

**STATE OF NEW MEXICO
ENERGY, MINERALS AND NATURAL RESOURCES DEPARTMENT
OIL CONSERVATION DIVISION**

**APPLICATION OF CHEVRON U.S.A. INC. FOR
AN OVERLAPPING SPACING UNIT IN THE
BONE SPRING FORMATION AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.**

Case No. 21499

**APPLICATION OF CHEVRON U.S.A. INC. FOR
AN OVERLAPPING SPACING UNIT IN THE
WOLFCAMP FORMATION AND COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO.**

Case No. 21500

**MEWBOURNE'S RESPONSE IN OPPOSITION TO CHEVRON'S MOTION TO STAY
COMPETING DRILLING PERMITS**

Mewbourne Oil Company ("Mewbourne") submits this response in opposition to the Motion to Stay Mewbourne's Competing Drilling Permits (the "Motion") filed by Chevron U.S.A. Inc. ("Chevron").¹ In support of its response, Mewbourne states:

1. In Case Nos. 21499 and 21500 Chevron seeks orders pooling well units in the Bone Spring and Wolfcamp formations in the E/2 of Section 26 and the E/2 of Section 35, Township 23 South, Range 28 East, N.M.P.M. These cases are set for hearing on the Division's November 5, 2020 docket.

2. Mewbourne, as operator under a JOA² covering all of Section 35, Township 23 South, Range 28 East, N.M.P.M., submitted well proposals to working interest owners for competing wells in the E/2 of Section 35. Chevron has elected to join in these wells.

3. APDs for Mewbourne's wells were properly filed in accordance with Division rules, and have been duly approved.

¹ The proposed ads filed with the applications list the applicant as Chevron Production Company.

² Portions of the JOA are attached to this response as Exhibit A.

4. Mewbourne initially planned its development in Section 35 in early 2020, but delayed development at Chevron's request. Mewbourne has agreed not to spud a well in Section 35 until December 15, 2020 in an attempt to reach a compromise. Mewbourne has continued its attempts to reach a settlement of the parties' differences.

5. Chevron has offsetting production which could be draining Section 35.

6. Based on the forgoing, Mewbourne asserts:

(a) Well commencement is not imminent, and a stay, if justified, is not needed at this time.

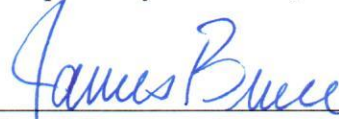
(b) Chevron's actions in agreeing to participate in the drilling of Mewbourne's wells, and then seeking to pool the acreage in those wells and seeking a stay of legally obtained APDs, constitute interference with a valid contract to which Chevron is subject. Please note that under the JOA, on page 4, Mewbourne is granted "full control of all operations on the Contract Area."

(c) A stay would harm the correlative rights of Mewbourne and other interest owners in Section 35.

7. The orders cited by Chevron are not on point. Order No. R-20315 involved a stay while awaiting a *de novo* hearing. There is no pooling order yet issued in these cases. Order No. R-14484 involved an SWD permit, with facts and issues substantially different than in a pooling case.

WHEREFORE, Mewbourne requests that the Division deny Chevron's Motion. Mewbourne asserts that a stay is completely improper, but at the very least a stay is unnecessary at this time.

Respectfully submitted,



James Bruce
Post Office Box 1056
Santa Fe, New Mexico 87504
(505) 982-2043

Attorney for Mewbourne Oil Company

CERTIFICATE OF SERVICE


I hereby certify that a copy of the foregoing pleading was served upon the following counsel of record this 20th day of October, 2020 via e-mail:

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James Bruce

MODEL FORM OPERATING AGREEMENT

OPERATING AGREEMENT

DATED

February 1, 2012,
year

OPERATOR Mewbourne Oil Company

CONTRACT AREA See Exhibit "A"

Layla "35" WIU

COUNTY OR PARISH OF Eddy, STATE OF New Mexico

COPYRIGHT 1989 - ALL RIGHTS RESERVED
AMERICAN ASSOCIATION OF PETROLEUM
LANDMEN, 4100 FOSSIL CREEK BLVD.
FORT WORTH, TEXAS, 76137, APPROVED FORM.

A.A.P.L. NO. 610 - 1989

EXHIBIT

A

OPERATING AGREEMENT

THIS AGREEMENT, entered into by and between Mewbourne Oil Company hereinafter designated and referred to as "Operator," and the signatory party or parties other than Operator, sometimes hereinafter referred to individually as "Non-Operator," and collectively as "Non-Operators."

