

**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. 15562
ORDER NO. R-14415**

**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 May 25, 2017 at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 27th day of June, 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"), seeks approval of a non-standard 640-acre gas spacing unit and project area ("the Unit") in the Wolfcamp Formation, Purple Sage; Wolfcamp Pool (Pool Code 98220) underlying the W/2 of Section 22 and the W/2 of Section 27, Township 26 South, Range 27 East, NMPM, Eddy County, New Mexico. Applicant further seeks an order pooling all uncommitted interests within the Unit in the Wolfcamp formation.

(3) The Unit will be dedicated to Applicant's Owl Draw 27 22 W2NC Federal Com Well No. 2H ("the subject well"), a horizontal well that has been drilled and completed from a surface location, 170 feet from the South line and 2230 feet from the West line (Unit N) of Section 27 to an as drilled terminus, 339 feet from the North line and 2313 feet from the West line (Unit C) of Section 22.

(4) Spacing in the Purple Sage; Wolfcamp (Gas) is governed by special pool rules adopted by Order No. R-14262, which provides for standard 320-acre units, each comprising a governmental half section, and 330-foot setbacks for oil or gas wells. The Unit and project area consists of two adjacent half sections.

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

- (a) This area is suitable for development by horizontal drilling, and orientation of horizontal well South to North is appropriate.
- (b) All parts of the Unit are expected to be productive in the Wolfcamp Formation, so that approval of the Unit as requested will not impair correlative rights.
- (c) Applicant gave notice by certified mail, return receipt requested, to all uncommitted owners within the Unit to whom notice is required for this compulsory pooling application, except for unlocatable parties. Return receipts were filed for all owners in the Unit to whom mailed notice was directed. After a diligent search, Applicant gave notice to the unlocatable parties by publication in a newspaper of general circulation in Eddy County.

(6) By this application, Applicant seeks to pool, in addition to the interests of uncommitted owners it has identified as owners of interests, the interests, if any, in the Unit of certain parties ("contingent owners") whose interests depend on the outcome of pending litigation.

(7) The following parties identified as contingent owners entered appearances in this case and appeared at the hearing through counsel, but did not oppose the application:

James Wesley Welch, Joe Michael Welch and Barbara Grace Walker (collectively "the Welch Heirs"), Tuffy Oil Co., LLC, Premier Oil & Gas, Inc., and Blair Seaton Crooke.

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

The Division concludes that:

(9) Approval of the proposed non-standard unit will enable Applicant to drill a horizontal well that will efficiently produce the reserves underlying the Unit, thereby preventing waste, and will not impair 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 an owner of an oil and gas working interest within the Unit. Applicant had the right to drill and has drilled the subject well to a common source of supply within the Unit at the above-described 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 in the Wolfcamp formation within the Unit.

(14) Mewbourne Oil Company should be designated the operator of the proposed well and of the Unit.

(15) Any pooled working interest owner who does not pay its share of estimated well costs for any well in advance should have withheld from production its share of reasonable well costs of such well plus an additional 200% thereof as a reasonable charge for the risk involved in drilling the well.

(16) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the overhead provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*."

(17) The subject well was originally permitted for completion in the Welch; Wolfcamp (Gas) Pool (pool code 98017), and was subject to Rule 19.15.15.10.B NMAC, which requires a well to be located no closer than 660 feet from unit boundaries, making the subject well's location unorthodox. That pool was abolished, and the completion was transferred to the Purple Sage; Wolfcamp (Gas) Pool for which special pool orders provide a setback distance of 330 feet from unit boundaries. Accordingly, the subject well's location is now orthodox, and the application's request for approval of an unorthodox location should be dismissed.

IT IS THEREFORE ORDERED THAT:

(1) A non-standard 640-acre gas spacing and proration unit and project area ("the Unit") is hereby established for oil and gas production from the Wolfcamp Formation, Purple Sage; Wolfcamp Pool (Pool Code 98220) underlying the W/2 of Section 22 and the W/2 of Section 27, Township 26 South, Range 27 East, NMPM, in 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 underlying the Unit, are hereby pooled.

(3) The Unit shall be dedicated to Applicant's Owl Draw 27 22 W2NC Federal Com Well No. 2H (API No. 30-015-43684, "the subject well"), a horizontal well that has been drilled from a surface location 170 feet from the South line and 2230 feet from the West line (Unit N) of Section 27 to an as-drilled terminus 339 feet from the North line and 2313 feet from the West line (Unit C) of Section 22. The subject well's completed intervals of both wells will be at an orthodox location.

(4) Since the subject well's location in the Purple Sage; Wolfcamp (Gas) Pool is orthodox, the application's request for approval of an unorthodox location is dismissed.

(5) Upon final plugging and abandonment of the subject well and any other well drilled on the Unit pursuant to Division Rule 19.1513.9 NMAC, the pooled unit created by this order 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 subject well and of the Unit.

(7) After pooling, uncommitted working interest owners are referred to as pooled working interest owners. ("Pooled working interest owners" are owners or contingent 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. Any 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. Any owner of a contingent interest pays the share of actual costs corresponding to his claimed interest and shall not be liable for risk charges upon any adjudicated interest he may be determined to own to the extent such adjudicated interest is less than or equal to his claimed interest. Pooled working interest owners who elect not to pay their share of estimated well costs as provided in this paragraph for either well shall thereafter be referred to as "non-consenting working interest owners."

(9) If no objection to the actual well costs for any well is received by the Division, and the Division has not objected, within 45 days following receipt of the schedule for such well, 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 for such well after public notice and hearing.

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

(11) The operator is hereby authorized to withhold all proceeds of production attributable to owners whose interest is contingent upon the outcome of pending litigation until the litigation is terminated by settlement or final judgment and the operator is provided with satisfactory proof thereof. If a settlement or judgment establishes that a contingent owner is entitled to an interest in production from the Unit ("adjudicated interest"), the operator shall pay or deliver to such additional owner all amounts due by reason of his adjudicated interest, less amounts operator is authorized to withhold under this order, within 60 days after receipt of proof of such agreement of judgment. If a final settlement or judgment establishes that a contingent owner has no interest in production from the Unit, the operator shall refund to such contingent owner, without interest, any amounts he has paid as well costs pursuant to Ordering Paragraph (6) above.

(12) The operator is further authorized to withhold from production attributable to each non-consenting additional owner's interest:

- (a) The proportionate share of reasonable well costs attributable to such interest; and
- (b) As a charge for the risk involved in drilling the well, 200% of the above costs.

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

(14) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$7,500 per month, per well, while drilling and \$700 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to the overhead provisions of COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating of such well, not in excess of what are reasonable, attributable to pooled working interest owners.

(15) Except as provided in the foregoing paragraphs, all proceeds from production from the 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).

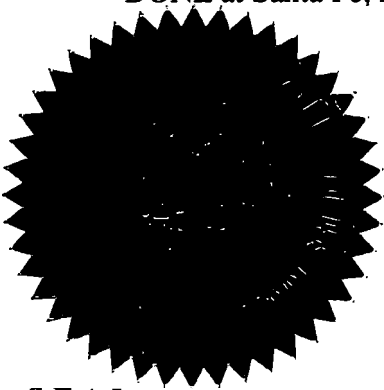
(16) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(17) 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.

(18) The operator shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory pooling provisions of this order.

(19) 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

DAVID R. CATANACH
Director