

**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. 15511
ORDER NO. R-14266**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD
SPACING AND PRORATION UNIT, COMPULSORY POOLING, AND AN
UNORTHODOX GAS WELL LOCATION, 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, before Examiner Michael A. McMillan, again on September 29, 2016, and again on November 17, 2016.

NOW, on this 13th day of January, 2017, 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 approval of a 480.20-acre non-standard gas spacing and proration unit and project area (the "Unit") for oil or gas production from the Wolfcamp formation, Culebra Bluff; Wolfcamp, South (Gas) (Pool code 75750) comprising the SW/4 of Section 33, Township 23 South, Range 28 East, and the W/2 of Section 4, Township 24 South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Wolfcamp formation within the Unit.

(3) The Unit will be dedicated to the Applicant's Foreigner 33 4 W2LM Fee Well No. 1H (the "subject well"; API No. 30-015-43494), a horizontal well drilled from a surface location 2450 feet from the South line and 450 feet from the West line (Unit L) of Section 33, Township 23 South, Range 28 East, to a terminus or bottom hole location 330 feet from the South line and 450 feet from the West line (Unit M) of Section 4, Township

24 South, Range 28 East. The completed interval of the subject well in the Wolfcamp formation will be 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) The Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (b) the subject well has been drilled but not completed;
- (c) the characteristics of the Wolfcamp formation in this pool are expected to be 58 API gravity, light yellow color, and the producing GOR is 8000 SCF/ per barrel of oil;
- (d) Applicant seeks a non-standard location for the subject well. The penetration point is expected to be 2310 feet from the South line and 450 feet from the West line (Unit L) of Section 33, Township 23 South, Range 28 East, and the final perforation is expected to be 330 feet from the South line and 450 feet from the West line (Unit M) of Section 4, Township 24 South, Range 28 East;
- (e) the "as-drilled C-102" shows the bottom-hole location as 333 feet from the South line and 727 feet from the West line (Unit M) of Section 4, Township 24 South, Range 28 East;
- (f) Applicant also seeks a non-standard spacing unit for the subject well. The project area for the subject well is 480.20 acres, more or less, comprised of the SW/4 of Section 33, Township 23 South, Range 28 East, and the W/2 of Section 4, Township 24 South, Range 28 East. The NW/4 of Section 33 is being excluded from the Unit and project area;
- (g) notice was provided for formation of the non-standard spacing unit and non-standard location to lessees or operators of surrounding affected tracts; and
- (h) notice was provided to all parties subject to the compulsory pooling provision of this application; and

- (i) Applicant provided notice of this application by publication before hearing in a newspaper of general circulation in Eddy County, New Mexico, the county in which the property is located, for the unlocatable owners.

(6) Manuela Franco, who claimed ownership of a portion of the mineral interest, entered an appearance; but was not present at hearing. No other party appeared, or opposed this application.

The Division concludes that:

(7) The non-standard spacing unit and non-standard location should be approved.

(8) The terminus specified in the notices of this case and presented in the initial hearing was listed as 330 feet from the South line and 2310 feet from the East line (Unit O) of Section 4, Township 24 South, Range 28 East. However, the actual terminus location shown in the "as-drilled Form C-102" encroaches toward offsetting units to a lesser extent than the location specified in the notices. Accordingly, no further notice is required, and the actual (as drilled) unorthodox location of the well as reflected in Division records, with the terminus at 333 feet from the South line and 727 feet from the West line (Unit M) of Section 4, Township 24 South Range 28 East should be approved.

(9) Division records show that the subject well was completed subsequent to the Hearing.

(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 drilled the subject well to a common source of supply within the Unit at the proposed location.

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

(13) 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.

(14) The non-standard spacing unit in the SE/4 of Section 33, Township 23 South, Range 28 East in the Culebra Bluff; Wolfcamp, South (Gas) Pool is the subject of Division Case No. 15510. Further, Matador Production Company's B Banker 33 23S

28E RB Good No. 221H; (API 30-015-43306), which was spud on April 19, 2016 has a N/2 spacing unit in Culebra Bluff; Wolfcamp, South (Gas) Pool in Section 33. Thus, no stranded acreage is present in Section 33.

(15) Applicant stated that the non-standard location was required to maximize the productive interval of the wellbore. Also, the Wolfcamp formation is tight; therefore, the offsets are unaffected.

(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) A 480.20-acre non-standard gas spacing unit (the "Unit") is hereby established for gas and oil production from the Wolfcamp formation Culebra Bluff; Wolfcamp, South (Gas) (Pool code 75750) comprising the SW/4 of Section 33, Township 23 South, Range 28 East, and the W/2 of Section 4, Township 24 South, Range 28 East, NMPM, 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 Wolfcamp formation, Culebra Bluff; Wolfcamp, South (Gas) pool (Pool code 75750), within the Unit, are hereby pooled.

(3) The Unit shall be dedicated to the Applicant's Foreigner 33 4 W2LM Fee Com. Good No. 1H (the "subject well"; API No. 30-015-43494), a horizontal well drilled from a surface location 2450 feet from the South line and 450 feet from the West line (Unit L) of Section 33, Township 23 South, Range 28 East, to a terminus or bottom-hole location 333 feet from the South line and 727 feet from the West line (Unit M) of Section 4, Township 24 South, Range 28 East. The completed interval of the subject well is authorized to be located at an unorthodox location, the penetration point being 2310 feet from the South line and 450 feet from the West line (Unit L) of Section 33, Township 23 South, Range 28 East and the final perforation being 333 feet from the South line and 727 feet from the West line (Unit M) of Section 4, Township 24 South, Range 28 East.

(4) 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 created by this Order shall terminate, unless this Order has been amended to authorize further operations.

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

(6) 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.) Within 90 days 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 subject well ("well costs").

(7) 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."

(8) 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.

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

(10) 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.

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

(12) 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.

(13) Except as provided in Paragraphs (10) and (12) 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 70-8A32, as amended).

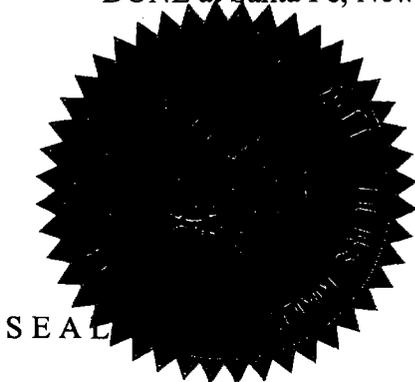
(14) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(15) 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.

(16) 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.

(17) Jurisdiction of this case is retained for the entry of such further Order 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
Director