WITNESSETH:

WHEREAS, the parties to this agreement are owners of Oil and Gas Leases and/or Oil and Gas Interests in the land identified in Exhibit "A," and the parties hereto have reached an agreement to explore and develop these Leases and/or Oil and Gas Interests for the production of Oil and Gas to the extent and as hereinafter provided,

NOW, THEREFORE, it is agreed as follows:

ARTICLE I.

DEFINITIONS

As used in this agreement, the following words and terms shall have the meanings here ascribed to them:

A. The term "AFE" shall mean an Authority for Expenditure prepared by a party to this agreement for the purpose of estimating the costs to be incurred in conducting an operation hereunder.

B. The term "Completion" or "Complete" shall mean a single operation intended to complete a well as a producer of Oil and Gas in one or more Zones, including, but not limited to, the setting of production casing, perforating, well stimulation and production testing conducted in such operation.

C. The term "Contract Area" shall mean all of the lands, Oil and Gas Leases and/or Oil and Gas Interests intended to be developed and operated for Oil and Gas purposes under this agreement. Such lands, Oil and Gas Leases and Oil and Gas Interests are described in Exhibit "A."

D. The term "Deepen" shall mean a single operation whereby a well is drilled to an objective Zone below the deepest Zone in which the well was previously drilled, or below the Deepest Zone proposed in the associated AFE, whichever is the lesser.

E. The terms "Drilling Party" and "Consenting Party" shall mean a party who agrees to join in and pay its share of the cost of any operation conducted under the provisions of this agreement.

F. The term "Drilling Unit" shall mean the area fixed for the drilling of one well by order or rule of any state or federal body having authority. If a Drilling Unit is not fixed by any such rule or order, a Drilling Unit shall be the drilling unit as established by the pattern of drilling in the Contract Area unless fixed by express agreement of the Drilling Parties.

G. The term "Drillsite" shall mean the Oil and Gas Lease or Oil and Gas Interest on which a proposed well is to be located. The term "Drillsite" when used in connection with a Horizontal Well shall mean the surface location and the Oil and Gas Leases or Oil and Gas Interests within the spacing unit on which the wellbore, including the Lateral, is located.

H. The term "Initial Well" shall mean the well required to be drilled by the parties hereto as provided in Article VI.A.

I. The term "Non-Consent Well" shall mean a well in which less than all parties have conducted an operation as provided in Article VI.B.2.

J. The terms "Non-Drilling Party" and "Non-Consenting Party" shall mean a party who elects not to participate in a proposed operation.

K. The term "Oil and Gas" shall mean oil, gas, casinghead gas, gas condensate, and/or all other liquid or gaseous hydrocarbons and other marketable substances produced therewith, unless an intent to limit the inclusiveness of this term is specifically stated.

L. The term "Oil and Gas Interests" or "Interests" shall mean unleased fee and mineral interests in Oil and Gas in tracts of land lying within the Contract Area which are owned by parties to this agreement.

M. The terms "Oil and Gas Lease," "Lease" and "Leasehold" shall mean the oil and gas leases or interests therein covering tracts of land lying within the Contract Area which are owned by the parties to this agreement.

N. The term "Plug Back" shall mean a single operation whereby a deeper Zone is abandoned in order to attempt a Completion in a shallower Zone.

O. The term "Recompletion" or "Recomplete" shall mean an operation whereby a Completion in one Zone is abandoned in order to attempt a Completion in a different Zone within the existing wellbore.

P. The term "Rework" shall mean an operation conducted in the wellbore of a well after it is Completed to secure, restore, or improve production in a Zone which is currently open to production in the wellbore. Such operations include, but are not limited to, well stimulation operations but exclude any routine repair or maintenance work or drilling, Sidetracking, Deepening, Completing, Recompleting, or Plugging Back of a well.

Q. The term "Sidetrack" shall mean the directional control and intentional deviation of a well from vertical so as to change the bottom hole location unless done to straighten the hole or drill around junk in the hole to overcome other mechanical difficulties.

R. The term "Zone" shall mean a stratum of earth containing or thought to contain a common accumulation of Oil and Gas separately producible from any other common accumulation of Oil and Gas.

