

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 THE:

APPLICATION OF MEWBOURNE OIL COMPANY FOR A NON-STANDARD  
OIL SPACING AND PRORATION UNIT, UNORTHODOX WELL LOCATION,  
AND COMPULSORY POOLING, EDDY COUNTY, NEW MEXICO

CASE NO. 14643  
ORDER NO. R-13408

ORDER OF THE DIVISION

BY THE DIVISION:

This matter came on for hearing at 8:15 a.m. on May 12, 2011, at Santa Fe, New Mexico, before Examiner William V. Jones.

NOW, on this 10<sup>th</sup> day of June, 2011, 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 ("Mewbourne" or "Applicant"), seeks an order:

(a) Creating a non-standard 80-acre, more or less, oil spacing and proration unit (the "Unit") for oil production from the Yeso formation, North Seven Rivers- Glorieta-Yeso Pool (97565), consisting of the W/2 SW/4 of Section 15, Township 20 South, Range 25 East, NMPM, Eddy County, New Mexico;

(b) Approving an unorthodox pool penetration point footage location for Applicant's proposed Limousine 15 ML Well No. 1H (API No. 30-015-38472), and

(c) Pooling all uncommitted interests within this unit.

(3) The proposed Unit is to be dedicated to Applicant's proposed Limousine 15 ML Well No. 1H (API No. 30-015-38472 "the proposed well"), to be drilled at a surface location 245 feet from the North line and 370 feet from the West line (Unit D) of Section 22, Township 20 South, Range 25 East, NMPM. The well will be drilled vertically, then kicked off and drilled horizontally in a northerly direction in the Yeso formation (at approximately 2639 feet true vertical depth) to a standard location, bottomhole terminus 2310 feet from the South line and 370 feet from the West line (Unit L) of Section 15.

(4) The proposed well will be spud south of and outside of the proposed 80-acre oil spacing and proration unit. The planned well tract (Exhibit No. 12) will enter the top of the North Seven Rivers-Glorieta-Yeso Pool at a non-standard location (approximately 151 feet from the North line of Section 22) and will enter the targeted Yeso formation target at approximately 350 feet from the South line of Section 15.

(5) The well location is considered non-standard, since the projected pool entry point footage location is outside of the proposed spacing unit. Based on the presented logs and the presented well survey, the entry point of the Yeso target interval is projected to be "standard" or within the allowed 330 feet from the southern boundary of that unit. In any case, Mewbourne presented testimony that the well would not be completed (fractured) closer than is allowed for a standard-located oil well.

(6) Both 40-acre tracts within the proposed spacing and proration unit are fee tracts.

(7) Within the proposed Unit, some parties were not located; and one of the located parties has not committed its interests to the Unit - see Exhibit No. 2.

(8) Mewbourne sees potential to increase production and recover additional hydrocarbons by drilling horizontally in the Yeso Sand formation. Both of these 40-acre tracts are prospective and both are expected to contribute reserves to this well.

(9) Notice of the proposed 80-acre, more or less, non-standard oil spacing and proration unit was provided to all surrounding affected parties within the Yeso formation.

(10) Notice of the compulsory pooling application was provided to those parties not already committed to the drilling of this horizontal well. Newspaper notice was also provided in an effort to contact the un-located parties.

(11) Notice of this proposed non-standard location was provided to affected parties in Unit D of Section 22 and no objection was received.

(12) No other party appeared at the hearing, or otherwise opposed the granting of this application. This case was presented by testimony from a Landman and Geologist.

(13) Approval of the proposed non-standard 80-acre, more or less, spacing and proration 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.

(14) The proposed non-standard 80-acre oil spacing and proration unit and project area should be approved for production of oil and gas from the Yeso formation within the North Seven Rivers-Glorieta-Yeso Pool.

(15) 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.

(16) 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.

(17) There are un-located owners and interest owner(s) in the Unit that have not agreed to pool their interests.

(18) To avoid the drilling of unnecessary wells, protect correlative rights, prevent waste and afford to each interest owner 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 proposed horizontally completed 80-acre, more or less, Yeso spacing and proration unit.

(19) Mewbourne Oil Company (14744) should be designated as the operator of the proposed well and of the Unit.

(20) Any pooled working interest owner who does not pay its share of estimated 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 well.

(21) Reasonable charges for supervision (combined fixed rates) should be fixed at \$6,000 per month while drilling and \$600 per month while producing, provided that these rates should be adjusted annually pursuant to Section III.1.A.3. of the COPAS form titled "*Accounting Procedure-Joint Operations*."

