section 70-2-17. At best, an operating agreement, if it existed, would simply establish that Mewbourne has been designated the operator of a contractual area that includes the spacing unit. It does not create an ownership right in the minerals, as required by Section 70-2-17.

“Operator” is defined as “a person who, duly authorized, manages a lease’s development or a producing property’s operation, or who manages a facility’s operation.” 19.15.2(O)(5) NMAC. The Division rules make clear that an “operator” is not the same as an “owner.” As recognized by both Pride and Mewbourne, an “owner” is “the person who has the right to drill into and to produce from any pool and to appropriate the production either for the person or for

the person and another.” NMSA 1978, § 70-2-33; *accord* 19.15.2(O)(7) NMAC. The latter phrase of the definition of “owner” makes it clear that an owner must have the right to appropriate the production for itself. Mewbourne has no such right, and Mewbourne cites no legal authority that supports its summary claim otherwise. *See generally* Response.

In short, an “operator” is different from an “owner.” Section 70-2-17 does not reference an “operator,” but rather an “owner.” Thus, even if Mewbourne had an operating right, which Pride denies, Mewbourne is not an “owner” as required by Section 70-2-17 and, therefore, has no right to seek forcepooling of its proposed spacing unit. *Cf.* Order No. R-11700-B at 5, *In re Applications of TMBR/Sharp*, Case Nos. 12731, 12744 (Apr. 26, 2002) (“[B]ecause only an ‘owner’ may seek compulsory pooling, it seems that a person owning a top lease where the bottom lease has not failed might not be entitled to compulsory pooling either.” (citing Section 70-2-17(C))).

Section 70-2-17’s requirement that an applicant for compulsory pooling be an owner of a mineral interest is analogous to the similar requirement in a joint operating agreement (“JOA”). Form JOAs routinely require that all parties to the JOA own an oil and gas lease or an oil and gas interest in the contract area. *See* Exhibit 1 at 1, attached hereto; *see also id.* (defining “Oil and Gas Interests” as “unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement”); *id.* at 7, part V(B)(1) (stating that if the operator no longer owns an interest in the contract area, the operator shall be deemed to have resigned).

The same principle applies here under Section 70-2-17, with respect to the spacing unit being forcepooled. Section 70-2-17(C) provides as follows:

When two or more separately owned tracts of land are embraced within a spacing or proration unit, or *where there are owners of royalty interests or undivided*

interests in oil and gas minerals which are separately owned or any combination thereof, embraced within such spacing or proration unit, the owner or owners thereof may validly pool their interests and develop their lands as a unit. Where, however, such owner or owners have not agreed to pool their interests, and where one such separate owner, or owners, who has the right to drill has drilled or proposes to drill a well on said unit to a common source of supply, the division, to avoid the drilling of unnecessary wells or to protect correlative rights, or to prevent waste, shall pool all or any part of such lands or interests or both in the spacing or proration unit as a unit.

Legislative intent is clear when reading the statute as a whole—one who asks the Division to compulsory pool interests within a spacing unit must have an interest in the oil and gas minerals *and* have the right to drill *in the proposed spacing unit*. Mewbourne does not satisfy this requirement. The application should therefore be dismissed.

II. MEWBOURNE’S ARGUMENTS BASED ON THE MERITS SHOULD BE DISREGARDED BECAUSE THEY ARE PREMATURE AND BASED ON FALSE REPRESENTATIONS.

Mewbourne’s arguments on the merits are not before the Division at this time. The sole issue for the hearing on January 5 is whether Mewbourne is an “owner” as required by Section 70-2-17. As explained, Mewbourne is not an “owner”; its application must therefore be dismissed and the merits of its applications should be not considered on March 16, 2023, which is the date set for hearing on the merits of the competing application. *See* Amended Pre-Hearing Order.

Nonetheless, Mewbourne argues that its applications should not be dismissed because “Mewbourne has a superior development plan and should be permitted to present that plan at hearing.” Response at 3. Mewbourne relies on Order No. R-21454-A in support of this contention. However, Order No. R-21454-A does not address the issue of ownership. Moreover, a review of filings in the related cases does not indicate that the ownership issue was

addressed in those cases. *See generally* Case Nos. 21277-21280. Thus, Order No. R-21454-A provides no support for Mewbourne's position under the circumstances here.

