

**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. 15729
ORDER NO. R-14336-A**

**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 June 22, 2017, at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 11th day of October, 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) In original Order No. R-14336, issued in Case No. 15635, the Division, pursuant to the application of Mewbourne Oil Company ("Applicant" or "Mewbourne"), approved a 320.35-acre, more or less, non-standard oil spacing and proration unit and project area ("the Unit") for oil and gas production from the Bone Spring formation, San Lorenzo; Bone Spring, North Pool (Pool code: 53610), comprising Lot 2, SW/4 NE/4, and the W/2 SE/4 (W/2 E/2 equivalent) of Section 2, and the W/2 E/2 of Section 11, all in Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico and pooled certain uncommitted interests in the Unit.

(3) Although the original order purports to pool all uncommitted interests in the Unit, Applicant had requested pooling only of the interests of Panhandle Royalty Company and EOG Resources, Inc., and notified only those parties. Applicant now seeks to pool certain additional uncommitted interests in the Unit.

(4) The Unit is dedicated to the Applicant's Hoss 2 11 B2BO Federal Com Well No. 2H (the "subject well"; API No. 30-015-44152), a horizontal well drilled from a surface location 185 feet from the North line and 1650 feet from the East line (Lot 2-Unit B) of Section 2, Township 25 South, Range 28 East to a terminus or bottom hole location 330 feet from the South line and 1650 feet from the East line (Unit O) of Section 11, all in Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico. The completed interval of the subject well in the Bone Spring formation will be orthodox.

(5) The subject well is within the San Lorenzo; Bone Spring, North Pool (Pool code 53610), 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. The proposed Unit and project area consists of eight adjacent quarter-quarter sections oriented north to south.

(6) 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 proposed orientation of the horizontal well North to South is appropriate for the proposed Unit;
- (c) the subject well has been drilled, but not completed;
- (d) the original parties that were subject to Case Number 15635; Hearing Order No. R-14336, issued on May 3, 2017 would remain subject to that Division Order;
- (e) the interests of three additional parties, Devon Energy Production Company, L.P., RKI Exploration & Production, LLC, and Pioneer Natural Resources USA, Inc. (the "additional parties"), have not committed to the proposed well, and will be subject to the amended order. The additional parties were locatable;
- (f) Applicant has not requested compulsory pooling of the interest of Tap Rock Resources, LLC; so that interest will not be subject to the amended order;
- (g) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that formation of the Unit as requested will not impair correlative rights;
- (h) notice was provided for formation of the non-standard spacing unit to lessees or operators of surrounding tracts; and

- (i) notice was provided to the additional parties in the proposed Unit whose interests Applicant seeks to pool.

(7) Tap Rock Resources, LLC (Tap Rock) made an entry of Appearance, through counsel. However, Tap Rock did not oppose the granting of this application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

(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 and has drilled the subject well to a common source of supply within the Unit at the proposed location.

(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 of the additional parties, whatever they may be, (including any royalty, overriding royalty or other interests to the extent that the additional parties have a legal right to commit such interests), in the oil and gas within the Unit.

(12) Any pooled working interest owner who does not pay its share of either the estimated or actual 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.

(13) Reasonable charges for supervision (combined fixed rates) should be fixed at \$8,000 per month while drilling and \$800 per month 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 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.

IT IS THEREFORE ORDERED THAT:

(1) In original Order No. R-14336, issued in Case No. 15635, a 320.35-acre, more or less, non-standard oil spacing and proration unit (the "Unit") was established for oil and gas production from the Bone Spring formation, San Lorenzo; Bone Spring, North Pool (Pool code 53610), underlying Lot 2, SW/4 NE/4 and W/2 SE/4 (W/2 E/2

equivalent) of Section 2, and the W/2 E/2 of Section 11, Township 25 South, Range 28 East, NMPM, Eddy County, New Mexico (the "Unit").

(2) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, of the additional parties identified in Finding Paragraph 6(e) of this order (including any royalty, overriding royalty or other interests to the extent that the additional parties have a legal right to commit such interests), in the oil and gas in the Unit are hereby pooled.

(3) The Unit is dedicated to the Applicant's Hoss 2 11 B2BO Federal Com Well No. 2H (the "subject well"; API No. 30-015-44152), a horizontal well drilled from 185 feet from the North line and 1650 feet from the East line (Lot 2-Unit B) of Section 2, to a terminus or bottom hole location 330 feet from the South line and 1650 feet from the East line (Unit O) of Section 11, all in Township 25 South, Range 28 East, NMPM. The completed interval of the subject well will be located at an orthodox location.

(4) After the effective date of this order, the operator shall furnish the Division and each of the additional parties an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs"). Such schedule shall include actual costs to the extent that information is available.

(5) Within 30 days from the date the schedule of estimated well costs is furnished, each of the additional parties 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 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 or in Ordering Paragraph 10 of the original order shall thereafter be referred to as "non-consenting working interest owners."

(6) 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.

(7) Within 60 days following determination of reasonable well costs, any pooled working interest owner who has paid its share of estimated costs 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.

(8) The operator is hereby authorized to withhold the following costs and charges from the interest of each non-consenting working interest owner in production from the subject well:

- (a) the proportionate share of reasonable well costs attributable to the non-consenting working interest owner; and
- (b) as a charge for the risk involved in drilling the well, 200% of the above costs.

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

(10) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$8,000 per month while drilling and \$800 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 each pooled working interest owner's share of 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 such owner.

(11) Except as provided 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).

(12) Any unleased mineral interests 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.

(13) Except to the extent inconsistent with this order, original Order No. R-14336 shall remain in full force and effect, and shall be binding on the additional parties.

(14) 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.

(15) 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.

(16) 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

DAVID R. CATANACH
Director