

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

**APPLICATION OF EARTHSTONE OPERATING, LLC,
FOR A HORIZONTAL SPACING UNIT AND
COMPULSORY POOLING, LEA COUNTY, NEW MEXICO**

Case No. _____

APPLICATION

Earthstone Operating, LLC (“Earthstone”), OGRID No. 331165, through its undersigned attorneys, hereby files this Application with the Oil Conservation Division (“Division”) pursuant to the provisions of NMSA 1978, Section 70-2-17, for an order (1) establishing a standard 323.35-acre, more or less, spacing and proration unit comprised of the W/2 E/2 of Section 34, Township 18 South, Range 33 East, NMPM, and Lot 2 (NW/4 NE/4 equivalent), SW/4 NE/4, and the W/2 SE/4 of Section 3, Township 19 South, Range 33 East, NMPM, all in Lea County, New Mexico, and (2) pooling all uncommitted mineral interests in the Bone Spring formation, designated as an oil pool, underlying said unit. Section 3 is an irregular section and contains correction lots.

In support of its Application, Earthstone states the following:

1. Earthstone is a working interest owner in the proposed horizontal spacing and proration unit (“HSU”) and has a right to drill a well thereon.
2. Earthstone proposes and dedicates to the HSU the **Skylark 34-3 Fed Com 1BS 3H Well** and the **Skylark 34-3 Fed Com 2BS 7H Well**, as initial wells, to be drilled to a sufficient depth to test the Bone Spring formation.
3. Earthstone proposes the **Skylark 34-3 Fed Com 1BS 3H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 27-T18S-R33E,

NMPM, Lea County, to a bottom hole location in the SW/4 SE/4 (Unit O) of Section 3-T19S-R33E, NMPM, Lea County.

4. Earthstone proposes the **Skylark 34-3 Fed Com 2BS 7H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 27-T18S-R33E, NMPM, Lea County, to a bottom hole location in the SW/4 SE/4 (Unit O) of Section 3-T19S-R33E, NMPM, Lea County.

5. The wells proposed herein are orthodox in their location, and the take points and completed intervals comply with setback requirements under the statewide rules.

6. Earthstone's review of the units did not show any overlapping units; should an overlapping unit be inadvertently discovered, Earthstone would address the matter at the permitting phase.

7. Earthstone has sought in good faith, but has been unable to obtain, voluntary agreement from all interest owners to participate in the drilling of the wells or in the commitment of their interests to the wells for their development within the proposed HSU.

8. The pooling of all interests in the Bone Spring formation within the proposed HSU will avoid the drilling of unnecessary wells, prevent waste and protect correlative rights.

9. In order to provide for its just and fair share of the oil and gas underlying the subject lands, Earthstone requests that all uncommitted interests in this HSU be pooled and that Earthstone be designated the operator of the proposed horizontal wells and HSU.

WHEREFORE, Earthstone requests that this Application be set for hearing on March 2, 2023, before an Examiner of the Oil Conservation Division, and after notice and hearing as required by law, the Division enter an order:

A. Establishing a standard 323.35-acre, more or less, spacing and proration unit comprised of the W/2 E/2 of Section 34, Township 18 South, Range 33 East, NMPM, and Lot 2 (NW/4 NE/4 equivalent), SW/4 NE/4, and the W/2 SE/4 of Section 3, Township 19 South, Range 33 East, NMPM, all in Lea County, New Mexico;

B. Pooling all uncommitted mineral interests in the Bone Spring formation underlying the proposed HSU.

C. Approving the **Skylark 34-3 Fed Com 1BS 3H Well** and the **Skylark 34-3 Fed Com 2BS 7H Well** as the wells for the HSU.

D. Designating Earthstone as operator of this HSU and the horizontal wells to be drilled thereon;

E. Authorizing Earthstone to recover its costs of drilling, equipping, and completing the wells;

F. Approving actual operating charges and costs of supervision, to the maximum extent allowable, while drilling and after completion, together with a provision adjusting the rates pursuant to the COPAS accounting procedures; and

G. Setting a 200% charge for the risk assumed by Earthstone in drilling and completing the wells in the event a working interest owner elects not to participate in the wells.

Respectfully submitted,

ABADIE & SCHILL, PC

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Application of Earthstone Operating, LLC, for a Horizontal Spacing and Proration Unit and Compulsory Pooling, Lea County, New Mexico. Applicant in the above-styled cause seeks an order from the Division: (1) establishing a standard 323.35-acre, more or less, spacing and proration unit comprised of the W/2 E/2 of Section 34, Township 18 South, Range 33 East, NMPM, and Lot 2 (NW/4 NE/4 equivalent), SW/4 NE/4, and the W/2 SE/4 of Section 3, Township 19 South, Range 33 East, NMPM, all in Lea County, New Mexico, and (2) pooling all uncommitted mineral interests in the Bone Spring formation, designated as an oil pool, underlying the unit. Section 3 is irregular and contains correction lots. The proposed wells to be dedicated to the horizontal spacing unit are the **Skylark 34-3 Fed Com 1BS 3H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 27-T18S-R33E, NMPM, Lea County, to a bottom hole location in the SW/4 SE/4 (Unit O) of Section 3-T19S-R33E, NMPM, Lea County; and the **Skylark 34-3 Fed Com 2BS 7H Well**, an oil well, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 27-T18S-R33E, NMPM, Lea County, to a bottom hole location in the SW/4 SE/4 (Unit O) of Section 3-T19S-R33E, NMPM, Lea County. The wells will be orthodox, and their take points and completed intervals will comply with the setback requirements under statewide Rules. Also to be considered will be the cost of drilling and completing the wells and the allocation of the costs thereof; actual operating costs and charges for supervision; the designation of the Applicant as Operator of the wells and unit; and a 200% charge for the risk involved in drilling and completing the wells. The wells and lands are located approximately 30 miles west of Hobbs, New Mexico.