

**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 TO
CONSIDER:**

**CASE NO. 16391
ORDER NO. R-20698**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR COMPULSORY POOLING,
LEA COUNTY, NEW MEXICO.**

ORDER OF THE DIVISION

BY THE DIVISION:

This case came on for hearing at 8:15 a.m. on September 6, 2018 at Santa Fe, New Mexico, before Examiner Michael A. McMillan.

NOW, on this 16th day of July 2019, 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) Cases Nos. 16391 and 16392 were consolidated at the hearing for the purpose of testimony; however, separate orders will be issued for each case.
- (3) Mewbourne Oil Company ("Mewbourne " or "Applicant"), seeks to compulsory pool all uncommitted interests within a standard 240.98-acre, more or less, horizontal spacing unit (the "Unit") in the Bone Spring formation, Featherstone; Bone Spring (Pool Code 24250) or other Bone Spring oil pool so designated, underlying Lot 2/ Unit B, SW/4 NE/4, and the W/2 SE/4 (W/2 E/2 equivalent) of Section 4, and the W/2 NE/4 of Section 9, all in Township 20 South, Range 35 East, NMPM, Lea County, New Mexico.
- (4) The Unit will be dedicated to the Sand Chute 9 4 B2GB Federal Com Well No. 1H ("Proposed well"; API No. 30-025-Pending), a horizontal well to be drilled from a surface location, 2435 feet from the North line and 2200 feet from the East line (Unit G) of Section 9, to a terminus 330 feet from the North line and 1980 feet from the East line (Lot 2/Unit B) of Section 4, all in Township 20 South, Range 35 East.

(5) The proposed well is within the Featherstone; Bone Spring Pool, which is governed by special pool rules as established by Division Order No. R-11053-A which provides for 80-acre oil spacing and proration units with wells to be located no closer than 150 feet from the center of a governmental quarter-quarter section. The Unit consists of three 80-acre spacing units oriented south to north.

(6) Applicant appeared at the hearing through counsel and presented land and geological evidence through affidavit 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 from south to north is appropriate for the Unit;
- (c) all quarter-quarter sections to be included in the Unit are expected to be productive in the Bone Spring formation, so that the Unit as requested will not impair correlative rights;
- (d) the first take point of the Proposed Well will be located 2315 feet from the North line and 1980 feet from the East Line (Unit G) of Section 9. The last take point will be located 330 feet from the North line and 1980 feet from the East line (Lot 2/Unit B) of Section 4;
- (e) notice by certified mail was provided to all uncommitted interest owners in the proposed Unit whose interests were evidenced by a conveyance instrument, either of record or known to Applicant when the Application was filed, and to heirs known to Applicant of deceased persons who appear as owners in such instruments; and
- (f) Applicant provided notice to those potentially affected parties whose whereabouts could not be ascertained by publication as provided in Rule 19.15.4.12.B NMAC.

(7) ConocoPhillips Company (ConocoPhillips) made an Entry of Appearance, and appeared at the Hearing, but otherwise did not object to granting this application. No other party appeared at the hearing, or otherwise opposed the granting of this application.

The Division concludes that:

(8) Subsequent to the Hearing, the Applicant provided the Division with an Affidavit that the Proposed Well and Unit will be subject to the new horizontal well rules, since the Application was received on August 7, 2018. ConocoPhillips did not object.

(9) The Proposed Well and Unit will be comprised of six quarter-quarter sections or equivalents.

(10) The setbacks for the Proposed Horizontal Well will be governed by Division Rule 19.16.15.C.1 NMAC which allows for 100-foot setbacks from the first take point and last take point, and 330 feet from the boundary of the Unit. Therefore, the Proposed Well completion interval will be orthodox.

(11) Approval of the 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.

(12) 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.

(13) Applicant is an owner of an oil and gas working interest within the Unit. Applicant has the right to drill and proposes to drill the Proposed well to a common source of supply within the Unit at the proposed location.

(14) Subsequent to the Hearing, the Applicant stated that the building blocks will be 80-acre stand up blocks.

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

(16) 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 Bone Spring formation within the Unit.

(17) Mewbourne Oil Company should be designated the operator of the Proposed well and of the Unit.

(18) To ensure protection of correlative rights, any pooled working interest owner whose address is known should be notified and have an opportunity to protest before the Division grants any extension of the time provided herein for commencing drilling.

(19) Infill wells within the Unit should be subject to Division Rules 19.15.13.9 NMAC through 19.15.13.10 NMAC and to the terms and conditions of this order.

(20) 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.

(21) Reasonable charges for supervision (combined fixed rates) should be fixed at \$8,000 per month, per well, while drilling and \$800 per month, per well, while producing, provided that these rates should be adjusted annually pursuant to the COPAS form titled "*Accounting Procedure-Joint Operations*."

(22) The combined fixed rates were the same amounts that was approved for Hearing Order No. R-14717, which had a horizontal spacing unit in the E/2 W/2 of Section 10, Township 23 South, Range 34 East, issued on June 28, 2018. Therefore, the combined fixed rates are fair and reasonable.