Further, Mewbourne's representations that Pride's proposals will strand acreage are unsupported by the facts. Indeed, Mewbourne is well aware that Pride has amended its proposals to include the acreage that Mewbourne contends would be stranded. Mewbourne was informed on December 9, 2022, by Pride's email transmitting to Mewbourne's landman Tyler Jolly the amended well proposal¹ in which Mewbourne has an interest, that Pride would be amending its applications to include the acreage purported to be stranded.² *See* Affirmation of Matthew Pride ¶ 4 (Jan. 3, 2023), attached hereto as Exhibit 2; *see also* Exhibit 3, attached hereto. Thus, Mewbourne had notice of Pride's amended well proposals to include the same acreage as Mewbourne's proposals almost two weeks before Mewbourne's landman executed his declaration stating that Pride's proposal would strand acreage. *See id.*; *see also* Exhibit A ¶¶ 9 & 13, attached to Response. This purported issue is thus a non-issue, and Mewbourne's argument in this regard should be disregarded.

Finally, Mewbourne mistakenly represents that Pride "does not operate any wells in this area." Response at 1-2. More than a year ago, Pride drilled and now operates six horizontal wells approximately eight miles from the current proposed development. *See* Exhibit 2 ¶ 5, attached hereto.

¹ The amended well proposals were mailed by certified mail by December 12, 2022. Amended applications will be filed no later than January 11, 2023. Motions to substitute and motions for continuance will be filed to add the amended applications to the Pre-Hearing Order for hearing on March 16, 2023. *See generally* Amended Pre-Hearing Order (Dec. 2, 2022).

² Pride does not agree that the north half of Section 21 would be stranded under Pride's original proposed development. The owners of minerals in the north half of Section 21 could drill east-west, rather than north-south.

For all of the reasons stated herein and in the Motion, Pride requests that the Division enter an order dismissing the above-referenced application.

Respectfully submitted,

MONTGOMERY & ANDREWS, P.A.

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CERTIFICATE OF SERVICE

I hereby certify that the foregoing was served by email upon the following on January 3, 2023:

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A.A.P.L. FORM 610 - 1989
MODEL FORM OPERATING AGREEMENT
HORIZONTAL MODIFICATIONS

OPERATING AGREEMENT

DATED

September 1 , 2017 ,
Year

OPERATOR Mewbourne Oil Company

CONTRACT AREA _____

Township 23 South, Range 34 East, N.M.P.M.

Section 10: All

Ibex "10" Prospect

COUNTY OR PARISH OF Lea , STATE OF New Mexico

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AMERICAN ASSOCIATION OF PROFESSIONAL
LANDMEN, 4100 FOSSIL CREEK BLVD. FORT
WORTH, TEXAS, 76137, APPROVED FORM.
A.A.P.L. NO. 610 - 1989 (Horz.)

Exhibit 1

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989 (Horz.)

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72**OPERATING AGREEMENT**

THIS AGREEMENT, entered into by and between Mewbourne Oil Company hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil and Gas Interests for the production of Oil and Gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

**ARTICLE I.
DEFINITIONS**

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder. An AFE is not a contractual commitment. Rather it is only an estimate, made in good faith.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation.

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser. When used in connection with a Horizontal Well, the term "Deepen" shall mean an operation whereby a Lateral is drilled to a Displacement greater than (i) the Displacement contained in the proposal for such operation approved by the Consenting Parties, or (ii) to the Displacement to which the Lateral was drilled pursuant to a previous proposal.

E. The term "Displacement" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall otherwise mean the length of a Lateral.

F. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

G. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

H. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. When used in connection with a Horizontal Well, the term "Drillsite" shall mean (i) the surface hole location, and (ii) the Oil and Gas Leases or Oil and Gas Interests within the Drilling Unit on or under which the wellbore, including the Lateral, is located.

I. The term "Horizontal Rig Move-On Period" shall mean the number of days after the date of rig release of a Spudder Rig until the date a rig capable of drilling a Horizontal Well to its Total Measured Depth has moved on to location.