S. The term "Lateral" shall mean that portion of a wellbore that deviates from approximate vertical orientation to approximate horizontal orientation and all of said wellbore drilled horizontally beyond such deviation to the terminus of such wellbore.

T. The term "Horizontal Well" shall mean any well drilled hereunder containing a single Lateral which is drilled, Completed or Recompleted in a manner in which the horizontal component of the well extends more than one hundred feet (100') from the penetration point in the objective formation to the terminus of the wellbore.

U. The term "Total Measured Depth", when used in connection with a Horizontal Well, shall mean the distance from the surface of the ground to the terminus of the wellbore, as measured along the length of the wellbore. When the proposed operation is the drilling of, or operation on, a Horizontal Well, the term "depth" or "total depth" wherever used in this Agreement shall be deemed to read "Total Measured Depth" insofar as it applies to such well.

Unless the context otherwise clearly indicates, words used in the singular include the plural, the word "person" includes natural and artificial persons, the plural includes the singular, and any gender includes the masculine, feminine, and neuter.

ARTICLE V.
OPERATOR

A. Designation and Responsibilities of Operator:

Mewbourne Oil Company shall be the Operator of the Contract Area, and shall conduct and direct and have full control of all operations on the Contract Area as permitted and required by, and within the limits of this agreement. In its performance of services hereunder for the Non-Operators, Operator shall be an independent contractor not subject to the control or direction of the Non-Operators except as to the type of operation to be undertaken in accordance with the election procedures contained in this agreement. Operator shall not be deemed, or hold itself out as, the agent of the Non-Operators with authority to bind them to any obligation or liability assumed or incurred by Operator as to any third party. Operator shall conduct its activities under this agreement as a reasonable prudent operator, in a good and workmanlike manner, with due diligence and dispatch, in accordance with good oilfield practice, and in compliance with applicable law and regulation, but in no event shall it have any liability as Operator to the other parties for losses sustained or liabilities incurred except such as may result, from gross negligence or willful misconduct. In whole or in part, from gross negligence or willful misconduct which are solely attributable to the Operator's negligence. The foregoing exculpatory provision does not apply to any contractual obligations Operator may have hereunder. In the event non-operator suffers damage as a result of Operator's gross negligence or willful misconduct, non-operator shall have the right to seek awards for consequential damages the non-operator has suffered and punitive damages.

B. Resignation or Removal of Operator and Selection of Successor:

1. Resignation or Removal of Operator: Operator may resign at any time by giving written notice thereof to Non-Operators. If Operator terminates its legal existence, no longer owns an interest hereunder in the Contract Area, or is no longer capable of serving as Operator, Operator shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. Operator may be removed only for good cause by the affirmative vote of Non-Operators owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of Operator; such vote shall not be deemed effective until a written notice has been delivered to the Operator by a Non-Operator detailing the alleged default and Operator has failed to cure the default within thirty (30) days from its receipt of the notice or, if the default concerns an operation then being conducted, within forty-eight (48) hours of its receipt of the notice. For purposes hereof, "good cause" shall mean not only gross negligence or willful misconduct but also the material breach of or inability to meet the standards of operation contained in Article V.A. or material failure or inability to perform its obligations under this agreement.

Subject to Article VII.D.1., such resignation or removal shall not become effective until 7:00 o'clock A.M. on the first day of the calendar month following the expiration of ninety (90) days after the giving of notice of resignation by Operator or action by the Non-Operators to remove Operator, unless a successor Operator has been selected and assumes the duties of Operator at an earlier date. Operator, after effective date of resignation or removal, shall be bound by the terms hereof as a Non-Operator. A change of a corporate name or structure of Operator or transfer of Operator's interest to any single subsidiary, parent or successor corporation shall not be the basis for removal of Operator.

2. Selection of Successor Operator: Upon the resignation or removal of Operator under any provision of this agreement, a successor Operator shall be selected by the parties. The successor Operator shall be selected from the parties owning an interest in the Contract Area at the time such successor Operator is selected. The successor Operator shall be selected by the affirmative vote of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A"; provided, however, if an Operator which has been removed or is deemed to have resigned fails to vote or votes only to succeed itself, the successor Operator shall be selected by the affirmative vote of the party or parties owning a majority interest based on ownership as shown on Exhibit "A" remaining after excluding the voting interest of the Operator that was removed or resigned. The former Operator shall promptly deliver to the successor Operator all records and data relating to the operations conducted by the former Operator to the extent such records and data are not already in the possession of the successor operator. Any cost of obtaining or copying the former Operator's records and data shall be charged to the joint account.

