

**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 TO CONSIDER:**

**CASE NO. 15967 (Re-Opened)
ORDER NO. R-14764**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD
GAS SPACING AND PRORATION UNIT, 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 February 22, 2018, before Examiner Scott A. Dawson, and again on March 8, 2018 before Examiner Michael A. McMillan.

NOW, on this 3rd day of July 2018, the Division Director, having considered the testimony, the record and the recommendations of Examiner Dawson,

FINDS THAT:

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

(2) Case Nos. 15965, 15966, and 15967 were consolidated at the hearing for the purpose of testimony for the geologic presentation only. Land issues were heard as separate cases; therefore, a separate order will be issued for each case.

(3) Mewbourne Oil Company ("Applicant" or "Mewbourne") seeks approval of a 640-acre non-standard gas spacing unit and project area (the "Unit") for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool (Pool code: 98220), comprising the N/2 of Section 25, and the N/2 of Section 26, all in Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests in the Unit for the Wolfcamp formation.

(4) Applicant asks that the Unit be dedicated to the following "Proposed Wells" both to be completed at standard locations:

Oxbow 26 25 W1DA Federal Com Well No. 1H, API No. 30-015-44964

SHL: 440 feet from the North line and 365 feet from the West line (Unit D) of Section 26, Township 25 South, Range 28 East, NMPM.

BHL: 440 feet from the North line and 330 feet from the East line (Unit A) of Section 25, Township 25 South, Range 28 East, NMPM.

Oxbow 26 25 W0DA Federal Com Well No. 2H, API No. 30-015-44972

SHL: 490 feet from the North line and 365 feet from the West line (Unit D) of Section 26, Township 25 South, Range 28 East, NMPM.

BHL: 990 feet from the North line and 330 feet from the East line (Unit A) of Section 25, Township 25 South, Range 28 East, NMPM.

(5) The proposed wells are within the Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220), which is governed by special pool rules as established by Rule 19.15.15.10.B and Division Order No. R-14262 which requires 320-acre gas spacing units and by wells to be located no closer than 330 feet from a unit outer boundary. The proposed Unit and project area consists of four adjacent quarter sections oriented west to east.

(6) Counsel for EOG Resources, Inc. and EOG Resources Y Inc. made an Entry of Appearance and cross-examined the witnesses at hearing.

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

- (a) The Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal wells from west to east or east to west is appropriate for the proposed Unit;
- (c) each quarter-quarter section in the proposed unit can be expected to contribute approximately the same amount of production from the Wolfcamp formation;
- (d) the west-east orientation of the Unit was created as a result of land issues;
- (e) all proposed wells subject to Cases 15965, 15966, and 15967 will be drilled back to back before completing the first well;
- (f) Applicant was not sure if there will be separate election times between the wells; and
- (g) notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a

conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments.

(8) EOG Resources Inc. and EOG Resources Y Inc. made an appearance through counsel, but did not oppose the granting of this application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(9) The proposed non-standard unit should be approved to enable Applicant to drill horizontal wells that will efficiently produce the reserves underlying the Unit, thereby preventing waste and protecting correlative rights.

(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 proposes to drill the proposed wells 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) Mewbourne should be designated the operator of the proposed wells and the Unit.

(15) To ensure protection of correlative rights, any pooled working interest party should be notified and have an opportunity to protest before the Division grants any extension of the time provided herein for commencing drilling.

(16) Infill wells within the Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC and to the terms and conditions of this order.

(17) 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 proposed.

(18) Reasonable charges for supervision (combined fixed rates) should be fixed at \$8,000 per month, per well, while drilling and \$800 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to COPAS form titled "*Accounting Procedure-Joint Operations*."

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company, a 640-acre non-standard gas spacing unit and project area (the "Unit") is hereby established for oil and gas production from the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220), comprising the N/2 of Section 25, and the N/2 of Section 26, all in Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico.