J. The term "Horizontal Well" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction over the Contract Area, in the absence of which the term shall mean a well containing one or more Laterals which are drilled, Completed or Recompleted in a manner in which the horizontal component of the Completion interval (1) extends at least one hundred feet (100') in the objective formation(s) and (2) exceeds the vertical component of the Completion interval in the objective formation(s).

K. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

L. The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all wellbore beyond such deviation to Total Measured Depth.

M. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

N. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

O. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

P. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

Q. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

R. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone. When used in connection with a Horizontal Well, the term "Plug Back" shall mean an operation to test or Complete the well at a stratigraphically shallower Zone in which the operation has been or is being Completed and which is not in an existing Lateral.

S. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

T. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, ReCompleting, or Plugging Back of a well.

U. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties. When used in connection with a Horizontal Well, the term "Sidetrack" shall mean the directional control and deviation of a well outside the existing Lateral(s) so as to change the Zone or the direction of a Lateral from the approved proposal unless done to straighten the hole or drill around junk in the hole or to overcome other mechanical difficulties.

V. The term "Spudder Rig" shall mean a drilling rig utilized only for drilling all or part of the vertical component of a Horizontal Well; a rig used only for setting conductor pipe shall not be considered a Spudder Rig.

W. The term "Terminus" shall have the same meaning as the term defined by the state regulatory agency having jurisdiction

A.A.P.L. FORM 610 - MODEL FORM OPERATING AGREEMENT - 1989 (Horz.)

1 acreage basis, up to the amount of unrecovered costs;

2 (b) Proceeds of Oil and Gas, less operating expenses and lease burdens chargeable hereunder to the person who failed
3 to make payment, up to the amount of unrecovered costs attributable to that portion of Oil and Gas thereafter produced and marketed
4 (excluding production from any wells thereafter drilled) which, in the absence of such Lease or Interest termination, would be attributable to
5 the lost Lease or Interest on an acreage basis and which as a result of such Lease or Interest termination is credited to other parties, the
6 proceeds of said portion of the Oil and Gas to be contributed by the other parties in proportion to their respective interests reflected on Exhibit
7 "A"; and,

8 (c) Any monies, up to the amount of unrecovered costs, that may be paid by any party who is, or becomes, the owner of the
9 Lease or Interest lost, for the privilege of participating in the Contract Area or becoming a party to this agreement.

10 3. Other Losses: All losses of Leases or Interests committed to this agreement, other than those set forth in Articles
11 IV.B.1. and IV.B.2. above, shall be joint losses and shall be borne by all parties in proportion to their interests shown on Exhibit "A." This
12 shall include but not be limited to the loss of any Lease or Interest through failure to develop or because express or implied covenants have
13 not been performed (other than performance which requires only the payment of money), and the loss of any Lease by expiration at the end of
14 its primary term if it is not renewed or extended. There shall be no readjustment of interests in the remaining portion of the Contract Area on
15 account of any joint loss.

16 4. Curing Title: In the event of a Failure of Title under Article IV.B.1. or a loss of title under Article IV.B.2. above, any Lease or
17 Interest acquired by any party hereto (other than the party whose interest has failed or was lost) during the ninety (90) day period
18 provided by Article IV.B.1. and Article IV.B.2. above covering all or a portion of the interest that has failed or was lost shall be offered at
19 cost to the party whose interest has failed or was lost, and the provisions of Article VIII.B. shall not apply to such acquisition.

ARTICLE V.

OPERATOR

A. Designation and Responsibilities of Operator:

22 Mewbourne Oil Company
23 _____ shall be the Operator of the Contract Area, and shall conduct and direct
24 and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its
25 performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction
26 of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this
27 agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or
28 liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonably
29 prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in
30 compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or
31 liabilities incurred which are solely attributable to the Operator's negligence, except such as may result, in whole or in part, from gross
32 negligence or willful misconduct. The foregoing exculpatory provision does not apply to any contractual obligations Operator may
33 have hereunder. In the event a non-operator suffers damage as a result of Operator's gross negligence or willful misconduct, the
34 Operator will also be liable for consequential damages the non-operator has suffered and punitive damages.

