

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

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

**Case No. 23365
Case No. 23366**

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

**Case No. 23475
Case No. 23477**

EARTHSTONE OPERATING, LLC’S AMENDED PRE-HEARING STATEMENT¹

Earthstone Operating, LLC, OGRID No. 331165 (“Earthstone”), provides this consolidated Pre-Hearing Statement in the above referenced cases as required by the Division’s Rules.

APPEARANCES

APPLICANT

Earthstone Operating, LLC

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¹ This Amended Pre-hearing Statement is virtually identical to the pre-hearing statement filed yesterday, September 15, 2023. There are only the two following typographical revisions: (1) the typo in the spelling of Amanda Redfean’s name is corrected on page 6; and (2) the final undisputed material fact on page 5 corrects the typo that Mewbourne has no interest in the E/2 of Section 18.

OPPONENT

Mewbourne Oil Company

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STATEMENT OF THE CASE

These cases concern competing proposals for compulsory pooling to develop the Bone Spring formation in the E/2 E/2 of Sections 7 and 18, and the W/2 E/2 of Sections 7 and 18, all in Township 21 South, Range 35 East, NMPM, Lea County, New Mexico. Earthstone has applied for standard 320.00-acre, more or less, horizontal spacing and proration units (“HSUs”).

Earthstone requests that the Division grant its applications and deny Mewbourne’s, because Earthstone’s development plan is superior under the factors that the Division uses to determine which competing applications to grant. *See, e.g.*, Order No. R-21834.

Earthstone owns working interests in the E/2 E/2 of Sections 7 and 18 and the W/2 E/2 of Sections 7 and 18. Mewbourne, on the other hand, owns no working interest in the E/2 E/2 of Section 18 or the W/2 E/2 of Section 18. In 2020, when Mewbourne applied to the OCD to increase the North Wilson Deep Unit (“State EU”), Mewbourne explicitly agreed to exclude Section 18, which exclusion was based on an agreement with Earthstone’s predecessor-in-interest, Chisholm Energy, LLC (“Chisholm”) on which agreement Mewbourne now improperly seeks to go back on. *Cf.* Dec. 3, 2020 Tr. at 5:20-23. Earthstone’s development plan includes four wells in these two applications, targeting both the 1st and 2nd Bone Spring, whereas Mewbourne plans for two wells only, and targeting the 2nd Bone Spring formation only.

Earthstone also has been granted a compulsory pooling order by the Division for the adjacent W/2 of Sections 7 and 18, which exhibits that the wells that Earthstone proposes here are part of Earthstone’s larger development plan, which is already in progress. Earthstone, therefore, has superior ability to timely locate well sites and operate on the surface for these proposed wells.

Thus, as will be established at the Hearing, Earthstone has the better development plans and is better situated for development of the HSUs.

As will be further established at the hearing, Mewbourne’s proposed development of the HSUs is inferior for a number of reasons. Mewbourne owns no working interest in the E/2 E/2 of Section 18 or the W/2 E/2 of Section 18. Mewbourne agreed with Earthstone’s predecessor-in-interest, Chisholm, not to include these units in the expansion it applied for in August of 2020 in Case No. 21418. *Cf.* Dec. 3, 2020 Tr. at 5:20-23. Whereas this Division takes into consideration the good-faith negotiations between the parties, Mewbourne is backtracking on its agreement less than three years after making it is not evidence of good faith negotiating. Thus, awarding the

compulsory pooling order to Mewbourne solely because it is the State EU operator, given its lack of any interest in the E/2 E/2 of Section 18 or the W/2 E/2 of Section 18 and its previous agreement not to apply to operate this spacing unit, sets dangerous precedent and provides a windfall to Mewbourne.

Finally, Mewbourne has asserted in these cases that the location of a portion of the lands within the North Wilson Deep Unit Area, for which Mewbourne previously received approval from the State Land Office is reason to grant Mewbourne's proposal. As was evidenced in Earthstone's response, and as the Division knows when it considered and denied Mewbourne's motion to dismiss Earthstone's applications, the State Land Office has agreed not to take a position on either of these applications until after the Division makes its decision here at this hearing, at which time it will grant the operator's request to approve the drilling. Thus, the previous approval of the State Land Office for Mewbourne's previous wells is inapposite to the Division's consideration whose development plan is superior here.

