

**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. 15089
ORDER NO. R-13878**

**APPLICATION OF MEWBOURNE OIL COMPANY FOR 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 May 29, 2014, at Santa Fe, New Mexico, before Examiner Phillip R. Goetze and legal counsel Gabriel Wade.

NOW, on this 13th day of August, 2014, 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) Case Nos. 15089 and 15143 were consolidated at the hearing for the purpose of testimony; however, separate orders shall be written for each case.

(3) Pursuant to previous hearings, the Division, on August 13, 2014, issued Order No. R-13879 (Case No. 15143), granting the application of Mewbourne Oil Company ("Applicant" or "Mewbourne"), approval of compulsory pooling for a standard gas spacing and proration unit. The Order established a 320-acre, more or less, standard spacing and proration unit and project area (the "Unit") consisting of the E/2 of Section 22, Township 26 South, Range 27 East, NMPM, in Eddy County, New Mexico. The proposed well dedicated to the Unit was the Applicant's Owl Draw 22 W1AP Federal Com. Well No. 1H (API No. 30-015-42475), and Applicant was designated as the operator of the well and the Unit.

(4) Subsequently, Applicant filed a Motion seeking a second order pooling all uncommitted interests in the Wolfcamp formation, wildcat Wolfcamp gas pool,

underlying the E/2 of Section 22, Township 26 South, Range 27 East, NMPM, Eddy County, New Mexico, for a subsequent well in the above-described Unit under Division Rule 19.15.16.15C. NMAC.

(5) The infill well for this Unit will be Applicant's Owl Draw 22 BO Federal Com. Well No. 1H (API No. 30-015-41622; the "proposed infill well"), a horizontal well to be drilled from a surface location 330 feet from the North line and 1650 feet from the East line (Unit letter B) of Section 22 to a terminus or bottomhole location 330 feet from the South line and 1980 feet from the East line (Unit letter O) of Section 22.

(6) The proposed infill well is within a wildcat Wolfcamp gas pool (pool code: 98017), which is governed by statewide Rule 19.15.15.9B. NMAC, and provides for 320-acre gas proration units with wells to be located no closer than 660 feet from a unit outer boundary. The terminus is less than 660 feet from the south boundary of the Unit and therefore is an unorthodox location. The penetration point (beginning of the perforated interval) is 880 feet from the North line and 1680 feet from the East line of Section 22 and is an orthodox location.

(7) Applicant appeared at the hearing through counsel and presented land and geologic evidence to the effect that:

- (a) Applicant completed additional notification by publication in local newspaper due to unlocatable interests within the Unit;
- (b) Administrative Order NSL-6818, issued on June 20, 2013, approved the unorthodox location of the terminus of the proposed infill well;
- (c) the Wolfcamp formation in this area is suitable for development by horizontal drilling;
- (d) the proposed orientation of the horizontal well South to North or North to South is appropriate for the proposed Unit; and
- (e) granting of the application for compulsory pooling will not impair correlative rights, will conserve resources and will prevent waste

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

The Division concludes that:

(9) 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.

(10) Applicant is 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.

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

(12) 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.

(13) Mewbourne should be designated the operator of the proposed infill well.

(14) 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 proposed well.

(15) Reasonable charges for supervision (combined fixed rates) should be fixed at \$7,500 per month while drilling and \$750 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) Pursuant to the application of Mewbourne Oil Company, all uncommitted interests, whatever they may be, in the oil and gas in the Wolfcamp formation, a wildcat Wolfcamp gas pool (pool code: 98017), underlying the E/2 of Section 22, Township 26 South, Range 27 East, NMPM, Eddy County, New Mexico (the "Unit"), are hereby pooled for the drilling of a subsequent well. The Unit which comprises a 320-acre project area in the E/2 of Section 22 was approved under Division Order No. R-13879 with the designated well for the Unit as Applicant's Owl Draw 22 W1AP Federal Com. Well No. 1H (API No. 30-015-42475).

(2) The subsequent well for the Unit is Applicant's **Owl Draw 22 BO Federal Com. Well No. 1H** (API No. 30-015-41622; the "proposed infill well"), a horizontal well to be drilled from a surface location 330 feet from the North line and 1650 feet from the East line (Unit letter B) of Section 22 to a terminus or bottomhole location 330 feet from the South line and 1980 feet from the East line (Unit letter O) of Section 22. The location of the terminus for the proposed infill well is unorthodox and is approved under Administrative Order NSL-6818.

(3) The operator of the Unit shall commence drilling the proposed infill well on or before August 31, 2015, and shall thereafter continue drilling the proposed infill well with due diligence to test the Wolfcamp formation.

(4) In the event the operator does not commence drilling the proposed infill well on or before August 31, 2015, Ordering Paragraph (1) shall be of no effect, unless the operator obtains a time extension from the Division Director for good cause demonstrated by satisfactory evidence.

(5) Should the proposed infill well not be drilled and completed within 120 days after commencement thereof, then Ordering Paragraph (1) 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.

(6) Upon final plugging and abandonment of the proposed well and any other well drilled on that Unit pursuant to Division Rule 19.15.13.9 NMAC, the Unit created by Division Order No. R-13879 shall terminate, unless the Order has been amended to authorize further operations.

(7) Mewbourne Oil Company (OGRID 14744) is hereby designated the operator of the proposed infill well.

(8) 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").

(9) 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."

(10) 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.

(11) 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.

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

- (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.

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

(14) Reasonable charges for supervision (combined fixed rates) for the well are hereby fixed at \$7,500 per month while drilling and \$750 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.

(15) Except as provided in Paragraphs (12) and (14) above, all proceeds from production from the proposed 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 70-8A7-8A-28, as amended).

(16) 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.

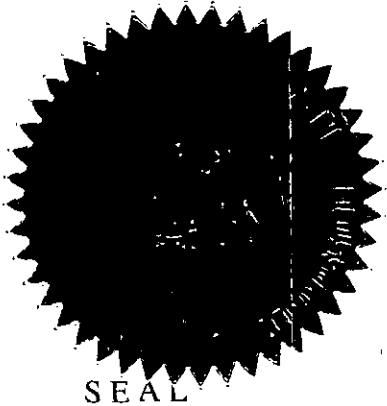
(17) Should all the parties to this compulsory pooling order reach voluntary agreement subsequent to entry of this Order, this order shall thereafter be of no further effect.

(18) 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.

(19) This Order is subject to approval of compulsory pooling of federal lands by the United States Bureau of Land Management.

(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

A handwritten signature in cursive script, appearing to read "Jami Bailey".

JAMI BAILEY
Director