

**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:**

**APPLICATION OF MEWBOURNE OIL
COMPANY FOR A NON-STANDARD OIL
SPACING AND PRORATION UNIT AND
COMPULSORY POOLING, EDDY COUNTY,
NEW MEXICO.**

**CASE NO. 14809
ORDER NO. R-13580**

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on May 10, 2012 and May 24, 2012, at Santa Fe, New Mexico, before Oil Conservation Division Examiner Richard I. Ezeanyim.

NOW, on this 28th day of June, 2012, the Division Director, having considered the testimony, the record, and the recommendations of the Examiner,

FINDS THAT:

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

(2) Mewbourne Oil Company ("Applicant") seeks approval of a non-standard 160-acre, more or less, oil spacing and proration unit (project area) in the Bone Spring formation consisting of the E/2 W/2 of Section 35, Township 23 South, Range 28 East, NMPM, in Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests (i) from the surface to the base of the Bone Spring formation underlying the NE/4 NW/4 of Section 35 to form a standard 40-acre oil spacing and proration unit, and (ii) the Bone Spring formation underlying the non-standard 160-acre oil spacing and proration unit (the "Units").

(3) The proposed Units are to be dedicated to Mewbourne's Layla 35 Well No. 2H (API No. 30-015-38675), to be horizontally drilled from a surface location 185 feet from the North line and 2150 feet from the West line and then in a southerly direction in the Bone Spring formation to a bottomhole terminus at a location 330 feet from the South line and 2150 feet from the West line of said Section 35. The completed interval for the well will be entirely within all applicable setbacks from the outer boundaries of the E/2 W/2 of Section 35.

(4) Notice of the proposed 160-acre, more or less, non-standard oil spacing and proration unit was provided to all surrounding affected parties within the Bone Spring formation.

(5) Notice of this compulsory pooling application was provided to all interest owners.

(6) The spacing in the Bone Spring formation is governed by the Division's statewide Rules, which provide for standard 40-acre oil units, each comprising a governmental quarter-quarter section, with oil wells to be located at least 330 feet from unit outer boundaries. The unit consists of four adjacent quarter-quarter sections.

(7) Applicant appeared at the hearing through counsel and presented the following testimony:

- (a) this area is suitable for development by horizontal drilling.
- (b) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring, so that formation of the Unit as requested will not impair correlative rights; and
- (c) the geology in the area suggests that drilling in the S-N or N-S direction will allow Mewbourne to strike the most productive zones of the Bone Spring formation.

(8) No other party appeared at the hearing to oppose this application.

The Division concludes that:

(9) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair correlative rights.

(10) 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.

(11) Applicant is an owner of an oil and gas working interest within the Units. Applicant has the right to drill and proposes to drill the proposed well to a common source of supply within the Units at the proposed location.

(12) There are interest owners in the Units that have not agreed to pool their interests. There are un-located owners in the Units, and accordingly provision should be made to escrow funds for the account of such owners.

(13) 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.

(14) Mewbourne Oil Company should be designated the operator of the proposed well and of the Units.

(15) 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% thereof as a reasonable charge for the risk involved in drilling the 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) A non-standard 160-acre, more or less, oil spacing and proration unit and project area (the Unit) is hereby established in the Bone Spring formation, consisting of the E/2 W/2 of Section 35, Township 23 South, Range 28 East, NMPM, in Eddy County, New Mexico.

(2) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests (i) from the surface to the base of the Bone Spring formation underlying the NE/4 NW/4 of Section 35 to form a standard 40-acre oil spacing and proration unit, and (ii) the Bone Spring formation underlying the non-standard 160-acre oil spacing and proration unit (the Units), are hereby pooled.

(3) The proposed Units shall be dedicated to Mewbourne's Layla 35 Well No. 2H (API No. 30-015-38675), to be horizontally drilled from a surface location 185 feet from the North line and 2150 feet from the West line and then in a southerly direction in the Bone Spring formation to a bottomhole terminus at a location 330 feet from the South line and 2150 feet from the West line of said

Section 35. The completed interval for the well will be entirely within all applicable setbacks from the outer boundaries of the E/2 W.2 of Section 35.

(4) One hundred (100%) percent of the initial cost of drilling and completing the proposed well shall be charged to the working interest owners in the non-standard spacing and proration unit. In the event that the well is subsequently completed up-hole in the vertical portion of the well, the working interest owners in the NE/4 NW/4 of Section 35 shall be responsible for the recompletion costs. Before recompleting the well in the vertical portion of the well, Mewbourne shall obtain unorthodox location approval from the Division.

(5) The operator of the Units shall commence drilling the proposed well on or before June 30, 2013, and shall thereafter continue drilling the well with due diligence to test the Bone Spring formation.

(6) In the event the operator does not commence drilling the proposed well on or before June 30, 2013, Ordering Paragraphs (1) and (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(7) Should the proposed well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraphs (1) and (2) shall be of no further effect, and the Units and project area created by this Order shall terminate, unless operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence. If the proposed well is not completed in all of the quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Units so that it includes only those quarter-quarter sections in which the well is completed.

(8) Upon final plugging and abandonment of the proposed well and any other well drilled on the Units pursuant to Division Rule 19.15.13.9 NMAC, the pooled Units created by this Order shall terminate, unless this Order has been amended to authorize further operations.

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

(10) 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").

(11) Within 30 days from the date the schedule of estimated well cost 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".

(12) The operator shall furnish the Santa Fe office of the Division and each known pooled working interest owner (including non-consenting working interest owners) 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.

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

(14) In the event that the operator decides to re-complete up-hole in the vertical portion of the wellbore, the operator shall furnish an estimated schedule of re-completion costs to the pooled parties owning interests in the applicable 40-acre unit, and the steps described in Ordering Paragraphs (11) through (15) shall be repeated for such costs.

(15) 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% of the above costs.

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

(17) Reasonable charges for supervision (combined fixed rates) 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.

(18) 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.

(19) Except as provided in Paragraphs (15) and (17) 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 (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

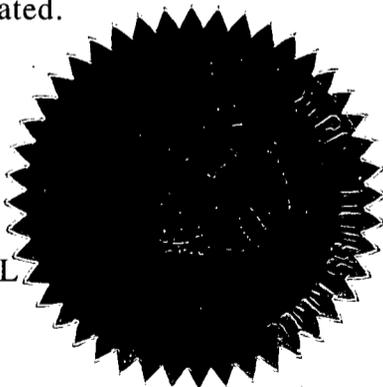
(20) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this order, the order shall thereafter be of no further effect.

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

(22) 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

JAMI BAILEY
Director