IT IS THEREFORE ORDERED THAT:

(1) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, **are hereby pooled** in the oil and gas within a standard 240.98-acre, more or less, horizontal spacing unit ("the Unit") in the Bone Spring formation, Featherstone; Bone Spring Pool (Pool Code 24250) or other Bone Spring oil pool so designated, underlying Lot 2/ Unit B, SW/4 NE/4, and W/2 SE/4 (W/2 E/2 equivalent) of Section 4 and the W/2 NE/4 of Section 9, all in Township 20 South, Range 35 East, NMPM, in Lea County, New Mexico.

(2) The Unit is comprised of six quarter-quarter sections or equivalents and the building blocks shall be 80-acre stand up drill blocks.

(3) The Unit shall be dedicated to the Sand Chute 9 4 B2GB Federal Com Well No. 1H ("Proposed Well"; API No. 30-025-Pending), a horizontal well which is to be drilled from a surface location, 2435 feet from the North line and 2200 feet from the East line (Unit G) of Section 9, to a terminus 330 feet from the North line and 1980 feet from the East line (Lot 2/ Unit B) of Section 4, all in Township 20 South, Range 35 East. The location of the completed interval of the Proposed well shall be orthodox.

(4) Mewbourne Oil Company (OGRID 14744) is designated as the operator of the Proposed well and of the Unit.

(5) If any of the Well(s) is completed at an unorthodox location under applicable rules in effect at the time such well is completed, the operator shall provide notice and apply administratively for a location exception prior to producing the well.

(6) The operator of the Unit shall commence drilling the Well(s) on or before the end of the month corresponding to the date of this order, in the year following the date of issuance of this order and shall thereafter continue drilling the Well(s) with due diligence to test the pooled formation or pooled vertical depths. The Well(s) shall be drilled approximately to the proposed true vertical and measured depths.

(7) In the event the operator does not commence drilling the Well(s) on or before the date provided in the foregoing paragraph, the compulsory pooling provision of this order shall be of no effect, unless the operator obtains a written time extension from the Division Director

pursuant to a written request stating its reasons for such extension and attaching satisfactory evidence.

(8) In the event the operator does not commence completion operations within one year after commencement of drilling operations pursuant to this order, then the compulsory pooling provisions of this order shall be of no effect unless operator obtains a written time extension from the Division Director pursuant to a written request stating its reasons for such extension and attaching satisfactory evidence.

(9) The operator shall provide a copy of any request for extension of time to drill or complete any well filed with the Director pursuant to this order to each pooled working interest owner who has elected to participate in the drilling of any well that is the subject of the request. Such copy shall be sent at the same time the request is sent to the Director.

(10) Upon final plugging and abandonment of the Well(s) and any other well drilled on the Unit pursuant to Division Rule 19.15.13.9 NMAC, the pooled unit created by this order shall terminate unless this order has been amended to authorize further operations.

(11) Infill wells within the Unit shall be subject to Division Rule 19.15.13.9 NMAC and to the terms and conditions of this order.

(12) 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 separate itemized schedules of estimated costs of drilling, completing and equipping each of the Well(s) ("well costs").

(13) Within 30 days from the date the schedule of estimated well costs for any well is furnished, any pooled working interest owner shall have the right to elect 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. Payment shall be rendered within 30 days after expiration of the 30-day election period 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 to the extent computed based on costs of such well. Pooled working interest owners who do not elect to pay their share of estimated well costs, or who do not render timely payment to the operator, as provided in this paragraph shall thereafter be referred to as "non-consenting working interest owners."

(14) 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 180 days following completion of the proposed well. 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.

(15) 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 for such well exceed its share of reasonable well costs.

(16) 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 the non-consenting working interest owner; and

(b) as a charge for the risk involved in drilling the well, 200 percent of the above costs.

(17) During the cost recovery period, the operator shall furnish to the Division and to each known non-consenting pooled working interest owner, annually, and within 90 days after payout occurs, a schedule of all revenues attributable to each proposed well, and all charges for supervision and operating costs charged against such revenues. Operating costs shall include all reasonable costs incurred for the maintenance and operation of the well, except for "well costs" reported pursuant to prior ordering paragraphs, that are properly chargeable to the joint account pursuant to COPAS procedures. If no objection to the operating costs is received by the Division, and the Division has not objected, within 45 days following receipt of any schedule, the costs shall be deemed to be the reasonable operating costs. If there is an objection to the accuracy or reasonableness of operating costs reported within the 45-day period, the Division will determine reasonable operating costs after public notice and hearing.

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

(19) Reasonable charges for supervision (combined fixed rates) are hereby fixed at the rates shown in Exhibit "A" per month, per well, while drilling and while producing, provided that these rates shall be adjusted annually pursuant to the 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 more than what are reasonable, attributable to pooled working interest owners.

(20) Except as provided in the foregoing paragraphs, all proceeds from production from the Well(s) 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 sooner 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).

(21) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for allocating costs and charges under this order. Any costs 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.

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

(23) The operator of the wells and Unit shall notify the Division in writing of the subsequent voluntary agreement of any party subject to the compulsory pooling provisions of this order.

(24) 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

ADRIENNE SANDOVAL
Director