

**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. 15507
ORDER NO. R-14001-A**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR 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 21, 2016, at Santa Fe, New Mexico, and again on August 4, 2016 before Examiner Michael A. McMillan, and again on September 1, 2016, before Examiner Richard Ezeanyim.

NOW, on this 3rd day of October, 2016, 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"), seeks an order pooling all uncommitted interests in the Wolfcamp formation, Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code: 75750), underlying Lots 3 and 4, the S/2 NW/4 and the SW/4 (W/2 equivalent) of Section 3, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico, to form a standard 319.21-acre, more or less, gas spacing unit (the "Unit").

(3) The Unit will be dedicated to the Applicant's Yardbirds 3 W2DM Fee Well No. 1H (the "subject well"; API No. 30-015-42936), a horizontal well drilled from a surface location 175 feet from the North line and 1070 feet from the West line (Lot 4) of Section 3 to an actual terminus or bottom hole location 338 feet from the South line and 501 feet from the West line (Unit M) of Section 3. The completed interval of the subject well in the Wolfcamp formation is unorthodox.

(4) The subject well is within the Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code 75750), which is governed by statewide Rule 19.15.15.10B. NMAC, and provides for 320-acre gas spacing units with wells to be located no closer than 660 feet from a unit outer boundary.

(5) Applicant appeared at the hearing through counsel and presented land evidence to the effect that:

- (a) By Order No. R-14001 issued in Case No. 15274 on June 22, 2015, the Division, upon application of Mewbourne Oil Company, compulsory pooled Lots 3 and 4, S/2 NW/4 and SW/4 (W/2 equivalent) of Section 3, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico, thereby forming a standard 319.21-acre gas spacing and proration unit, this unit to be dedicated to the applicant's proposed Yardbirds 3 W2DM Fee Well No. 1H, a horizontal well to be drilled from a surface location 175 feet from the North line and 1070 feet from the West line (Lot 4) of Section 3 to a bottomhole location 330 feet from the South line and 530 feet from the West line (Unit M) of Section 3, both in Township 24 South, Range 28 East. This order also approved an unorthodox producing interval described as follows:
Penetration point: 753 feet from the North line and 990 feet from the West line (Lot 4); Last Perforation: 330 feet from the South line and 530 feet from the West line;
- (b) This proceeding was filed by the Applicant in order to pool an additional interest owner that was not pooled by Order No. R-14001;
- (c) The subject well has been drilled and completed;
- (d) The "as drilled" location of the subject well differs from the location approved by Order No. R-14001. The new location is:
Surface Location: 175 feet from the North line and 1070 feet from the West line (Lot 4)
Penetration Point: 545 feet from the North line and 1000 feet from the West line (Lot 4)
Last Perforation: 330 feet from the South line and 530 feet from the West line (Unit M)
Bottom hole Location: 330 feet from the South line and 530 feet from the West line (Unit M)
- (e) Notice was provided to the additional interest owner being pooled in this case, and to lessees or operators affected by the non-standard well location and spacing unit.

(6) RSC Resources Limited Partnership entered an appearance in this case, but did not appear at the hearing. No other party appeared at the hearing or otherwise opposed granting of this application.

The Division concludes that:

(7) Although applicant's request for approval of the unorthodox well location was noticed in this case, this request is not contained within the advertisement of the case. Consequently, applicant's request for approval of an unorthodox location should be denied.

(8) In addition, the Division's well file shows that the "as drilled" terminus of the subject well is 338 feet from the South line and 501 feet from the West line, differing slightly from the location for which Applicant requested approval in this case.

(9) The applicant's request for approval of an unorthodox location for the producing area of the subject well, with a completed interval beginning at 545 feet from the North line and 1000 feet from the West line (Lot 4), and ending at 330 feet from the South line and 530 feet from the West line (Unit M), both in Section 3, Township 24 South, Range 28 East, NMPM, should be denied; provided Applicant should be required, within 30 days approval of this Order, to file an administrative application for approval of the actual, "as drilled," unorthodox location for the Yardbirds 3 W2DM Fee Well No. 1H. If the Division does not receive application within the specified time period, the Applicant should be required to shut in the well.