B. Resignation or Removal of Operator and Selection of Successor:

35 1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators.
36 If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as
37 Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may
38 be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on
39 Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been
40 delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days
41 from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the
42 notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or
43 inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this
44 agreement.

45 Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the
46 calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-
47 Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator,
48 after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or
49 structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for
50 removal of Operator.

51 2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a
52 successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the
53 Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or
54 more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been
55 removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative
56 vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting
57 interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and
58 data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the
59 successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

60 3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have
61 resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is
62 filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall
63 comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy
64 Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a
65 resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating
66 committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership
67 as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee
68 controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the
69 operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest
70 in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

71 The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the
72 hours of labor and the compensation for services performed shall be determined Operator, and all such employees or contractors shall be the
employees or contractors of Operator.

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

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

Case Nos. 23176 & 23178

AFFIRMATION OF MATTHEW L. PRIDE IN SUPPORT OF REPLY TO
MEWBOURNE'S RESPONSE TO MOTIONS TO DISMISS

I, Matthew L. Pride, state the following:

1. I am over the age of 18 and have the capacity to execute this affirmation, which is based on my personal knowledge. I make this affirmation under penalty of perjury under the laws of the State of New Mexico that the statement is true and correct, on the handwritten date set forth next to my signature below. *See* Rule 1-011(B) NMRA.

2. I am the land manager for Pride Energy Company ("Pride"). I am familiar with the subject applications, the lands involved, and the proposed development.

3. Pride has amended its well proposals to provide for larger spacing units like those proposed by Mewbourne Oil Company ("Mewbourne") in Case Nos. 23176 and 23177. Pride's amended well proposals add the respective tracts in the NE/4 of Section 21 to its proposed spacing units, which will be dedicated to a 1.5 mile well in each spacing unit.

4. The amended well proposals were emailed to Mewbourne's landman, Tyler Jolly, on December 9, 2022. *See* Exhibit 1, attached hereto. The amended well proposals were mailed by certified mail to all working interest owners in the respective units on December 10, 2022. Amended applications will be filed on or about January 9, 2022. Pride will file motions to substitute and motions for continuance to add the amended applications to the Amended Pre-

Exhibit 2

Hearing Order and the currently scheduled contested hearing set for March 16, 2023. Pride will thereafter request dismissal of the original applications in Case Nos. 22879-22880.

5. In 2021, Pride drilled six horizontal wells in Section 13, Township 19 South, Range 34E, approximately eight miles to the east of the acreage at issue in the instant matter. These six wells include the following wells (“Go State Wells”), which have been in production for approximately one year:

<u>Well Name</u>	<u>API #'s</u>
Go State Com #101H	30-025-48904
Go State Com #102H	30-025-48905
Go State Com #203H	30-025-48906
Go State Com #204H	30-025-48907
Go State Com #305H	30-025-48908
Go State Com #306H	30-025-48909

Matthew L. Pride

Matthew L. Pride

January 3, 2023

Date

From: [Matt Pride](#)
To: [Tyler Jolly](#)
Subject: Tonto 16-21 State Federal Com #201H Well Proposal, Lea County, New Mexico
Attachments: [Tonto 16-21 State Federal Com #201H - Letter to Participate in Drillingpdf](#)

Tyler, Ph: (432) 682-3715

In reference to the above, please find attached a well proposal for the Tonto 16-21 State Federal Com #201H well to be located in the W/2 E/2 of Section 16-19S-33E and the W/2 NE/4 of Section 21-19S-33E, Lea County, New Mexico, along with an AFE. This well proposal amends our original well proposal for a 1-mile horizontal well in the W/2 E/2 of Section 16-19S-33E, to now be a well proposal for a 1 ½ mile horizontal well that includes the W/2 E/2 of Section 16-19S-33E and the W/2 NE/4 of Section 21-19S-33E.

Thank you Tyler, and if there are any questions, please feel free to contact me at (918)524-9200.

