

**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. 14977
ORDER NO. R-13773**

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

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on July 11, 2013, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 21st day of November, 2013, 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" or "Operator"), seeks approval of a non-standard 160-acre, more or less, oil spacing and proration unit and project area ("the Unit") in the Bone Spring formation, the South Culebra Bluff-Bone Spring Pool (**Pool Code 15011**), consisting of the W/2 E/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 in the Bone Spring formation underlying the W/2 E/2 of Section 35.

(3) The proposed Unit is to be dedicated to Mewbourne's Layla 35 OB Fee Com. Well No. 1H (**API No. 30-015-40968**), to be horizontally drilled from a surface location 150 feet from the South line and 1980 feet from the East line (Unit O) of Section 35. The well will penetrate the Bone Spring formation at a location 627 feet from the South line and 1980 feet from the East line (Unit O) of Section 35, with a terminus at 330

feet from the North line and 1980 feet from the East line (Unit B) of Section 35. This well location is unorthodox pursuant to the Special Rules and Regulations of the South Culebra Bluff-Bone Spring Pool, which provide for 80-acre units, with wells to be located not more than 150 feet from the center of a quarter-quarter section line or subdivision inner boundary. The Applicant further requests approval of the unorthodox well location in the Bone Spring formation.

(4) Before the hearing, the Applicant sought the approval of this non-standard well location, and on July 1, 2013, the Division issued administrative order No. NSL-6825 approving the non-standard location for the Layla 35 OB Fee Com. Well No. 1H. The portion of the application seeking approval of the unorthodox location for this well should therefore be **dismissed**.

(5) In addition, the Division issued Order No. R-6139-B in Case No. 14991 on September 24, 2013, abolishing the Special Rules and Regulations for the South Culebra Bluff-Bone Spring Pool. Accordingly, the South Culebra Bluff-Bone Spring Pool (**Pool Code 15011**) is now on statewide rules and regulations, 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 the unit outer boundaries. The Unit consists of four adjacent quarter-quarter sections. Meanwhile, with the abolishment of the Special Rules and Regulations for the South Culebra Bluff-Bone Spring Pool, the location of this well is now orthodox.

(6) 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.

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

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

- (a) this area is suitable for development by horizontal wells, which more efficiently recover reserves in this area than only vertical wells;
- (b) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, 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.

(9) Panagopoulos et. al. appeared at the hearing through counsel and presented the testimony of Pavlos P. Panagopoulos as follows:

- (i) The Panagopoulos et. al. own interest in the well unit, but do not know how much interest they own in order to make a determination whether to participate in the drilling of the well or not.
 - (ii) Panagopoulos et. al. requested six (6) months delay in issuing any order in this case, so as to allow it time to determine its interest in the well unit.
- (10) No other party appeared at the hearing to oppose this application.

The Division concludes as follows:

(11) Panagopoulos et. al. do not oppose the granting of this application; however, they only requested six months delay to allow time to determine their interest in the well unit.

(12) The Division has no authority to determine interest ownership in well units, and it does not participate in any negotiation between parties.

(13) 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.

(14) 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.

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

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

(17) 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.

(18) Mewbourne Oil Company should be designated the operator of the proposed well and of the Unit.

(19) 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.

(20) 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, the South Culebra Bluff- Bone Spring Pool (**15011**), consisting of the W/2 E/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, whatever they may be, in the oil and gas in the Bone Spring formation underlying the unit, are hereby pooled.

(3) The proposed Unit shall be dedicated to Mewbourne's Layla 35 OB Fee Com. Well No. 1H (**API No. 30-015-40968**), to be horizontally drilled from a surface location 150 feet from the South line and 1980 feet from the East line (Unit O) of Section 35. The well will penetrate the Bone Spring formation at a location 627 feet from the South line and 1980 feet from the East line (Unit O) of Section 35, with a terminus at 330 feet from the North line and 1980 feet from the East line (Unit B) of Section 35. The completed interval for the well will be entirely within all applicable setbacks from the outer boundaries of the W/2 E/2 of Section 35, with the abolishment of the Special Rules and Regulations for the South Culebra Bluff-Bone Spring Pool.

(4) The portion of the application seeking unorthodox location approval for this well is hereby **dismissed**.

(5) The operator of the Unit shall commence drilling the proposed well on or before November 22, 2014, 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 November 22, 2014, 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 unit 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 160-acre non-standard Unit 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 Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

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

(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 Unit, 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 Unit 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 costs 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) 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.

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

(16) 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.

(17) Except as provided in Paragraphs (14) and (16) above, all proceeds from production from the proposed 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 70-8A7-8A-28), as amended.

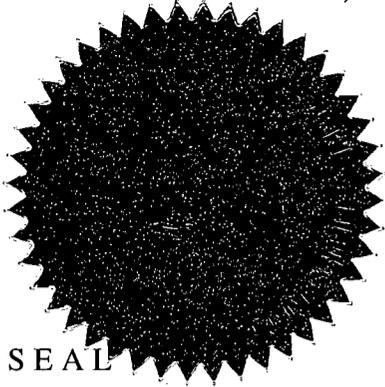
(18) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

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

(21) 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