

**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:**

**CASES NOS. 15732 and
15733
ORDER NO. R-14416**

**APPLICATIONS OF MEWBOURNE OIL COMPANY FOR COMPULSORY
POOLING, EDDY COUNTY, NEW MEXICO**

ORDER OF THE DIVISION

BY THE DIVISION:

These cases came on for hearing at 8:15 a.m. on June 22, 2017, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 8th day of August, 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 these cases and the subject matter.
- (2) Cases No. 15732 and 15733 were consolidated at the hearing for the purpose of testimony, and a single order is being issued applicable to both cases.
- (3) Mewbourne Oil Company ("Applicant" or "Mewbourne"), seeks an order pooling all uncommitted interests in the Wolfcamp formation, Purple Sage; Wolfcamp (Gas) Pool (Pool code: 98220), underlying the E/2 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico, to form a standard 320-acre, gas spacing unit (the "Unit").
- (4) The Unit will be dedicated to the following wells ("the proposed wells");
 - (a) Applicant's Speedwagon 27 W2PA Fee Well No. 1H (API No. 30-015-43097), a horizontal well to be drilled from a surface location 260 feet from the North line and 480 feet from the East line (Unit A) of Section 34, to a bottom-hole location 330 feet from the North line and 500 feet from the East line (Unit A) of Section 27, both in Township 23 South, Range 28 East, NMPM; and
 - (b) Applicant's Speedwagon 27 W0PA Fee Well No. 2H (API No. 2H (API No. 30-015-44115), a horizontal well to be drilled from a surface location, 260 feet from the North line and 430 feet from the East line (Unit A) of Section 34, to a bottom-hole location 330 feet

from the North line and 430 feet from the East line (Unit A) of Section 27, both in Township 23 South, Range 28 East, NMPM.

The completed interval of the proposed wells in the Wolfcamp formation will be orthodox.

(5) The proposed wells are within the Purple Sage; Wolfcamp (Gas) Pool (Pool code 98220), which is governed by special pool rules promulgated by Division Order R-14262 which provides for 320-acre gas spacing units with wells to be located no closer than 330 feet from a unit outer boundary.

(6) Applicant appeared through counsel and presented the following land, engineering, and geologic evidence:

- (a) the Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (b) the proposed orientation of the horizontal wells from South to North is appropriate for the proposed Unit;
- (c) Applicant stated that infill wells may be drilled within the spacing Unit pursuant to Division Rule 19.15.13.10 that are not the subject of Case 15732 or Case 15733; and
- (d) Applicant provided notice to parties subject to pooling by certified mail, return receipt requested, and by publication before hearing in a newspaper of general circulation in Eddy County, New Mexico, the county in which the property is located for those parties for whom return receipts were not returned.

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

The Division concludes as follows:

(8) 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.

(9) Applicant is owner of an oil and gas working interest within the Unit. Applicant has the right to drill the proposed wells to a common source of supply within the Unit at the described locations.

(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 Oil Company should be designated the operator of the subject wells and the Unit.

(13) Infill wells within the proposed spacing Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC, and the infill wells should be subject to the applicable terms and conditions of this order.

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

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month, per well, while drilling and \$750 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the Overhead section of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from each pooled working interest owner's share of production from each well the proportionate share of both the supervision charges and the actual expenditures required for operating such well, not in excess of what are reasonable.

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, Purple Sage; Wolfcamp, (Gas) Pool (Pool code 98220), underlying the E/2 of Section 27, Township 23 South, Range 28 East, NMPM, Eddy County, New Mexico (the "Unit"), are hereby pooled.

(2) The Unit shall be dedicated to the following wells ("the proposed wells"):

(a) Applicant's Speedwagon 27 W2PA Fee Well No. 1H (API No. 30-015-43097), a horizontal well to be drilled from a surface location 260 feet from the North line and 480 feet from the East line (Unit A) of Section 34, to a bottom-hole location 330 feet from the North line and 500 feet from the East line (Unit A) of Section 27, both in Township 23 South, Range 28 East, NMPM.

(b) Applicant's Speedwagon 27 W0PA Fee Well No. 2H (API No. 1H (API No. 30-015-44115), a horizontal well to be drilled from a surface location 260 feet from the North line and 430 feet from the East line (Unit A) of Section 34, to a bottom-hole location 330 feet from the North line and 430 feet from the East line (Unit A) of Section 27, both in Township 23 South, Range 28 East, NMPM.

(3) The operator of the Unit shall commence drilling the first proposed well on or before August 31, 2018, and shall thereafter continue drilling the proposed wells with due diligence to test the Wolfcamp formation.

(4) In the event the operator does not commence drilling at least one of the proposed wells on or before August 31, 2018, 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.

(5) Unless at least one of the proposed wells is drilled and completed within 120 days after commencement of the first proposed well, 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 one of the proposed wells for good cause shown by satisfactory evidence.

(6) Upon final plugging and abandonment of both proposed wells 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.

(7) Infill wells within the proposed spacing unit shall be subject the terms and conditions of this order.

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

(9) 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 a separate itemized schedule of estimated costs of drilling, completing and equipping each of the proposed wells ("well costs").

(10) 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 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 for any well 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."

(11) 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 of each well within 90 days following completion of such 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.

(12) 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 of such well 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.

(13) 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 such owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

(14) The operator 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) for the well are hereby fixed at \$7,500 per month, per well, while drilling and \$750 per month, per well, while producing, provided that these rates shall be adjusted annually pursuant to the overhead provisions of the COPAS form titled "*Accounting Procedure-Joint Operations*." The operator is authorized to withhold from each pooled working interest owner's share

production from each well, such owner's proportionate share of both the supervision charges and the actual expenditures required for operating such well, not in excess of what are reasonable.

(16) Except as provided in Paragraphs (13) and (15) 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).

(17) 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.

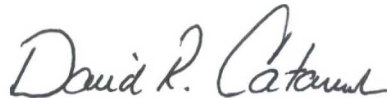
(18) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this Order shall thereafter be of no further effect.

(19) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the compulsory 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.

STATE OF NEW MEXICO
OIL CONSERVATION DIVISION



DAVID R. CATANACH
DIRECTOR



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