**IT IS THEREFORE ORDERED THAT:**

(1) A non-standard 80-acre, more or less, oil spacing and proration unit and project area (the "Unit") is hereby established for oil and gas production from the Yeso formation within the North Seven Rivers-Glorieta-Yeso Pool (97565), consisting of the

W/2 SW/4 of Section 15, Township 20 South, Range 25 East, NMPM, 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 within the Yeso formation (North Seven Rivers-Glorieta-Yeso Pool) underlying this Unit, are hereby pooled.

(3) This Unit shall be dedicated to Mewbourne Oil Company's proposed Limousine 15 ML Well No. 1H (API No. 30-015-38472 "the proposed well"), to be drilled at a non-standard surface location 245 feet from the North line and 370 feet from the West line (Unit D) of Section 22, Township 20 South, Range 25 East NMPM. The well shall be drilled vertically, then kicked off and drilled horizontally in a northerly direction in the Yeso formation (to approximately 2639 feet true vertical depth) to a standard location, bottomhole terminus approximately 2310 feet from the South line and 370 feet from the West line (Unit L) of Section 15.

(4) The non-standard pool penetration point footage location is hereby approved. However, this well is not approved for completion (no fracturing ports) closer than 330 feet from the southern boundary of the Unit – no closer than 330 feet from the South line of Section 15.

(5) Mewbourne Oil Company (OGRID 14744) is hereby designated the operator of the well and of the Unit.

(6) The operator of the Unit shall commence drilling the proposed horizontal well on or before June 15, 2012, and shall thereafter continue drilling the well with due diligence in a horizontal, southerly direction to test the Yeso formation.

(7) In the event the operator does not commence drilling the proposed well on or before June 15, 2012, Ordering Paragraph (2) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(8) Should the proposed well not be drilled and completed within 120 days after commencement thereof, 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 operator appears before the Division Director and obtains an extension of the time for completion of the proposed well for good cause shown by satisfactory evidence.

(9) If the proposed well is not completed in all of the quarter-quarter sections included in the proposed unit within 120 days after commencement of drilling, then the operator shall apply to the Division for an amendment to this Order to contract the Unit so that it includes only those quarter-quarter sections in which the well is completed.

(10) Upon final plugging and abandonment of the proposed well and any other well drilled on the Unit pursuant to Division Rule 19.15.13, Sections 9 through 11

NMAC, the pooled Unit created by this Order shall terminate, unless this order has been amended to authorize further operations.

(11) 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 an itemized schedule of estimated costs of drilling, completing and equipping the proposed well ("well costs").

(12) Within 30 days from the date the schedule of estimated well costs is furnished, 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 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 shall thereafter be referred to as "non-consenting working interest owners."

(13) 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 proposed 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.

(14) 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.

(15) The operator is hereby authorized to withhold the following costs and charges from production:

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

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

(17) Reasonable charges for supervision (combined fixed rates) are hereby fixed at \$6,000 per month while drilling and \$600 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 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.

(18) Except as provided in Paragraphs (15) and (17) above, all proceeds from production from the well that are not disbursed for any reason shall be placed in escrow in Eddy County, New Mexico, to be paid to the true owner thereof upon demand and proof of ownership. The operator shall notify the Division (Attention: Records Clerk) of the name and address of the escrow agent not later than one year from the date of issuance of this Order.

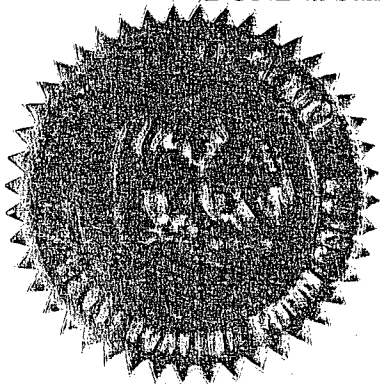
(19) Any unleased mineral interest shall be considered a seven-eighths (7/8) working interest and a one-eighth (1/8) royalty interest for the purpose of allocating costs and charges under this order. Any well costs or charges that are to be paid out of production shall be withheld only from the working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

(20) 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.

(21) The operator of the well and Unit shall notify the Division in writing of the subsequent voluntary agreement of all parties subject to the forced pooling provisions of this order.

(22) 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

A handwritten signature in dark ink, appearing to read "Jami Bailey".

JAMI BAILEY  
Director