Matt

Matthew L. Pride

Pride Energy Company

P.O. Box 701950

Tulsa, OK 74170

(918) 524-9200

(918) 524-9292 Fax

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Exhibit 3

PRIDE ENERGY COMPANY

(918) 524-9200 ♦ Fax (918) 524-9292 ♦ www.pride-energy.com

Physical Address: 4641 E. 91st Street
Tulsa, OK 74137

Mailing Address: P.O. Box 701950
Tulsa OK, 74170-1950
Email Address: mattp@pride-energy.com

December 9, 2022

Sent Via Certified Mail,
Return Receipt #
91 7199 9991 7039 9243 4494

Mewbourne Oil Company
500 West Texas, Suite 1020
Midland, TX 79701

ATTN: Tyler Jolly
Land Department

RE: Tonto 16-21 State Federal Com #201H
Section 16, Township 19 South, Range 33 East: W/2 E/2 and Section 21-19S-33E: W/2 NE/4
No closer than 2,970' from the West line and 1,650' from the East line of Section 16 and
21-19S-33E, No closer than 100' from the South line of W/2 NE/4 of Section 21-19S-33E
and No closer than 100' from the North line of Section 16.
Lea County, New Mexico

Dear Mr. Jolly,

In reference to the above, this well proposal and AFE amends the well proposal and AFE for the Tonto 16-21 State Com #201H Well that was originally located in the W/2 E/2 of Section 16, Township 19 South, Range 33 East. Pride Energy Company ("Pride") hereby proposes to drill the Tonto 16-21 State Federal Com #201H well, a horizontal well to be located in the W/2 E/2 of Section 16, Township 19 South, Range 33 East and W/2 NE/4 of Section 21-19S-33E, Lea County, New Mexico, to a depth sufficient to test the 2nd Bone Spring formation. This well will be drilled from a surface location in the NW/4 NE/4 of Section 16, Township 19 South, Range 33 East to a bottom-hole location in the SW/4 NE/4 of Section 21-19S-33E, with an estimated True Vertical Depth (TVD) of 10,056', and projected 7,820' horizontal lateral across the W/2 E/2 of Section 16-19S-33E and the W/2 NE/4 of Section 21-19S-33E, approximately 17,876' Total Measured Depth (TMD).

Our records indicate you own, or may claim to own, an oil and gas leasehold interest in the W/2 E/2 of Section 16-19S-33E and/or W/2 NE/4 of Section 21-19S-33E. Pride respectfully requests that you elect one of the following options:

1. Participate in drilling the proposed Tonto 16-21 State Federal Com #201H well to the full extent of your interest. Our AFE is enclosed with an estimated dry hole cost of \$2,525,665, and total completed well cost of \$8,413,663. Your proportionate share of well costs will be based upon your actual ownership interest in the spacing unit (being a 240-acre spacing unit).

2. Assign all of your oil and gas leasehold rights in the W/2 E/2 of Section 16, Township 19 South, Range 33 East and/or W/2 NE/4 of Section 21, Township 19 South, Range 33 East, Lea County, New Mexico to Pride for \$1,000.00 (one thousand dollars) per net acre and delivering to Pride an 81.25% (eighty-one and one-fourth percent) Net Revenue Interest.
3. No cash bonus with a 1/4th royalty (delivering to Pride a 75.00% (seventy-five percent) net revenue interest).

Please indicate your election in the space provided below and return (1) copy of this letter to my attention. This offer is subject to our verification of your title and that you own an oil and gas leasehold interest within the subject tract of land (outside of any existing wellbores), and have the right to participate in the proposed well.

Thank you, and if there are any questions, please feel free to contact me at (918) 524-9200.

Sincerely,

Pride Energy Company



Matthew L. Pride

AGREED TO AND ACCEPTED THIS _____ DAY OF _____, 2022.