SUMMARY OF PROPOSED WELLS

In Case No. 23475, *Application of Earthstone Operating, LLC, for a Horizontal Spacing Unit and Compulsory Pooling, Lea County, New Mexico*, Earthstone proposes to drill the following two wells in the HSU:

1. **Outland 18-7 State Com 114H Well**, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NE/4 NE/4 (Unit A) of Section 7.
2. **Outland 18-7 State Com 214H Well**, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NE/4 NE/4 (Unit A) of Section 7.

In Case No. 23477, *Application of Earthstone Operating, LLC, for a Horizontal Spacing Unit and Compulsory Pooling, Lea County, New Mexico*, Earthstone proposes to drill the following two wells in the HSU:

1. **Outland 18-7 State Com 113H Well**, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NW/4 NE/4 (Unit B) of Section 7.
2. **Outland 18-7 State Com 223H Well**, to be horizontally drilled from a surface location in the SW/4 SE/4 (Unit O) of Section 18 to a bottom hole location in the NW/4 NE/4 (Unit B) of Section 7.

In Case Nos. 23365, *Application of Mewbourne Oil Company for Compulsory Pooling, Lea County, New Mexico*, Mewbourne proposes to drill the following well: **North Wilson Deep Unit Well No. 8H**, from a first take point in the SW/4 SE/4 of Section 18 to a last take point in the NW/4 NE/4 of Section 7. In Case No. 23366, *Application of Mewbourne Oil Company for Compulsory Pooling, Lea County, New Mexico*, Mewbourne proposes to drill the following well: **North Wilson Deep Unit Well No. 9H**, from a first take point in the SE/4 SE/4 of Section 18 to a last take point in the NE/4 NE/4 of Section 7.

MATERIAL FACTS

Proposed Undisputed Facts:

- The parties propose horizontal wells to be drilled in the same HSU.
- The parties agree that a 200% risk charge is appropriate in these cases.
- The parties agree that Mewbourne is the designated operator for units contained wholly within the State EU.
- The parties agree that Mewbourne has no interest in the E/2 of Section 18.

Proposed Disputed Facts:

- The parties dispute the number of wells necessary for maximum recovery of hydrocarbons in the proposed HSU.
- The parties dispute their respective percentages of working interest in the proposed spacing unit.
- The parties dispute, given the factor that the Division considers in its prior orders, which proposal is the superior proposal, as more specifically stated in their respective pre-hearing statements and pre-filed written testimony.

PROPOSED EVIDENCE

Applicant:

| WITNESSES | EST. TIME | EXHIBITS |
|-----------------------------------|--------------------------|----------|
| Landman Amanda Redfearn | Direct Written Testimony | 4-8 |
| Geologist Jason Asmus | Direct Written Testimony | 5-12 |
| Petroleum Engineer Nicholas Goree | Direct Written Testimony | 4-8 |

Opposing Party:

| WITNESSES | EST. TIME | EXHIBITS |
|-----------|-----------|----------|
| TBD | TBD | TBD |

Interested Party(ies):

| WITNESSES | EST. TIME | EXHIBITS |
|-----------|-----------|----------|
| TBD | TBD | TBD |

Respectfully submitted,

PEIFER, HANSON, MULLINS & BAKER, P.A.

By: /s/ Matthew M. Beck

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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was filed with the New Mexico Oil Conservation Division and was served on counsel of record via electronic mail on September 15, 2023:

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QUESTIONS

Action 265780

QUESTIONS

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| Operator: Earthstone Operating, LLC 1400 Woodloch Forest; Ste 300 The Woodlands, TX 77380 | OGRID: 331165 |
| | Action Number: 265780 |
| | Action Type: [HEAR] Prehearing Statement (PREHEARING) |

QUESTIONS

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| Testimony | |
| <i>Please assist us by provide the following information about your testimony.</i> | |
| Number of witnesses | Not answered. |
| Testimony time (in minutes) | Not answered. |