3. Effect of Bankruptcy: If Operator becomes insolvent, bankrupt or is placed in receivership, it shall be deemed to have resigned without any action by Non-Operators, except the selection of a successor. If a petition for relief under the federal bankruptcy laws is filed by or against Operator, and the removal of Operator is prevented by the federal bankruptcy court, all Non-Operators and Operator shall comprise an interim operating committee to serve until Operator has elected to reject or assume this agreement pursuant to the Bankruptcy Code, and an election to reject this agreement by Operator as a debtor in possession, or by a trustee in bankruptcy, shall be deemed a resignation as Operator without any action by Non-Operators, except the selection of a successor. During the period of time the operating committee controls operations, all actions shall require the approval of two (2) or more parties owning a majority interest based on ownership as shown on Exhibit "A." In the event there are only two (2) parties to this agreement, during the period of time the operating committee controls operations, a third party acceptable to Operator, Non-Operator and the federal bankruptcy court shall be selected as a member of the operating committee, and all actions shall require the approval of two (2) members of the operating committee without regard for their interest in the Contract Area based on Exhibit "A."

C. Employees and Contractors:

The number of employees or contractors used by Operator in conducting operations hereunder, their selection, and the hours of labor and the compensation for services performed shall be determined by Operator, and all such employees or contractors shall be the employees or contractors of Operator.

D. Rights and Duties of Operator:

1. Competitive Rates and Use of Affiliates: All wells drilled on the Contract Area shall be drilled on a competitive contract basis at the usual rates prevailing in the area. If it so desires, Operator may employ its own tools and equipment in the drilling of wells, but its charges therefor shall not exceed the prevailing rates in the area and the rate of such charges shall be agreed upon by the parties in writing before drilling operations are commenced, and such work shall be performed by Operator under the same terms and conditions as are customary and usual in the area in contracts of independent contractors who are doing work of a similar nature. All work performed or materials supplied by affiliates or related parties of Operator shall be performed or supplied at competitive rates, pursuant to written agreement, and in accordance with customs and standards prevailing in the industry.

2. Discharge of Joint Account Obligations: Except as herein otherwise specifically provided, Operator shall promptly pay and discharge expenses incurred in the development and operation of the Contract Area pursuant to this agreement and shall charge each of the parties hereto with their respective proportionate shares upon the expense basis provided in Exhibit "C." Operator shall keep an accurate record of the joint account hereunder, showing expenses incurred and charges and credits made and received.

3. Protection from Liens: Operator shall pay, or cause to be paid, as and when they become due and payable, all accounts of contractors and suppliers and wages and salaries for services rendered or performed, and for materials supplied on, to or in respect of the Contract Area or any operations for the joint account thereof, and shall keep the Contract Area free from

1 IN WITNESS WHEREOF, this agreement shall be effective as of the 1st day of February

2 2012.

3 Mewbourne Oil Company, who has prepared and circulated this form for execution, represents and warrants
4 that the form was printed from and, with the exception(s) listed below, is identical to the AAPL Form 610-1989 Model Form
5 Operating Agreement, as published in computerized form by Forms On-A-Disk, Inc. No changes, alterations, or
6 modifications, other than those made by strikethrough and/or insertion and that are clearly recognizable as changes in
7 Articles _____, have been made to the form.

8 ATTEST OR WITNESS:

OPERATOR

MEWBOURNE OIL COMPANY

By _____

James Allen Brinson

Type or print name

Title Attorney-in-Fact

Date February 15, 2012

Tax ID or S.S. No. 75-1254872

NON-OPERATORS

CHEVRON MIDCONTINENT, L.P., by and through its

General Partner Chevron Midcontinent Operations LLC

By _____

D.L. SLEEPER

Type or print name

Title ATTORNEY-IN-FACT

Date APRIL 3, 2012

Tax ID or S.S. No. _____

BTA OIL PRODUCERS, L.L.C.

By _____

Willis D. Price, III

Type or print name

Title Attorney-in-Fact

Date _____

Tax ID or S.S. No. _____

PENROC OIL CORPORATION

By _____

M. Y. Merchant

Type or print name

Title President

Date _____

Tax ID or S.S. No. _____

37 Layla "35" WIU