(2) All uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's following "Proposed Wells" to be completed at standard well locations;

Oxbow 26 25 W1DA Federal Com Well No. 1H, API No. 30-015-44964

SHL: 440 feet from the North line and 365 feet from the West line,
(Unit D) of Section 26, Township 25 South, Range 28 East,
NMPM.

BHL: 440 feet from the North line and 330 feet from the East line
(Unit A) of Section 25, Township 25 South, Range 28 East,
NMPM.

Oxbow 26 25 W0DA Federal Com Well No. 2H, API No. 30-015-44972

SHL: 490 feet from the North line and 365 feet from the West line,
(Unit D) of Section 26, Township 25 South, Range 28 East,
NMPM.

BHL: 990 feet from the North line and 330 feet from the East line
(Unit A) of Section 25, Township 25 South, Range 28 East,
NMPM

(4) The operator of the Unit shall commence drilling at least one of the proposed wells on or before July 31, 2019 and shall thereafter continue drilling the proposed wells with due diligence to test the Wolfcamp formation.

(5) In the event the operator does not commence drilling at least one of the proposed wells on or before July 31, 2019 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.

(6) The operator shall notify each pooled working interest owner for whom it has a valid address before it files with the Division any request for extension of the time

to commence drilling and shall certify its compliance with this requirement in its request for extension. The Division may grant an extension at its discretion after 20-days from receipt of the request if no objection is received. Otherwise, the Division shall not grant the extension without a hearing.

(7) Unless at least one of the Proposed Wells is drilled and completed within 120 days after commencement of the first such well, then Ordering Paragraphs (2) and (3) shall be of no further effect, and the Unit and project area created by this order shall terminate, unless operator requests in writing an extension of the time for completion of one of the Proposed Wells for good cause shown by satisfactory evidence and the Division issues written approval. If neither of the Proposed Wells is completed in all of the standard spacing units included in the proposed project area (or Unit) then the operator shall apply to the Division for an amendment to this order to contract the Unit so that it includes only those standard spacing units in which at least one of the wells is completed.

(8) Upon final plugging and abandonment of the proposed 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.

(9) Infill wells within the Unit shall be subject to the terms and conditions of this order.

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

(11) 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 separate itemized schedules of estimated costs of drilling, completing and equipping each of the proposed wells ("well costs").

(12) Within 30 days from the date the schedule of estimated well costs is furnished for any well, any pooled working interest owner shall have the right to pay its share of estimated well costs for such well 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 for such well. 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."

(13) 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 for each well within 90 days following completion. 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.

(14) Within 60 days following determination of reasonable well costs for any well, 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.

(15) The operator is hereby authorized to withhold the following costs and charges from each non-consenting working interest owner's share of production from each well:

- (a) the proportionate share of reasonable well costs attributable to each such owner; and
- (b) as a charge for the risk involved in drilling the well, 200% thereof.

(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) for the wells are hereby fixed at \$8,000 per month, per well, while drilling and \$800 per month, per well, while producing, provided that these rates may be adjusted annually pursuant to the provisions 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) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to each proposed well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs actually incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to Ordering Paragraph (13), that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

(19) Except as provided above, all proceeds from production from the proposed wells 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 7-8A-31, as amended).

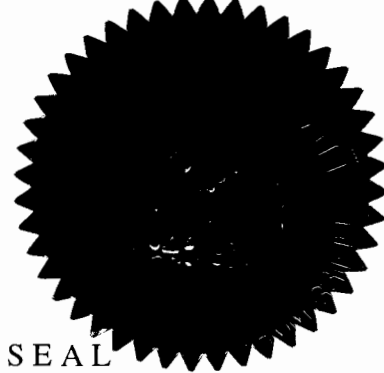
(20) Any unleased mineral interests shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any costs to be paid out of production shall be withheld only from the working interests' share of production,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

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

(22) The operator of the wells and Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this Order.

(23) 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

A handwritten signature in black ink, appearing to read 'Heather Riley', written over the printed name.

HEATHER RILEY
Director