

**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. 15513
ORDER NO. R-14238**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR APPROVAL OF A NON-
STANDARD OIL 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 July 21, 2016, at Santa Fe, New Mexico, and again on August 4, and September 29, 2016 before Examiner Michael McMillan.

NOW, on this 4th day of November, 2016, the Division Director, having considered the testimony, the record and the recommendations of Examiner McMillan.

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 Bone Spring formation, Culebra Bluff; Bone Spring, South Pool (Pool code: 15011), underlying the E/2 E/2 of Section 34, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to form a non-standard 160-acre, oil spacing and proration unit (the "Unit").

(3) The Unit will be dedicated to the Applicant's Yardbirds 34 PA Fee Well No. 1H (the "subject well"; API No. 30-015-41836), a horizontal well drilled from a surface location 150 feet from the South line and 610 feet from the East line (Unit P) of Section 34, Township 23 South, Range 28 East to a terminus or bottom hole location 330 feet from the North line and 500 feet from the East line (Unit A) of Section 34. The completed interval of the subject well in the Bone Spring formation is orthodox.

(4) The subject well is within the Culebra Bluff; Bone Spring, South (Pool code 15011), and is subject to Division Rule 19.15.15.9(A) NMAC, which provides for 330-foot setbacks from the unit boundaries and standard 40-acre units each comprising a governmental quarter-quarter section.

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

- (a) The Bone Spring formation in this area is suitable for development by horizontal drilling;
- (b) the subject well has been drilled and completed;
- (c) notice was provided for formation of the non-standard spacing unit to lessees or operators of surrounding tracts;

acre gas proration 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 Wolcamp formation in this area is suitable for development by horizontal drilling;
- (b) the subject well has been drilled and completed;
- (c) Applicant stated that the actual bottom hole location of the Subject well is located 338 feet from the North and 2100 feet from the East line (Unit B) of Section 34;
- (d) The final well costs are \$5,164,200 dollars;
- (e) notice was provided to all interest owners subject to pooling proceedings as affected parties of the proposed compulsory pooling within the Unit;
- (f) Applicant requested that the non-standard location be removed from the application and remanded to the administrative application process, because not all working interest owners in affected tracts were properly notified, as required by Division Rule 19.15.4.12 A(2) (b); and
- (g) 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 interests.

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

The Division concludes that:

(7) 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.

(8) 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.

(9) Although the subject well's bottom hole location had changed from its initial application, the Subject well's location is unorthodox. The applicant should submit an administrative non-standard application for the subject well within 30 days of approval of this

Order. If the applicant fails to apply for the non-standard location within the required time period, this Order should be of no effect, and the applicant should be required to resubmit the hearing application in its entirety.

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

(11) 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.

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

(13) 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 subject well.

(14) 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 the E/2 of Section 34, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico (the "Unit"), are hereby pooled.

(2) The Unit shall be dedicated to the Applicant's Yardbirds 34 W2OB Fee Well No. 1H (the "subject well"; API No. 30-015-43464), a horizontal well drilled from a surface location 150 feet from the South line and 2310 feet from the East line (Unit O) of Section 34, Township 23 South, Range 28 East, to a terminus or bottom hole location 338 feet from the North line and 2100 feet from the East line (Unit B) of Section 34.

(3) The non-standard location portion of the Order is hereby dismissed. Applicant shall submit an administrative non-standard location application for the subject well within 30 days of approval of this Order. If the Applicant fails to submit the non-standard location within the required time period, this Order shall be of no effect, and the Applicant shall be required to resubmit a new hearing order application in its entirety.

(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.) 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 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."

(8) 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 90 days following completion of the subject 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.

(9) 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 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 (9) and (11) 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 7-8A-31, as amended amended).

(14) 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.

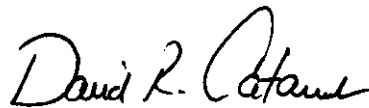
(15) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this Order shall thereafter be of no further effect.

(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.

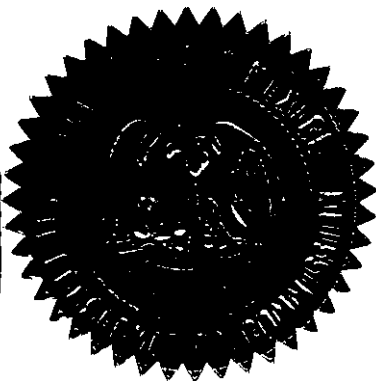
(17) Jurisdiction of this case is retained for the entry of such further Orders as the Division may deem necessary.

DONE at Santa Fe, New Mexico, on the day and year hereinabove designated.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



DAVID R. CATANACH
DIRECTOR



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