1. _____ The undersigned hereby elects Option No. 1, which is to participate in the drilling and completion of the subject well.
2. _____ The undersigned hereby elects Option No. 2, which is to assign all of the oil and gas leasehold rights in the W/2 E/2 of Section 16, Township 19 South, Range 33 East and W/2 NE/4 of Section 21, Township 19 South, Range 33 East, Lea County, New Mexico to Pride for \$1,000.00 (one thousand dollars) per net acre and delivering to Pride an 81.25% (eighty-one and one-fourth percent) Net Revenue Interest.
3. _____ The undersigned hereby elects Option No. 3, which is to not participate in the drilling and completion of the subject well, and in lieu thereof, to accept a no cash bonus and delivering Pride a 75.0% (seventy-five percent) Net Revenue Interest on the leasehold interest owned in the W/2 E/2 of Section 16, Township 19 South, Range 33 East and W/2 NE/4 of Section 21, Township 19 South, Range 33 East.

Mewbourne Oil Company

X _____

By: _____

Title: _____

E-mail Address: _____

Phone #: _____

Fax #: _____

Date: _____

**AUTHORITY FOR EXPENDITURE
WELL COST ESTIMATE**



		AFE # 378	Date 12/5/2022
WELL NAME & NUMBER Tonto 16-21 State Federal Com #201-H	PROPOSED DEPTH (ft) 17,876	PROJECT	PROSPECT Tonto-Bone Spring
OPERATOR Pride Energy Company	COUNTY OR PARISH Lea	STATE NM	LEGAL LOCATION (SEC / TOWNSHIP / RANGE) 19S-33E: Sec. 16 W2 E2 & Sec. 21 W2 NE
OBJECTIVE: Drill and Complete horizontal well to the 2nd Bone Spring Sand, TVD 10,056', TMD 17,876' estimated.			
REMARKS Surface Hole Location to be in the NW NE of Sec. 16-19S-33E Bottom Hole Location to be in the SW NE of Sec. 21-19S-33E			

INTANGIBLES	DRILLING	COMPLETION	TOTAL
	\$	\$	
Drilling Rig - 20 Days @ \$20,000/day	600,000.00	0.00	600,000.00
Drilling Mobilization - (200,000/2 wells)	100,000.00	0.00	100,000.00
Rig Fuel - 30 days at 1,500 gallons per day @ \$5.00/gallon	225,000.00	0.00	225,000.00
Drill Bits	90,000.00	0.00	90,000.00
Clean, Drift, Tally Casing	10,000.00	0.00	10,000.00
On-Site Consultants - 30 Days @ \$3,200/day - (2,900/day for on-site consultants and \$300/day for Supervisor)	96,000.00	0.00	96,000.00
Cellar, Conductor, and Mousehole	18,000.00	0.00	18,000.00
Directional Drilling	210,000.00	0.00	210,000.00
Solids Control - 30 Days @ \$1,800/day	54,000.00	0.00	54,000.00
Water @ \$0.75 per barrel	16,875.00	247,500.00	264,375.00
Water Transfer	5,000.00	26,250.00	31,250.00
Casing Crew	8,000.00	14,250.00	22,250.00
Cement	39,000.00	51,000.00	90,000.00
Cellar Pumps to Drill Surface Hole	7,500.00	0.00	7,500.00
Centralizers and Float Equipment	3,665.00	20,148.00	23,813.00
Frac Plugs - 30 @ 550	0.00	16,500.00	16,500.00
Casing Thread Representative	0.00	5,000.00	5,000.00
Location	100,000.00	0.00	100,000.00
Solids Haul Off and Disposal	24,000.00	0.00	24,000.00
Liquids Haul Off and Disposal	128,070.00	0.00	128,070.00
Drilling Instrumentation	11,250.00	0.00	11,250.00
Drill Pipe Inspection	15,000.00	0.00	15,000.00
Miscellaneous Equipment Rental (Portable Toilets, Forklift, etc.)	5,000.00	5,000.00	10,000.00
Frac Tanks	5,000.00	5,000.00	10,000.00
Mudlogging & Geosteering - 14 days @ \$1,600 + Rig Up and Rig Down	23,400.00	0.00	23,400.00
H2S Monitoring - \$100/day at 30 days	3,000.00	0.00	3,000.00
Hydraulic Choke with Panel - \$150/day at 30 days	4,500.00	0.00	4,500.00
Drilling Mud	90,000.00	0.00	90,000.00
BOP Services	11,000.00	0.00	11,000.00
Rotating Head	2,500.00	0.00	2,500.00
Shaker Screens	7,500.00	0.00	7,500.00
Toe Sleeve	0.00	5,000.00	5,000.00
Housing, Water System, Intercoms, etc.	19,500.00	12,000.00	31,500.00
Welding	4,250.00	0.00	4,250.00
Frac	0.00	2,100,000.00	2,100,000.00
Fuel for Frac and Frac Fueling System	0.00	475,000.00	475,000.00
Consultants for Frac and Drill Out - \$3,000/day for 12 days	0.00	36,000.00	36,000.00
Wireline Perforating	0.00	120,000.00	120,000.00
Toe Prep Work	0.00	50,000.00	50,000.00
Workover Rig, etc. for Drill Out	0.00	180,000.00	180,000.00
Flowback Equipment	0.00	25,000.00	25,000.00
Consultants for Flowback	0.00	28,500.00	28,500.00
Frac Stack	0.00	65,000.00	65,000.00
Crane	0.00	30,000.00	30,000.00
Flowback Water From Frac	0.00	330,000.00	330,000.00
Trucking	15,000.00	15,000.00	30,000.00
Contingency at 10%	195,201.00	386,214.80	581,415.80
TOTAL INTANGIBLES	\$ 2,147,211.00	\$ 4,248,362.80	\$ 6,395,573.80