(10) 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.

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

(12) The evidence in this case indicates that the previously pooled parties have voluntarily committed their interests pursuant to a joint operating agreement. As a result, the new compulsory pooling Order should supersede Division Order No. R-14001, issued on June 22, 2015.

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

(14) Subsequent to the hearing, the Applicant stated the non-standard location was requested to maximize the productive interval of the wellbore. Further, the Wolfcamp formation is a tight reservoir; therefore, the offset parties will not be affected.

(15) 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.

(16) Mewbourne should be designated the operator of the subject well and the Unit.

(17) Any pooled working interest owner who does not pay its share of actual 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 subject well.

(18) 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) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation, Culebra Bluff; Wolfcamp, South (Gas) Pool (Pool code 75750), underlying Lots 3 and 4 and the S/2 NW/4 and SW/4 (W/2 equivalent) of Section 3, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico (the "Unit"), are hereby pooled.

(2) The Unit is dedicated to the Applicant's Yardbirds 3 W2DM Fee Well No. 1H (the "subject well"; API No. 30-015-42936), a horizontal well drilled from a surface location 175 feet from the North line and 1070 feet from the West line (Lot 4) of Section 3 to a terminus or bottom hole location 338 feet from the South line and 501 feet from the West line (Unit M) of Section 3.

(3) The applicant's request for approval of an unorthodox location for the producing area of the subject well, with a completed interval beginning at 545 feet from the North line and 1000 feet from the West line (Lot 4), and ending at 330 feet from the South line and 530 feet from the West line (Unit M), both in Section 3, Township 24 South, Range 28 East, NMPM, is hereby denied; provided Applicant should be required within 30 days approval of this Order, to file an administrative application for approval of the actual, "as drilled," unorthodox location for the Yardbirds 3 W2DM Fee Well No. 1H. If the Division does not receive application within the specified time period, the Applicant shall shut in the well.

(4) This Order shall supersede Division Order No. R-14001, issued on June 22, 2015.

(5) Upon final plugging and abandonment of the subject well and any other well drilled on that Unit pursuant to Division Rule 19.15.13.9 NMAC, the Unit shall terminate, unless this Order has been amended to authorize further operations.

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

(7) 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 Unit.) 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 actual costs of drilling, completing and equipping the subject well ("well costs").

(8) Within 30 days from the date the schedule of actual well costs is furnished, any pooled working interest owner shall have the right to pay its share of actual 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 actual 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 actual well costs as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(9) The operator shall furnish the Division and each known pooled working interest owner (including non-consenting working interest owners) an itemized schedule of actual well costs within 60 days following issuance of this Order. 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.

(10) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of actual costs in advance as provided above shall receive from the operator the amount, if any, that the estimated well costs it has paid exceed its share of reasonable well costs.

(11) The operator is hereby authorized to withhold the following costs and charges from production from each well:

- (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.

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

(13) Reasonable charges for supervision (combined fixed rates) for the well 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.

(14) Except as provided in Paragraphs (11) and (13) above, all proceeds from production from the subject 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 70-8A-31, as amended).

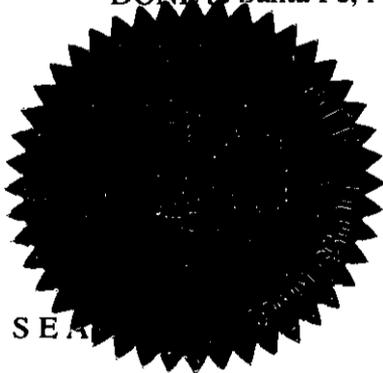
(15) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

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

(17) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of parties subject to the compulsory pooling provisions of this Order.

(18) 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.



STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

David R. Catanach

DAVID R. CATANACH
Director

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