

STATE OF NEW MEXICO
DEPARTMENT OF ENERGY, MINERALS AND NATURAL RESOURCES
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. 14750
ORDER NO. R-13472

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on October 27, 2011, at Santa Fe, New Mexico, before Examiner Richard I. Ezeanyim.

NOW, on this 15th day of November, 2011, 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 ("Mewbourne" or "Applicant") seeks an order:

(a) Creating a non-standard 160-acre, more or less, oil spacing and proration unit or project area (the "Unit") for oil production from the Avalon Shale member of the Bone Spring formation, consisting of the W/2 E/2 of Section 11, Township 26 South, Range 28 East, NMPM, Eddy County, New Mexico; and

(b) Pooling all interests in the Bone Spring formation underlying the non-standard spacing and proration unit or project area.

(3) The proposed Unit is to be dedicated to Mewbourne's Delaware Ranch 11 Fed. Com. Well No. 2-H (API No. 30-015-39546) to be horizontally drilled from a surface location 450 feet from the North line and 1700 feet from the East line (Unit B) of Section 11. The well will penetrate the Bone Spring formation at 450 feet from the North line and 1700 feet from the East line of said Section 11, and then in a southerly direction

in the Bone Spring formation to a bottomhole location 330 feet from the South line and 1700 feet from the East line of said Section 11.

(4) The spacing in this area is governed by statewide Rule 19:15.15.9.A NMAC which provides for standard 40-acre units, each comprising a governmental quarter-quarter section. The Unit or project area consists of four adjacent quarter-quarter sections.

(5) The NW/4 NE/4 of said Section 11 is federally owned and under Federal Oil and Gas Lease NMNM-107374, dated December 1, 2001, and is due to expire on December 1, 2011.

(6) Mewbourne obtained its interest in Federal Oil and Gas Lease NMNM-107374 through an unrecorded Farmout Agreement dated October 21, 2011, from Chesapeake Exploration LLC.

(7) Fee lands cover the SW/4 NE/4 and NW/4 SE/4 and SW/4 SE/4 of said Section 11.

(8) 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.

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

(10) 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 or project area 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) geology in the area suggests that drilling in the N-S direction will allow Mewbourne to strike the most productive zones of the Bone Spring formation.

(11) OGX Resources LLC entered an appearance in this case, but did not oppose the granting of this application.

(12) No other party appeared at the hearing, or otherwise opposed the granting of this application.

(13) Approval of the proposed non-standard 160-acre, more or less, spacing and proration unit will enable Mewbourne to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste and the drilling of unnecessary wells, 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) Mewbourne is an oil and gas working interest within the Unit, 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. However, there are interest owners that could not be located thereby requiring the establishment of an escrow account.

(17) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to each interest owner 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 (OGRID No. 14744) 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 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 (the "Unit" or "project area") is hereby established for oil and gas production from the Avalon Shale member of the Bone Spring formation consisting of the W/2 E/2 of Section 11, Township 26 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 within the Bone Spring formation underlying this Unit or Project Area, are hereby pooled.

(3) The proposed Unit shall be dedicated to Mewbourne's Delaware Ranch 11 Fed. Com. Well No. 2-H (API No. 30-015-39546) to be horizontally drilled from a surface location 450 feet from the North line and 1700 feet from the East line (Unit B) of Section 11. The well will penetrate the Bone Spring formation at 450 feet from the North line and 1700 feet from the East line of said Section 11, and then in a southerly direction in the Bone Spring formation to a bottomhole location 330 feet from the South line and 1700 feet from the East line of Section 11.

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

(5) The operator of the Unit shall commence drilling the proposed horizontal well on or before November 14, 2012, and shall thereafter continue drilling the well with due diligence to test the Avalon Shale member of the Bone Spring formation.

(6) In the event the operator does not commence drilling the proposed well on or before November 14, 2012, 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 180 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 the 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.

(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)- (11) NMAC, the pooled Unit created by this Order shall terminate, unless this Order has been amended to authorize further operations.

(9) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners of working interest 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 estimated costs of drilling, completing and equipping the proposed well ("well costs").

(10) Within 30 days from the date the schedule of estimated well cost is furnished to him, any non-consenting working interest owner shall have the right to pay his share of estimated well costs to Mewbourne in lieu of paying his share of reasonable well costs out of production, and any such owner who pays his 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".

(11) Mewbourne shall furnish the Division and each known working interest owner an itemized schedule of actual well costs within 90 days following completion of the 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 said schedule, the actual well costs shall be the reasonable well costs; provided, however, that if there is objection to actual well costs within said 45-day period the Division will determine reasonable well costs after public notice and hearing.

(12) Within 60 days following the determination of reasonable well costs, any pooled working interest owner who has paid his or its share of estimated costs in advance as provided above shall pay to Mewbourne his or its share of the amount that reasonable well costs exceed estimated well costs or shall receive from Mewbourne the amount, if any, that the estimated well costs that he or it has paid exceed his or its share of reasonable well costs.

(13) Mewbourne 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 wells, 200% of the above costs.

(14) Mewbourne shall distribute the costs and charges withheld from production, proportionately, to the parties who advanced the well costs.

(15) 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*." Mewbourne 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 is reasonable, that are attributable to the pooled working interest owners.

(16) 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.

(17) Except as provided in Paragraphs (13) and (15) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow

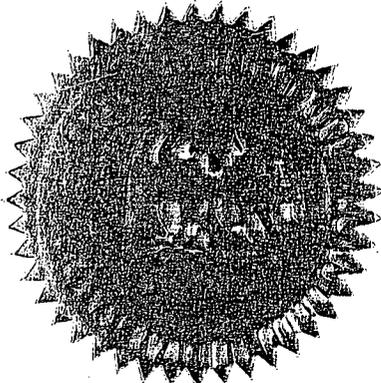
in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. Mewbourne shall notify the Division (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

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

(19) Mewbourne shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(20) 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.



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STATE OF NEW MEXICO
OIL CONSERVATION DIVISION

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director