CASING	TANGIBLES						DRILLING	COMPLETION	TOTAL
	FOOTAGE	SIZE	WIEGHT	GRADE	THREAD	CROST/FT	\$	\$	
Surface Casing	1,500	13.375	54.5	J-55	BTC	84.40	126,607.00	0.00	126,607.00
Intermediate Casing	3,300	9.625	40	J-55	LTC	60.74	200,442.00	0.00	200,442.00
Production Casing	17,876	5.5	20	HCP-110	GBCD	43.89	0.00	784,577.64	784,577.64
Tubing	10,200	2.875	6.5	L-80	8rd	15	0.00	153,000.00	153,000.00
Wellhead							17,000.00	20,000.00	37,000.00
Gas Pipeline Installation							0.00	33,000.00	33,000.00
Tank Battery							0.00	500,000.00	500,000.00
Contingency at 10%							34,404.90	149,057.76	183,462.66
TOTAL INTANGIBLES							\$ 378,453.90	\$ 1,639,635.40	\$ 2,018,089.30

TOTAL WELL COSTS	DRILLING	COMPLETION	TOTAL
	\$ 2,525,664.90	\$ 5,887,998.20	\$ 8,413,663.10

Approval:

PRIDE ENERGY COMPANY,
AN OKLAHOMA GENERAL PARTNERSHIP
TAX ID: 73-1420240

X
By: Pride Oil & Gas Co., Inc.
Title: General Partner P.O. Box 701950 Phone # (918) 524-9200
By: John W. Pride Tulsa, OK 74170-1950 Fax # (918) 524-9292
Title: President E-mail: johnp@pride-energy.com

Date: 12/5/2022

8/8ths AFE Amount	WI Decimal	Working Interest Owner's Proportionate Costs
\$ 8,413,663.10		
Approved By: _____		
Signature: _____		
Date: _____		

The costs on this AFE are estimates only and may not be construed as ceilings on any specific item or the total cost of the project. In executing this AFE, the participant agrees to pay its proportionate share of the actual costs incurred, including legal, curative, regulatory, brokerage and well costs under the terms of the applicable joint operating agreement, regulatory order or other agreement covering this well.

From: [Microsoft Outlook](#)
To: [Tyler Jolly](#)
Subject: Relayed: Tonto 16-21 State Federal Com #201H Well Proposal, Lea County, New Mexico
Date: Thursday, December 29, 2022 8:28:50 PM
Attachments: [Tonto 16-21 State Federal Com #201H Well Proposal Lea County New Mexico.msg](#)

Delivery to these recipients or groups is complete, but no delivery notification was sent by the destination server:
Tyler Jolly (tjolly@mewbourne.com)
Subject: Tonto 16-21 State Federal Com #201H Well Proposal, Lea County, New Mexico